



Health Newsflash

Drug Plan Management: Yesteryear, Today, and Beyond

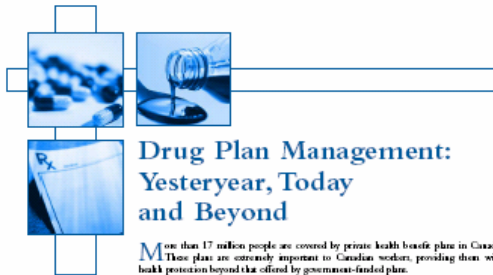


This special *Health Newsflash* includes a copy of the publication, *Drug Plan Management: Yesteryear, Today, and Beyond*. The publication was recently included in recent issues of *Benefits Canada*, *Avantages*, *Canadian Healthcare Manager*, and *Gestion Santé*.

The booklet is a joint effort of various industry thought leaders. Manulife Financial and Maritime Life joined ESI Canada as primary sponsors. Manion Wilkins & Associates was the booklet's secondary sponsor.

Please enjoy reading this publication which looks at drug trends and the tools available to plan sponsors to manage drug costs now and in the future. The booklet is available online at www.benefitscanada.com for you to download.

Redefining Health Claims Solutions



Drug Plan Management: Yesteryear, Today and Beyond

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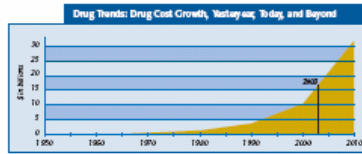
More than 17 million people are covered by private health benefit plans in Canada. These plans are extremely important to Canadian workers, providing them with health protection beyond that offered by government-funded plans.

As well as helping to maintain a healthy productive workforce, health benefit plans are a major incentive for employees, one that they consider to be more valuable than many other benefits. Employees not only place a high value on their benefit plans, they feel a responsibility to help control spending costs. These are the key findings of a February 2003 *Avant* Healthcare Survey of 1,500 Canadian that explores employees' attitudes about the health-care system and their health benefit plan. The survey also revealed that 68% of plan members recognize that plan costs have risen significantly for their employees over the year. About half of all members recognize the plan costs have risen significantly for them as well.

Private health expenditures have skyrocketed to \$29 billion annually as of 2002, according to the Canadian Institute for Health Information (CIHI). Drug costs account for an increasing share of these expenditures and they will continue to do so.

According to ESI Canada, the country's leading pharmacy benefit management company, Canada will face \$30 billion in drug costs alone by 2010, based on the fact that there has been a two- to three-time increase in drug costs every decade since 1950 (see Figure below, *Drug Cost Growth, Yesteryear, Today, and Beyond*). The introduction of more, more expensive drugs is a major factor driving these costs, as is increased utilization, which is being driven by an aging population.

The challenge for plan sponsors will be to find tools and techniques to manage these costs, while also meeting the needs and expectations of their plan members.



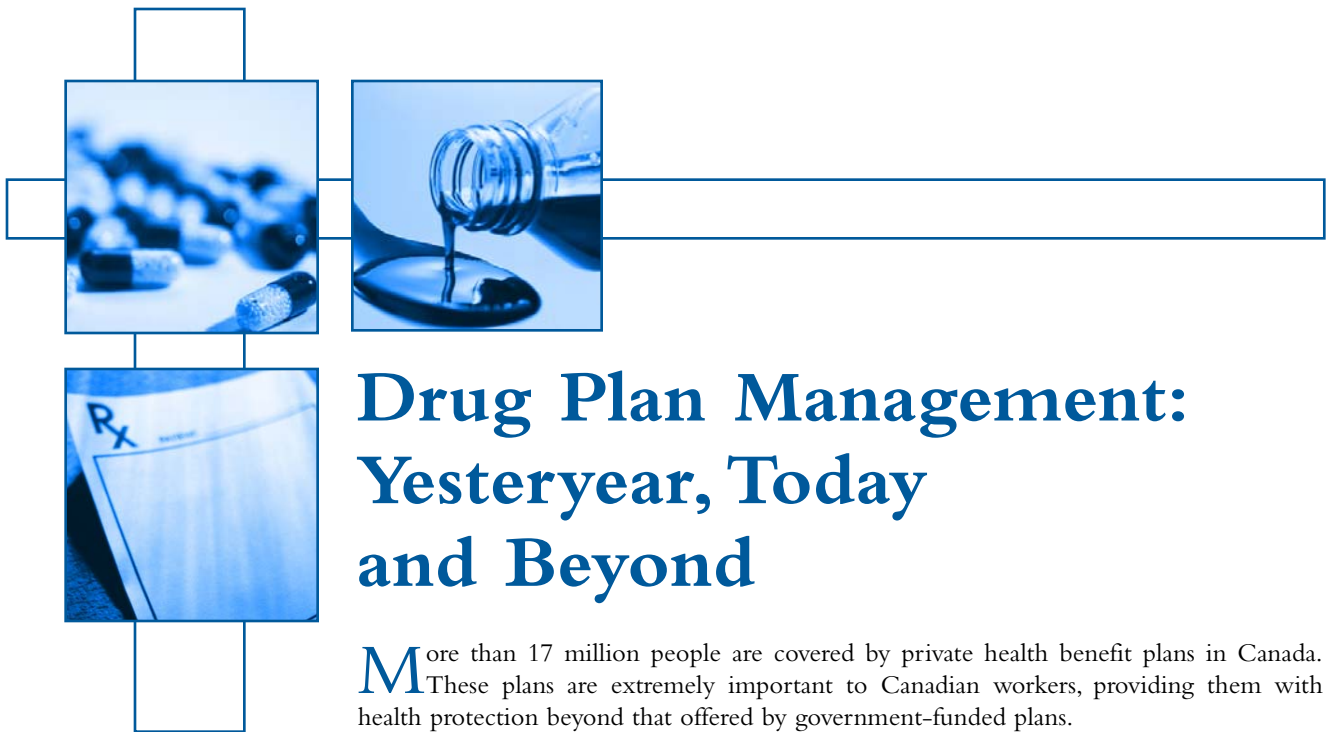
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Drug Plan Management: Yesteryear, Today and Beyond

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As well as helping to maintain a healthy productive workforce, health benefit plans are a major incentive for employees, one that they consider to be more valuable than many other benefits. Employees not only place a high value on their benefit plans, they feel a responsibility to help control spiraling costs. These are the key findings of a February 2003 Aveniris Healthcare Survey of 1,500 Canadians that explores employees' attitudes about the health-care system and their health benefit plans. The survey also revealed that 60% of plan members recognize that plan costs have risen significantly for their employers over the years. About half of all members recognize that plan costs have risen significantly for them as well.

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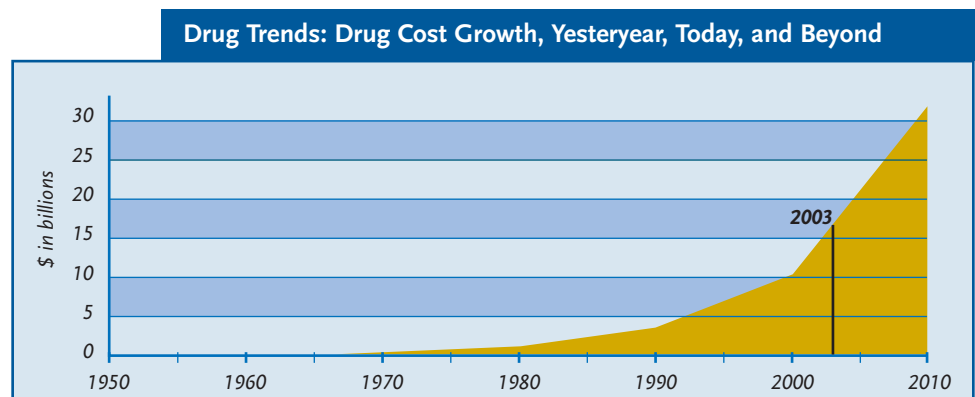
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Source: ESI Canada



Rising costs, utilization impact drug plans

It will come as no surprise to anyone that drug plan costs in Canada are increasing. But the extent to which these costs will continue to rise may shock even the most experienced benefit plan sponsor.

From 1990 to 2000, drug expenditures in Canada doubled. Canadians now spend more than \$12 billion on prescription drugs annually, a dramatic rise from the \$3 billion spent in 1985. Expenditures on non-prescription drugs, on the other hand, have remained relatively stable at around \$3 billion, according to CIHI and Statistics Canada (see Figure 1, Total Drug Expenditure by Type, Canada, 1985 to 2001).

“These dramatic increases in drug expenditures are in contrast to those experienced by other areas of healthcare,” says Dr. Steven Semelman, vice president of Health Management Services at ESI Canada. From 1992 to 2002, expenditures in every category of healthcare (hospitals, physicians, other healthcare professionals and other institutions) have gone down with the exception of drugs and public health and administration. While drugs accounted for 11% of healthcare expenditures in 1992, they now comprise more than 16% (see Figure 2, Percentage Share of Health Expenditures in Canada, 1992, 1997 and 2002 Forecast). These costs will continue to rise as our population ages and new drugs are introduced to treat common conditions such as diabetes, high blood pressure and arthritis.

Historically, public expenditures on prescription drugs have been greater than private. This trend is about to

**ESI Canada analyzes drug trends based on the number of individuals covered by a plan, not on the number of members. Therefore, each family member of a covered employee is counted, not just the plan member alone.*

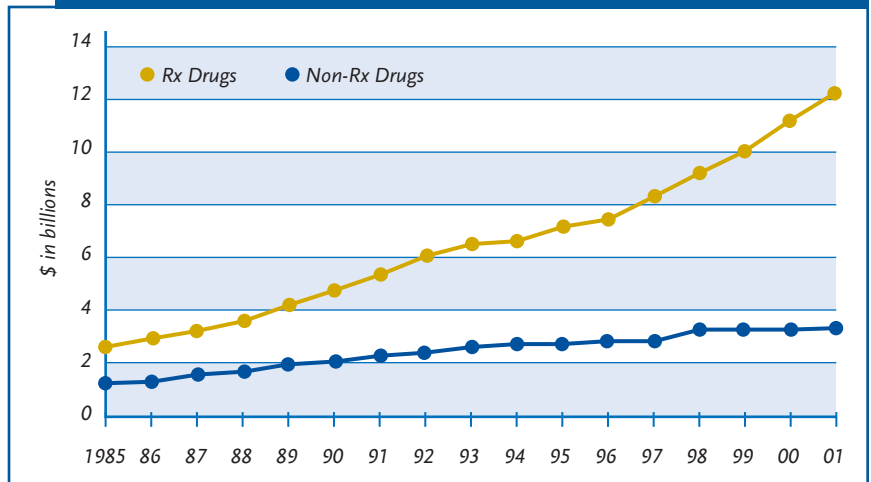
reverse itself, however, with private expenditures on prescription drugs now on the brink of exceeding public expenditures (see Figure 3, Prescribed Drug Expenditure by Source of Finance, 1985 to 2001).

and the introduction of new drugs.

In the past five years, professional fees on prescription drugs have increased by 14.5%, while ingredient costs have risen by 42%. As a result, total prescription costs have jumped 37% in five years, of which 12.1% was seen from 2001 to 2002.

Utilization, too, is rising. The average Canadian now uses one more prescription per year than they did five years ago. That represents a greater than 17% increase in the number of prescriptions per individual covered.*

Figure 1: Total Drug Expenditure by Type, Canada 1985 to 2001

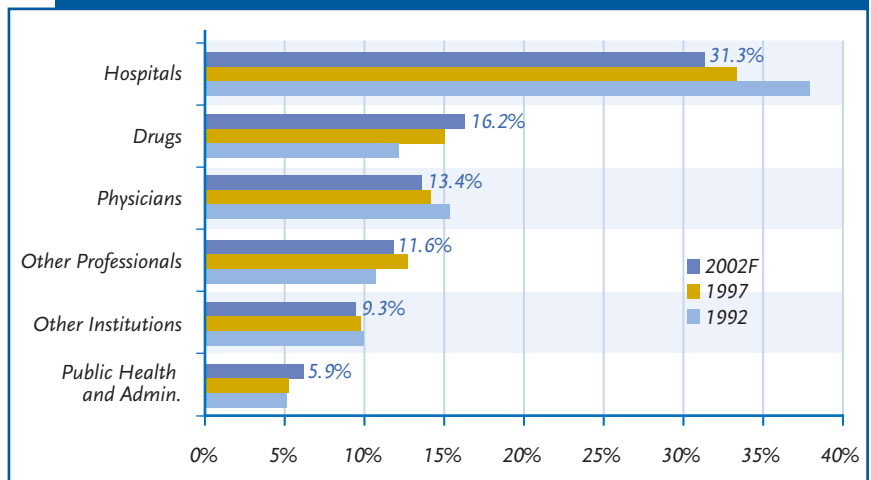


Sources: CIHI and Statistics Canada

Three major factors account for 95% of drug cost escalation: increased utilization, changes in therapeutic mix (newer therapies replacing older ones),

Factoring together prescription costs and utilization, ESI Canada reports that the average annual prescription cost has increased by an astounding 61% in the

Figure 2: Percentage Share of Health Expenditures in Canada 1992, 1997 and 2002 Forecast



Sources: CIHI and Statistics Canada

period from 1998 to 2000, to an average of \$304 per person covered.

Age is one of the major drivers of this increase. Quite simply, older people, on average, use more drugs. For example, 26- to 30-year-olds use only four prescriptions a year at a cost of \$144, compared to 61- to 65-year-olds who use an average of 14 prescriptions a year at a cost of \$622.

Another cost driver is the increasing use of brand name drugs over generic drugs. Utilization of brand name drugs has increased by about 1% each year, so that they now represent more than 52%

duced in Canada in the past five years represented almost a quarter of all drug expenditures for 2002. According to Dr. Semelman, the cholesterol drug Lipitor, for example, has claimed 55% of prescriptions in its class since its introduction in 1997. Similarly, the COX-2 inhibitors (Vioxx and Celebrex) and Xenical for weight loss (all introduced in 1999) represent almost 70% of the prescriptions in their classes. The market will soon feel the impact of more than a dozen new drugs that have received

The substitution of new drugs for older ones is yet another cost driver. Since 1997, the top five therapeutic classes by percent of total drug costs have been drugs to treat cholesterol, ulcer/reflux, depression, high blood pressure and arthritis. Although the top five classes have not changed in the past five years, the drugs in those classes have, and costs continue to climb as newer, more expensive drugs replace older, less expensive ones.

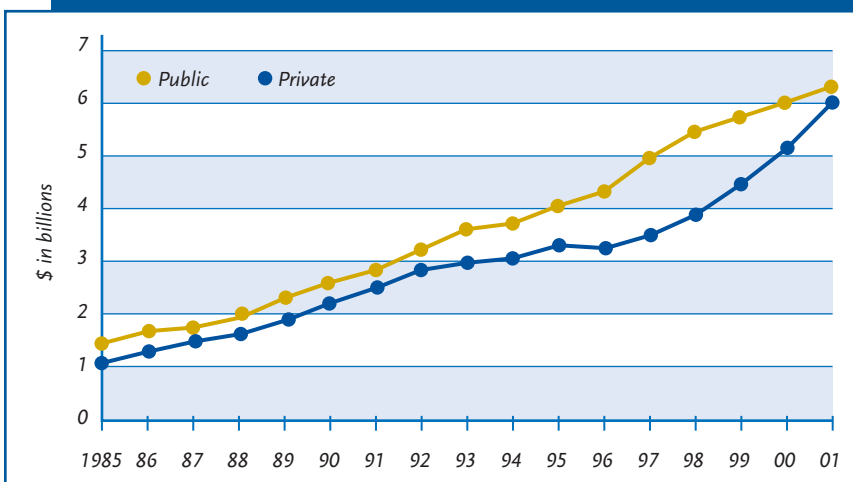
of the market, and over 80% of the total cost. This trend is significant because ingredient costs for brand name drugs are higher than for generic drugs, and they are continuing to rise.

While new drugs often cost more than traditional medications, they also account for a disproportionate share of the market. The 145 new drugs intro-

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Figure 3: Prescribed Drug Expenditure by Source of Finance, Canada 1985- 2001



Source: CIHI

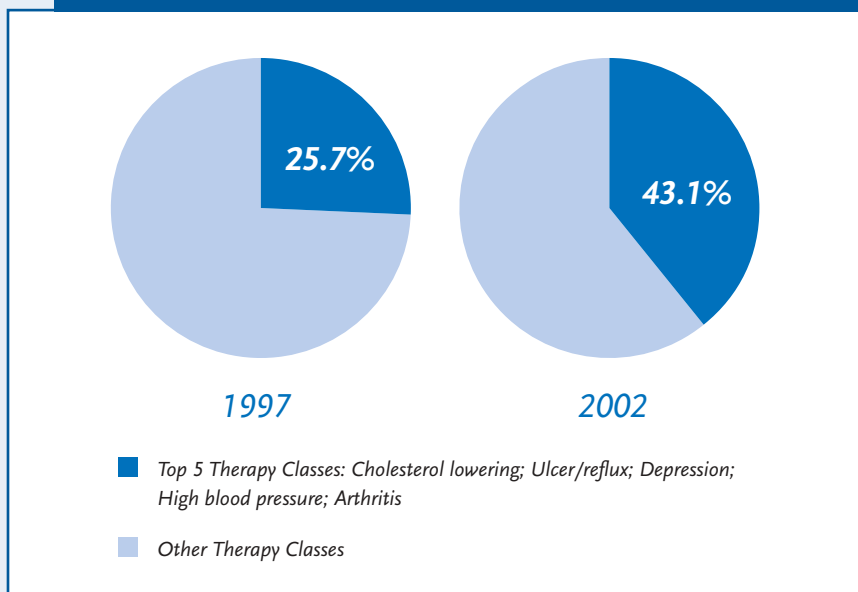
Source: ESI Canada

TOP 20 THERAPY CLASSES

(Ranked by Ingredient Cost)

Therapy Class	Indication
1. Statins	High cholesterol
2. Proton pump inhibitors	Ulcers, reflux
3. SSRI's	Depression
4. ACE inhibitors	High blood pressure and heart failure
5. COX-2 inhibitors	Arthritis, pain and inflammation
6. Calcium blockers	High blood pressure and angina
7. Antidepressants	Depression
8. Triptans	Migraines
9. Steroid inhalants	Asthma
10. Antineoplastics	Cancer, hepatitis, multiple sclerosis
11. Combination oral contraceptives	Prevention of pregnancy
12. AR2B's	High blood pressure
13. Combination inhalants	Asthma
14. NSAID's	Arthritis, pain and inflammation
15. Triphasic oral contraceptives	Prevention of pregnancy
16. Glitazones	Diabetes
17. Opiates	Pain
18. Nasal steroids	Allergies
19. Quinolone antibiotics	Bacterial infections
20. Bisphosphonates	Osteoporosis

Figure 4: Top 5 Therapeutic Classes by Percent of Total, 1997-2002



Source: ESI Canada

ABOUT MANULIFE FINANCIAL

Founded in 1887, Manulife Financial is a leading Canadian-based financial services group operating in 15 countries and territories worldwide. Through its extensive network of employees, agents and distribution partners, Manulife Financial offers clients a diverse range of financial protection products and wealth management services. Funds under management by Manulife Financial were Cdn\$141.6 billion as at March 31, 2003.

Manulife Financial Corporation trades as 'MFC' on the TSX, NYSE and PSE, and under '0945' on the SEHK.

ABOUT MARITIME LIFE

Founded in 1922, Maritime Life is one of Canada's fastest growing financial services companies, offering financial security through a selection of personal insurance, disability and critical illness insurance, investment products, pensions, and group life and health products and services. Based in Halifax, Nova Scotia, Maritime Life provides benefits to nearly three million Canadian families through offices in most major cities across Canada.

As a subsidiary of Boston-based John Hancock Financial Services, Inc., Maritime Life comes from a tradition of strength and stability. John Hancock Financial Services, Inc. (NYSE: JHF) and its affiliated companies, including John Hancock Life Insurance Company, provide a broad array of insurance and investment products and services to retail and institutional customers. As of March 31, 2003, John Hancock and its subsidiaries had total assets under management of US\$130.4 billion.

driver. Since 1997, the top five therapeutic classes by percent of total drug costs have been drugs to treat cholesterol, ulcer/reflux, depression, high blood pressure and arthritis. Although the top five classes have not changed in the past five years, the drugs in those classes have, and costs continue to climb as newer, more expensive drugs replace older, less expensive ones (see Figure 4, Top 5 Therapeutic Classes by Percent of Total).

For example, ulcer medications accounted for 7.2% of total drug costs in 1997 and 7.6% in 2002. With very few breakthrough drugs introduced in this class, newer drugs account for less than 1% of the increase in total drug costs in this period. On the other hand, cholesterol lowering drugs have increased from 7.4% in 1997 to 9.1% in 2002. This increase is due to more stringent blood pressure and diabetes guidelines, according to ESI Canada, as well as the introduction of the more expensive cholesterol-reducing drugs (statins). A new drug, Ezetrol, which was

introduced in June 2003, will be used in addition to statins and will also impact the cost of cholesterol treatment.

Similarly, the introduction of newer drugs combined with increased utilization is contributing to arthritis drugs' growing share of total drug costs. In 1997, traditional non-steroidal anti-inflammatory drugs (e.g., Naprosyn), with an average cost of \$200 per year per patient, accounted for 4.5% of total costs. The introduction of the more expensive (\$800-year) Cox-2 inhibitors (e.g., Celebrex) raised this share to just over 6% in 2002. The recent advent of biologics, drugs that actually alter the course of the disease rather than just treating symptoms (e.g., Remicade), priced at \$20,000 to \$30,000 per patient per year, has led to arthritis drugs being expected to account for almost 9% of total drug costs by 2004.

ESI Canada estimates that together, the top five therapeutic classes will account for almost half of all prescription drug costs in Canada by 2004.

"New drugs will continue to be marketed (and) they will increase our quality of life," says Dr. Semelman. "But it is at a cost that will have to be picked up by the consumer as well as the plan sponsors. Pharmacists, employees, insurers and plan managers will have to work together to develop new, innovative ideas on how to help pay for them."



Doing the basics better: making the most of cost controls

The cost of drug claims is predicted to spiral by 200% to 300% by the end of the next decade. While it is impossible to eradicate increasing costs associated with drug plans, underutilized cost-containment features may be equally effective and viewed as less invasive by plan members.

“There are plenty of opportunities available to plan sponsors to control drug costs,” says Nancy Lafrance, senior director, Regional Office, at ESI Canada. “The two key areas where we have the most opportunities are by using coordination of benefits and by making sure that plan designs include effective member participation.”

Administration

Effective use of coordination of benefits (COB) data can have a significant impact on controlling costs.

According to ESI Canada, 39% of its plans have no information about coordination of benefits (see Figure 1, Percentage of Plans with COB). Of the 61% of plans that do collect COB information, only 19% of married employees indicate that their spouses have coverage elsewhere. ESI Canada research shows that plans with more than 30% of married employees indicating that spouses have other coverage enjoy an almost 15% cost savings (see Figure 2, COB Savings). “You can see the importance of gathering that information and validating it on the system,” says Linda Hughes, director of Customer Services at ESI Canada.

COB is particularly important when employers have a pay-direct drug card. Drug cards offer employees the convenience of minimal cash outlay, no forms to submit and no waiting for reimbursement. As a result, employees’ spouses frequently use the card regardless of their own drug plan. “It’s extremely important for the employer

to collect and frequently update COB information in order to protect against spouses using the card as their primary plan when in fact it should be their secondary plan,” explains Hughes.

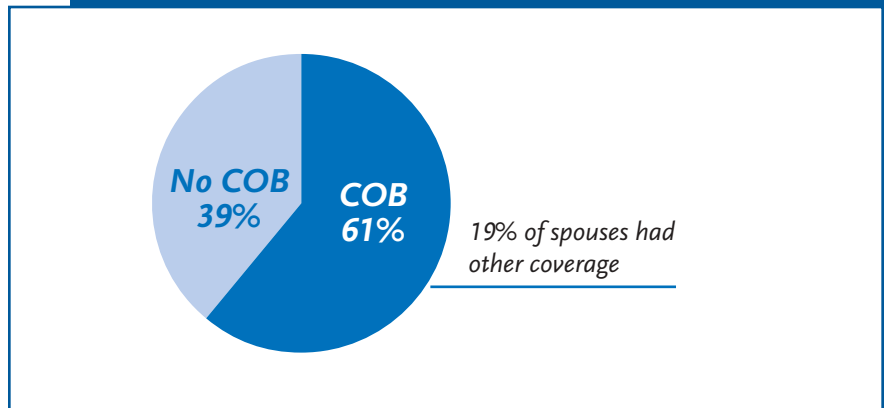
Adjudication

Another area to consider is adjudication. DIN pricing is traditionally avail-

able in all pharmacy claim systems. ESI Canada currently tracks DIN pricing for all provinces and territories, “usual and customary” dispensing fees, unit prices, and interchangeable pricing (allowing ESI Canada to adjudicate claims based on lowest cost for an equivalent generic product). “We are seeing a cross-country trend in pricing in excess of reasonable and customary levels,” notes Hughes, “and we are keeping a close watch on this.”

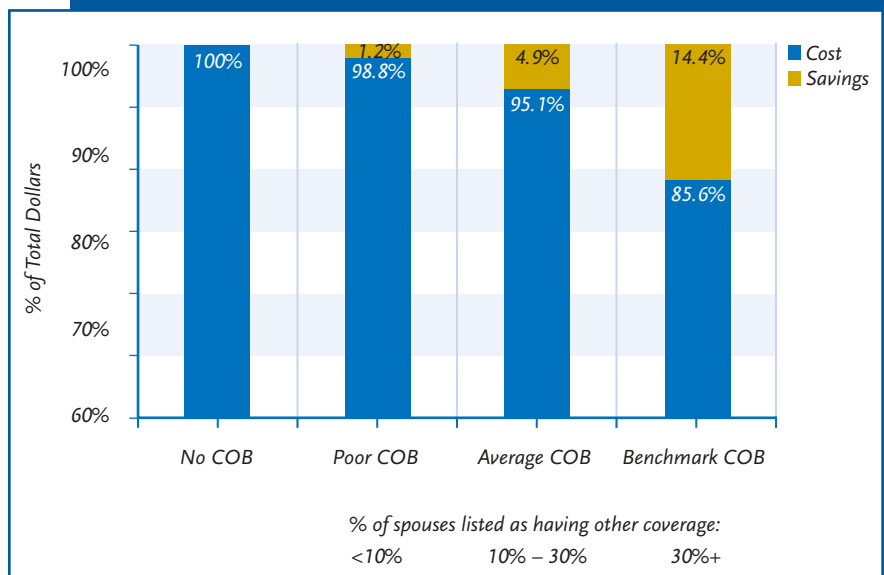
“Not only does DIN pricing help manage the cost of drugs, it also helps plan members understand how much of their claim is covered right at the point of claim,” says Ron Hoskins, assistant vice president and actuary with Manulife Financial. “This avoids the

Figure 1: Percentage of Plans with COB



Source: ESI Canada

Figure 2: COB Savings



Source: ESI Canada

surprises of traditional reimbursement plans, when plan members discover that a portion of their drug claim is not covered only after submitting a paper claim to their insurance carrier.”

Drug Utilization Review (DUR) can also help contain costs by identifying potential problems before a prescription is filled. For example, if the prescription is a duplicate, is being refilled early or holds potential for a drug-to-drug interaction, ESI Canada sends an immediate electronic message to the pharmacist. DUR not only promotes safety and makes sure that the right drug is given to the patient at the right time, it offers the plan sponsor potential savings of 3% to 3.5% in averted claims. Such savings generally erode slightly over time as the members, pharmacists and physicians adjust their claiming behaviour. ESI Canada’s DUR activities resulted in a saving of \$21 million in 2002.

“DUR benefits all stakeholders,” explains Hoskins. “It helps the pharmacist provide better advice about potentially harmful drug interactions, protects the plan member and offers drug plan savings for the plan sponsor.” Importantly, a pharmacy benefit manager’s DUR program reviews all claims in its database, not just those filled at a particular store or pharmacy chain.

Audits

In 2002, ESI Canada audits recovered \$2.5 million in both recoveries (which are reimbursed to the plan sponsor) and averted claims. These audits include on-site audits, physician and member confirmation as well as “next-day” audits, all of which ensure that only appropriate claims are paid.

Plan Design

According to the 2003 Aventis Healthcare Survey, more than 80% of employees acknowledge a personal responsibility to control costs associated with their drug plans.

Plan design offers several opportunities to encourage members to take cost-saving measures by being more respon-

Figure 3: Member Payment Options and Plan Sponsor Savings

Member Payment Option	Average Member Payment (% of total cost paid)	Plan Sponsor Savings vs. 100% Coverage
10% coinsurance	10.0%	24.8%
\$5 copay per prescription	10.6%	18.6%
\$5 fee cap	7.0%	9.6%
\$25/\$50 deductible	4.9%	4.9%

Source: ESI Canada

sible consumers and using lower-cost providers. Pharmacy fee caps and copayments that equal the pharmacy fee encourage members to use lower dispensing fee providers. Preferred provider arrangements, in which an employer or group of employers negotiate with a provider for lower dispensing fees, are not yet common in the Canadian marketplace, but they may offer the opportunity for savings in the future.

“Often plan members don’t understand how they can influence plan costs,” says Mike McMurray, Maritime Life’s manager of Product Management and Research.

“Education around smart choices – from the pharmacies they shop at, to the types of drugs they buy, to the way they look after their personal health and well being – raises the consciousness of employees. If smart choice messages are presented clearly and often enough, and supported by effective plan design, costs will go down.”

Member payment options also have an influence on a plan’s overall costs, with savings dependant on the specific claim pattern.

For example, compared to groups with no cost-control option, a \$25/\$50 deductible offers plan sponsors almost 5% in savings. A \$5 fee cap has more of a utilization deterrent, and offers a close to 10% sponsor savings. A \$5 copay per prescription also has a deterrent effect, with sponsor savings of greater than 18%. Finally, the 10% coinsurance option offers employers close to 25% in savings; in this scenario, utilization is at its lowest, likely because spouses are using their own plans more often (see Figure 3, Member Payment Options and Plan Sponsor Savings).

Generic substitution is another opportunity for plan sponsors to have a positive impact on their bottom line, although the possibilities for savings vary from province to province. Currently, high levels of generic substitution occur in most provinces although further generic savings can be achieved through a generic substitution plan. ESI Canada indicates that generics represented 32% of all drug claims and 12% of costs in 2002. Savings are available to plan sponsors that have a generic substitution plan, as generic drugs cost on average 38% less than their brand name equivalent, reports Palmer D’Angelo Consulting Inc.

A number of brand name drugs are slated to come off patent in the next year, offering employers an ideal opportunity to introduce a generic plan if they don’t already have one. Generic drugs are chemically equivalent to brand name products and are equal in terms of quality, safety, purity and effectiveness.

Mary Johannesson, ESI Canada’s director of Marketing, notes that “tiered plan design is a strategy to change member behaviour and manage plan costs.” It can take a variety of forms – for example, offering 90% coverage for a generic and 75% for an equivalent brand name drug. While all drugs continue to be covered, the different levels of coinsurance encourage members to be aware of drug costs and to use less expensive, therapeutically equivalent generics. Other types of tiered plan designs might include either the ESI Therapeutic Formulary (see sidebar, page 7) or provincial plan drugs at a higher coinsurance with all other drugs at a lower one.

“Tiered plan design can offer substantial savings depending on the plan’s structure,” adds Johannesson. However, implementation of tiered formularies can be challenging. It requires significant and ongoing communication with members and also involves additional upfront costs for human resources, call centres and member education. In addition, member satisfaction with the plan may be affected.

According to experience in the United States (Motheral, Express Scripts, 2003), members’ satisfaction with their plan often initially decreases with the introduction of a tiered plan design, but tends to recover within a year or so. Although multi-tier drug plans are popular in the United States, only 1% of plans in Canada use them.

innovative drug plan management solutions that will provide a ‘silver bullet’ to offset increasing costs, and they forget some of the tried-and-true solutions that can offer significant savings,” says Suzanne Lepage, product manager with Manulife Financial. Although some of these drug plan solutions appear basic, plan sponsors should ensure they have considered them all before they move to plan designs that have a more significant impact on the plan members.

“When plan members have to share in the cost of their drug claim, it is likely to change their behaviour,” she continues. “Plan members who become aware of the cost of their drugs may become smarter shoppers to

“There are plenty of opportunities available to plan sponsors to control drug costs,” says Nancy Lafrance, senior director, Regional Office, at ESI Canada. “The two key areas where we have the most opportunities are by using coordination of benefits and by making sure that plan designs include effective member participation.”

“Tiered drug plans and trial prescription programs are getting more attention,” Maritime Life’s McMurray notes. “While these solutions can work well in certain situations, the challenge is to ensure that the cost improvements are more than incremental, and that the administrative burden doesn’t outweigh the benefits.”

The Big Picture

“Historically, our approach to benefit cost management has been restrictive; while cost shifting strategies are good and necessary, they will still only have a limited impact on long term trends,” says Kevin Hollis, Maritime Life’s manager of Health Care Consulting Services. “Family health is the only way to achieve a measurable lasting impact on plan costs. The key is to work in partnership with plan sponsors, employees and the larger health care community toward a common goal of wellness.”

“In response to ever-increasing drug trends, plan sponsors often look for

help reduce their portion of the claim cost. In addition, plan members who previously used their drug card for all their family members’ claims may now choose to also use their spouses’ plan to coordinate benefits and increase their overall reimbursement level. As a result, spouses’ claims now go to the appropriate plan first, and this reduces the overall cost to the plan.”

“Tackling drug costs will continue to be an important task for plan sponsors,” says Jean Joubert, president of ESI Canada. “Their challenge will be balancing the health and wellness of members with cost-containment measures. Working with all stakeholders will be key to driving innovation and coming up with new solutions.” ■

ETF AS A TIERING EXAMPLE

The ESI Therapeutic Formulary (ETF) can be incorporated as one of the plans in a multi-tier plan design. The ETF is a managed formulary that covers drugs that treat most disease states affecting our working population. All drugs are evaluated based on their therapeutic effectiveness, convenience, quality of life, patient outcomes, and finally, cost.

As an example of how the ETF could be incorporated into a tiered plan, drugs that meet these therapeutic and cost requirements are included in the ETF and could be covered at 80% (tier 1), while all other prescriptions are covered at 75% (tier 2).

Another tiering example could include 90% coverage for generic prescription drugs, 80% for ETF brand name drugs, and 75% for all other prescriptions. Opportunities for savings occur when members switch medications to other drugs covered by the ETF.

Visit www.esi-canada.com to learn more about the ETF.

ABOUT ESI CANADA

ESI Canada is a leading drug, dental and health claim management company. We serve 5 million members and help insurance carriers, third-party administrators, and the public sector navigate the rapidly changing benefits landscape. By linking the talent and professional expertise of our people with leading-edge information management systems and technology, we ensure that our customers receive high-quality, cost-effective claim services. ESI Canada is a wholly-owned subsidiary of Express Scripts Inc., one of the largest pharmacy benefit management (PBM) companies in North America (Nasdaq: ESRX).