

EMPLOYER HEALTH BENEFITS
2007 ANNUAL SURVEY

Prescription Drug Benefits

SECTION

9

Prescription Drug Benefits

Virtually all covered workers have prescription drug benefits. About three in four covered workers are in plans with a three-tier or four-tier cost-sharing arrangement for prescription drugs. The average copayment amounts in these plans have risen steadily over the past few years.

This year we changed the way in which we calculate estimates related to prescription drug cost sharing. In previous years, the values reported for those with the same cost sharing regardless of the type of drug were used in calculating the preferred and nonpreferred drug average copays and coinsurance. Similarly, for those reporting a two-tier cost sharing structure, we applied the second-tier information to the nonpreferred drug copays and coinsurance. For the first time this year, we present cost sharing for prescription drugs by tier level. For example, average copayments are presented separately for those that report three or four-tier cost sharing, two-tier cost sharing, or the same cost sharing regardless of type of drug. We have applied the new methods to data from prior years to show the change over time.

- As in prior years, nearly all (98%) covered workers in employer-sponsored plans have a prescription drug benefit.
- A majority of covered workers (91%) in 2007 have some sort of tiered cost-sharing formula for prescription drugs (Exhibit 9.1). 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-name, or a nonpreferred brand-name drug. More recently, a few plans have created a fourth tier of cost sharing, which is used in some cases for lifestyle drugs or expensive biologics.¹
- Seventy-five percent of covered workers are enrolled in plans with three or four tiers of cost sharing for prescription drugs, a similar percentage to last year (74%) (Exhibit 9.1).
 - HDHP/SOs have different cost-sharing patterns for prescription drugs than other plan types. Only 45% of covered workers in HDHP/SOs are in a plan with three or four tiers of cost sharing for prescription drugs, compared with 75% of covered workers overall. Twenty-eight percent of covered workers in HDHP/SOs are in plans that apply the same cost-sharing structure regardless of the type of drug, and an additional 15% are in plans that pay 100% of prescription costs once the plan deductible is met (Exhibit 9.2).
- Among workers covered by plans with three or four tiers of cost sharing for prescription drugs, a large majority face copayments rather than coinsurance when they use generic, preferred, and nonpreferred drugs (Exhibit 9.3). The percentages differ slightly across drug types because some plans have copayments for some drug types and coinsurance for other drug types.

¹ See Text Box for descriptions of drug types.

- For covered workers in plans with three or four tiers of cost sharing for prescription drugs, the average drug copayments for generic (\$11), preferred (\$25), and nonpreferred (\$43) drugs are the same amounts as last year (Exhibit 9.4).
- For covered workers in plans with three or four tiers of cost sharing for prescription drugs who face coinsurance rather than copayments, coinsurance levels average 21% for generic drugs, 26% for preferred drugs, and 40% for nonpreferred drugs (Exhibit 9.5).
- Seven percent of covered workers are in a plan that has a fourth tier of cost sharing for prescription drugs (Exhibit 9.1). Some plans use these fourth tiers for lifestyle drugs or specialty drugs such as biologics. For covered workers in plans with four cost-sharing tiers, 42% face a copayment for fourth-tier drugs and 38% face coinsurance (Exhibit 9.3).
 - The average copayment for fourth-tier drugs is \$71 (Exhibit 9.4). The average coinsurance amount for fourth-tier drugs is 36% (Exhibit 9.5).
- Sixteen percent of covered workers are in a plan that has two tiers for prescription drug cost sharing (Exhibit 9.1). Of those with two-tier cost sharing, 78% have copayments for the first tier (generic drugs) and 68% have copayments for the second tier (preferred drugs) (Exhibit 9.6). The average copayment for the first tier is \$10, while the average copayment for the second tier is \$23 (Exhibit 9.7).
- Six percent of covered workers are covered by plans in which cost sharing is the same regardless of the type of drug chosen (Exhibit 9.1). Among these covered workers, 55% are in plans that apply copayments and 42% are in plans that apply coinsurance (Exhibit 9.9). These percentages vary by plan type. The vast majority of covered workers in HPHD/SOs with this type of cost sharing face coinsurance rather than copayments (94% vs. 6%) when filling prescriptions.
 - For those workers with the same cost sharing regardless of the type of drug, the average copayment is \$13 (Exhibit 9.10) and the average coinsurance is 22% (Exhibit 9.11).
- About 11% of covered workers with drug coverage face a separate drug deductible, in addition to any general annual deductible the plan may have. There were no statistically significant increases or decreases from the levels reported in 2005, the last time the question was asked (Exhibit 9.12).
- For the first time this year, the survey asked about a separate out-of-pocket maximum for prescription drugs. A small percentage (8%) of covered workers have a separate annual out-of-pocket maximum that applies to prescription drugs (Exhibit 9.13). The variation between plan types is not statistically significant.

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.

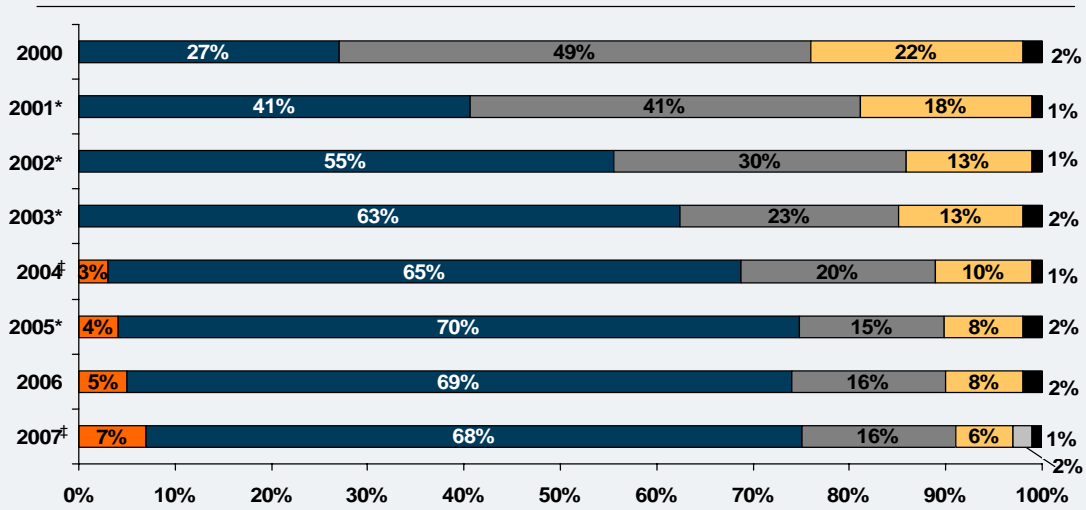
Preferred drugs: Drugs included on a formulary or preferred drug list; for example, a brand-name drug without a generic substitute.

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

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.

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.

Exhibit 9.1
Distribution of Covered Workers Facing Different Cost-Sharing Formulas for Prescription Drug Benefits, 2000-2007



*Distribution is statistically different from distribution for the previous year shown ($p < .05$).

†No statistical tests are conducted between 2003 and 2004 or between 2006 and 2007 due to the addition of a new category.

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

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2007.

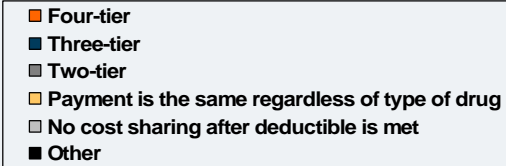
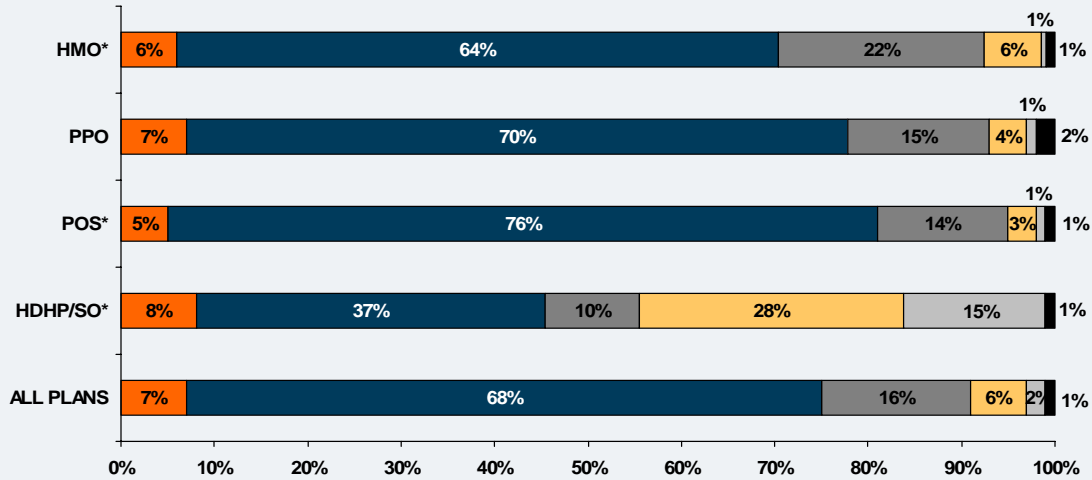


Exhibit 9.2
Distribution of Covered Workers Facing Different Cost-Sharing Formulas for Prescription Drug Benefits, by Plan Type, 2007



*Distribution is statistically different from All Plans distribution (p<.05).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

- Four-tier
- Three-tier
- Two-tier
- Payment is the same regardless of type of drug
- No cost sharing after deductible is met
- Other

Exhibit 9.3
Among Workers with Three or Four-Tier Cost Sharing, Distribution of Covered Workers with the Following Types of Cost Sharing for Prescription Drugs, by Drug and Plan Type, 2007

	Copay Only	Coinsurance Only	Either Copay or Coinsurance [‡]	Plan Pays Entire Cost After Any Deductibles Are Met [§]	Some Other Amount
Generic Drugs					
HMO*	93%	1%	2%	1%	4%
PPO	86	6	3	2	4
POS*	86	8	2	1	4
HDHP/SO*	74	18	0	5	2
ALL PLANS	87%	6%	2%	1%	3%
				Copay or Coinsurance Plus Any Difference [§]	
Preferred Drugs					
HMO*	90%	4%	3%	0%	3%
PPO	81	9	4	<1	6
POS*	86	8	2	0	4
HDHP/SO*	75	18	<1	1	6
ALL PLANS	84%	8%	3%	<1%	4%
Nonpreferred Drugs					
HMO*	84%	6%	4%	1%	6%
PPO	79	11	5	1	5
POS*	92	5	2	<1	1
HDHP/SO*	79	16	<1	0	4
ALL PLANS	82%	9%	4%	1%	5%
Fourth-Tier Drugs					
HMO	42%	37%	0%	10%	11%
PPO	38	39	0	12	11
POS	NSD	NSD	NSD	NSD	NSD
HDHP/SO	NSD	NSD	NSD	NSD	NSD
ALL PLANS	42%	38%	1%	9%	10%

* Distribution is statistically different from All Plans distribution within drug type ($p < .05$).

[‡] This includes enrollees who are required to pay the higher amount of either the copayment or coinsurance under the plan.

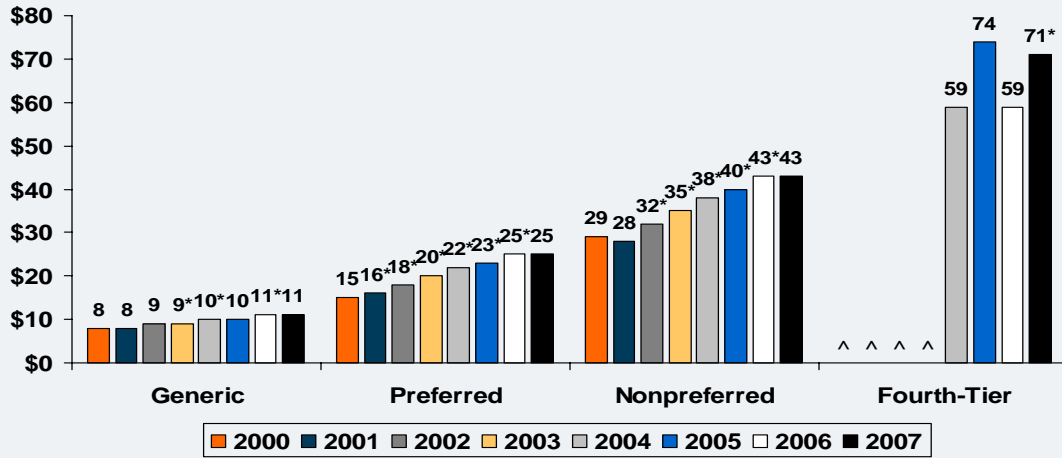
[§] In order to collect information on plans that pay 100% of the cost of generic drugs after any deductibles have been met, this response option was added to the question on cost sharing for generic drugs. In addition, the response option for cost sharing in the form of a "copay or coinsurance plus the difference between the cost of the prescription and the cost of a comparable generic" was added to the cost sharing questions for preferred, nonpreferred, and fourth-tier drugs.

NSD: Not Sufficient Data.

Note: These distributions do not include the 1% of covered workers whose employers report "none of the above" to what type of prescription drug cost-sharing formula. For definitions of Generic, Preferred, Nonpreferred, and Fourth-Tier Drugs, see the introduction to Section 9.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

Exhibit 9.4
Among Covered Workers with Three or Four-Tier Prescription Drug Cost Sharing, Average Copayments, 2000-2007

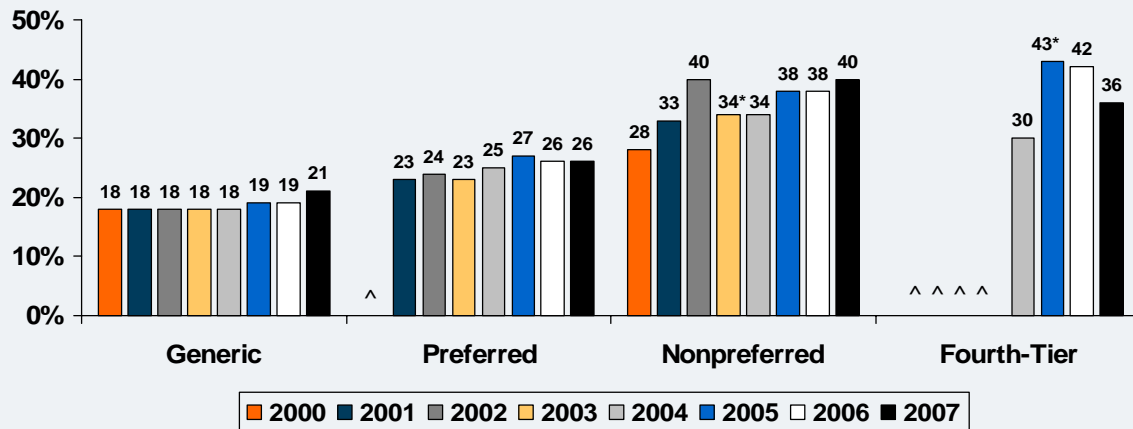


* Estimate is statistically different from estimate for the previous year shown (p<.05).

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

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2007.

Exhibit 9.5
Among Covered Workers with Three or Four-Tier Prescription Drug
Cost Sharing, Average Coinsurance, 2000-2007



* Estimate is statistically different from estimate for the previous year shown (p<.05).

^ Fourth-tier drug copayment information was not obtained prior to 2004. There is insufficient data to report the average coinsurance amount for 2000.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2007.

Exhibit 9.6
Among Those with Two-Tier Cost Sharing for Prescription Drugs, Distribution of Covered Workers with the Following Types of Cost Sharing for Prescription Drugs, by Drug and Plan Type, 2007

	Copay Only	Coinsurance Only	Either Copay or Coinsurance [‡]	Plan Pays Entire Cost After Any Deductibles Are Met [§]	Some Other Amount
Generic					
HMO*	90%	5%	<1%	0%	4%
PPO	72	15	6	3	4
POS*	81	10	8	1	<1
HDHP/SO	NSD	NSD	NSD	NSD	NSD
ALL PLANS	78%	12%	3%	3%	4%
				Copay or Coinsurance Plus Difference [§]	
Preferred					
HMO*	87%	8%	<1%	0%	4%
PPO	59	24	7	2	9
POS	72	15	4	3	5
HDHP/SO	NSD	NSD	NSD	NSD	NSD
ALL PLANS	68%	19%	4%	1%	7%

* Distribution is statistically different from All Plans distribution within drug type ($p < .05$).

[‡] This includes enrollees who are required to pay the higher amount of either the copayment or coinsurance under the plan.

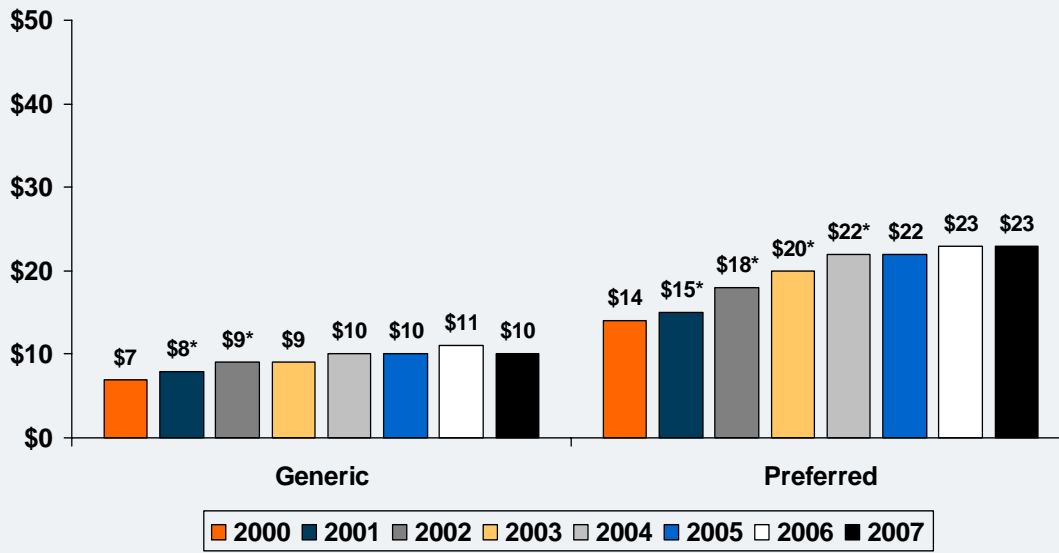
[§] In order to collect information on plans that pay 100% of the cost of generic drugs after any deductibles have been met, this response option was added to the question on cost sharing for generic drugs. In addition, the response option for cost sharing in the form of a "copay or coinsurance plus the difference between the cost of the prescription and the cost of a comparable generic" was added to the cost sharing questions for preferred, nonpreferred, and fourth-tier drugs.

NSD: Not Sufficient Data.

Note: These distributions do not include the 1% of covered workers whose employers report "none of the above" to what type of prescription drug cost-sharing formula. For definitions of Generic, Preferred, Nonpreferred, and Fourth-Tier Drugs, see the introduction to Section 9.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

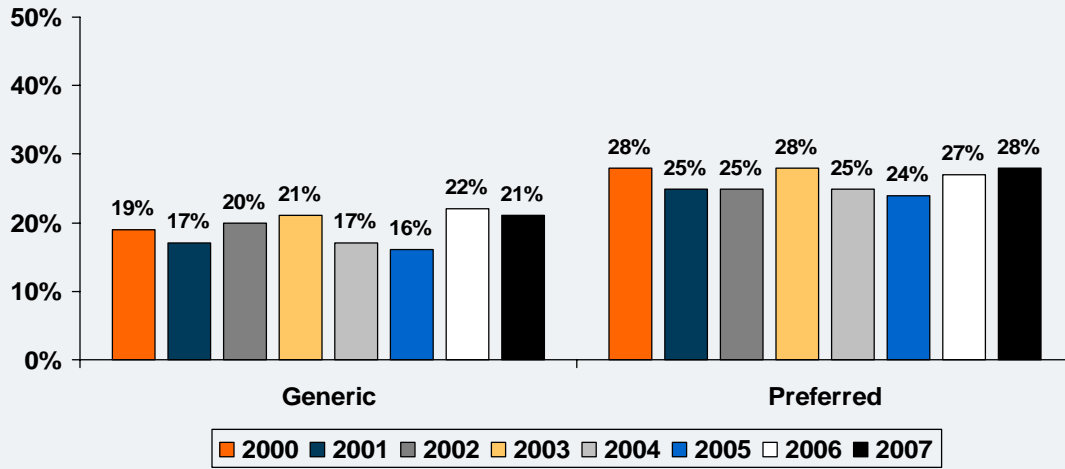
Exhibit 9.7
Among Covered Workers with Two-Tier Prescription Drug Cost Sharing, Average Copayments, 2000-2007



* Estimate is statistically different from estimate for the previous year shown (p<.05).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2007.

Exhibit 9.8
Among Covered Workers with Two-Tier Prescription Drug Cost Sharing, Average Coinsurance, 2000-2007*



*Tests found no statistical differences from estimate for previous year shown ($p < .05$).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

Exhibit 9.9
Among Workers with Same Cost Sharing Regardless of Type of Drug, Distribution of Covered Workers with the Following Types of Cost Sharing for Prescription Drugs, by Plan Type, 2007

	Copay Only	Coinsurance Only	Either Copay or Coinsurance [‡]	Plan Pays Entire Cost After Any Deductibles Are Met	Some Other Amount
HMO*	96%	3%	1%	0%	0%
PPO	51	43	3	0	3
POS	NSD	NSD	NSD	NSD	NSD
HDHP/SO*	6	94	0	0	0
ALL PLANS	55%	42%	1%	0%	2%

* Distribution is statistically different from All Plans distribution within drug type ($p < .05$).

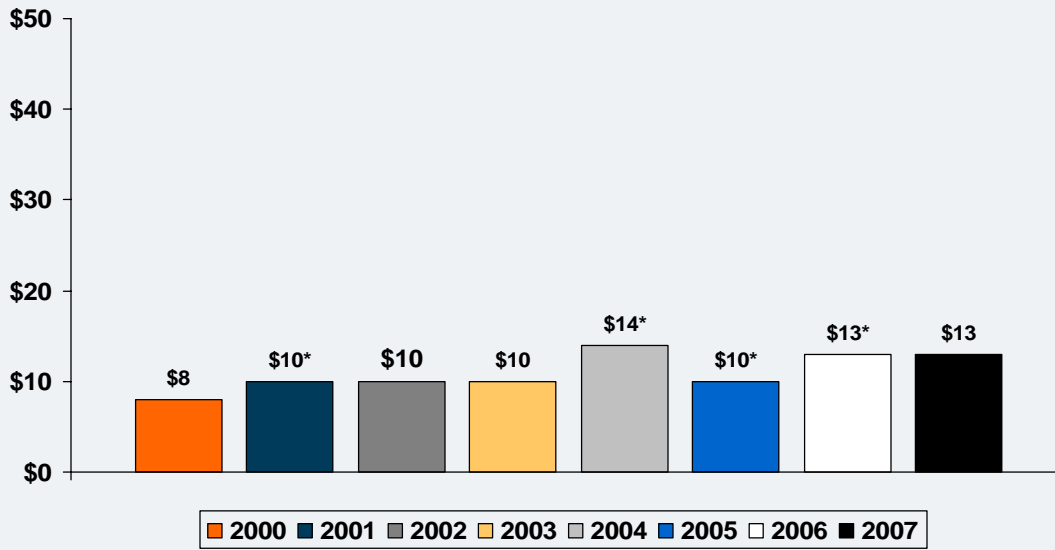
[‡] This includes enrollees who are required to pay the higher amount of either the copayment or coinsurance under the plan.

NSD: Not Sufficient Data.

Note: These distributions do not include the 1% of covered workers whose employers report "none of the above" to what type of prescription drug cost sharing formula. For definitions of Generic, Preferred, Nonpreferred, and Fourth-Tier Drugs, see the introduction to Section 9. Figure does not include 2% (for All Plans) of workers in firms that responded that cost sharing is the same regardless of drug type and then reported no cost sharing after deductibles are met.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.

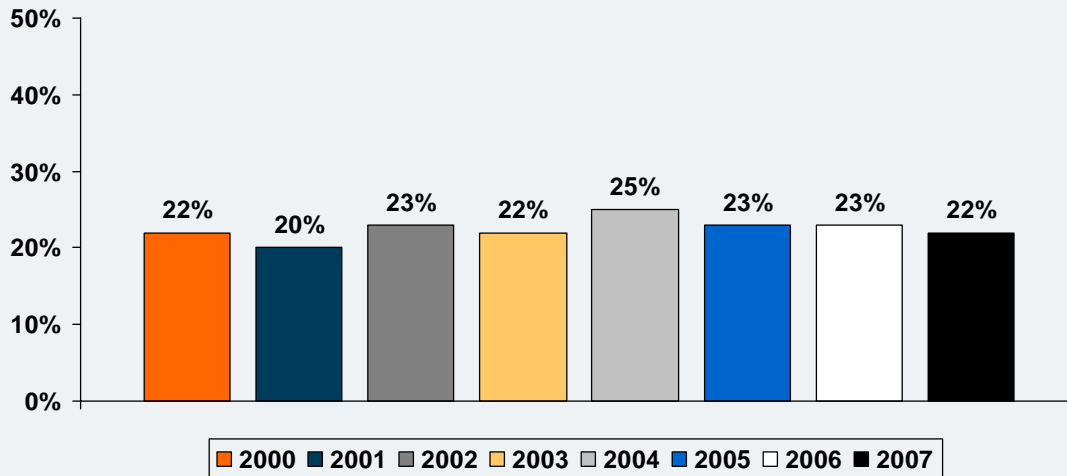
Exhibit 9.10
Among Covered Workers with Same Cost Sharing Regardless of
Type of Drug, Average Copayments, 2000-2007



* Estimate is statistically different from estimate for the previous year shown (p<.05).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2007.

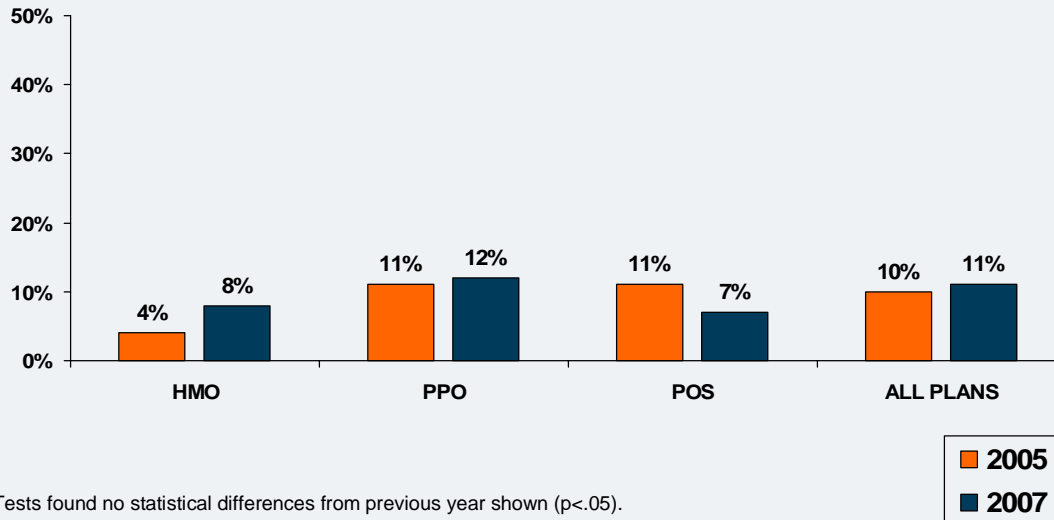
Exhibit 9.11
Among Covered Workers with Same Cost Sharing Regardless of
Type of Drug, Average Coinsurance, 2000-2007*



*Tests found no statistical differences from previous year shown (p<.05).

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2007.

Exhibit 9.12
Percentage of Covered Workers with Drug Coverage Who Face a Separate Drug Deductible, by Plan Type, 2005-2007*

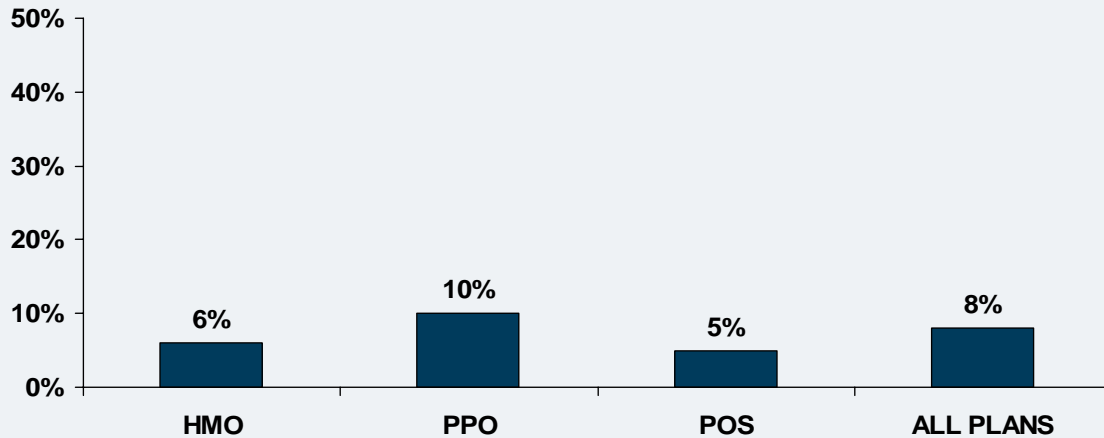


* Tests found no statistical differences from previous year shown ($p < .05$).

Note: Information on HDHP/SOs was not collected because, due to federal regulations, it is unlikely a plan would have a separate deductible for prescription drugs. Information on whether a plan has a separate drug deductible was not imputed for one PPO and one POS plan that cover prescription drugs. If these responses had been imputed, the prevalence of separate drug deductibles would not have changed for PPOs and would have increased or decreased no more than 1% for POS plans.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2005-2007.

Exhibit 9.13
Percentage of Covered Workers with Drug Coverage with a Separate Annual Out-of-Pocket Limit that Applies to Prescription Drugs, by Plan Type, 2007*



* Tests found no statistical difference from All Plans estimate ($p < .05$).

Note: Data for HDHP/SOs are not included in this exhibit because HSA-qualified HDHPs are required by law to have an annual out-of-pocket limit of \$5,500 for single coverage and \$11,000 for family coverage, making it unlikely a plan would include a separate out-of-pocket maximum for prescription drugs. As a result, only firms offering HDHP/HRAs were asked if the plan has a separate out-of-pocket maximum that applies to prescription drugs. Among covered workers enrolled in HDHP/HRAs, 7% are enrolled in plans with a separate annual out-of-pocket limit that applies to prescription drugs.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2007.