

Ensuring Pharmacy Benefit Value in a Zero-trend World

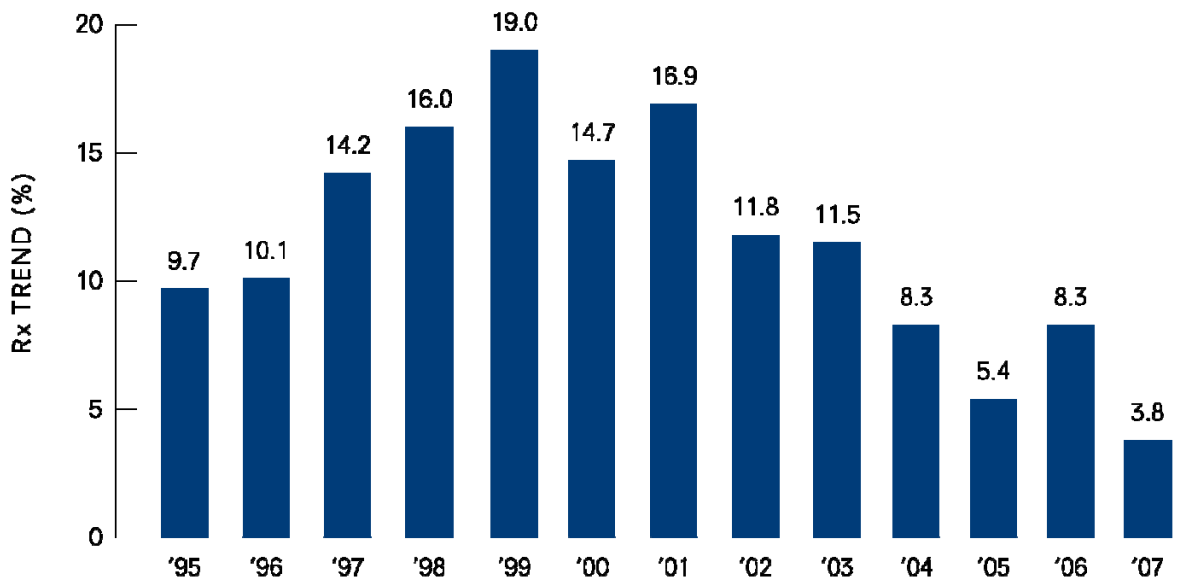
In the mid- to late-1990s and early 2000s, prescription drug costs grew rapidly. From an all-time high of nearly 20 percent in 1999, the trend line for prescription drug spending has plunged downward each year.¹ As pharmacy benefit managers begin to review data from 2008, many are anticipating zero, or even negative trend. But even as clients, shareholders, statisticians and analysts await these figures, how many people really know what is meant by “zero trend?” And if the trend is flat, is this truly a good thing?

“How do you ensure the pharmacy benefit is providing value in a zero-trend world?”

Defining trend

“Trend” typically refers to the annual rate of change in spending on prescription drugs; specifically, the metric focuses on changes in the cost per member per month (PMPM) and can be represented as total, plan or member trend.

Figure 1 % Annual Growth in Rx Drug Spending: 1995–2007



Source: IMS Health, 2008

Assessing drug spend through PMPM trend

Total cost PMPM is the total amount of money invested in pharmacy spend, divided by the number of members (see fig 2). A key role of the pharmacy benefit manager is to help contain or reduce these costs. Aggressive pharmacy management helps plan sponsors contain total PMPM costs. Changes in PMPM cost can then be compared year-over-year to assess the general direction and intensity of changes in overall pharmacy costs. The simplicity of this measure is why PMPM trend has become the “gold standard” measurement of value in the pharmacy benefit management industry.

Figure 2 Total Cost PMPM Calculation

$$\text{PMPM} = \frac{\text{TOTAL COST}}{\text{MEMBERSHIP}}$$

(ingredient cost + dispensing fees + sales tax)

Inflation, utilization and drug mix are components reflected in total cost PMPM. These key drivers of drug spend are interrelated. An increase in the wholesale price of drugs, a change in the quantity of drugs used by members or a shift in the proportion of high- or low-cost drugs used will impact the total cost. That’s why the industry keeps a close eye on total PMPM trends – it is a quick and easy way to assess the economic state of prescription drug costs for employers and plan sponsors.

Pharmacy benefit managers offer a vital service by helping members make wise decisions about their drug use. By encouraging the use of generic alternatives, which typically cost less than their brand-name counterparts, pharmacy benefit managers help to offset increased PMPM costs attributable to price inflation. Thus, the lower the drug trend, the more effectively benefits managers are said to be managing drug spend.

For many plan sponsors, drug trend is expected to be very low in 2008 – at, or even below, zero. In the standard paradigm, where low PMPM trend indicates successful pharmacy management, this is cause for celebration. However, a look at the facts reveals several key drivers of low trend that are not the result of pharmacy benefit management, but instead reflect changes in the national environment:

- **Increased availability and acceptance of generic drugs** – Pharmaceutical innovations during the late 1980s and 1990s led to the creation of new drugs to treat common health problems such as high cholesterol, high blood pressure, heartburn, asthma, arthritis, sleep deprivation and depression. These drug classes were responsible for driving double-digit PMPM trends of the late ‘90s and early part of this decade. Now the patents on these drugs are expiring and a wave of generics has helped to drive trend downward.²
- **Declining utilization of prescription medications** – Safety concerns over some previously popular drugs, the transition of some prescription medications to over-the-counter sales, a reduction in new product approvals and consumer belt-tightening as a result of the economy have caused a downturn in the utilization of prescription medications.

If PMPM trend management is seen as the most important tool to measure pharmacy benefit management success, but market forces are a key factor in low trend in 2008, how can clients assess the true performance of their pharmacy benefit? And when market forces again drive trend upward, how can clients be certain their pharmacy benefit offers real value?

The paradox of utilization

According to a recent analysis of data from IMS Health, the number of prescriptions dispensed in the United States dropped in 2008. Although the overall decline in prescriptions in the IMS Health data was less than 1 percent, it was the first downturn after more than a decade of steady increases in prescriptions.³ Declining utilization is also visible in Prime's drug trend data. Non-specialty book-of-business utilization decreased 0.2 percent in 2008. Historically, Prime has seen utilization increase at close to 2 percent annually. Clearly, the widespread decrease in prescription drug use is linked to the low trend numbers anticipated this year.

When drug utilization decreases as a result of economic conditions, it becomes more likely that patients who *should* be using drugs are not filling prescriptions or are skipping essential medications. A survey conducted by the Kaiser Family Foundation in October 2008 found almost one-third of patients had skipped medical treatment in the past year, up from 24 percent in April.⁴ Health experts and clinicians agree that proper medication use, particularly for those with chronic conditions, is essential in helping to control symptoms and prevent more serious health concerns. Pharmacy savings associated with utilization-driven "low trend" may quickly be offset by increased emergency room use or costly medical interventions for symptoms that could have been controlled with proper medication use.

Encouraging appropriate drug utilization in tough economic times

Prime offers utilization management programs as part of a robust portfolio of tools to manage drug trend. The goal of these programs is never to limit utilization across the board, but to reduce improper or unsafe use of drugs and to increase the use of the lowest cost alternatives. Ensuring safe, appropriate use of medication is critical to keeping health care costs down.

Prime provides plan design insights to help plan sponsors implement plan designs that support utilization while helping to achieve business objectives. In particular, value-based benefit design provides drug therapy at lower or no out-of-pocket-cost to encourage adherence in core categories where appropriate drug therapy has been shown to decrease risk of an adverse medical event. Plan sponsors can choose from several different plan designs to determine the level of pharmacy coverage and the share of pharmacy costs paid by members.

The use of integrated medical and pharmacy data has an important application in helping to advance the management of drug use and overall health care expenditures. Efficiency benefit design is Prime's most targeted approach to value-based benefit design. Different from standard value-based benefit design, only members that are at high-risk for an adverse medical event receive drug therapy at a lower or no out-of-pocket cost. "This focused approach allows plan sponsors to maximize the value of pharmacy spend," says Christine Solberg, Assistant Vice President of Benefit Strategy at Prime. "By providing essential drugs at lower cost to those who benefit the most, plan sponsors help to improve the health status of high-risk members, which can lead to lower overall health care spending."

A better way to measure value

Measuring value solely on the basis of trend management can be misleading. Consider a plan sponsor whose absolute PMPM cost is higher than the industry average due to soft benefit design, poor generic utilization or other factors. For this group, achieving low PMPM trend doesn't tell the whole story – and keeping PMPM trends low year after year will do little to solve the problem. Alternately, a plan sponsor who takes an aggressive approach to pharmacy management may successfully drive total PMPM costs to a much lower threshold. The effects of inflation and increased utilization – external elements which significantly affect annual PMPM trend – would then have a more substantial impact on PMPM trends. If measured solely on trend management, this group would seem to be less successful, despite its superior pharmacy cost management.

To address these issues, Prime works consultatively with plan sponsors to ensure pharmacy benefit management levers are adjusted to achieve specific pharmacy benefit goals. Results are measured against generic fill rate, utilization per member, drug price inflation and ingredient cost per claim. These metrics go beyond total PMPM trend to allow for a close examination of prescription drug spending. Key metrics are identified and benchmarked across Prime's book of business to assess the impact of marketplace events and current programs and to help identify opportunities for improvement.

Prescription drugs costs are the fastest growing costs in the health care industry today, yet they present the best opportunity to save on the total health care bill. Prime's tools and clinical expertise, powered by integration with Blue plan clients, offer a chance to maximize the savings available, while ensuring that utilization is addressed as the single most critical aspect of pharmacy benefit management with the greatest impact on member health and outcomes.