

EMPLOYER HEALTH BENEFITS

2005 ANNUAL SURVEY

Prescription
Drug
Benefits

SECTION

9

PRESCRIPTION DRUG BENEFITS

IN RESPONSE TO RAPID GROWTH IN PRESCRIPTION DRUG COSTS OVER THE PAST FEW YEARS, EMPLOYERS AND HEALTH PLANS HAVE IMPLEMENTED CHANGES AND STRATEGIES IN AN EFFORT TO CONSTRAIN DRUG SPENDING. THE MOST PROMINENT STRATEGY ADOPTED BY EMPLOYERS IS THE USE OF TIERED COST SHARING ARRANGEMENTS, WHICH GIVE WORKERS A FINANCIAL INCENTIVE TO CHOOSE LESS EXPENSIVE DRUGS. ALMOST THREE IN FOUR COVERED WORKERS ARE IN PLANS WITH A THREE-TIER OR FOUR-TIER COST SHARING ARRANGEMENT. SOME COVERED WORKERS WITH DRUG BENEFITS (10%) MUST ALSO MEET A SEPARATE PRESCRIPTION DRUG DEDUCTIBLE.

- ▶ As in prior years, nearly all (98%) covered workers in employer-sponsored plans have a prescription drug benefit.
 - A majority of covered workers (89%) in 2005 have some sort of tiered cost sharing formula for prescription drugs (EXHIBIT 9.4). Cost sharing tiers generally are associated with the placement by a health plan of a drug on a formulary or preferred drug list. The formulary or drug list generally classifies drugs as a generic, a preferred brand named, or a nonpreferred brand named drug. Recently, a few plans have created a fourth tier of cost sharing, which is used in some cases for lifestyle drugs or expensive biologics. Seventy-four percent of covered workers are enrolled in plans with three or four tiers of cost sharing for prescription drugs (EXHIBIT 9.1).
 - The majority of covered workers with tiered benefits face copayments rather than coinsurance for generic, preferred, and nonpreferred drugs. Average drug copayments increased slightly over the last year. The average drug copayments for preferred (\$22), nonpreferred (\$35), and fourth-tier (\$74) drugs increased slightly over their level in 2004, while the average copayment for generic drugs is statistically unchanged from last year at \$10 (EXHIBIT 9.2).¹¹
 - For workers with coinsurance rather than copayments for prescription drugs, cost sharing levels average 20% for generic drugs, 25% for preferred drugs, 33% for nonpreferred drugs, and 43% for fourth-tier drugs (EXHIBIT 9.3).¹²
- ▶ Other strategies used by firms and health plans to curb the rising cost of prescription drug coverage include a separate prescription drug deductible. Among covered workers with a drug benefit, 10% face a separate prescription drug deductible in 2005. The average annual deductible faced by covered workers for prescription drugs is \$122 (EXHIBIT 9.5).

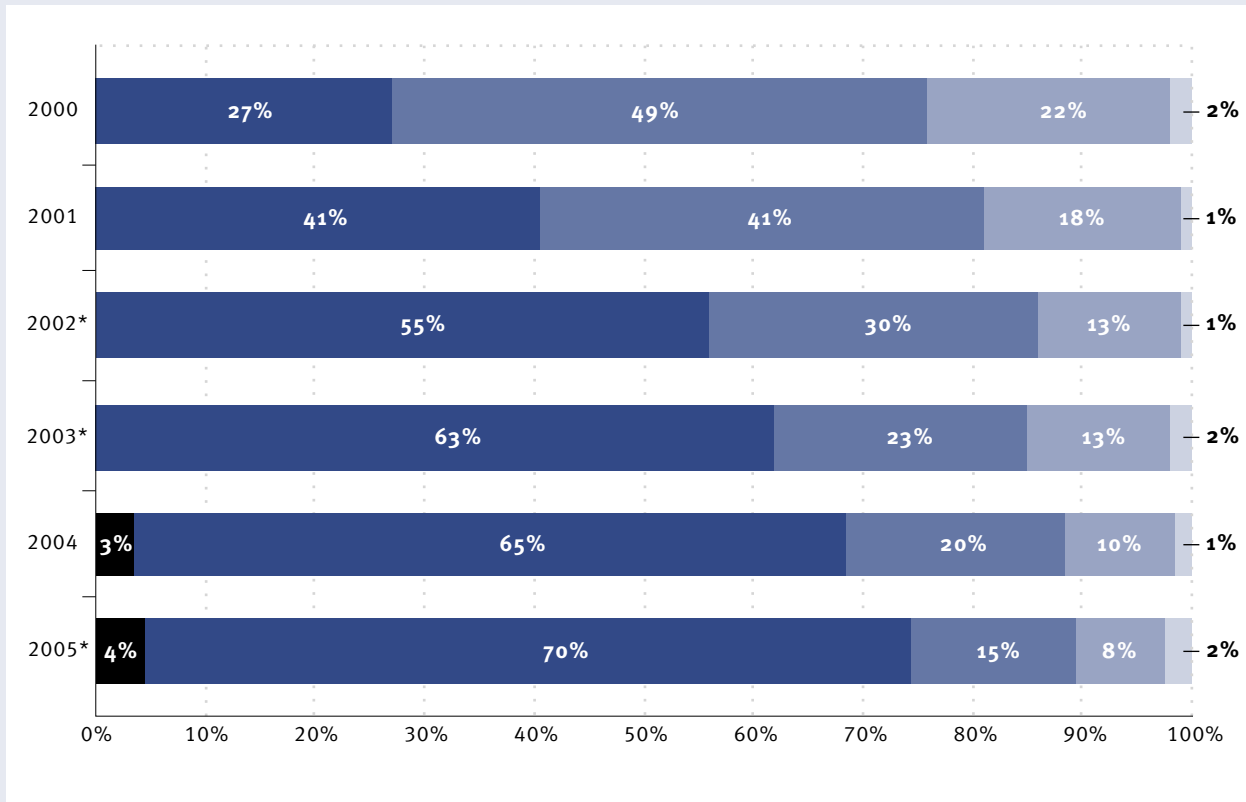
NOTE :

¹¹ The average copayments for generic, preferred, and nonpreferred drugs are calculated by combining the weighted average copayments for those types of drugs among firms with a single copayment amount or a multi-tier cost sharing structure. Because in some cases drugs covered as fourth-tier drugs may be covered by health plans through other portions of their coverage (e.g., as part of major medical coverage), the average copayment for fourth-tier drugs is calculated using information from only those plans that have a fourth-tier copayment amount.

¹² The average coinsurance rates for generic, preferred, and nonpreferred drugs are calculated by combining the weighted average coinsurance for those types of drugs among firms with a single coinsurance amount or a multi-tier cost sharing structure. Because in some cases drugs covered as fourth-tier drugs may be covered by health plans through other portions of their coverage (e.g., as part of major medical coverage), the average coinsurance for fourth-tier drugs is calculated using information from only those plans that have a fourth-tier coinsurance amount.

EXHIBIT 9.1

Distribution of Covered Workers Facing Different Cost Sharing Formulas for Prescription Drug Benefits, 2000-2005



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2005.

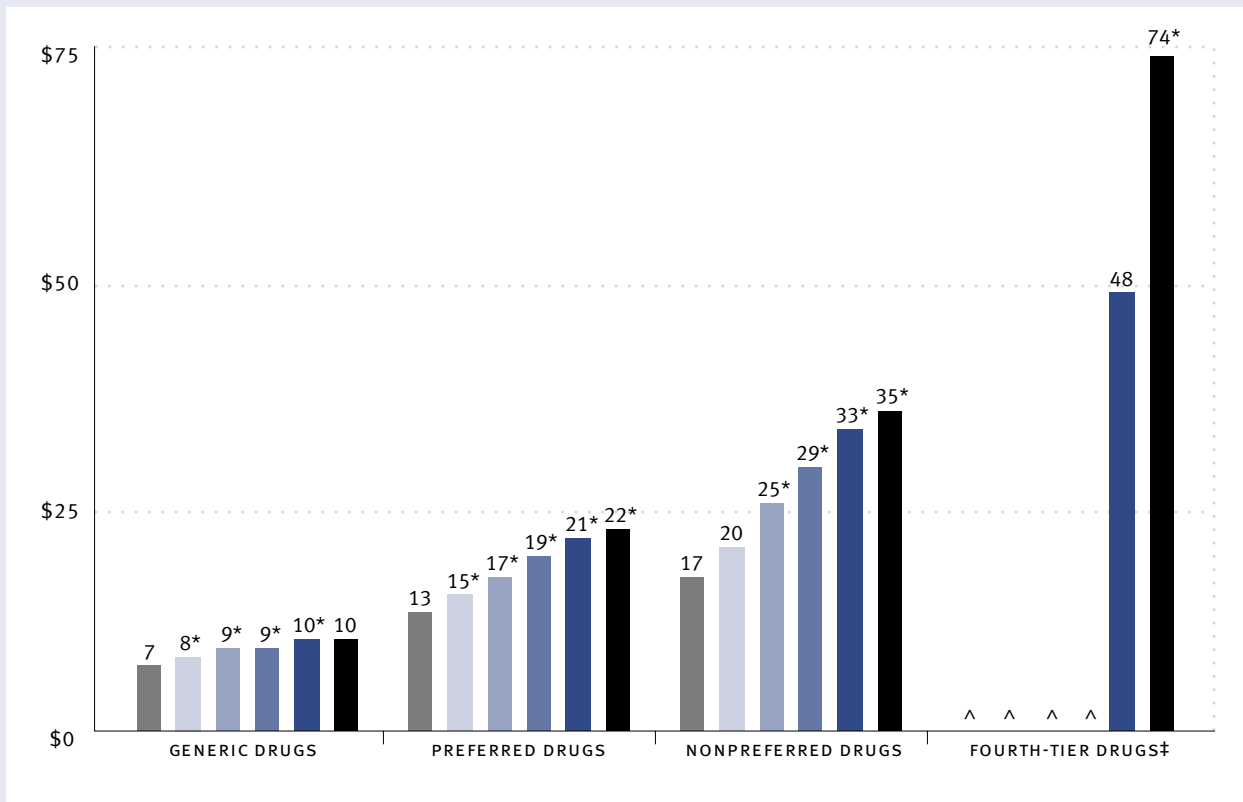
* Distribution is statistically different from the previous year shown at $p < .05$. No statistical tests were conducted between 2003 and 2004 due to the addition of a new category.

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

- FOUR-TIER
- THREE-TIER
- TWO-TIER
- PAYMENT IS THE SAME REGARDLESS OF TYPE OR COST OF DRUG
- OTHER

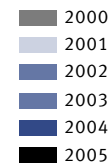
EXHIBIT 9.2

Among Covered Workers Facing Prescription Drug Copayments, Average Copayments, 2000-2005



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2005.



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

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

‡ The average copayments for generic, preferred, and nonpreferred drugs are calculated by combining the weighted average copayments for those types of drugs among firms with a single copayment amount or a multi-tier cost sharing structure. Because in some cases drugs covered as fourth-tier drugs may be covered by health plans through other portions of their coverage (e.g., as part of major medical coverage), the average copayment for fourth-tier drugs is calculated using information from only those plans that have a fourth-tier copayment amount.

Note: Average copayments for generic drugs are \$7.42 in 2000, \$8.05 in 2001, \$8.74 in 2002, \$9.07 in 2003, \$10.46 in 2004, and \$10.33 in 2005.

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.

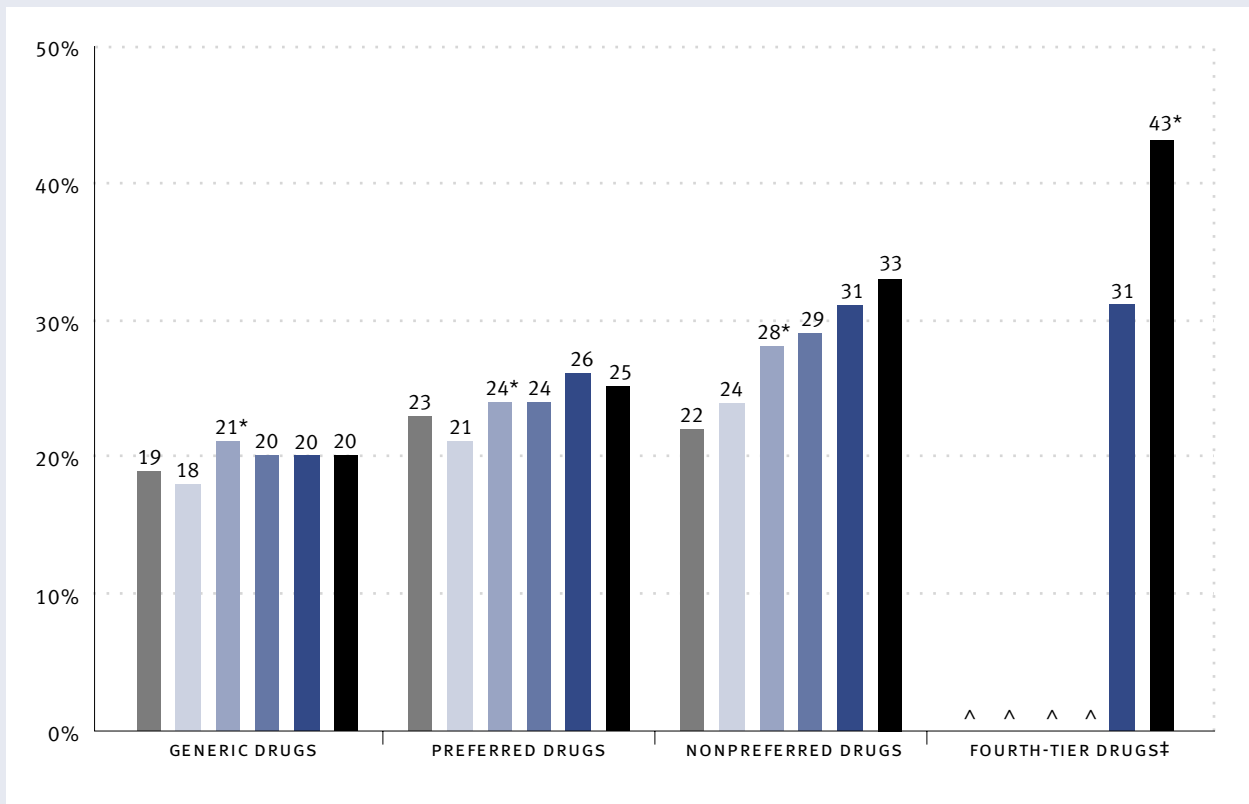
Nonpreferred drugs: Drugs not included on a formulary or preferred drug list; for example, a brand name drug with a generic substitute.

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.

Fourth-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 drugs or biologics.

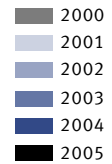
EXHIBIT 9.3

Among Covered Workers Facing Coinsurance for Prescription Drugs, Average Coinsurance, 2000-2005



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2005.



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

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

‡ The average coinsurance for generic, preferred, and nonpreferred drugs are calculated by combining the weighted average coinsurance for those types of drugs among firms with a single coinsurance amount or a multi-tier cost sharing structure. Because in some cases drugs covered as fourth-tier drugs may be covered by health plans through other portions of their coverage (e.g., as part of major medical coverage), the average coinsurance for fourth-tier drugs is calculated using information from only those plans who have a fourth tier coinsurance amount.

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.

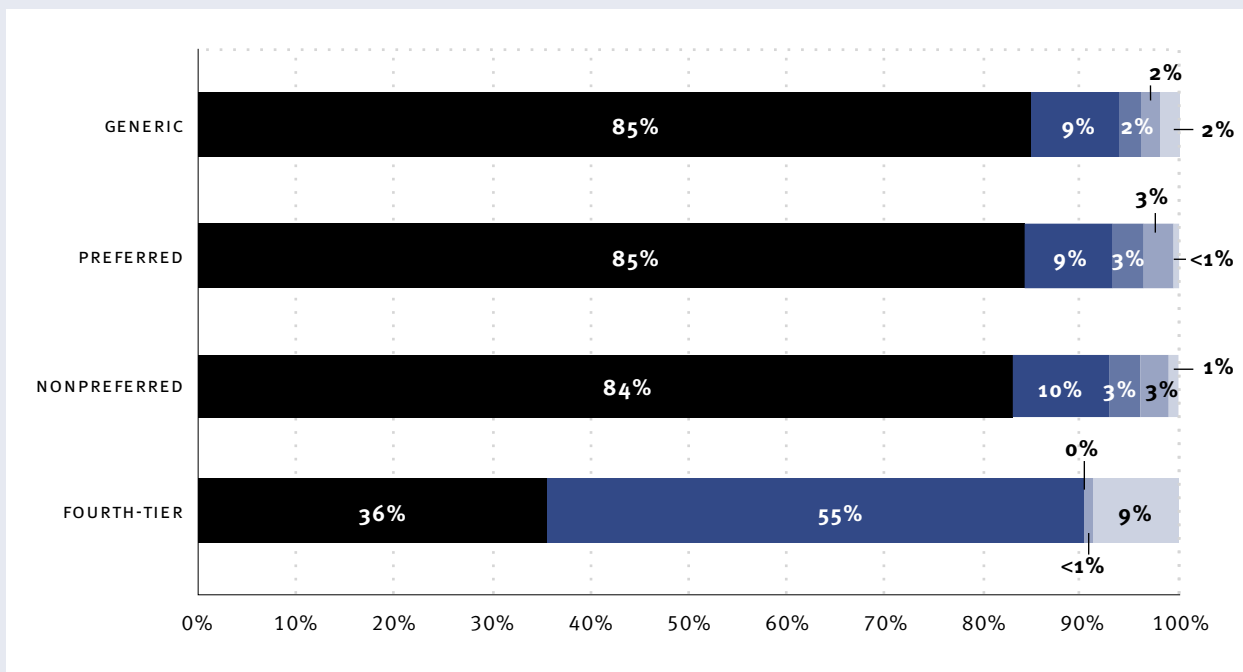
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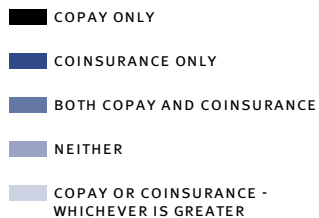
EXHIBIT 9.4

Distribution of Covered Workers With the Following Types of Cost Sharing for Prescription Drugs, by Drug Type, 2005



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2005.



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.

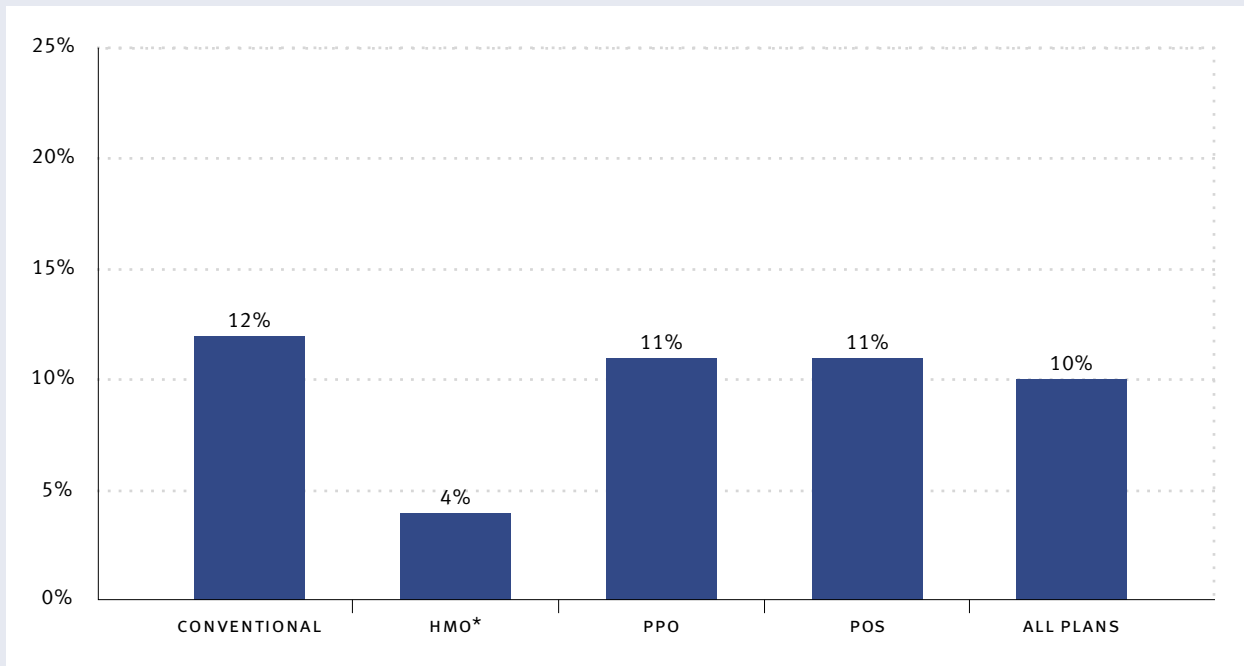
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EXHIBIT 9.5

Percentage of Covered Workers with Drug Coverage Who Face a Separate Drug Deductible, by Plan Type, 2005[‡]

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2005.

* Estimate is statistically different from All Plans at $p < .05$.

‡ Prevalence is among 98% of covered workers who have a prescription drug benefit.

Note: The average annual prescription drug deductible among covered workers facing a deductible is \$122.