

Pharmacy and Consumer-Directed Accounts

Employers must make informed design and implementation choices in order for consumer-directed accounts to optimize the performance of pharmacy benefit strategies. Strategies must contemplate the prevalence of consumer-directed accounts, emerging technologies that support them and the potential impact on employee choices. Employers that align these factors may deliver pharmacy benefits at a lower cost and have an advantage over competitors. In pursuing this end, employers also may play a significant role in making health care affordable to as many Americans as possible.

by **Travis Klavohn** | *BenefitWallet* and **Robert Kalman** | *Buck Consultants*

Providing affordable health care to as many Americans as possible requires rational, informed choices on behalf of employers and employees. It also requires shared accountability in the pursuit of economic self-interest and personal well-being. When properly designed and implemented, consumer-directed accounts have the potential to optimize the performance of pharmacy benefit strategies.

Pharmacy

Pharmacy benefit plans should be designed to strike the delicate balance between cost management and employee access to the appropriate drug distribution channels (i.e., retail, mail order and specialty/biotech pharmacies).

Pharmacy benefit plan costs typically represent about 18% of employer-sponsored health benefit plan costs, compared with roughly 3% in the 1980s. Innovation in pharmacology and other important medical and technological advances are key drivers of the increase. New treatments for chronic diseases and conditions, such as heart disease, diabetes and cancers, have improved quality of life and longevity while lowering medical costs by shifting health care delivery from expensive inpatient hospitals to lower cost outpatient treatment.

However, such advances have long-term implications for pharmacy benefit plan costs, which face significant upward pressures as newly approved drugs reach the marketplace. This trend will continue as the U.S. Food and Drug Administration (FDA) approves more specialty/biotech drugs for treatment of debilitating diseases.

Specialty drugs are the major cost driver of pharmacy benefit plans, representing 20% of annual pharmacy plan costs. Specialty drug costs are expected to quadruple by 2020 as FDA approves many of more than 900 specialty drugs in development.¹ Traditional single-source (i.e., no generic available) brand drug costs, on average, have increased by 11-13% during each of the past several years and are expected to continue their double-digit growth for the foreseeable future.

Patent-protected drugs also have contributed to pharmacy benefit cost increases. Higher utilization of generic drugs has mitigated those cost increases, particularly over the past three years as patents have expired on many blockbuster brand drugs, such as Lipitor. Incremental savings from generics, however, are expected to peak by 2016 with fewer patents on brand drugs scheduled to expire.

The dynamics of the pharmaceutical marketplace directly

impact employer-sponsored pharmacy benefit plans and require constant vigilance to balance quality and cost objectives. Employers must be informed when selecting a pharmacy benefit manager (PBM) and capitalize on today's "buyer's market" for PBM services, in which virtually all financial and nonfinancial terms are negotiable.

Pharmacy plan designs should enable employee cost sharing to keep pace with rising drug costs. The majority of employers have changed their plan designs over the past decade to help achieve this goal.

Buck Consultants' 2013 *Annual Survey of Employer-Sponsored Prescription Drug Plans* documents this cost-share shift as follows:

- From two-tier copays (tier 1: lower copay for generic drugs; tier 2: higher copay for brand drugs)
- To three-tier copays (tier 1: lowest copay for generic drugs; tier 2: middle-range copay for formulary brand drugs; tier 3: highest copay for nonformulary brand drugs).

Three-tier copays have built-in financial incentives for employees to use lower cost drugs with lower copays. This shift to three-tier copays still presents a major problem—As drug prices increase, flat-dollar copays erode employee cost share as a proportion of total pharmacy plan costs and employers absorb a greater proportion of rising plan costs.

Many employers have implemented coinsurance plan designs, in which employees pay a percentage of the drug costs, to address this problem. A typical coinsurance plan design includes

minimum and maximum flat-dollar copays to limit employee out-of-pocket expenses. This design is an emerging trend. In fact, more than 60% of survey respondents report using coinsurance with minimum and maximum copay limits. Unlike flat-dollar copays, coinsurance helps employee cost share keep pace with rising drug costs.

Pharmacy plan designs integrated into high-deductible health plans (HDHPs) ensure the highest level of shared employer-employee responsibility. In HDHPs, employees typically pay 100% of prescription drug costs until reaching the plan's annual deductible (except for certain designated preventive drugs) and coinsurance thereafter until the plan's annual out-of-pocket maximum is reached.

Employees enrolling in HDHPs can contribute to health savings accounts (HSAs), which allow them to pay current medical expenses with pretax dollars and save for future expenses.

Employees consistently rank HSAs as one of the most valuable benefits.² By using their own money, employees with HSAs tend to become more prudent purchasers of prescription drugs as well as medical services.

However, employees expect to have information and tools to make rational decisions on pharmacy purchases as they take on more accountability for those decisions. The design and function of consumer-directed accounts have a critical relationship with pharmacy benefits.

Consumer-Directed Accounts

Consumer-directed accounts have

the potential for employees to make wiser choices for their prescription drug purchases. Employees with consumer-directed accounts can achieve balance between cost and quality according to a knowledgeable, personalized definition of *value*.

It is estimated that a majority of large employers now offer employees consumer-directed accounts, such as HSAs, flexible spending accounts (FSAs) and health reimbursement arrangements (HRAs). And a growing number of employers are making health plans with consumer-directed accounts the only choice for employees. As a result, a growing proportion of pharmaceuticals are purchased through consumer-directed accounts, which can engage employees on their own terms with features they value. Employers must give consideration to the design and function of consumer-directed accounts so they enable employees to make smarter pharmacy choices.

Buck Consultants' *BenefitWallet™ 2013 Member Survey* describes what employees hope to achieve with HSA ownership as well as what they value related to pharmacy and other benefits. BenefitWallet, A Xerox Solution, is an administrator of consumer-directed accounts.

The survey finds that employees enrolled in consumer-directed accounts are more efficient consumers when they participate in the economic rewards of informed pharmacy choices and have access to the right resources. In fact, 30% of survey respondents indicated they shop for lower priced prescription drugs more than before opening an HSA. Similarly, 18% of respondents in-

icated they substitute generic prescription drugs more than before opening an HSA.

The survey also finds that viewing claims on a member portal is the most valuable feature of consumer-directed accounts. In fact, 93% of respondents indicated that the ability to view claims on the HSA website is moderately to extremely important. Some member portals, which allow viewing of claims, also identify savings opportunities. For instance, they might flag brand drug claims for which a less costly generic is available.

Comparison shopping will become an even more important way to keep costs low as incremental savings from generic utilization peaks in 2016. Fortunately, transparency is advancing to enable more comparison shopping. Beginning in 2012, the public release of detailed data on pharmacy acquisition costs and pharmacy revenues from the U.S. Centers for

Medicare and Medicaid Services has helped to disclose true pharmaceutical prices. Transparency has had immediate implications for comparison shopping tools, which were developed ahead of the disclosure of pharmaceutical prices. While greater transparency is still needed, one can imagine a future in which consumers search nearby stores for lower prices on pharmaceuticals and “smart” pharmacies entice consumers with lowest price offers through persuasive technologies.

Debit cards account for the vast majority of transactions from consumer-directed accounts. In fact, for the calendar year 2013, 79.9% of transactions by BenefitWallet members were made using a debit card. Debit cards were used at drug stores and pharmacies more than any other merchant category. Therefore, the functionality of debit cards is critical for optimizing performance of both consumer-directed accounts and pharmacy benefits.

Some debit cards use the Information Inventory Approval System (IIAS), a powerful data set within retail pharmacy information technology systems. Employees who have IIAS-compatible debit cards have less paperwork to substantiate payments for pharmaceuticals. Despite their advantages, debit cards may require new risk management strategies to deal with cybertheft affecting the point-of-sale technologies used by big retail stores.

For optimal performance, pharmacy benefit strategies must contemplate the prevalence of consumer-directed accounts, emerging technologies that support them and the potential impact on employee choices. Employers that align these factors may deliver pharmacy benefits at a lower cost and have an advantage over competitors. In pursuing this end, employers also may play a significant role in making health care affordable to as many Americans as possible. 

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Endnotes

1. *2013 Specialty Trend Management Insights Report*, CVS Caremark, November 2013. Available at www.cvscaremarkfyi.com/insights-2013.
2. Buck Consultants’ *BenefitWallet 2013 Member Survey Report*; 81% of respondents agreed that HSAs are valuable to them.

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