

EMPLOYER HEALTH BENEFITS
2003 ANNUAL SURVEY

Prescription Drug
and Mental
Health Benefits

SECTION

9

PRESCRIPTION DRUG AND MENTAL HEALTH BENEFITS

PRESCRIPTION DRUG COSTS HAVE RISEN RAPIDLY OVER THE PAST FEW YEARS, LEADING EMPLOYERS AND HEALTH PLANS TO LOOK FOR WAYS TO REDUCE THIS COST GROWTH. EMPLOYERS HAVE USED A VARIETY OF STRATEGIES TO REDUCE THEIR EXPENSES, INCLUDING RAISING COST SHARING LEVELS AND INTRODUCING FINANCIAL ARRANGEMENTS WHICH GIVE WORKERS INCENTIVES TO SELECT LESS EXPENSIVE DRUGS. THESE TRENDS CONTINUED IN 2003.

COVERAGE LIMITS, INCLUDING CAPS ON THE NUMBERS OF INPATIENT AND OUTPATIENT VISITS, REMAIN A COMMON FEATURE OF MENTAL HEALTH BENEFITS, DESPITE FEDERAL AND STATE LAWS ENCOURAGING GREATER PARITY BETWEEN MENTAL HEALTH AND OTHER HEALTH BENEFITS. WORKERS IN SMALL FIRMS (3-199 WORKERS) ARE APPROXIMATELY TWICE AS LIKELY AS WORKERS IN LARGE FIRMS (200 OR MORE WORKERS) TO HAVE TIGHT RESTRICTIONS ON BOTH OUTPATIENT AND INPATIENT MENTAL HEALTH VISITS.

PRESCRIPTION DRUG BENEFITS

► Prescription drugs continue to be a standard benefit provided for covered workers, (99%) (EXHIBITS 8.2, 8.3). To combat rising prices, firms are increasingly providing employees with financial incentives to encourage use of generic drugs and certain categories of preferred brand name drugs.

- The use of three-tier cost sharing arrangements, where a worker faces one copay for generic drugs, a higher one for preferred drugs (such as brand name drugs with no generic substitutes), and an even higher one for non-pre-

ferred drugs (such as brand named drugs with generic substitutes) has increased over the past year, growing from 55% of covered workers in 2002 to 63% in 2003 (EXHIBIT 9.1). Over the same time frame, two-tier cost sharing arrangements, where employees face one payment level when purchasing brand name drugs and another when using generic drugs, declined from 30% to 23% of covered workers. The prevalence of plans that charge workers the same amount, regardless of the type of drug purchased, has remained constant.

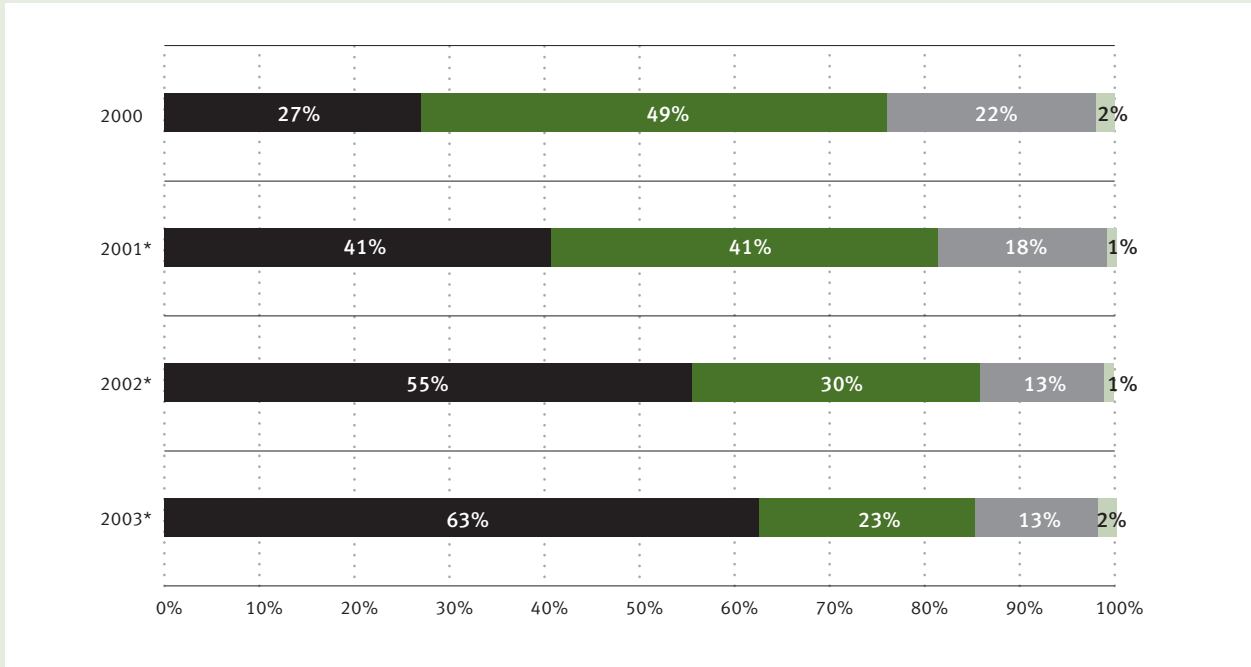
- The majority of workers in conventional, HMO, PPO, and POS plans have either a two-tier or three-tier cost sharing formula for prescription drugs. Workers in PPOs are most likely to have a three-tier cost sharing formula (65%).

► The average copayment requirement for employees when buying a non-preferred drug has risen from \$17 in 2000 to \$29 in 2003 (EXHIBIT 9.2).

- Copays average \$9 for generics, \$19 for preferred drugs, and \$29 for non-preferred drugs, with little variation by plan type. Average copays for non-preferred drugs have increased over the last year, especially in PPO and POS plans. Copays for such drugs remain highest in PPO plans, where they increased from \$26 in 2002 to \$30 in 2003.
 - For workers with coinsurance rather than copays (between seven and eleven percent of workers, depending on drug type), cost sharing levels average 20% for generic drugs, 24% for preferred drugs, and 29% for non-preferred drugs (EXHIBIT 9.3).
 - ▶ Seventy-one percent of workers are in plans that use a formulary that restricts which drugs will be covered, statistically unchanged from 2002 (70%) (EXHIBIT 9.5).
 - ▶ Twenty-eight percent of covered workers are in firms that “carve out” prescription drugs and provide this benefit separately from their standard health plans, a similar percentage to last year.
 - Among these firms, employers reported that prescription costs for family coverage increased 15%.
 - Eight percent of covered workers face a separate deductible for prescription drugs in 2003, and the average deductible has risen from \$88 in 2000 to \$161 this year.
- MENTAL HEALTH BENEFITS**
- ▶ Most covered workers face limits on the number of outpatient mental health visits covered by their health plans, although there may be some loosening of these restrictions in 2003 (EXHIBIT 9.6).
 - Overall, 16% of covered workers have unlimited outpatient mental health visits compared to 11% in 2002. Twenty-seven percent of workers are restricted to 20 visits or fewer per year.
 - ▶ Unlimited inpatient mental health days are not frequently offered and the prevalence is unchanged from 2002, with only 17% of covered workers having unlimited inpatient days. Slightly more than one-third of covered workers (37%) are limited to 21 to 30 inpatient mental health days per year, and another 13% are limited to 20 or fewer days per year (EXHIBIT 9.7).
 - ▶ Workers in small firms (3-199 workers) are approximately twice as likely as workers in large firms (200 or more workers) to have tight restrictions on both outpatient and inpatient mental health visits. For example, 39% of workers in all small firms are limited to 20 or fewer outpatient mental health visits per year, compared with just 21% of workers in all large firms.

EXHIBIT 9.1

Percentage of Covered Workers Facing Different Cost Sharing Formulas for Prescription Drug Benefits, 2000-2003



THREE-TIER = ONE PAYMENT FOR GENERIC DRUGS, ANOTHER FOR PREFERRED DRUGS, AND A THIRD FOR NON-PREFERRED 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.

* Distribution is statistically different from the previous year shown: 2000-2001, 2001-2002, 2002-2003.

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

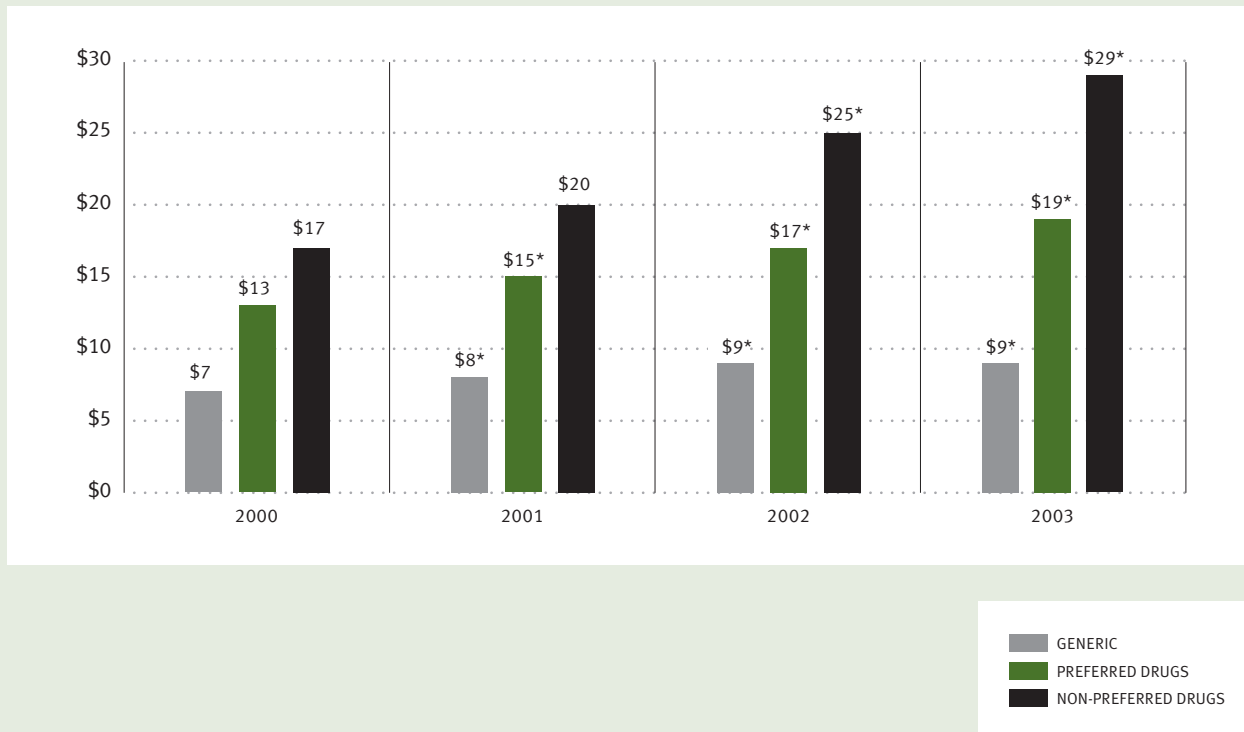
Preferred drugs: Drugs included on a formulary or preferred drug list; for example, a brand name drug without a generic substitute.

Non-preferred 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.

EXHIBIT 9.2

Average Copays for Generic Drugs, Preferred Drugs, and Non-Preferred Drugs, 2000-2003



SOURCE :

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

* Estimate is statistically different from previous year by drug tier, 2000-2001, 2001-2002, 2002-2003.

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

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

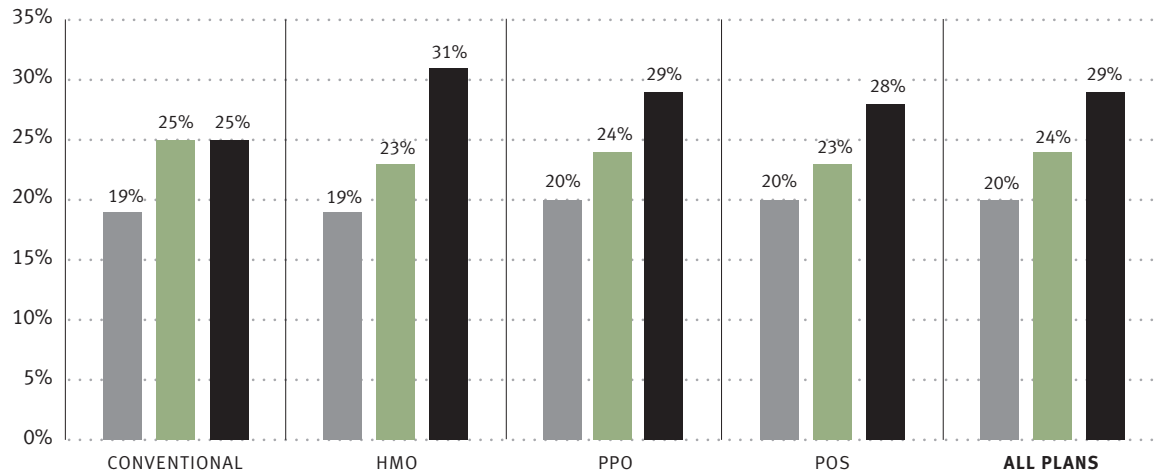
Non-preferred drugs: Drugs *not* included on a formulary or preferred drug list; for example, a brand name drug with a generic substitute.

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

EXHIBIT 9.3

Average Coinsurance Rate for Generic Drugs, Preferred Drugs, and Non-Preferred Drugs, in Conventional, HMO, PPO, and POS Plans, 2003*



GENERIC
 PREFERRED DRUGS
 NON-PREFERRED DRUGS

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

* Distribution is statistically different from the previous year shown: 2000-2001, 2001-2002, 2002-2003.

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

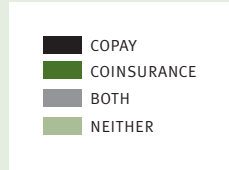
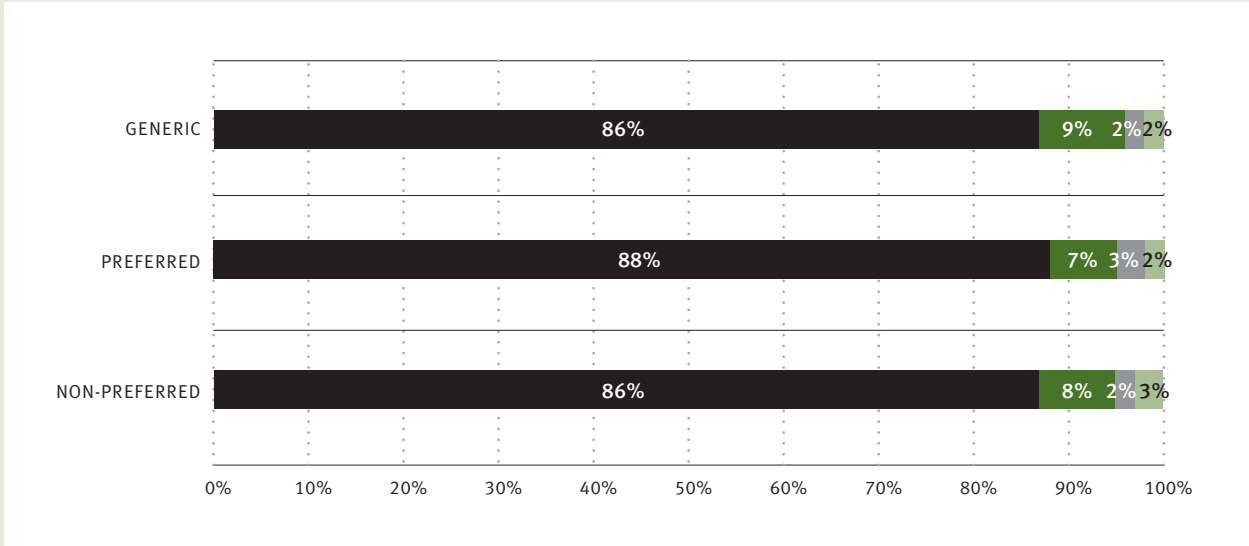
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EXHIBIT 9.4

Covered Workers With the Following Types of Cost Sharing for Prescription Drugs, by Drug Type, 2003



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

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

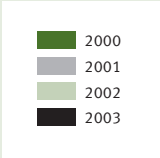
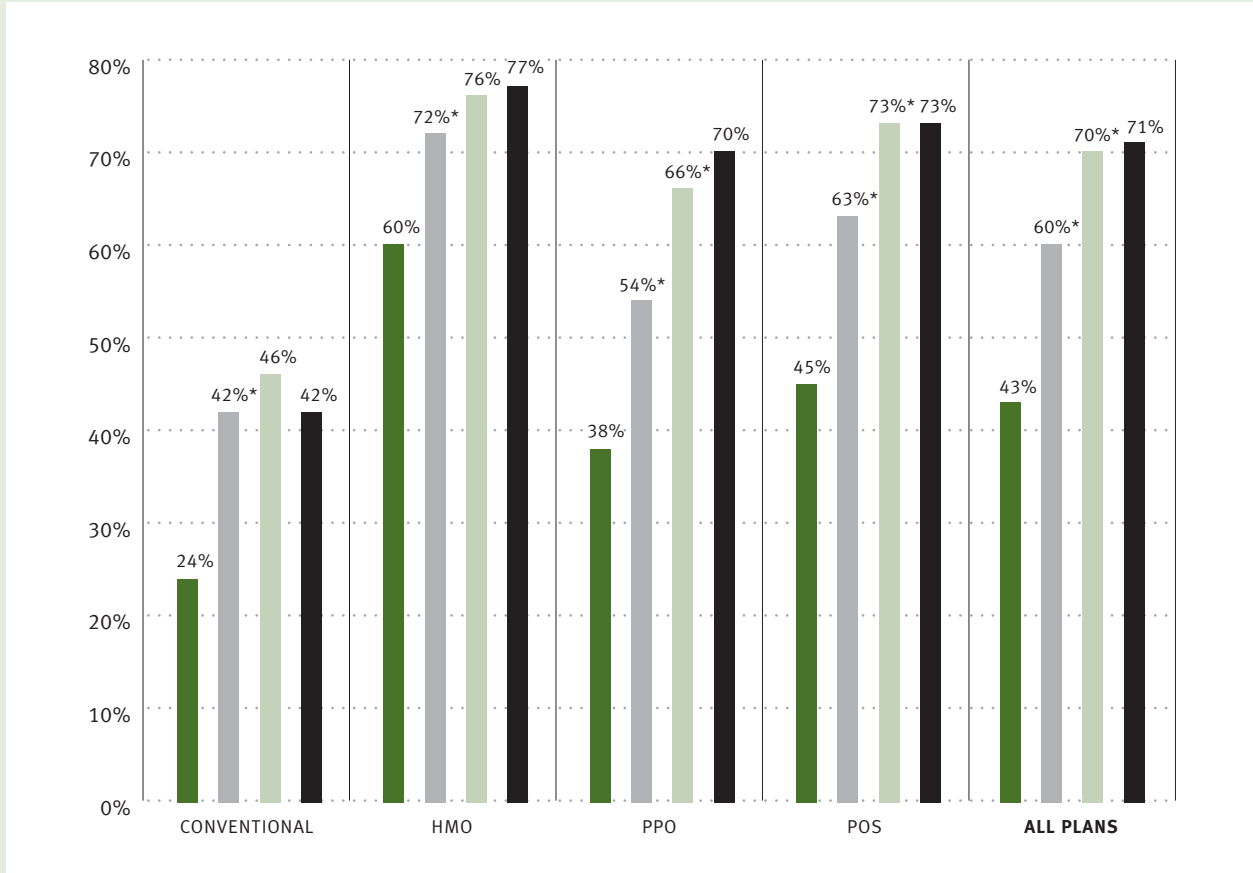
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EXHIBIT 9.5

Percentage of Covered Workers With A Formulary That Restricts Which Drugs Will Be Covered, by Plan Type, 2000-2003



SOURCE :

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

* Estimate is statistically different from previous year for years 2000-2001, 2001-2002, 2002-2003.

EXHIBIT 9.6

Percentage of Covered Workers With Various Outpatient Mental Health Visit Annual Maximums, by Plan Type, 2003*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
20 Visits or Less	22%	42%	22%	28%	27%
21 to 30 Visits	23	25	25	19	24
31 to 50 Visits	10	6	17	12	14
More than 50 Visits	4	5	7	8	7
Unlimited	28	12	16	17	16
Don't Know	13	10	11	16	12

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

* Tests found no statistically different distributions from All Plans.

EXHIBIT 9.7

Percentage of Covered Workers With Various Annual Inpatient Mental Health Day Maximums, by Plan Type, 2003*

	<i>Conventional</i>	<i>HMO</i>	<i>PPO</i>	<i>POS</i>	<i>All Plans</i>
10 Days or Less	1%	8%	7%	5%	6%
11 to 20 Days	10	9	7	7	7
21 to 30 Days	22	40	37	35	37
31 or More Days	11	15	17	17	17
Unlimited	42	12	18	14	17
Don't Know	15	16	15	23	16

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2003.

* Tests found no statistically different distributions from All Plans.

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