

Cap on benefits may be cure for drug costs

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NEW YORK (AP) — Eager to tame the rising price of employee health benefits, U.S. companies are taking a closer look at how some European countries manage prescription drug costs.

It's an approach known as "therapeutic MAC," for maximum allowable cost, which caps the amount health insurers pay for specific groups of prescription medications.

With therapeutic MAC, patients who opt for cheaper drugs can end up paying nothing out-of-pocket, while those who choose expensive, name-brand drugs pay the difference between the cap and the actual price.

In contrast, many United States insurers have three-tiered prescription plans that require a fixed range of co-payments from patients, with generic drugs costing the least.

The new approach, also known as reference pricing, has been shown to save money for health-plan sponsors by encouraging members to approach drug purchases as a price conscious consumer.

But one researcher argues that it merely shifts the growing cost of name-brand drugs onto employees — and could have harmful effects on the health of some by pushing them to use less effective, but cheaper drugs.

Firms Inquiring

Still, many large corporations and health insurers, such as Wellpoint Health Networks Inc., Aetna Inc. and Humana Corp., are making inquiries and could begin using the approach by 2004 or 2005.

"This is an emerging strategy. It is more than just a concept," said Bridget Eber, pharmacy benefits practice leader for Hewitt Associates, a human resource consultant.

Prescription drugs make up 16 percent of the average employee's medical costs. Premiums employers pay for their workers' health benefits rose an average of 15 percent in 2003, the fourth consecutive year of double-digit premium hikes by insurers.

So far, efforts to curtail those trends have met with mixed results. Price controls and restrictions aren't considered feasible options.

Almost all major employers and health plans use pharmacy benefit managers, or PBMs, to run their drug benefit plans. Meanwhile, health plans are pushing members to use less-expensive generic drugs, often offering financial incentives such as low copayments or requiring the use of generics, when available.

Reference pricing is a bit more aggressive.

Therapeutic MAC groups drugs according to the medical condition they treat. Insurers or employers then decide how much they are willing to pay for a drug in each category.

Reference Pricing

In British Columbia, where reference pricing was adopted in 1995 by the government-sponsored health plan for the elderly, caps were based on the price of the cheapest generic drug in each class, as long as it was as effective as the name-brand counterpart. But a reference price could also reflect an average price for a group of drugs.

Potential savings depend on how the benefit is designed, where the cap is set and the rebates and refunds drug companies pass onto the health plan.

The cholesterol fighting drugs known as statins can serve as an illustration.

According to calculations by Jack Holton, and analyst with human resources consultant Towers Perrin, prices on these drugs run from \$110 for a 30-day supply of Merck & Co.'s Zocor to as low as \$31 for a generic.

Tiered Drug Plan

A common three-tier drug plan charges employees \$10 a month for a generic drug. Copayments for name-brand prescription drugs are \$20 or \$40, depending on whether the drug is categorized as "preferred" or "non-preferred."

Zocor, which is a "preferred" name-brand drug under the formularies for several health insurers, would cost employees \$20 a month, leaving the employer to pay the remaining \$90. The copayment for a prescription of Pfizer Inc.'s Lipitor, which costs less than Zocor, is \$40 a month because the drug is "non-preferred."

Under a benefit plan designed by Holton that uses reference pricing and a 20 percent copayment a \$31 generic drug would cost an employee \$6 for a 30-day supply, Zocor would cost \$57, Bristol-Myers Squibb Co.'s Pravachol would cost \$27 and Lipitor \$15. The employer's portion of all three drugs is \$53.

"It puts in direct alignment the cost of the drug and what people pay," Holton said. "Under the current system, just because something is a preferred name-brand drug does not mean it is the lower costing drug." □