Managing prescription drug costs

Employers are facing dramatically escalating expenses

Pharmacy costs are escalating at a much more rapid pace than medical costs, creating unsustainable trends in drug spend. According to *Medicines Use and Spending in the U.S.* a new study from the IQVIA Institute for Human Data Science, spending on prescription drugs is expected to rise 46% by 2020.

The increasing cost cost of generic drugs, utilization of specialty medications and manufacturer incentives and marketing are having a significant impact on this trend.

Generic drugs: While generic alternatives have proven to be a safe, and typically less expensive, alternative to brand name drugs, some are seeing significant price increases. A 2017 study published by *Annals of Internal Medicine* shows that increased pricing of generic drugs is strongly linked to market competition. Drugs with a low level of competition have higher prices. With competition dwindling for some generic drugs, costs will continue to increase.

Specialty drugs: In 2015, specialty drugs accounted for 36% of the total drug spend; CVS Caremark's *Insights Executive Briefing: The Evolution of Specialty Management* report says this will rise to 55% by 2020. Use of specialty medications will continue increasing costs as 40-50 new specialty medications enter the market each year.

To help gain control over your spending on specialty drugs, consider working with an expert to conduct a diagnostic of medical and pharmacy plans to assess the current state and identify areas for improved management. Once the results are in, employers can make informed decisions on revisions to their plan design. And as provider capabilities may change, revisiting the plan design on a semi-annual basis allows you to adapt to these changes. Adoption of "step therapy/preferred products" can also help control the unnecessary use of specialty medications or higher-cost products. It can also help reduce patient risks and costs of care.

Manufacturer marketing: Manufacturers are advertising more than ever and are offering copay coupons that drive brand utilization, create brand loyalty and often cause employees to artificially meet deductibles or out-of-pocket amounts, pushing additional costs to employers.

For example, a generic muscle relaxant on the market can cost about $0.17 per day, whereas the brand alternative costs just over $26 per day. The brand manufacturer regularly advertises and offers a $5 copay to those willing to take the brand, rendering the brand slightly ‘less expensive’ than the generic. When the patient picks up the brand prescription, they pay roughly the same amount for the brand as the generic. The drug is dispensed at $5 to the patient, and the manufacturer coupon is keyed in as a cash payment for the remaining $775. The patient only paid $5 for the medication, but is credited $780 towards their deductible/out-of-pocket accumulators. This allows the patient to satisfy out-of-pocket amounts after only a few “$5” refills. The coupon then goes away and the employer is left to pay the full

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price of the drug at roughly $780 per month. Since the medication is now "free" for the patient, they continue to fill that same brand medication month after month.

What Employers Can Do

These dynamics are creating a very different mix of drug utilization than we've seen in the past. However, there are ways to capitalize on the competitive brand environment. As new drugs come to market and drug classifications are shifted, it becomes imperative to review your pharmacy benefit manager (PBM) schedules and contract language. Additional strategies include:

- Drug pricing and rebate schedules should be evaluated on a regular basis, along with contract language and care/utilization management programs. A simple change to how a drug is defined in your contract can increase or reduce your drug spend.
- Drug list management is also becoming more important than ever before — even more so than traditional methods of cost-containment.

What Employees Can Do

As the costs of health care overall continue to increase, we all need to become better consumers of our healthcare. Members covered by a prescription drug plan with a coinsurance model will have a better understanding of the true cost of their prescriptions. As members become more aware of the true costs of their care, they make better healthcare decisions, managing the overall cost of care:

- **Your health plan.** Encourage employees to look into the details of your health plan to see if there are discounted, or free, prescriptions for chronic diseases. Your plan may also offer discounted rates for a 90 day supply instead of 30 day or discounts for using a mail order pharmacy.
- **Pharmacy discount programs.** Many national or regional pharmacies offer their own programs to help patients save on prescription medications.
- **Over-the-counter medication.** Nonprescription medication might be able to treat conditions as effectively as a prescription medication. For example, employees can buy nonprescription allergy drugs and should only seek a prescription if they have severe allergies.

There are lots of ways to save on prescription drug costs. Encourage employees to speak with their pharmacist to ensure they are taking advantage of discounted rates and deals.

The market pressures will remain, but employers can influence these factors to help reduce their pharmacy costs. Vendor and contract evaluation, in addition to effective benefit program design, can help lower annual drug spend significantly. In fact, employers can take major strides toward decreasing their overall medical plan spend by helping to manage these costs, since pharmacy expenses are one of the fastest-growing areas for employers.

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