Potential Cost Impact of Proposed Pennsylvania House Bill 814 On Purchasers of Insured Prescription Drug Benefits

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I. SUMMARY

A house bill introduced into the Pennsylvania House in March 2005, HB814 (Bill), would amend Pennsylvania law (specifically, P.L. 589, No. 205) by adding language that would prohibit the use of so-called "mandatory" mail-service pharmacy benefit policies and eliminate copayment differentials between retail and mail-service prescriptions.

Prohibiting mandatory mail-service benefits would reduce the usage of mail-service pharmacies. Eliminating the copayment differential would eliminate financial incentives consumers have for utilizing mail-service. Combined, these provisions will have the effect of reducing or eliminating the mail-service distribution channel. Reducing or eliminating mail-service prescription drug distribution would result in greater costs for the purchasers and consumers of insured prescription drug benefits in Pennsylvania.

The Pharmaceutical Care Management Association has retained Milliman to perform this actuarial analysis. Using both published and unpublished data, Milliman *Health Cost Guidelines*, and actuarial judgment of the author, this analysis may not reflect the judgment or interpretation of other Milliman consultants. Due to the inherent complex nature of the subject and actuarial modeling, this report should be read and distributed in its entirety. The estimates presented herein should be considered as estimates within a range of possible results. Milliman was not asked to comment on other, non-actuarial aspects of the Bill.

Estimates developed here may be used to assist policymakers and others in assessing the potential cost impact of the provisions contained in the Bill and may not be suitable for other purposes. An expert in actuarial health care modeling specifically related to pharmaceutical services should advise any user of this report. It is assumed the reader is familiar with the legislation.

In 2006, purchasers of Pennsylvania individual and employer-sponsored insurance benefit plans utilizing the services of a PBM vendor will spend an estimated $1,900 million, or about $529 per capita for prescription drug insurance. Further, consumers (i.e., those purchasing prescription drugs) will spend an additional $712 million, or about $198 per capita, in 2006 in copayments to purchase their prescriptions. In total, purchasers and consumers will spend an estimated $2,612 million in 2006.

The total cost impact (i.e., the cost to both purchasers and consumers) of these provisions in the Bill would increase total costs within the range of $60 million to $123 million annually.

The quantified cost impact is:

- For the purchasers of Pennsylvania individual and employer-sponsored insurance benefit plans that utilize the services of a PBM vendor (Covered Population),

- Limited to the benefit portion of the premium only. The impact that these changes could potentially have on insurers' administrative charges, on prescription costs not covered by benefit programs, or on other Pennsylvania residents were not considered. If these items were considered, the estimated financial impact would be greater.

- Performed assuming current levels of mail-service pharmacy usage (i.e., about 14% of outpatient prescriptions) and does not reflect that mail-service pharmacy usage has been steadily rising over the past decade, which suggests that the legislative provisions could keep future savings from being realized.

The Covered Population for this analysis includes approximately 3,589,000 Pennsylvania residents. This Covered Population receives its coverage from insurers, HMOs, and Blue Cross Blue Shield organizations and excludes employers who self-insure their prescription drug benefits.

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A. Findings

In 2006, purchasers of Pennsylvania individual and employer-sponsored insurance benefit plans utilizing the services of a PBM vendor will spend an estimated $1,900 million, or about $529 per capita, for prescription drug benefits. This amount represents expenditures to fund the benefit portion of the insured premium (i.e., excluding administrative charges) and includes employer costs plus employee premium contributions. Consumers (i.e., those purchasing prescription drugs) will spend an additional $712 million, or about $198 per capita, in 2006 in copayments to purchase their prescriptions. In total, purchasers and consumers will spend an estimated $2,612 million in 2006.

This analysis uses an actuarial cost modeling technique to quantify current costs and to measure the impact in costs likely to occur due to the Bill's provisions (Section 5, Items (15) (i), (ii), and (iii)) that forbid so-called "mandatory" mail-service pharmacy policies and forbid copayment differentials between mail-service pharmacies and retail pharmacies. Beyond mandating changes to employee benefit designs, such provisions would likely have the impact of reducing the use of mail-service pharmacies. Currently, mail-service pharmacies account for approximately 14% of outpatient prescriptions.

Three scenarios (Low, Middle, and High) presented in this analysis are used to determine the impact of reduced mail-service pharmacy usage caused by removing the financial incentives for consumers to choose this option. These scenarios demonstrate the range and sensitivity of potential results and differ in their projected mail-service usage if the Bill becomes law.

The current cost level was first adjusted assuming all current mandatory plans switch to "voluntary" mail-service plans and all "voluntary" plans modify their benefits to force all mail copayments to equal retail copayments, as required by the Bill. Further, the resulting "voluntary" mail-service programs in the Low, Middle, and High scenarios usage are assumed to decline from current levels (i.e., current mandatory plus voluntary levels) by one-third or two-thirds, or be fully eliminated, respectively.

The Low, Middle, and High scenarios assume that mail copayments are equalized to retail levels. On average, the required copayment for one 90-day prescription through a mail-service pharmacy is projected to be two-and-a-half times the required copayment for one 30-day prescription at a retail pharmacy. Obviously, the full impact of the Bill's provisions would not be known until final regulations were issued and had been in place over a period of time.

Table 1 quantifies the impact of the proposed legislation. All estimates should be considered to be within the range of possible results.

Table 1
2006 Cost of Prescription Drugs for the Covered Population [1]
Current Cost Level and Impact Scenarios
($ millions)

Scenario	Prescription Drug Cost Allocation		
	Purchaser	Consumer	Total
Total Costs [2]			
Current Cost Level	$1,900	$712	$2,612
Low Impact	1,914	758	2,672
Medium Impact	1,939	765	2,704
High Impact	1,964	771	2,735
Cost Relative to Current Cost Level			
Low Impact	$14	$46	$60
Medium Impact	39	53	92
High Impact	64	59	123
% Change from Current Cost Level			
Low Impact	0.7%	6.5%	2.3%
Medium Impact	2.1%	7.4%	3.5%
High Impact	3.4%	8.3%	4.7%

[1] Includes the cost impact on benefit plan costs, excluding administrative charges.
[2] Impact scenarios reflect likely range of Bill's impact. Each scenario reflects the noted reduction of mail-service dispensing relative to the Current Cost Level and calculates the cost of prescription drugs to Purchasers and Consumers.

B. The Role of PBMs and Mail-Service Pharmacies

PBMs design, implement and administer outpatient prescription drug benefit programs for managed care plans, self-insured employers and employer coalitions, unions, governmental agencies, and other third-party payers.

PBMs offer streamlined point-of-sale claim adjudication services for prescription benefits, negotiate discounts with pharmacies, and design and manage formularies and preferred drug lists. Formularies and preferred drug lists allow them to obtain pricing concessions in the form of rebates from drug manufacturers. These rebates help lower the cost of prescription drug benefits.

In addition, PBMs typically offer mail-service pharmacy services. Due to their efficiency and scale, mail-service pharmacies are able to fulfill prescriptions less expensively than retail pharmacies. Further, most employers provide a mail-service pharmacy option to their employees and an increasing number are showing interest in "mandatory" mail-service pharmacies.

Mail-Service Pharmacies Fill Prescriptions Less Expensively

Mail-service pharmacies offer significant cost savings over retail pharmacies due to lower ingredient costs, lower prescription dispensing fees, and lower administrative processing fees. Takeda presented these findings based on a survey of 400 employers (Table 2).[1]

Table 2
Pharmacy Costs and Fees
2003

	Mail	Retail
Brand Drug Cost Discount (as % of Average Wholesale Price)	20.4%	14.5%
Prescription Dispensing Fee Per Script	$0.56	$2.05
Administrative Fees Per Script	$0.15	$0.24

Because mail-service pharmacies generally have a longer time-frame to fill a prescription, they also have a greater ability to reduce costs through therapeutic interchange, step therapy, and formulary compliance.

Health plans often encourage consumers to use mail-service and share in its savings with lower co-payments or co-insurance for prescriptions if they choose mail. In 2003, consumers typically pay two-thirds the amount of cost sharing for an equivalent amount of prescription drugs through mail-service versus retail.[2]

[1] Takeda Pharmaceuticals North America, "The Prescription Drug Benefit Cost and Plan Design Survey Report," 2004 Edition, Tables 4, 5, and 10.
[2] Takeda Pharmaceuticals North America, "The Prescription Drug Benefit Cost and Plan Design Survey Report," 2004 Edition, Tables 18 and 19.

Employers Move to Mandatory Mail-Service Provisions

Employers are finding mail-service increasingly attractive. In particular, about 22% of employers have added "mandatory" mail provisions to their policies.[3] Mandatory provisions direct usage of mail-service pharmacies for non-acute, maintenance drugs. Typically, mandatory provisions allow for one or a few refills at retail before applying disincentives (through higher cost sharing) at retail. Such disincentives encourage mail-service usage. Further, an additional 51% of employers are considering the move to a mandatory mail program in the future.[4]

On average, mandatory mail-service programs increase mail-service utilization from about 14% of prescriptions to about 27% of prescriptions.[5] Mandatory mail-service requirements do not apply to medications needed urgently and for one-time use, such as antibiotics, which consumers generally obtain through retail pharmacies. By encouraging the use of mail-service pharmacies, many health plan sponsors have realized significant savings:

- General Motors estimates that its mail-service pharmacy program will save the company $80 million per year.[6] The United Auto Workers notes that mail-service plans are "preferable to [implementing] higher [retail] copayments or restricting access to certain drugs."[7]

- Ohio's state employee insurance plan, which serves about 100,000 people, estimates it has saved more than $60 million since it implemented its mail-service pharmacy program in 1992.[8]

[3] Hewitt, "Health Care Expectations: Future Strategy and Direction 2005," November 2004, Page 52.
[4] Ibid.
[5] Takeda Pharmaceuticals North America, "The Prescription Drug Benefit Cost and Plan Design Survey Report," 2004 Edition, Table 26.
[6] Peters, J., "GM Ends Prescription Deal with Walgreen," *New York Times*, February 12, 2005.
[7] Krauskopf, L., "Like It or Not, Medicine Has Gone Mail Order," *The Record*, Knight Ridder, March 24, 2005.
[8] Edlin, M., "Gloves Come Off Between Retail and Mail-Order Pharmacies," *Managed Health care Executive*, April 1, 2005.

C. Analysis of the Bill on Current Mail-service Practices

The Bill contains provisions that will reduce or possibly eliminate mail-service pharmacy distribution through prohibiting the use of mandatory mail-service pharmacy benefit policies and eliminating copayment differentials between retail and mail-service prescriptions. These actions eliminate current patient requirements and incentives for using mail-service pharmacies.

In particular, the Section 5 of P.L. 589, No. 205 reads:

> "Section 5 Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Defined. (a) "Unfair methods of competition" and "unfair or deceptive acts or practices" in the business of insurance means:"

The Bill would then add the following paragraph to Section 5 (a):

> "(15) Knowingly doing any of the following:
>
> (i) Requiring an insured to obtain drugs from a mail-order pharmacy as a condition of obtaining the payment for the prescription drugs.
>
> (ii) Imposing upon an insured who is not utilizing a mail-order pharmacy a copayment fee or other condition not imposed upon insureds utilizing a mail-order pharmacy.
>
> (iii) Denying or impairing the right of an insured to determine from where drugs are dispensed."

Forbidding mandatory mail service will eliminate this method for delivering maintenance medicines in a cost effective fashion. Further, eliminating the copayment incentive for using mail will likely decrease its usage thereby increasing total prescription drug costs.

II. METHODS AND ASSUMPTIONS

Milliman, Inc. *Health Cost Guidelines,* (*HCGs*) were used as the basis for modeling the current cost level of pharmacy benefits and for estimating the cost for various outcomes due to changing certain assumptions. The *HCGs* provide a flexible but consistent basis for determining benefit costs for a wide variety of prescription drug benefit plans under differing assumptions. The *HCGs* are developed from Milliman's continuing research on health care costs and represent actual experience and actuarial judgment.

The modeling of the current cost level reflects assumptions consistent with values reported in the Northeast United States Region from The Prescription Drug Benefit Cost and Plan Design Survey Report, 2004 Edition provided by Takeda. The Takeda survey includes responses from 403 employers representing approximately 11 million beneficiaries. The Takeda survey includes average benefit plan, pharmacy reimbursement, generic usage, employer use of PBM management interventions, and PBM administrative fee information. Statistics are adjusted to 2006 values where appropriate.

The potential outcomes are determined by changing certain input values in the model. For example, when reducing mail-service distribution, certain model assumptions were changed to reflect the legislative provisions and movement of the mail-service prescriptions to retail distribution. For example, all impact scenarios assume that mail-service pharmacies copayments rise to the same level as retail copayments. This has the initial effect of decreasing plan sponsor benefit cost (by transferring a higher share of the cost to the insured) but this effect is more than offset by an increase in the number of retail prescriptions at retail prices and dispensing fees.

Actuarial modeling of prescription drug benefit costs is complex. No actuarial model can capture all factors that the future will prove to be important, and that limitation applies to this work. Many factors affect cost and it is difficult to attribute changes in cost to specific factor changes.

This analysis finds that there are approximately 3,589,000 Pennsylvania residents who are members of the Covered Population based on an analysis of U.S. Census Bureau data, health benefits data from The Henry J. Kaiser Family Foundation, HeatlhLeaders / InterStudy, and the percentage of employees with prescription drug benefits covered by PBMs nationally. Of the Covered Population, it is assumed that 75% have a mail-service option under their prescription drug benefit plan. Were the actual population higher or lower, the results would change proportionately.