

Drug Plans in 2008 and Beyond

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It's hard to believe we are already into a new year. Fiscal and strategic planning for the new calendar year have been completed. It's now time to put the plans into action and see how close the business comes to meeting the revenue and expenditure targets predicted for 2008.

With that in mind, imagine the difference in your business in the weeks and months ahead if you actually could reasonably predict the future.

Imagine the power if pension professionals could have foreseen that the price of oil in December 2007 would be 60% higher than the price in January, or if anyone could have predicted that the Canadian dollar would increase in value relative to the U.S. dollar by almost 20% in 2007. The financial implications of these examples are obvious.

However, the financial implications of trends in the benefits area appear less obvious at first glance. What if HR, finance, and senior management professionals at plan sponsors across the country had the ability to foresee their own cost pressures in their benefits portfolio? How would that have impacted their planning for the year ahead?

When we consider that in excess of \$20 billion is now spent on prescription medications in Canada each year, only half of which is paid for by the public sector, it is interesting to see how little attention is paid to managing an expenditure that we actually can foresee.

Every plan sponsor in Canada has the ability to understand very clearly where their spending is going based on an evaluation of their own plan-specific drug-claims data. The problem is that too few groups have harnessed the power of this information, and implemented targeted, meaningful solutions to deal with cost increases in this area. It's impossible to predict where a volatile commodity like oil is going over the next 12 months, but we can understand what threats and existing trends mean for benefits costs such as prescription drugs and disability.

There are some bad words in the area of prescription drug benefit management. Words like "design change," "managed formulary," "tiered co-pays," and "plan exclusions" all have negative connotations to most advisors and HR professionals who fear that moving in a certain direction will cause dissatisfaction among plan members with no lasting financial benefit to the plan sponsor—so why bother?

If done incorrectly or blindly, they are absolutely right—plan changes can be a disaster. However, if changes are made responsibly following completion of necessary due-diligence measures and with proper consideration given to budget limitations, plan member health, and the current subset of issues related to the specific disease state and demographic profiles of the group, the results can be staggering.

It is almost unbelievable that in this age of exceptionally dynamic drug therapy, open plan designs still exist that cover all prescription drugs, with few, if any, restrictions. It is even more unbelievable that designs like this are so common. At the same time, it is a very outdated notion that all drugs should be reimbursed by plans at the same rate. All drugs are not created equally and this is rarely addressed in current plan design strategies.

Many plans in 2007 had no idea what was coming with Gardasil, the first cancer prevention vaccine that runs close to \$500 for a three-dose course of treatment. Are these same plan sponsors aware of vaccines in late stages of development for certain types of colon, breast, prostate and lung cancers?

Other plans are beginning to feel the impact of diabetic patients moving from older insulins to newer injectable products. How will these plans feel when the three new classes of diabetic drugs approved by the Food and Drug Administration over the past two years make their way north, all with average monthly costs between US\$150 to \$350? That is not to say these therapies do

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An advertisement featuring a group of five business professionals (three women and two men) standing in an office setting. They are dressed in professional attire. Above them is the text "Are you new to the pension and benefits industry?" and below them is a blue banner with the text "CPBI Fundamentals Series 2008-2009".

not have merit, or should not be covered, but as the array of drug therapies becomes more complex, the approach to plan management needs to be re-examined.

If prescription drug plans had a difficult time in the late 1990s dealing with erectile dysfunction drugs and weight-loss therapies, and relatively little has changed in the way most plans are managed, what will happen come 2010 when more than half of all new drug approvals will be for expensive specialty drugs?

It is time that some of the words that have long had negative connotations are revisited, and the concept of responsible drug plan management is introduced whereby plans can closely examine their own data to make the necessary changes to protect the health of their plan members along with the sustainability of the benefit. This is a great opportunity for HR and finance to partner on planning for the future.

The wheel doesn't need to be reinvented, just redesigned to handle a changing cargo. In the U.S. market, responsible plan management in major health plans helped to shave as much as 10% off the annual increase in the pharmacy benefit expenditure without upsetting the apple cart. What is stopping Canadian employers from following suit? The ones who do will be in a position of significant competitive advantage moving forward.