

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Prescription
Drug and Mental
Health Benefits

SECTION

9

9 PRESCRIPTION DRUG AND MENTAL HEALTH BENEFITS

RAPID GROWTH IN PRESCRIPTION DRUG COSTS OVER THE PAST FEW YEARS HAS LED EMPLOYERS AND HEALTH PLANS TO ADOPT CHANGES IN AN EFFORT TO CONSTRAIN DRUG SPENDING. EMPLOYERS HAVE IMPLEMENTED A NUMBER OF STRATEGIES TO REDUCE GROWING DRUG COSTS, THE MOST PROMINENT BEING TIERED COST-SHARING ARRANGEMENTS WHICH GIVE WORKERS A FINANCIAL INCENTIVE TO CHOOSE LESS EXPENSIVE DRUGS. ALMOST SEVEN IN TEN WORKERS ARE IN PLANS WITH A THREE-TIER OR FOUR-TIER COST-SHARING ARRANGEMENT.

A LARGE NUMBER OF COVERED WORKERS ACROSS ALL PLAN TYPES ALSO HAVE A MAIL ORDER DISCOUNT PLAN AVAILABLE TO THEM. RELATIVELY FEW WORKERS ARE REQUIRED TO USE GENERIC DRUGS IF THEY ARE AVAILABLE. RESTRICTIONS ON MENTAL HEALTH COVERAGE REMAIN A COMMON FEATURE OF HEALTH PLANS IN 2004. THESE RESTRICTIONS INCLUDE ANNUAL LIMITS ON THE NUMBER OF OUTPATIENT VISITS AND THE NUMBER OF INPATIENT DAYS.

PRESCRIPTION DRUG BENEFITS

▶ As with prior years, nearly all (99.9%) covered workers in employer-sponsored plans have a prescription drug benefit (SECTION 8; EXHIBIT 8.2). To combat rising costs, firms are increasingly providing employees with financial incentives to encourage use of generic drugs and certain categories of preferred brand name drugs.

- A majority of covered workers (88%) in 2004 have some sort of tiered cost-sharing formula for prescription drugs. In past reports, we documented the

increase in three-tier cost-sharing arrangements, where a worker faces one copayment for generic drugs, a higher one for preferred drugs (such as brand name drugs with no generic substitutes), and an even higher one for nonpreferred drugs (such as brand name drugs with generic substitutes). This year we began asking employers whether they have copayment structures with four tiers. These new four-tier arrangements typically build another layer of higher copayments and/or coinsurance for specifically identified types of drugs, such as lifestyle or injectable drugs.

Sixty-eight percent of covered workers are enrolled in plans with three or four tiers of cost sharing for prescription drugs (EXHIBIT 9.1).

- The average drug copayments for generic (\$10), preferred (\$21) and nonpreferred (\$33) drugs increased slightly over the last year. Average copayments for a four-tier drug are \$48 (EXHIBIT 9.2).⁹
- For workers with coinsurance rather than copayments for prescription drugs, cost-sharing levels average 20% for generic drugs, 26% for preferred drugs, 31% for nonpreferred drugs,

NOTE:

⁹ There are fewer observations for estimating the average copayment for four-tier drugs compared to other drug types.

and 31% for four-tier drugs (EXHIBIT 9.3). While average coinsurance remains essentially unchanged from 2003, rates for preferred and nonpreferred drugs are higher in 2004 than in 2001.

- ▶ Other strategies used by firms and health plans to curb the rising cost of prescription drug coverage include mandatory use of generic drugs (when available) and mail order discount plans. The last time the survey included these questions was in 2000.

- Nineteen percent of all covered workers in 2004 face mandatory use of generic drugs, essentially unchanged from 18% in 2000.

- The percentage of covered workers in PPOs who have a mail order discount plan available to them increased from 73% in 2000 to 84% in 2004. The availability of mail order discount plans in HMO and POS plans is statistically unchanged from 2000 (EXHIBIT 9.6).

MENTAL HEALTH BENEFITS

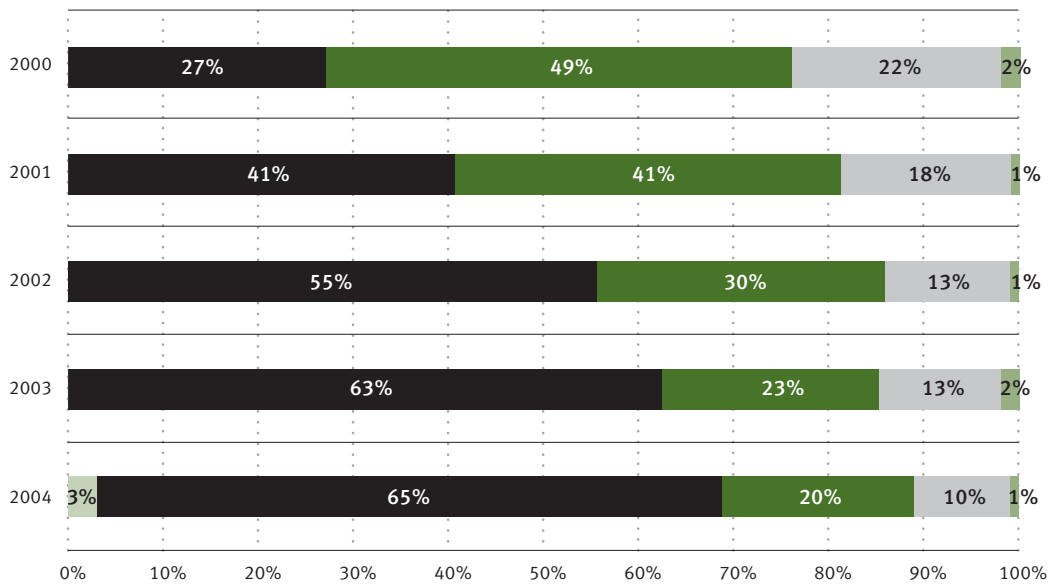
- ▶ Although nearly all covered workers (98%) have mental health benefits, limits on the number of visits for outpatient care and the number of days of inpatient care remain a common feature of all plan types (SECTION 8; EXHIBIT 8.2).

- Only 19% of covered workers have coverage for an unlimited number of outpatient mental health visits in 2004. The likelihood of having a limit on the number of outpatient mental health visits is similar across plan types (EXHIBIT 9.7).

- Many plans limit the number of inpatient mental health days covered. Overall, only 21% of covered workers have coverage for unlimited inpatient mental health days. Approximately 59% of covered workers face an inpatient limit of 30 or fewer days (EXHIBIT 9.8).

EXHIBIT 9.1

Distribution of Covered Workers Facing Different Cost-Sharing Formulas for Prescription Drug Benefits, 2000-2004*



- FOUR-TIER: ONE PAYMENT FOR GENERIC DRUGS, ANOTHER FOR PREFERRED DRUGS, A THIRD FOR NONPREFERRED DRUGS, AND A FOURTH FOR OTHER SPECIFIED DRUGS
- THREE-TIER: ONE PAYMENT FOR GENERIC DRUGS, ANOTHER FOR PREFERRED DRUGS, AND A THIRD FOR NONPREFERRED DRUGS
- TWO-TIER: ONE PAYMENT FOR GENERIC DRUGS AND ONE FOR ALL NAME BRAND DRUGS
- PAYMENT IS THE SAME REGARDLESS OF TYPE OF DRUG
- OTHER/DON'T KNOW

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004.

* Tests found no statistically different distribution from the previous year shown at $p < .05$. No test was conducted between 2003 and 2004 due to the addition of a new category.

Generic drugs: A drug product that is no longer covered by patent protection and thus may be produced and/or distributed by multiple drug companies.

Preferred drugs: Drugs included on a formulary or preferred drug list; for example, a brand name drug without a generic substitute.

Nonpreferred drugs: Drugs *not* included on a formulary or preferred drug list; for example, a brand name drug with a generic substitute.

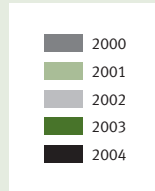
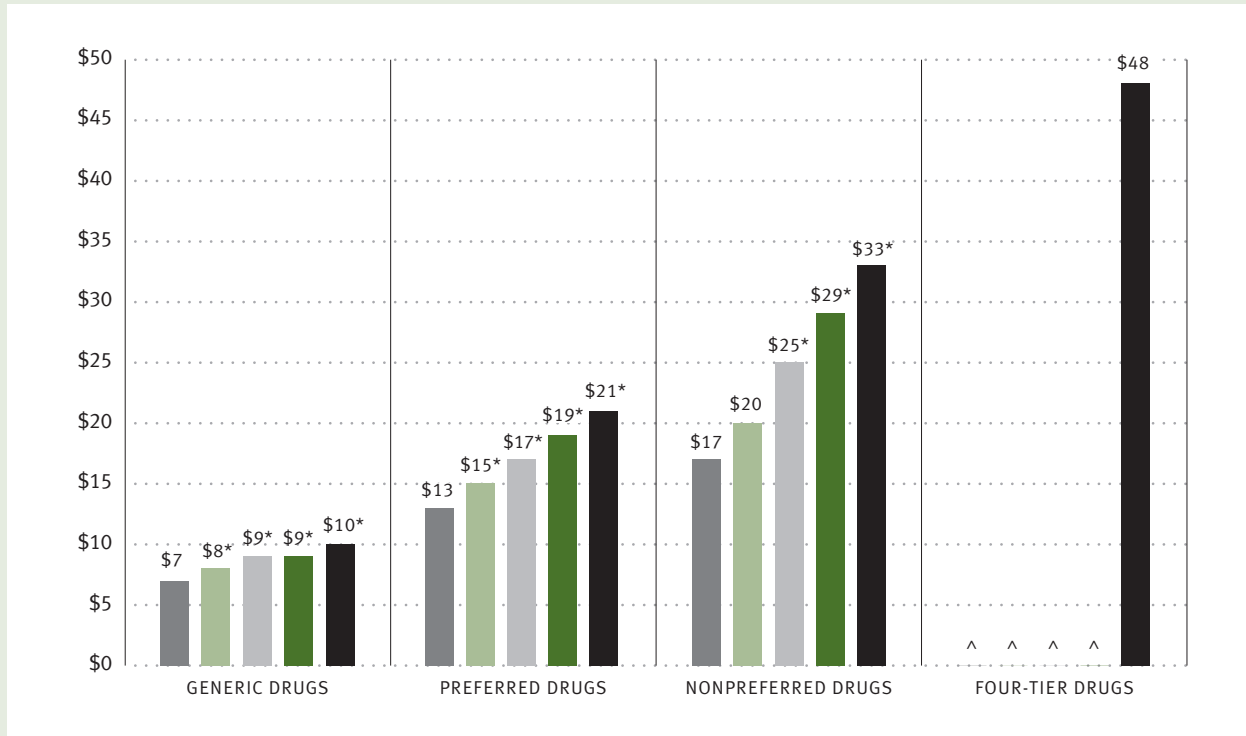
Brand name drugs: Generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross-licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

Four-tier drugs: New types of cost-sharing arrangements that typically build additional layers of higher copayments or coinsurance for specifically identified types of drugs, such as lifestyle or injectable drugs.

Note: Four-tier drug copay information was not obtained prior to 2004.

EXHIBIT 9.2

Average Copays for Generic Drugs, Preferred Drugs, Nonpreferred and Four-Tier Drugs, 2000-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004.

* Estimate is statistically different from previous year at $p < .05$.

^ Four-tier drug copay information was not obtained prior to 2004.

Generic drugs: A drug product that is no longer covered by patent protection and thus may be produced and/or distributed by multiple drug companies.

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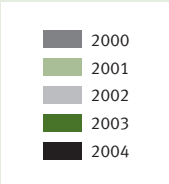
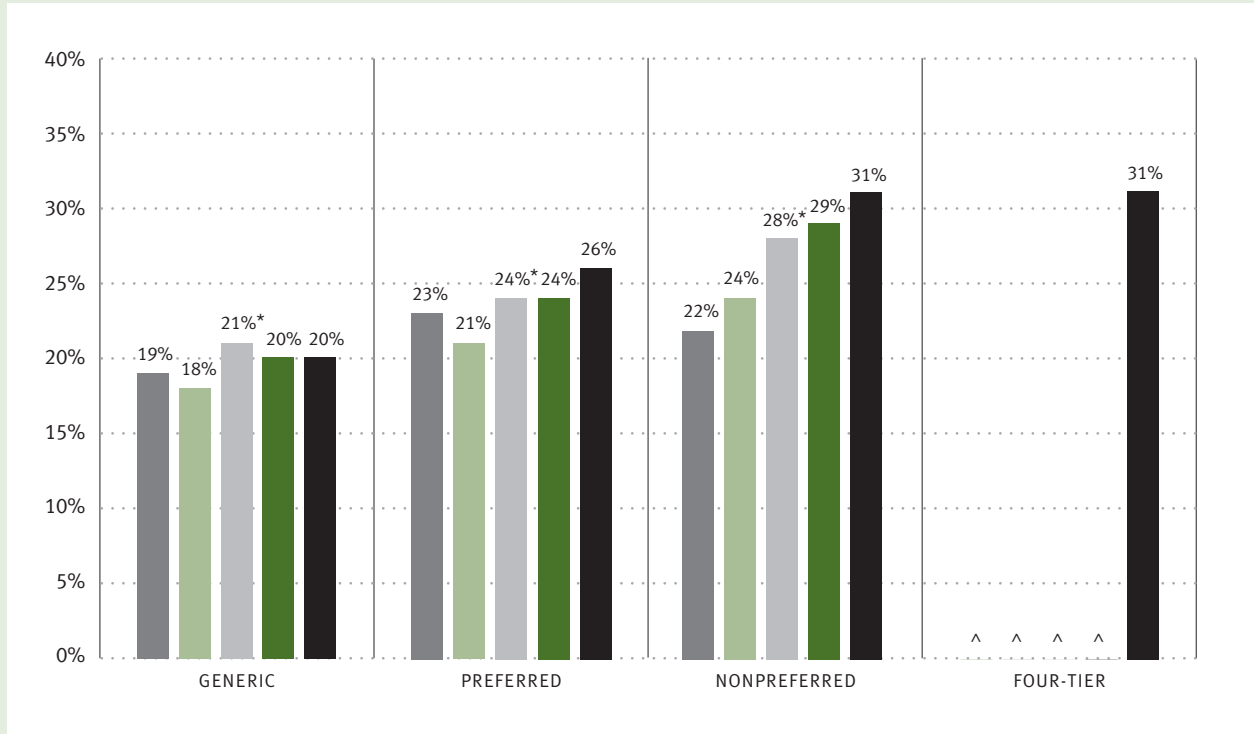
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Four-tier drugs: New types of cost-sharing arrangements that typically build additional layers of higher copayments or coinsurance for specifically identified types of drugs, such as lifestyle or injectable drugs.

Note: On average, generic drugs cost \$7.42 in 2000, \$8.05 in 2001, \$8.74 in 2002, \$9.47 in 2003 and \$10.46 in 2004.

EXHIBIT 9.3

Average Coinsurance Rate for Generic Drugs, Preferred Drugs, Nonpreferred and Four-Tier Drugs, 2000-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004.

* Estimate is statistically different from previous year shown at $p < .05$.

^ Information was not obtained for four-tier drugs prior to 2004.

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Preferred drugs: Drugs included on a formulary or preferred drug list; for example, a brand name drug without a generic substitute.

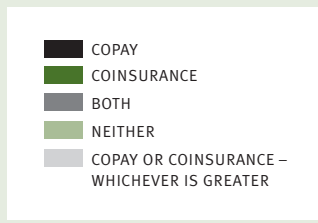
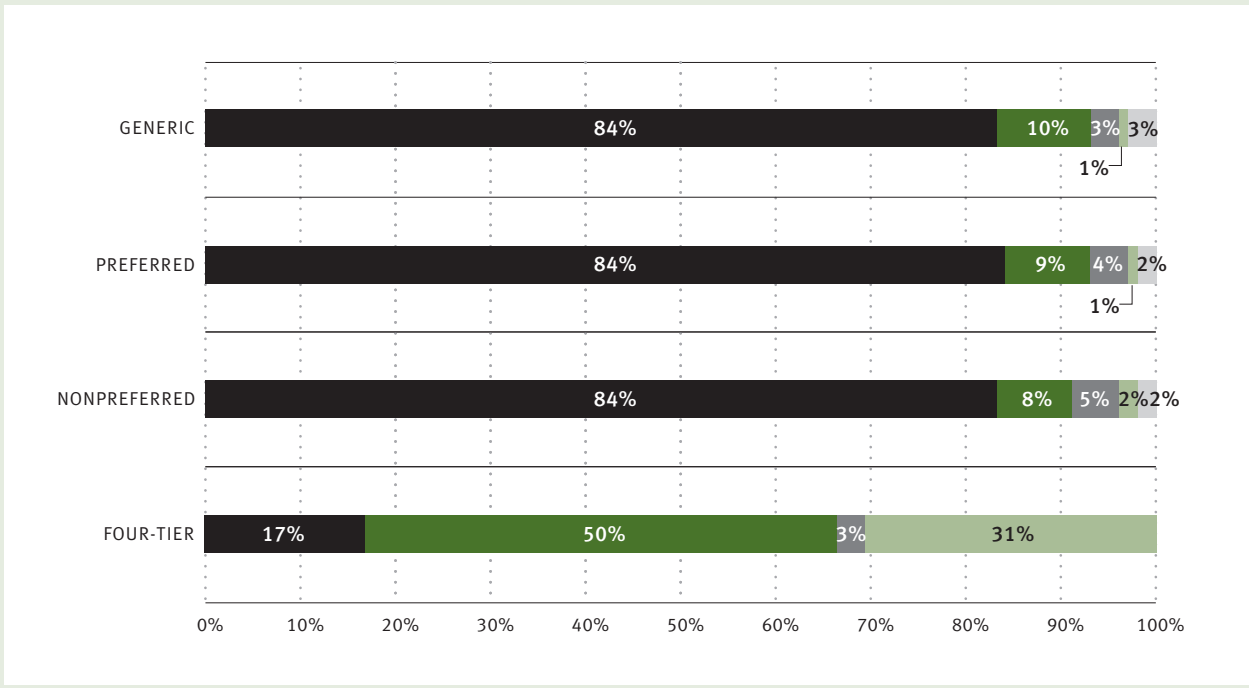
Nonpreferred drugs: Drugs not included on a formulary or preferred drug list; for example, a brand name drug with a generic substitute.

Brand name drugs: Generally, a drug product that is covered by a patent and is thus manufactured and sold exclusively by one firm. Cross-licensing occasionally occurs, allowing an additional firm to market the drug. After the patent expires, multiple firms can produce the drug product, but the brand name or trademark remains with the original manufacturer's product.

Four-tier drugs: New types of cost-sharing arrangements that typically build additional layers of higher copayments or coinsurance for specifically identified types of drugs, such as lifestyle or injectable drugs.

EXHIBIT 9.4

Distribution of Covered Workers With the Following Types of Cost Sharing for Prescription Drugs, by Drug Type, 2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

Generic drugs: A drug product that is no longer covered by patent protection and thus may be produced and/or distributed by multiple drug companies.

Preferred drugs: Drugs included on a formulary or preferred drug list; for example, a brand name drug without a generic substitute.

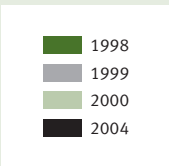
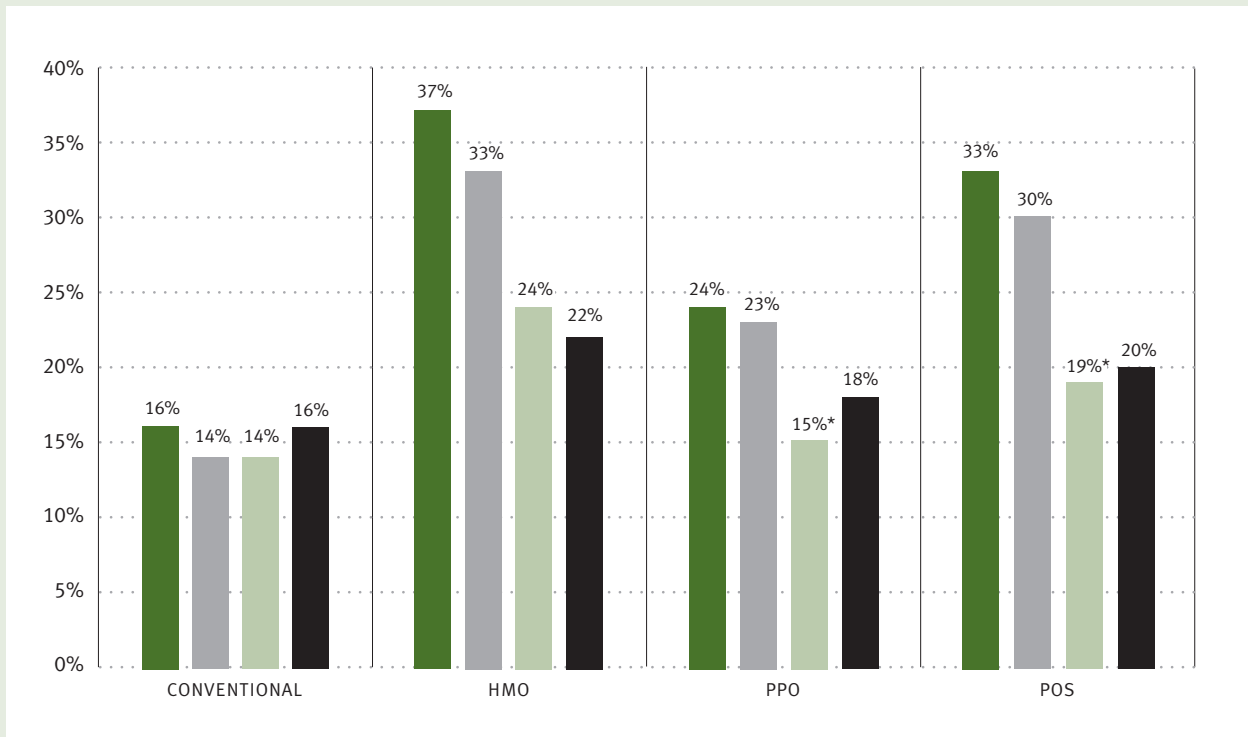
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Four-tier drugs: New types of cost-sharing arrangements that typically build additional layers of higher copayments or coinsurance for specifically identified types of drugs, such as lifestyle or injectable drugs.

EXHIBIT 9.5

Percentage of Covered Workers With Mandatory Use of Generic Drugs, 1998-2004



SOURCE :

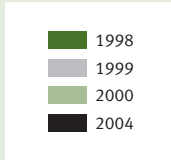
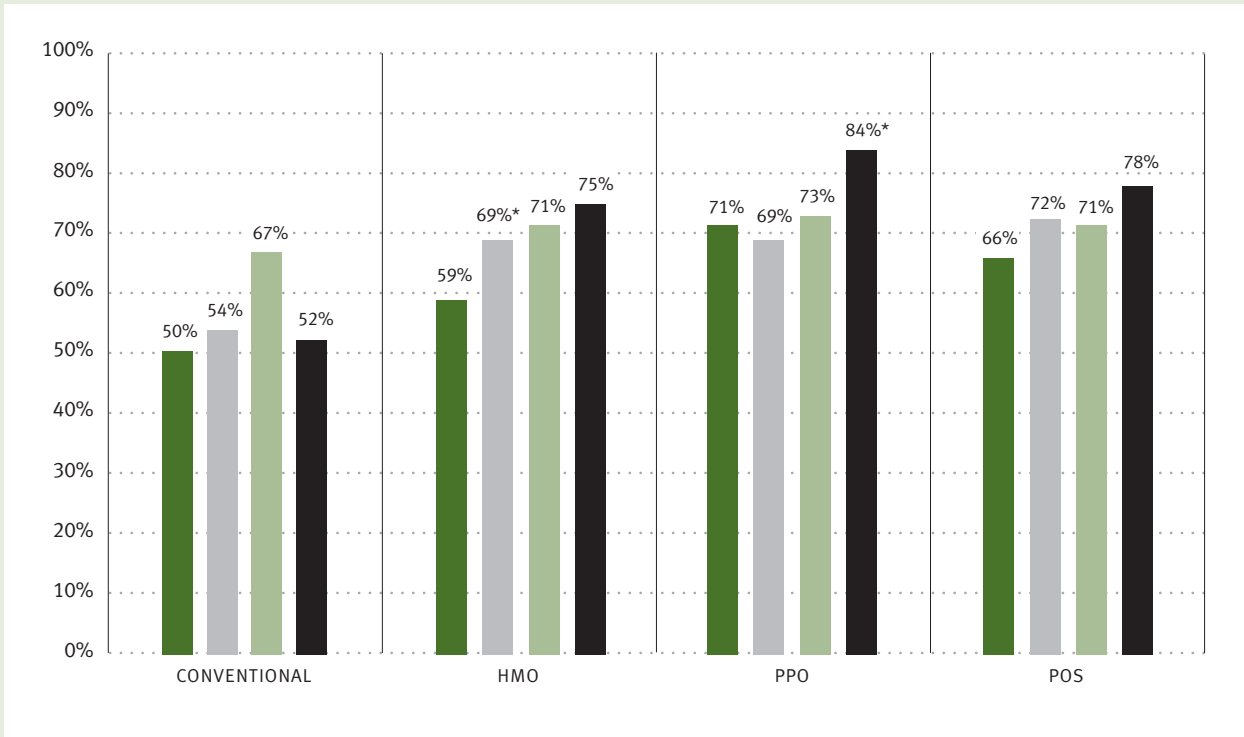
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1998.

* Estimate is statistically different from previous year shown at $p < .05$.

Generic drugs: A drug product that is no longer covered by patent protection and thus may be produced and/or distributed by multiple drug companies.

EXHIBIT 9.6

Percentage of Covered Workers With Mail Order Discount Plans for Prescription Drugs, 1998-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 1999, 2000, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1998.

* Estimate is statistically different from previous year shown at $p < .05$.

Mail order discount plans: Plans under which members pay less for drugs obtained through the mail rather than directly from a pharmacy.

EXHIBIT 9.7

Percentage of Covered Workers With Various Outpatient Mental Health Visit Annual Maximums, by Plan Type, 2004*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
20 Visits or Less	25%	48%	26%	32%	32%
21 to 30 Visits	26	26	34	28	31
31 to 50 Visits	5	6	11	8	9
More than 50 Visits	9	5	9	14	9
Unlimited	35	15	19	17	19

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

* Tests found no statistically different distribution from All Plans at $p < .05$.

EXHIBIT 9.8

Percentage of Covered Workers With Various Annual Inpatient Mental Health Day Maximums, by Plan Type, 2004*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
10 Days or Less	5%	4%	7%	5%	6%
11 to 20 Days	8	9	8	6	8
21 to 30 Days	44	47	45	46	45
31 or More Days	17	21	18	26	21
Unlimited	27	18	22	17	21

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

* Tests found no statistically different distribution from All Plans at $p < .05$.