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## Analyzing Your Law Firm's Drug Plan

*Understanding and Managing Drug Plan Costs for Small- to Medium-Sized Firms*

*By Michael Sullivan*

The recent national “Pharmacare” proposal initiated by the Premiers across the country, though ultimately unsuccessful, did manage to highlight the growing significance of the cost of prescription drugs within the Canadian healthcare system. If you run a small- to medium-sized law firms and offer a prescription drug plan benefit to your employees, the increasing costs associated with this benefit is not news.

Canadians rank among the world’s largest consumers of prescription drugs. According to the Organization for Economic Co-operation and Development (OECD), Canadians are the third largest per capita consumers of prescription drugs in the world, behind the United States and France. Between 1997 and 2001 the number of prescriptions dispensed in Canada increased by nearly 40 per cent. The total spending on prescription drugs in Canada increased by over 20 per cent between 2001 and 2003. We spent \$15.9 billion on prescription medications in 2003 alone.

### Current Trends in Employer-Sponsored Drug Plans

Since the late 1990s, prescription drug benefit plan costs have increased on average between 10-15 per cent annually. At this pace, the cost of providing a drug benefit plan for employees doubles every five years. It is estimated that private plan sponsors in Canada currently spend approximately \$8 billion annually on prescription medications. Looking ahead, the trend is not likely to change. In 2010, baby boomers will be 44-64 years old—an age range where chronic disease states such as diabetes, high blood pressure and arthritis begin to appear more prevalently, and prescription drug consumption increases dramatically.

The introduction of innovative, but exceedingly expensive, biological therapies will continue to challenge employers offering a prescription drug benefit. Consider that a one-year course of Remicade® for the treatment of rheumatoid arthritis costs approximately \$20,000 per patient. Big Pharma shows no signs of slowing down in the years ahead either. Both Pfizer and GlaxoSmithKline, the world’s largest pharmaceutical companies, are estimated to have over 100 products each in development.

Given these trends in the use and spending on prescription drugs in Canada,

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it's not surprising to learn that according to the 2004 Aventis Healthcare Survey, Canadians consider their drug plan to be their most valuable employee benefit. They rate the importance of drug plans more highly than that of short and long-term disability, accidental death, life insurance or employer sponsored extended healthcare benefits (vision care, massage therapy, etc.)

Despite the level of importance placed on the prescription drug benefit by employees, Canadian employers have been slower than their US counterparts in proactively addressing cost increases in the drug plan. To date, most employers in Canada have not concerned themselves with the cost of the drug plan benefit because, despite cost increases in previous years, the overall cost of providing a drug benefit has been relatively inexpensive.

A few years ago, drug plan costs were estimated as being roughly 2 per cent of payroll costs—a very manageable cost for most employers. However, as the cost of providing this benefit increases dramatically, employers are beginning to take a hard look at managing this benefit. By comparison, employers in the US can spend up to 40 per cent of payroll costs annually on health care benefits. Thus, they are much further ahead of Canadian companies in researching and developing innovative solutions to manage plan costs.

As firms grapple with these challenges, some have considered abandoning the provision of the prescription drug plan, significantly limiting what they will cover, and/or shifting a greater portion of the cost to employees. Yet, the drug benefit is a very unique benefit.

Law firm decision-makers need to be very concerned with both employee productivity and absenteeism. Proper drug therapy plays a significant role in keeping employees productive and on the job, which is crucial for law firms that require employees to maximize their billable hours, and contribute to the best of their ability. The costs of both short and long-term disability are very significant, so firms have a vested interest in assisting employees in staying healthy.

It has been well documented that Canadian businesses are entering an era where there is estimated to be a shortage of skilled workers. Law firms will have to focus efforts on keeping senior employees on the job longer, and as such, the provision of a competitive prescription drug benefit will be a crucial consideration for many senior employees.

## **The Cost Drivers**

There are a number of factors driving the increased spending on prescription drugs every year in Canada. The most significant factor is the increase in per capita consumption of prescription medications, due to:

- an aging population;
- an increase use of certain classes of drugs in preventing disease (not simply treating existing conditions);
- an increase in the incidence of chronic diseases such as high blood pressure and diabetes; and

- the growth of “lifestyle” drugs such as Viagra.

The number one drug in Canada in 2003 was the cholesterol-lowering drug Lipitor®. It saw a 23.4 per cent increase in number of prescriptions dispensed over 2002. There were also two antidepressants in the top 10 most prescribed drugs in 2003 (Paxil® ranked 8th and Effexor XR® ranked 10th), demonstrating that diseases such as depression are becoming far more prevalent in society. Lawyers in particular report substantially higher levels of depression and suicide than most other professions.

The cost of prescription medications (as measured by the average cost per prescription dispensed in Canada) continues to rise. The average cost of a prescription in Canada in 2003 was \$44. This is due to an increasing consumption of more expensive brand name medications. From direct to consumer advertising, to aggressive marketing to doctors, the push to use brand name products over their lower-cost generic alternatives is well documented. For example, while Lipitor® is the top selling drug in Canada, the top selling generic alternative in that class of medications (Apo-Pravastatin) is ranked 77th. Altace®, a drug used in blood pressure control is the third best selling medication in Canada. Its nearest generic equivalent in the ACE inhibitor class (Apo-Lisinopril) is ranked 59th.

One significant concern with respect to the costs of the medications themselves is that there is a disturbing trend in the pharmaceutical industry of introducing products of marginal added value, but with an associated cost premium. There has been a lack of innovation in recent years, and a focus more on developing derivatives of existing products and “Me-Too” products (drugs in a similar class that offer little to no added benefit to products already on the market).

As a result of the competition between manufacturers to capture greater market share with similar products, there is significant marketing of these products, and more cost-effective alternatives get lost in the shuffle. For example, COX-2 anti-inflammatory medications like Vioxx, Celebrex, Mobicox, and Bextra began to hit the market in 1999. There is no significant difference between any of these drugs, and research has shown that they are no more effective than older NSAID drugs like ibuprofen and naproxen, which are a fraction of the price. Vioxx is the 11th best selling drug in Canada, Celebrex 13th, and Mobicox 68th. Generic naproxen is ranked 66th and generic ibuprofen ranked 90th. In many cases, employers are paying a significant premium for these drugs unnecessarily.

The wonders of modern technology have had an interesting impact on drug consumption. We are now able to diagnose chronic diseases such as rheumatoid arthritis and diabetes much earlier. As a result, the incidence of these diseases is on the rise. Individuals are beginning drug therapy much earlier than in the past, and many chronic disease states are requiring more aggressive initial drug therapy.

Advances in surgical techniques and the overall efficacy of drug therapy have shifted patients from the hospital to the home environment much earlier than in the past. The issue here for firms is that the healthcare system is moving patients from public drug coverage to private drug coverage much earlier.

## Where Are Employers Spending Money?

The top 10 classes of medications haven't changed dramatically in recent years. In 2003, the top classes of drugs were cardiovascular, mental illness, hormones, anti-infectives, pain relievers, antispasmodics, cholesterol, arthritis, respiratory, and diuretics. The biggest growth in prescriptions in 2003 was seen in the cholesterol lowering medication category. There have been numerous studies released in recent years that have shown the beneficial effects of cholesterol-lowering medications (primarily the "statin" class of drugs) in reducing heart attacks, strokes, and other cardiovascular events, as well as beneficial effects in other disease states like diabetes.

It is particularly interesting for law firm decision-makers to note that while the most commonly diagnosed illness in Canada continues to be high blood pressure, depression now ranks second. Last year, there were 9.3 million doctor visits in Canada resulting in a diagnosis of depression. This represents a 60 per cent increase from 1995.

Equally concerning for firms is that diabetes is the third most commonly diagnosed illness. Diabetes is likely the most underrated disease that affects a significant portion of our population. Not only are the high drug costs and increased absenteeism seen in the diabetic population a concern to firms in the short-term, the possible long-term consequences of the disease are devastating—amputations, kidney failure, loss of eyesight, and chronic neuropathic pain, to name a few.

## The Impact of Mental Illness on the Law Firm

The Global Business and Economic Roundtable on Addiction and Mental Health estimates that the cost of mental health problems to Canadian businesses is **\$35 billion** annually. Employees are absent from work for a total of **35 million days each year** because of leaves related to mental disorders.

For employers, the impact of mental illness is very significant. Currently, 1.4 million Canadians are on short or long-term disability leaves for mental illness or addiction. It is estimated that the average amount of time it takes a person on mental health leave to return full-time is 40 days. Small- to medium-sized law firms simply cannot afford the costs associated with employees chronically absent due to mental illness. Not only are the direct costs significant, so too are the indirect costs such as higher workload for other employees, and productivity losses.

## Issues with Prescription Drug Plans in Canada

There are five significant issues surrounding the provision of employer sponsored prescription drug plans:

- 1. Inappropriate prescribing.** Generally speaking, when doctors are informed that a patient has a drug plan, there is less reluctance to prescribe a more expensive therapy, when an equivalent, more cost effective therapy is available.

**2. Aggressive marketing.** Significant marketing initiatives, specifically direct to consumer advertising (DTCA), have accompanied the launch of many new drugs over the past few years. One positive aspect of DTCA is that it has removed the taboo surrounding certain disease states like depression and erectile dysfunction; however, the downside has been an increased pressure on physicians to prescribe a certain medication, which may not necessarily be appropriate for that patient.

**3. The Internet.** Unprecedented access to a wealth of online drug information has made consumers much more knowledgeable about their disease states and medications. However, consumers do not always get the whole story or entirely accurate information from sources online. The information they access can affect how they take their medications, and in some cases, what medications they are willing to take.

**4. Compliance.** Compliance (also known as “adherence”) with therapy has been a largely ignored topic in the area of drug plans. It has been estimated in some studies that up to 60 per cent of patients are non-compliant with their medication therapy. This means that they are not remembering to take their medications, are not taking their medications at the appropriate times or intervals, or are consuming their medications inappropriately. It only makes sense that employers ensure they are getting value for the money they spend on medications through proper compliance.

**5. Entitlement mentality.** Canadians are used to accessing free medical services, and have been fortunate that the private sector has been willing to step in to cover prescription drugs in instances where the provincial drug plans do not. Employees are therefore resistant to paying higher co-payments or deductibles for their prescriptions.

## **The Road Ahead**

Employers have experienced double-digit annual growth in the cost of providing a prescription drug benefit for a number of years, and that looks to continue. There are significant drug products in development, and others already released in the US market that could have a profound impact on costs.

New products such as Vytorin (cholesterol), Estorra and Indiplon (insomnia), Exanta (blood thinner), and the dozens of biological products in late-stage development will pose significant challenges to the sustainability of drug benefit plans for small- to medium-sized law firms already struggling with costs.

## **Solutions: Ensuring the Sustainability of the Drug Plan**

While large Canadian companies typically spend between \$50,000 - \$100,000 annually on benefits consulting services, small- to medium-sized firms can still access similar services in a more cost-effective manner.

Specialized drug plan management firms can focus on reviewing and managing the prescription drug benefit. For many firms, this is the key focus due to the rate of increase in costs of the drug plan, and the importance employees place on being able to access such a benefit. It is difficult for

employers without an intimate knowledge of disease states and drug therapy to determine appropriate solutions. The keys to the successful provision of a prescription drug plan are to ensure responsible use of benefit, to maintain the optimal health of your firm's population, and to manage overall costs to ensure the sustainability of the benefit.

The initial step should be for an employer to conduct a comprehensive drug plan utilization review (DPUR) of all drug claims made during a given benefit period. Drug plan management firms can conduct these reviews using blinded claims data (received from the insurance company). Blinded data is necessary in order to comply with current privacy legislation, and avoid the identification of individual plan members during review of the claims.

Completing a DPUR will allow a company to "diagnose" any areas that might be cause for concern. For example, one firm may realize that it has a higher than average number of plan members making claims for antidepressants. This is useful information to obtain because it assists law firms in understanding where they need to offer coverage, and which areas may benefit from interventions such as wellness programs, employee education initiatives, and/or changes made within the workplace.

Completing a DPUR also allows a firm to obtain baseline data from which it can do year-to-year comparisons. It is important to note that for small firms, insurance companies may place limits on the data they will provide. As a result, certain reports within the DPUR may not be available in order to prevent a plan member from being identified.

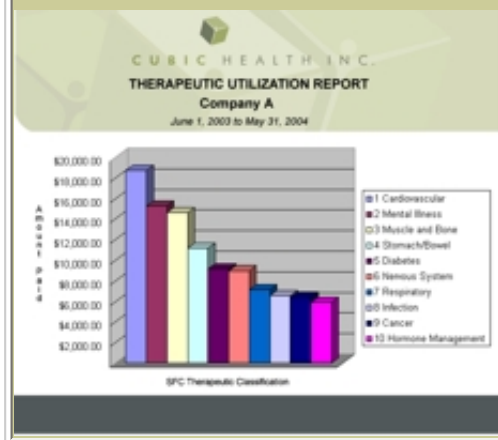
In conjunction with completing a DPUR, it is very important for a company to define its philosophy with respect to benefits coverage. For example, law firms with a young average age may want to consider more flexible overall benefits plans, whereas firms with an older average age may want to ensure its drug benefit is designed in a way to provide appropriate coverage for chronic disease states that more commonly affect older employees, in order to keep these more senior employees on the job.

Every firm, regardless of size, should consider combining its philosophy with respect to benefits coverage, its unique demographic composition, and a baseline DPUR to focus on building an appropriate formulary specific to that organization. A formulary is a list of drugs or classes of drugs that are covered

## How to Review Your Drug Plan Use

Drug plan management firms can conduct a drug plan utilization review (DPUR) using blinded claims data.

[Click here for a sample DPUR.](#)



under the drug benefit plan for a given organization. Drug plan management companies can assist in developing unique formularies. Decisions need to be made about which classes of drugs will be excluded from coverage, which classes of drugs will be covered (and to what degree), and appropriate protocols need to be placed on certain categories of medication in order to ensure appropriate utilization of the benefit.

For example, there are maximum annual limits suggested by the companies that sell migraine headache medications known as “triptans”. While these medications are effective for many people, they are exceedingly expensive. If appropriate protocols are not built into the plan to limit the quantities that can be claimed annually, not only is the health of the plan member jeopardized (i. e. overuse of triptans can lead to tolerance and cause rebound headaches), the employer has paid for the excessive consumption of these expensive medications.

With the increasing cost of prescription medications, and the advent of biological products that can cost thousands of dollars annually, it is unreasonable for employees to expect their employers to fully cover all medications available on the market. However, using the results from a DPUR and a given firm’s philosophy on benefit coverage, drug plan management companies can assist in the design of an effective formulary and deductible/co-payment structure needed to maximize coverage for employees, while limiting the financial exposure of the firm.

It is exceedingly important for companies to communicate not only the value of the benefits they offer, but to work proactively to explain any changes to the structure of a benefit such as the drug plan. If small- to medium-sized firms stand by and do nothing, the annual increase in premiums for offering a drug plan will continue to grow at double-digit rates. This threatens the bottom line of the firm, and the sustainability of the benefit. Law firms need to be proactive in addressing problems with the cost and structure of the current drug plan because cost-effective solutions are available.

It is well documented how much value employees place on having private drug plan insurance. It is also well documented how the cost pressure on private plans will continue to be an issue for many years to come. Law firms cannot afford to abandon the drug plan benefit because they need to attract the best talent, and they need employees to be productive and on the job to service clients. A properly designed and managed drug plan benefit will help firms achieve those goals.

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