

CURRENT TRENDS AND FUTURE OUTLOOK FOR RETIREE HEALTH BENEFITS

Findings from the Kaiser/Hewitt 2004
Survey on Retiree Health Benefits

SECTION 4

PRESCRIPTION DRUGS

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Prescription drugs are a critical component of retiree health benefits. For those ages 65 and older, employer-sponsored retiree health benefits are the primary source of drug coverage, assisting more than one in three seniors with Medicare.²⁵ To understand the scope and structure of prescription drug benefits offered to seniors prior to the implementation of the Medicare drug benefit, we asked employers to describe the prescription drug provisions for the benefit plan with the largest number of age 65+ retirees. Findings from this survey confirm that prescription drug benefits currently offered by employers are significantly more generous than the drug benefits envisioned under the upcoming Medicare prescription drug benefit. The typical employer plan does not impose separate premiums or a separate deductible, nor does it suspend coverage at a given benefit level, until the retiree's drug spending reaches a specified out-of-pocket threshold.

- The vast majority of employers that offer retiree health benefits (98 percent) provide coverage for prescription drugs. Most (93 percent) offer drug benefits as part of the firm's retiree health benefit plan, while a small share (5 percent) do so as a separate, employer-subsidized stand-alone drug plan. Only 2 percent do not offer prescription drug benefits to age 65+ retirees (Exhibit 16).
- Among plans with the largest number of age 65+ retirees, 58 percent of surveyed employers report that drug benefits are subject to the overall plan design, meaning the plan does not impose deductibles and out-of-pocket limits for drug benefits separate from other covered benefits (Exhibit 17).
 - 27 percent have a separate annual drug deductible; drug deductibles range from \$25 to \$250 and the most common deductible is \$50.
 - 18 percent have a separate annual out-of-pocket maximum (or stop-loss) for pharmacy claims; out-of-pocket maximum amounts range from \$50 to \$5,000 and the most common out-of-pocket limit for drugs is \$1,500.
 - Benefit limits for drugs are fairly uncommon with 9 percent of the largest plans reporting a separate cap on total drug covered expenses.
 - Only 3 percent have separate premiums for prescription drug benefits.
- 94 percent of plans offer both retail and mail-order coverage (Exhibit 18). Among employers that offer drug benefits, 21 percent require enrollees to use mail-order.

Employers use a variety of cost-sharing strategies for prescription drug benefits.

- 65 percent of employers contract directly with a pharmacy benefit manager (PBM) to administer the prescription drug plan that enrolls the largest number of age 65+ retirees.

²⁵ Medicare Payment Advisory Commission, *Healthcare Spending and the Medicare Program, A Data Book*. June 2004.

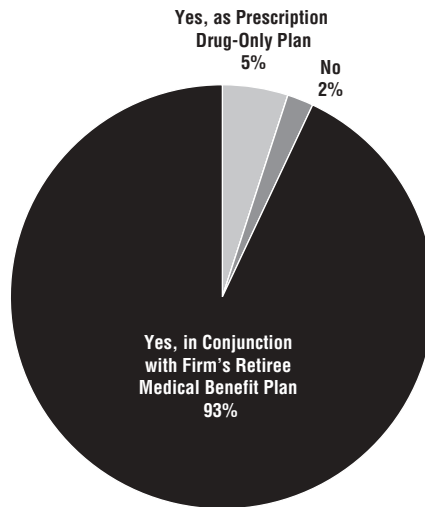
- 58 percent have a three-tiered plan design in which generic drugs, formulary/preferred drugs, and non-formulary/non-preferred drugs are each subject to different copayments/coinsurance rates (Exhibit 19).
- Only 4 percent have a drug cost-sharing design with four or more tiers.
- 19 percent of firms say their largest 65+ plan has two tiers for prescriptions with generic drugs subject to a different copayment and/or coinsurance rate than all other drugs.
- 19 percent say all prescription drugs are subject to the same copayment and/or coinsurance rate.

Three-Tiered Cost-Sharing Design

- Among employer plans with a three-tiered drug design, more than two-thirds (68 percent) require copayments for pharmaceuticals purchased at retail pharmacies, nearly one-quarter (24 percent) require coinsurance payments (retiree pays a specified percent of the cost of each prescription). Only 8 percent use a combination approach of copayments plus coinsurance for costs above the copayment (Exhibit 20).
 - For drugs purchased at retail pharmacies, median copayment amounts range from \$10 for generics, to \$20 for brand-name drugs on the formulary/preferred list, to \$35 for brand-name drugs on the non-formulary/non-preferred list (Exhibit 21). Typically, retiree cost-sharing at retail pharmacies covers a 30-day supply or a lesser amount, as prescribed.
 - Where coinsurance is used for prescriptions filled at retail pharmacies, coinsurance rates are typically 20 percent for generics, 25 percent for brand-name, formulary/preferred drugs, and 40 percent for non-formulary/non-preferred drugs (Exhibit 22).
- Among employer plans offering a mail-order option with a three-tiered drug design, 85 percent require retirees to pay fixed dollar copayments, 10 percent impose coinsurance payments, and 5 percent use a combination of copayments and coinsurance.
 - For drugs purchased through mail-order pharmacies, median copayment amounts range from \$20 for generics to \$40 for brand-name drugs on the formulary/preferred list and \$70 for brand-name drugs on the non-formulary/non-preferred list. Typically, the amount covers a 90-day supply of medication by mail-order.
 - Where coinsurance is used, coinsurance rates for mail-order, as for retail purchases, tend to be 20 percent for generics, 25 percent for brand-name, formulary/preferred drugs, and 40 percent for non-formulary/non-preferred drugs.

Exhibit 16

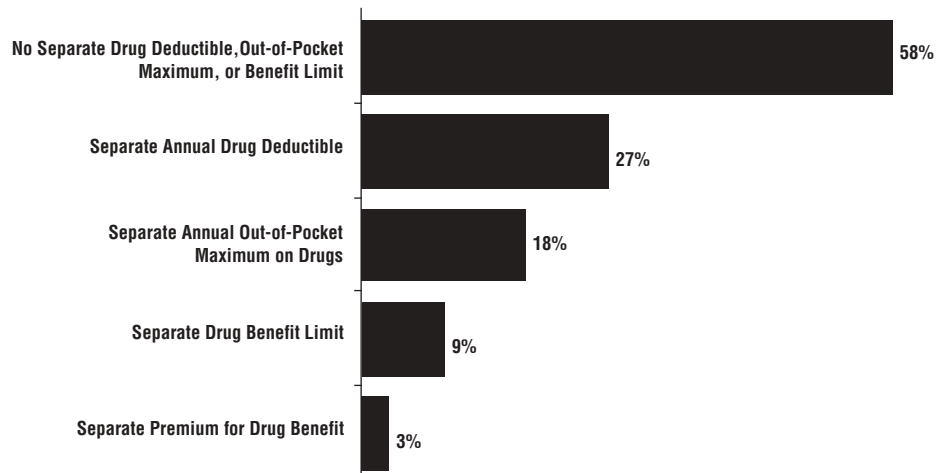
Percentage of Large Private-Sector Employers Offering Prescription Drug Benefits to 65+ Retirees



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 17

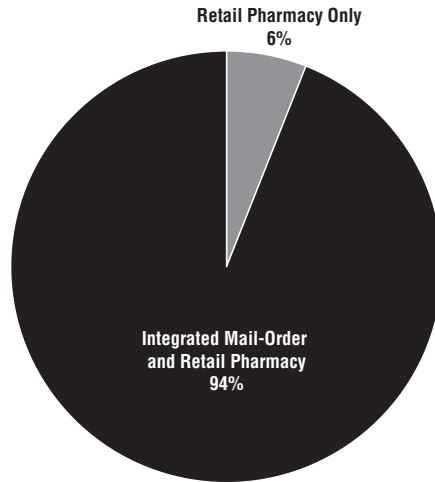
Prescription Drug Plan Design Features for 65+ Retirees



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled 65+ retirees. Percentages do not sum to 100% as some employers reported more than one separate drug feature.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 18

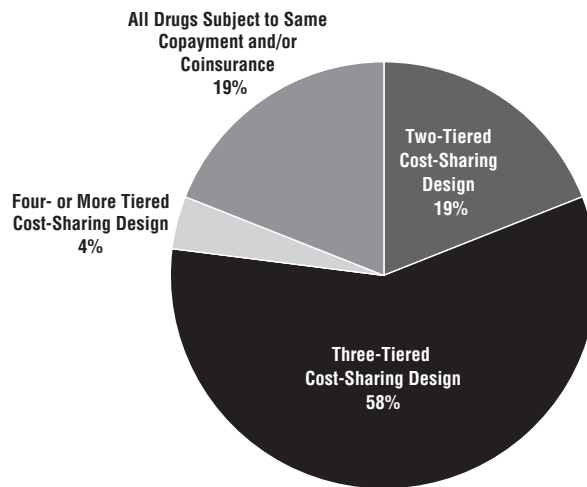
Prescription Drug Delivery Methods for 65+ Retirees



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 19

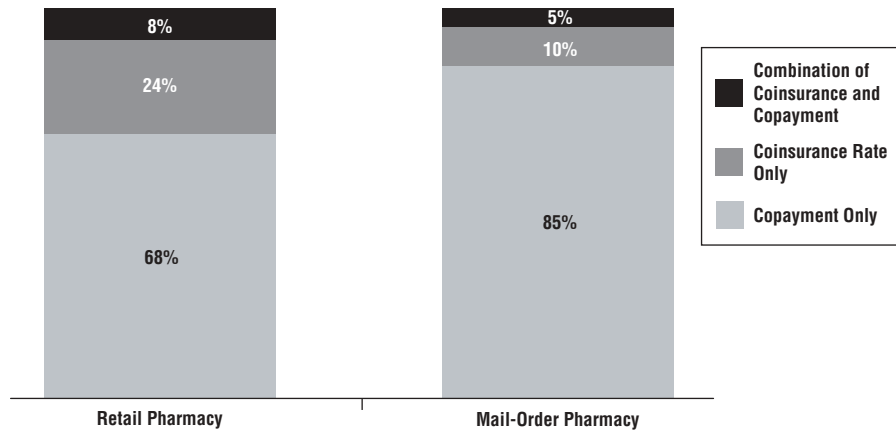
Prescription Drug Cost-Sharing Design for 65+ Retirees



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 20

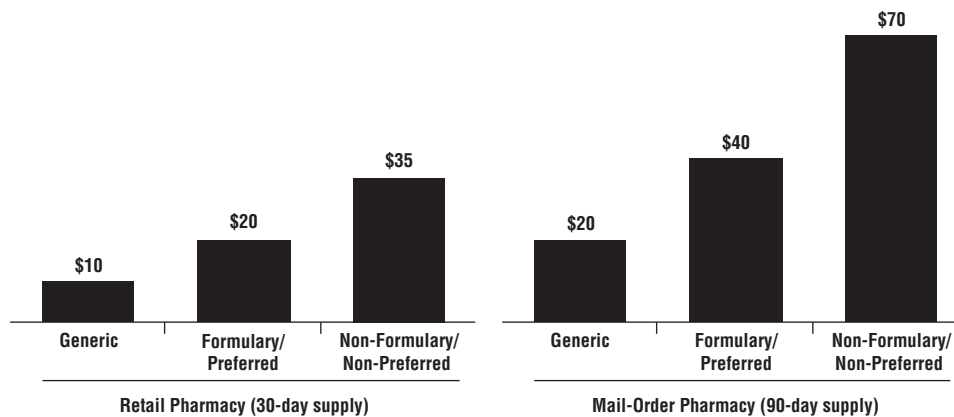
Prescription Drug Cost-Sharing Approaches for 65+ Retirees in Plans with 3-Tiered Cost-Sharing



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.
 SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 21

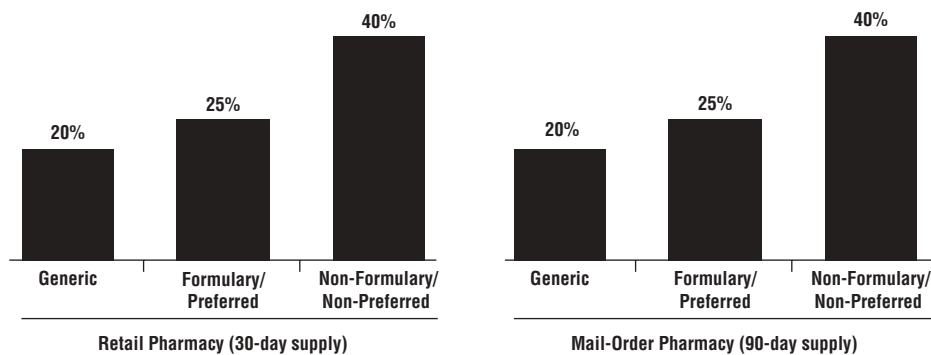
Median Prescription Drug Copayments for 65+ Retirees, by Drug Category [Among Plans with 3-Tiered Cost-Sharing]



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.
 SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 22

Median Prescription Drug Coinsurance for 65+ Retirees, by Drug Category [Among Plans with 3-Tiered Cost-Sharing]



Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits, describing plans with the largest number of enrolled 65+ retirees.
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.