



2004 Arxcel Prescription Benefit Research Survey

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2004 Arxcel Prescription Benefit Research Survey

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2004 Arxcel Prescription Benefit Research Survey Executive Overview

Conclusions

- Among human resources, compensation and benefits executives within corporate America, rising prescription benefits costs are seen as being caused by:
 - Direct-to-consumer advertising, followed by the cost of developing new drugs and inflation.
 - For the third year in a row, survey respondents identified direct-to-consumer advertising as the primary culprit in escalating costs.

- Corporate executives believe that the most likely solutions to escalating prescription benefits costs center around:
 - Tiered co-payment levels or higher co-payment levels
 - Limiting coverage for high cost medicines
 - Increased clinical oversight

- Almost three quarters of respondents feel that a member's co-pay should be 20% or less.

- In responding to questions about an aging American workforce, 8 in 10 felt that corporations would respond to this demographic shift by adopting benefit packages tailored for older workers or by instituting wellness programs.

- Almost half (45%) felt the aging American workforce has already impacted their industry.

- Respondents did not seem to have much faith in the new Medicare legislation's ability to positively affect their bottom line when it came to health benefits costs.
 - Only 15% said they thought the new legislation would help their company reduce escalating prescription benefits costs.
 - Less than 10% said the legislation would significantly affect their company's decisions regarding providing prescription benefits to its retirees.



2004 Arxcel Prescription Benefit Research Survey Background

Introduction

This is the third annual study of industry leaders' perceptions regarding prescription benefits as part of employee health benefits in corporate America.

The purpose of this study was to collect data with which to examine current trends in perceptions regarding prescription benefit management and issues of particular relevance to the industry. The data source was knowledgeable executives from both privately and publicly held companies of 1,000 or more employees.

To accomplish the purpose, a primary research survey was conducted among high-ranking executives residing in corporate areas such as human resources, compensation and/or employee benefits.

The study revealed respondents' viewpoints regarding the **rising cost of pharmaceutical benefits, solutions for the cost increases** and the **viability of the solutions available**. Respondents were also questioned about **the impact of the aging American workforce** and the recently passed **Medicare prescription legislation** on corporate America.

Lastly, the study captured the demographic profiles of respondents, including the number of individual lives covered by their organizations, the respondent's job title and his or her geographic location.



2004 Arxcel Prescription Benefit Research Survey Background

Methodology

This study was conducted during the last week of January 2004. Telephone research interviews captured the desired information. 100 usable surveys were completed from interviews with corporate executives from companies of 1,000 or more employees from across the United States.

The sample was randomly selected from a list of companies and executives purchased from a nationally known business list provider. While the sample is not large enough to be a scientific study of the total population of large U.S. companies, the sample is large enough to provide an understanding of the perceptions of this population and to identify some basic trends. Based on the population and the sample of 100, the survey has a margin of error of $\pm 10\%$

In order to qualify as a completed interview, respondents had to be willing to complete the entire survey.

Telephone calls were placed during the working day of the four U.S. time zones.



2004 Arxcel Prescription Benefit Research Survey Background

Demographics

⇒ Lives covered

- The respondents represented a good cross section of companies
 - 62% of respondents' companies covered less than 5,000 lives
 - 22% covered between 5,000 and 10,000 lives
 - 10% covered 10,000 – 25,000 lives
 - 6% covered between 25,000 to 75,000 lives
 - There were no respondents in the 75,000 and above category

⇒ Respondents' Titles

- Most respondents were high level executives in their companies
 - Directors of Benefits and/or Compensation, and Directors of Personnel accounted for 67% of the respondents
 - 14% were Directors of Human Resources
 - 8% were Division or Department Managers
 - 11% were Benefits Managers, Administrators or Analysts

⇒ Geographic Breakdown

- There was a good sampling from all over the United States
 - 18% of the respondents were from the Northeast Region of the U.S.
 - 18% were from the Southeast
 - 27% were from the Midwest
 - 17% were from the Southwest United States
 - 20% were from the Pacific and Northwest area

A breakdown of respondents by state is available upon request.



2004 Arxcel Prescription Benefit Research Survey Summary of Findings

Causes of High Prescription Benefit Costs

⇒ Respondents were read a list of causes that are all contributing on various levels to the escalating cost of prescription drug benefits. When asked to select the one cause that they believe plays the largest role in these escalating costs, the survey revealed that:

- For the third year in a row, direct-to-consumer advertising was chosen more than any other single cause as the one playing the biggest role in escalating prescription prices. However, the responses continued a decrease in selection of this category from the first year the survey was taken.
 - 4 out of 10 respondents (40%) chose direct-to-consumer advertising in 2004
 - In the 2003 survey, the number of responses was similar at 38.6%
 - In the 2002 survey, 61.3% chose this as number one cause

The remaining causes were selected as follows:

- The expense of developing new drugs was chosen by 25% of the respondents
 - 17% chose this cause in 2003;
 - 20% chose it in 2002
- The increased price of medicines due to inflation at 18%
 - In 2003, this figure was 22.8%
 - In the 2002 survey, 4% chose this as the number one cause
- Changes in use of pharmaceutical product at 10%
 - This is consistent with the response received in 2003 of 10.9%
 - This reason was chosen by 4% of respondents in the 2002 survey
- Aging of the population was noted as the principal cause by 10% of the respondents in 2004
 - This was consistent with the results from both previous surveys at 9.9% for 2003 and 10.7% in the 2002 survey



Possible Solutions for Slowing Pharmacy Cost Escalation

⇒ Respondents were asked to rate a series of potential solutions on the viability of each as a solution for slowing down the cost increases in prescription benefits. They were asked to rate the solution on a scale of 1 to 4, with 1 meaning the solution would have the most potential impact and 4 meaning it would have very little impact.

- Increasing the member's cost share through tiered co-payments or overall higher co-payments had the largest share of positive ratings
 - 7 in 10 respondents saw this as the most viable solution
 - 71% rated this a 1 or a 2 in our current survey
 - 81.2% gave it a 1 or 2 in 2003
- Limiting coverage for high cost medications and increasing clinical oversight
 - Each received positive ratings of 61% and 62% respectively
 - In 2003, 60.4% gave limiting coverage for high cost medications a rating of 1 or 2
 - Increasing clinical oversight was not included in the 2003 survey
- Patient education about cost effective use of medicines came in as the third highest rated solution
 - 57% of respondents had a favorable response to this solution
 - A drop from 67.3% the previous survey
- Providing incentives to use mail order service
 - This solution had the second smallest amount of positive ratings and a split audience. 50% of the respondents rated it a 1 or 2.
 - This is a significant drop from last year when 72.3% gave it a 1 or a 2
- Educating doctors on the cost of pharmaceuticals and their proper use
 - There was little consensus on the viability of this option. Results were split among respondents, however results flipped from the year before.
 - 46% rated this a 1 or 2 (a drop from 53.4% in 2003)
 - 54% rated it a 3 or 4 (46.6% in 2003)



Price Points and Member Cost Share

⇒ When asked what their company's total monthly cost was for its prescription benefit program for a single employee, more respondents could break out this cost than in the past.

While in 2003, 50.5% did not know the amount of the prescription benefit portion of the total health premium, in the 2004 survey, 27% could not cite a particular figure. Those respondents that could not cite a particular figure commented that their prescription benefit premium was part of an overall per employee health care premium and they did not have a breakout for the prescription benefits portion of that overall premium.

Overall, there was a shift upward in the premium costs cited last year. Of the respondents who did have knowledge of their prescription benefits premium:

- 13% said it was \$30 or less as compared to 15.8% last year
- 12% said it was \$31 – 45 as compared to 13.9% in 2003
- 29% said it was between \$46 and \$74 compared to 8.9% in 2003
- 17% said it was \$75 or more compared to 8.9% in 2003
- Again, 2% would not disclose

⇒ The results were similar when the same question was asked relative to their company's total monthly cost for its prescription benefit program for an employee plus family.

While in 2003, 51.5% did not know the figure, this year that number dropped to 29%. Again, those respondents who could not quote a figure commented that their prescription benefit premium was part of an overall per employee health care premium and they did not have a breakout for the prescription benefits portion of that overall premium.

In this category as well this year, there was a major shift upward in the level of premiums cited.

Of the respondents who did have knowledge of their prescription benefits premium for an employee plus family:

- 7% said it was \$74 or less, a drop from 17.8% in 2003
- 9% said it was \$75 – 120 compared to 10.9% in 2003
- 17% said it was between \$121 and \$150 compared to only 4% last year
- 19% cited between \$151 and \$200 which is a big jump over 5% in 2003
- 17% said it was more than \$200 compared to 9.9% in last year's survey
- Again, 2% would not disclose



⇒ Respondents were asked what overall percentage increase they expected in their prescription benefit cost for calendar year 2003, almost half expect an increase of 15% or less.

- 14% expected it to stay the same (compared to 18.8% in 2003)
- 43% expected an increase of 1 – 10%, (compared to 24.8% in 2003)
- 26% expected an increase in the 11 – 15% range, similar to 24.8% in last year's survey)
- Only 7% expect an increase of 16 – 20%, a drop from 19.8% last year
- Only 2% expect it to increase by more than 20%, a drop from 6.9% in 2003
- 1 respondent expected a decrease, and 7% did not know

⇒ When asked how much of this cost increase would be passed on to the employee as a premium increase (if there was an increase in cost), most companies plan on passing all or some of the increase on to the employee.

Additionally, it appears that in general, the amount to be passed on to the employee would be higher compared to responses in the previous year.

- 18% said the company would absorb the whole increase so that none of it would be passed on to the employee.
 - This was a decrease from about a quarter of respondents in 2003
- 35% said about a quarter or less of it would be passed on
 - This was a decrease from about 40% last year
- 20% said between 26 and 50% would be passed on to the employee
 - This is an increase from 8.9% last year
- 6% said between half and three quarters would be passed on
 - An increase from 4% in 2003
- 4% said the employee would have to pick up between 76 to 99% of the increase, up from 2% in the previous survey
- 3% said the employee would have to pick up all of the increase compared to 5% in the previous year's survey

⇒ When asked what the ideal percentage of the cost of a prescription a member should contribute, the respondents leaned heavily toward the 20% or less level. 72% of respondents chose either the 10 – 15% or 16 – 20% category.

In last year's survey, the responses were similar with 78% choosing these first two categories. Both of these are a significant increase from the 2002 survey when 39% chose a level at 20% or less; however, that audience varied slightly.

- Also, 18% said the co-pay should be in the 21 – 30% range
- 2% chose the 31 – 40% range
- 4% chose the 41 – 50% range
- 1% said it should be higher than 50% and 3% didn't know



⇒ When asked what the reality was, that is, what their employees' actual co-payment is as a percentage of the total prescription cost, 66% said it was in either the 10 – 15% (32% said this range) or 16 – 20% (34% said this) category. This was a decrease compared to 2003's response when 82.2% chose the same two categories.

- 22% said their co-pay is in the 21 – 30% range (double 2003's 10.9%)
- 2% said it was in the 31 – 40% range (same as previous year)
- 1% said it was in the 41 – 50% and none said greater than 50%
- 9% said they were not sure or did not know

Aging American Workforce

A new area was explored in this year's survey, that of the aging American workforce. Respondents were asked to turn their attention to the subject of the aging workforce population of the United States.

⇒ Respondents were read a list of possible programs and policies that might be adopted by employers in anticipation of an aging work force. They were asked which one they believed would be most frequently adopted by employers.

- Almost half (44%) felt that benefit packages tailored specifically to older workers would be the one program most widely adopted, however, close behind was wellness programs, selected by 37% of the respondents.

The other named programs did not seem as popular.

- 11% chose passing more benefit costs to employees
- 6% chose increased flex-time or schedule flexibility
- 2% chose skill training

⇒ Respondents were asked how soon their industry would be affected by the aging workforce.

- Almost half (45%) said it already has
- 3% said within 2 years
- 8% said 3 – 5 years
- 15% said 6 – 10 years
- 14% said 11 – 15 years
- 2% said 16 or more years, and
- 13% said it would not impact their industry



Bipartisan Medicare Legislation

⇒ When asked if they believed the new Medicare legislation would assist their company in reducing the escalating costs associated with having an older employee population on their prescription benefits program, most either felt it would not or they did not know.

- 55% said No
- 29% Did not know
- Only 15% felt, yes, it would

⇒ Asked to what degree the new Medicare legislation would impact their company's decision to provide its retirees with a prescription benefits program:

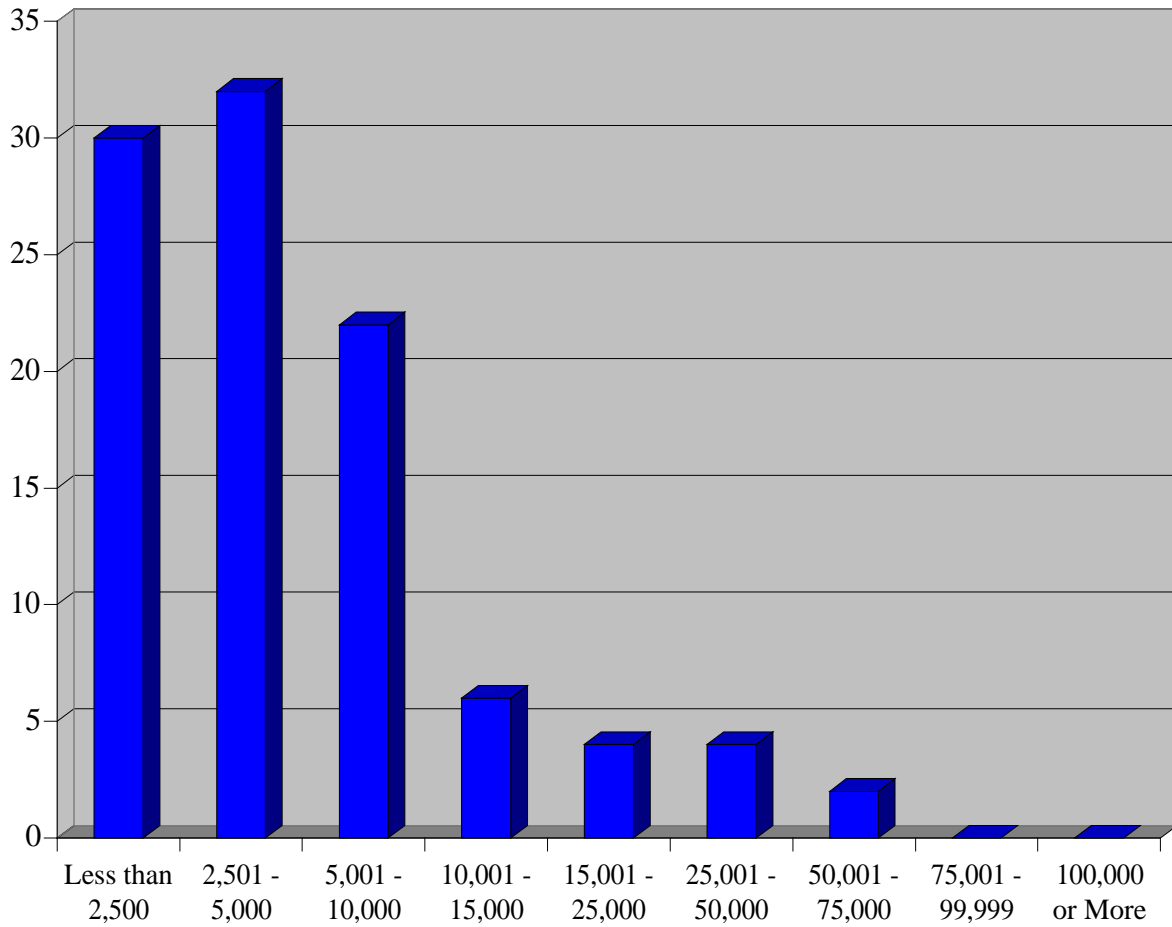
- 55% said their company did not provide health benefits for their retirees
- 15% said the new Medicare legislation would not affect their decisions at all
- 13% said it would have marginal influence
- 4% said it would have somewhat significant influence
- 2% said it would have very significant influence
- 11% Did not know



Excellence in Prescription Benefit Management

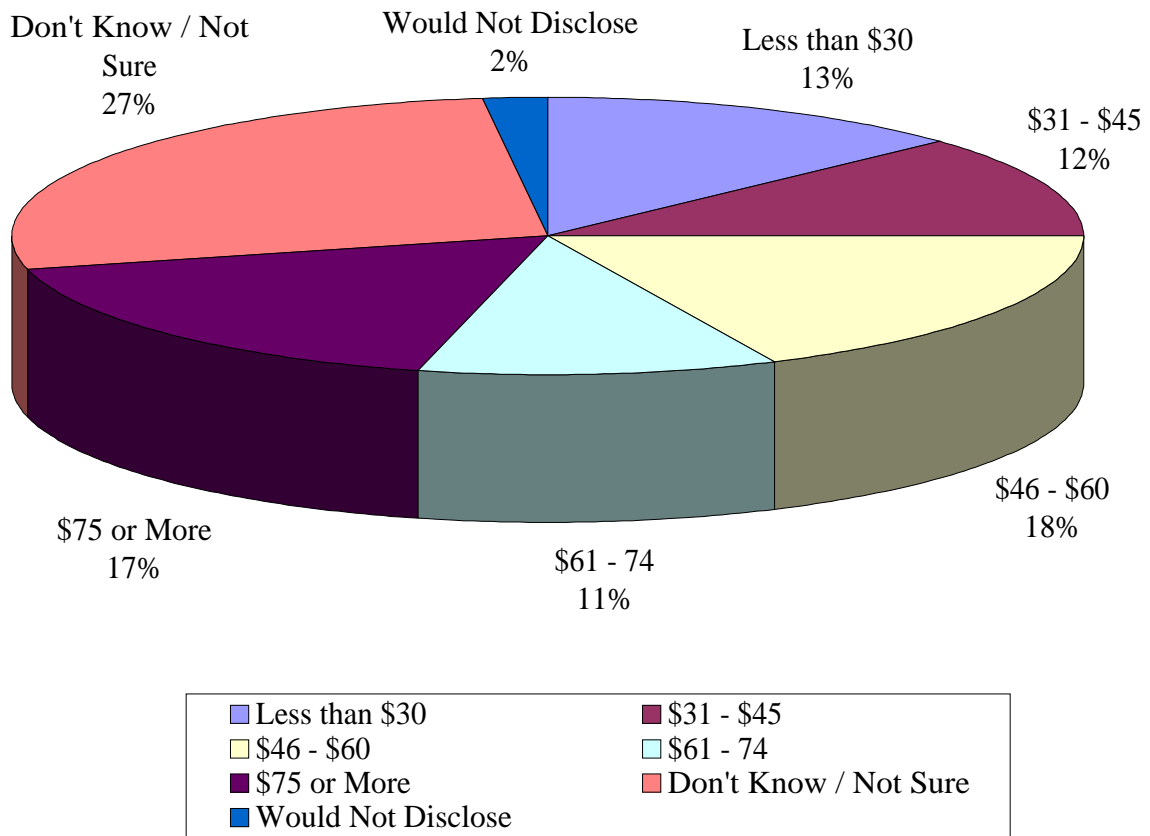
2004 Arxcel Prescription Benefit Research Survey Graphs & Charts

Q 1. Total Number of Individuals Covered by Your Company's Medical Benefits Program

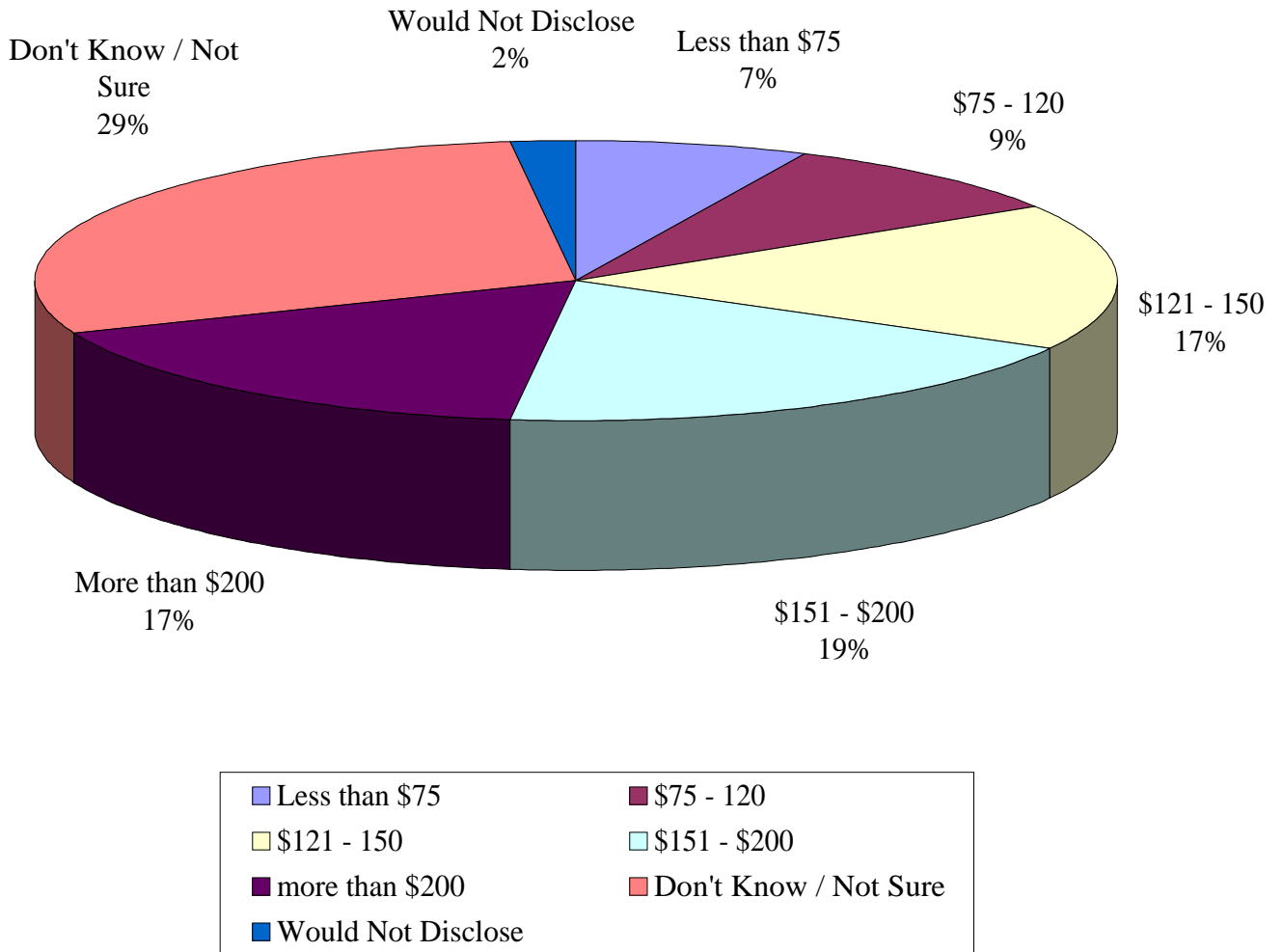


Less than 2,500.....	30%
2,501 – 5,000.....	32%
5,001 – 10,000.....	22%
10,001 – 15,000.....	6%
15,001 – 25,000.....	4%
25,001 – 50,000.....	4%
50,001 – 75,000.....	2%
75,001 – 99,999.....	0%
100,000 or More.....	0%

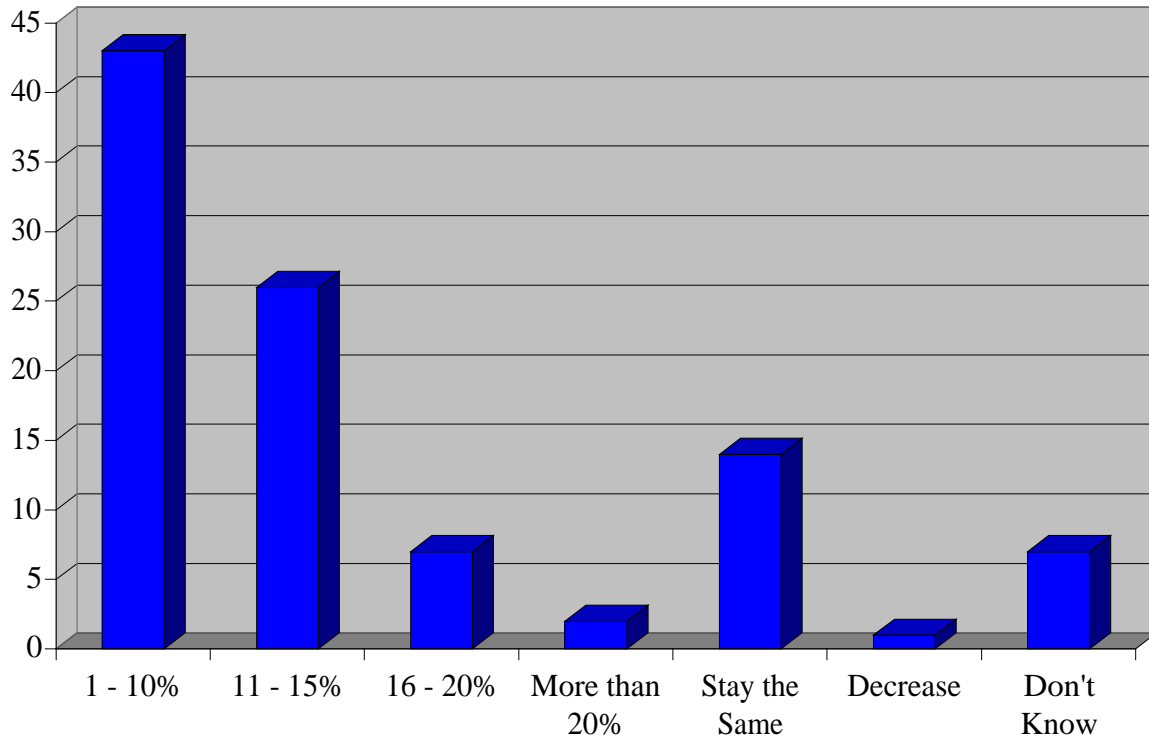
Q2. Total Monthly Cost For Your Company's Prescription Benefit Program For A Single Employee?



Q3. Total Monthly Cost For Company's Prescription Benefit Program For Employee Plus Family

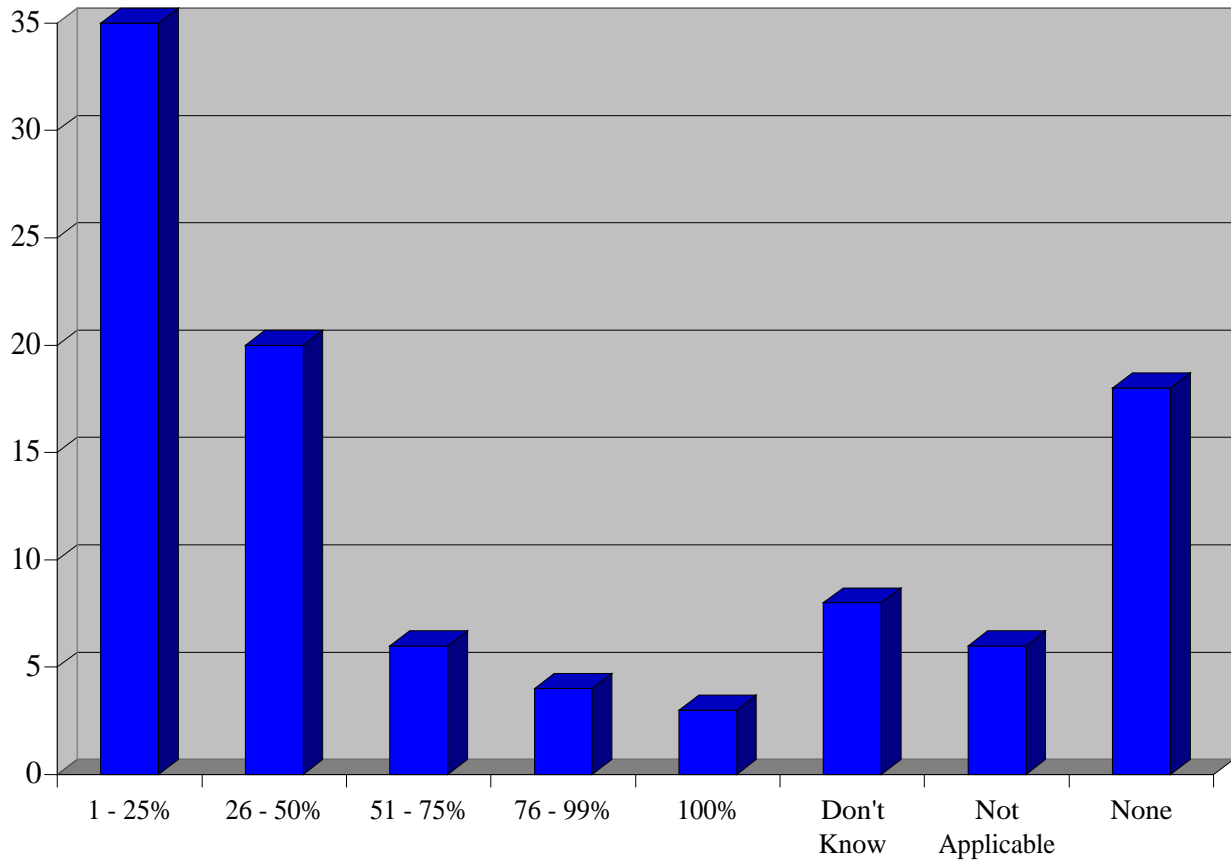


Q4. Expected Overall Percentage Increase in Prescription Benefit Program Cost for 2004



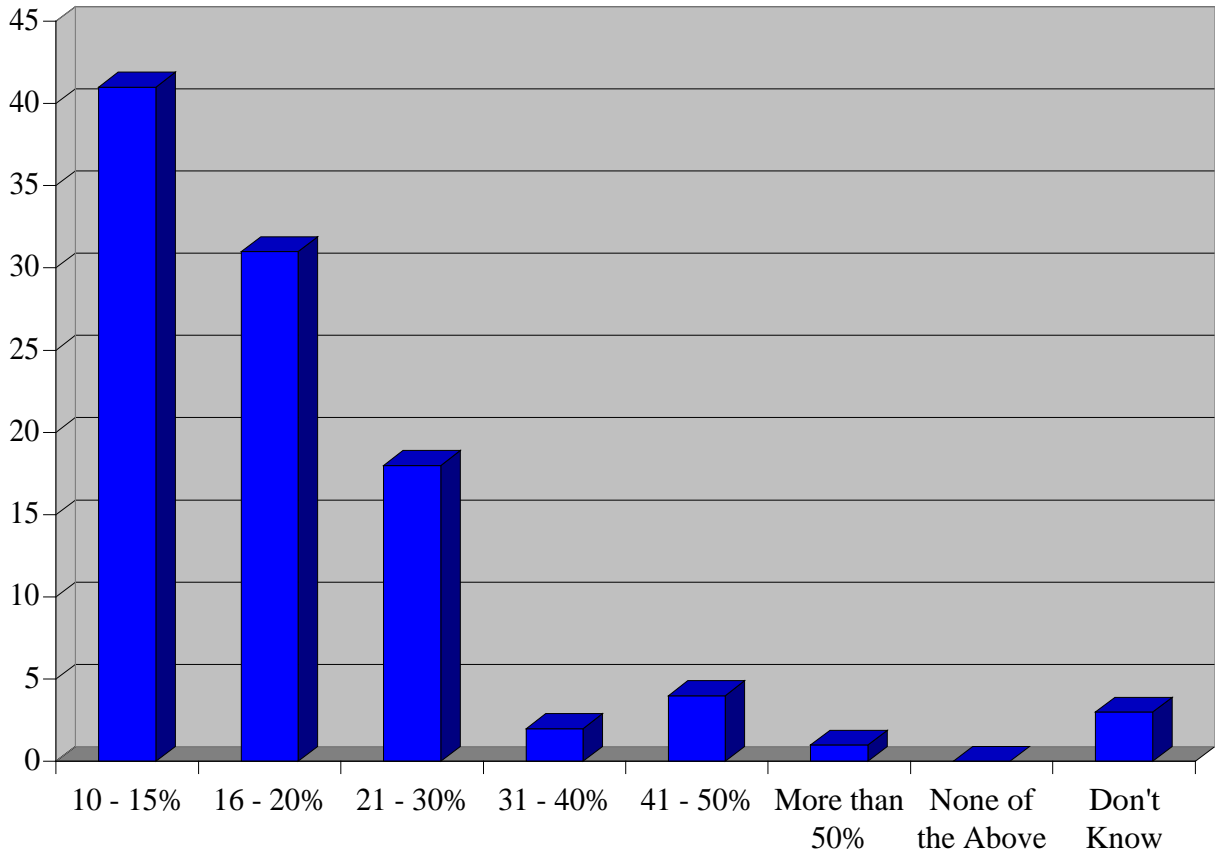
1 - 10%.....	43%
11 - 15%.....	26%
16 - 20%.....	7%
More than 20%.....	2%
Stay the Same.....	14%
Decrease.....	1%
Don't Know.....	7%

Q5. How Much of the Percentage Increase is Expected to Be Passed on to the Employee?



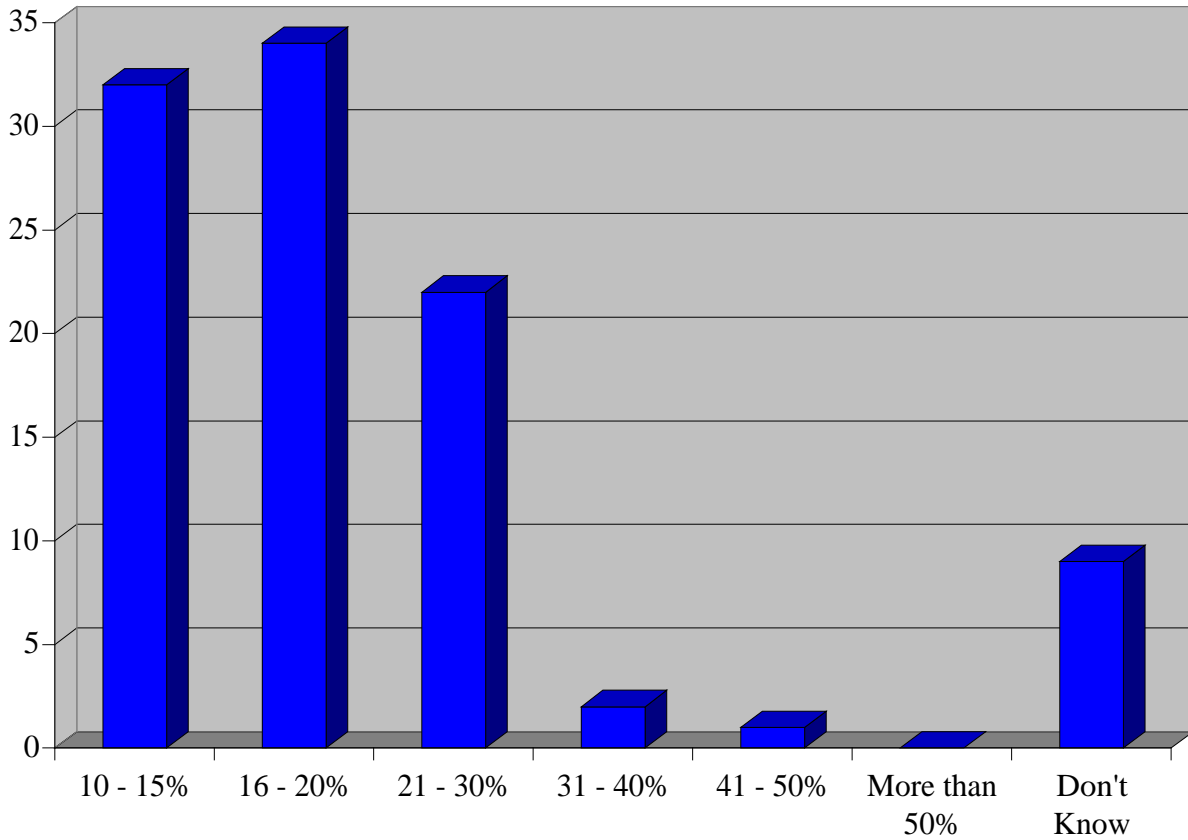
1 - 25%.....	35%
26 - 50%.....	20%
51 - 75%.....	6%
76 - 99%.....	4%
100%.....	3%
Don't Know.....	8%
Not Applicable.....	6%
None.....	18%

Q6. In An Ideal Situation, What Percentage Of The Cost Of A Prescription Should The Employee Co-Payment Represent?



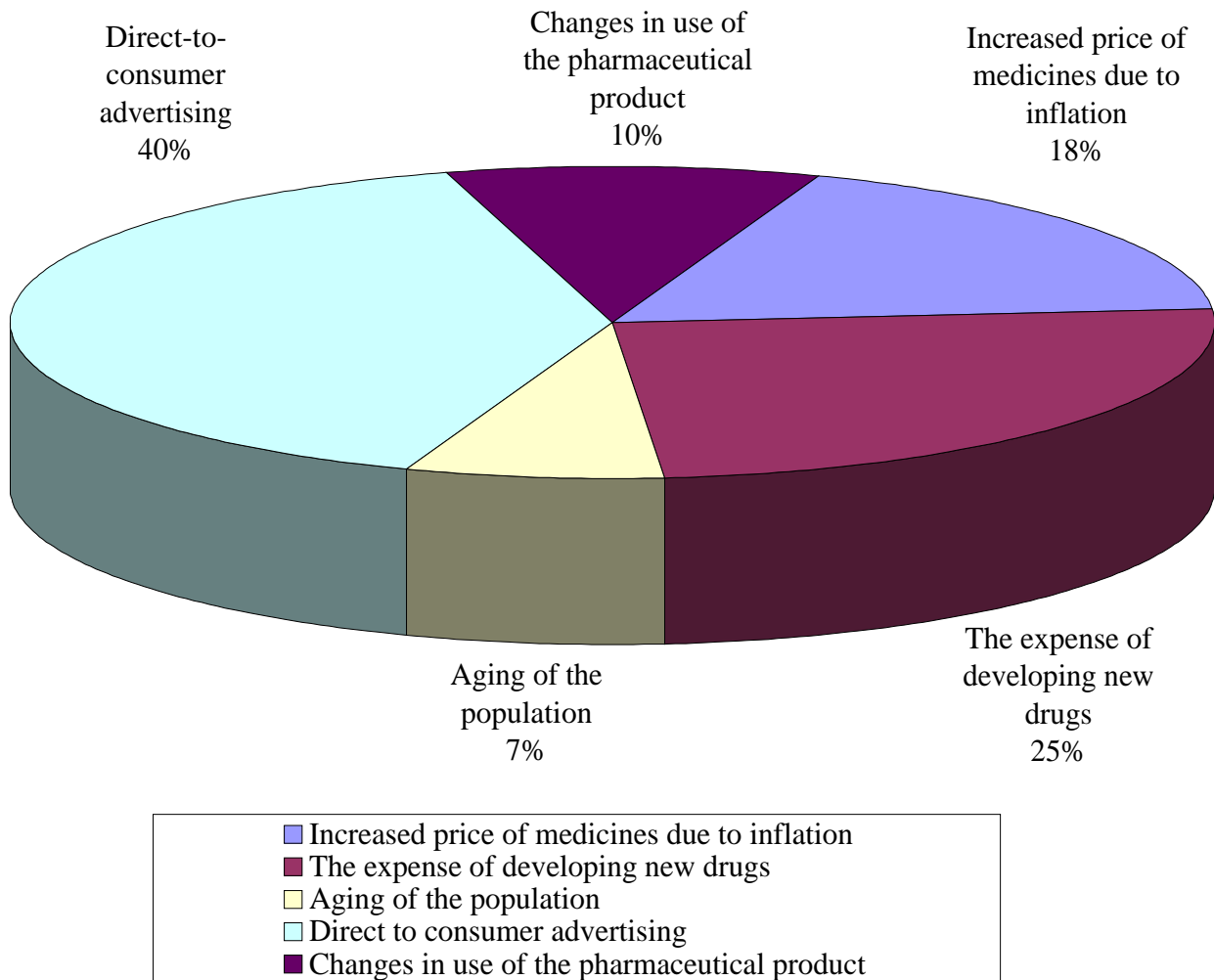
10 - 15%.....	41%
16 - 20%.....	31%
21 - 30%.....	18%
31 - 40%.....	2%
41 - 50%.....	4%
More than 50%.....	1%
None of the Above.....	0%
Don't Know.....	3%

Q7. On Average, What Would You Estimate Your Employees' Co-Payment to Be as a Percentage of the Total Drug Cost?

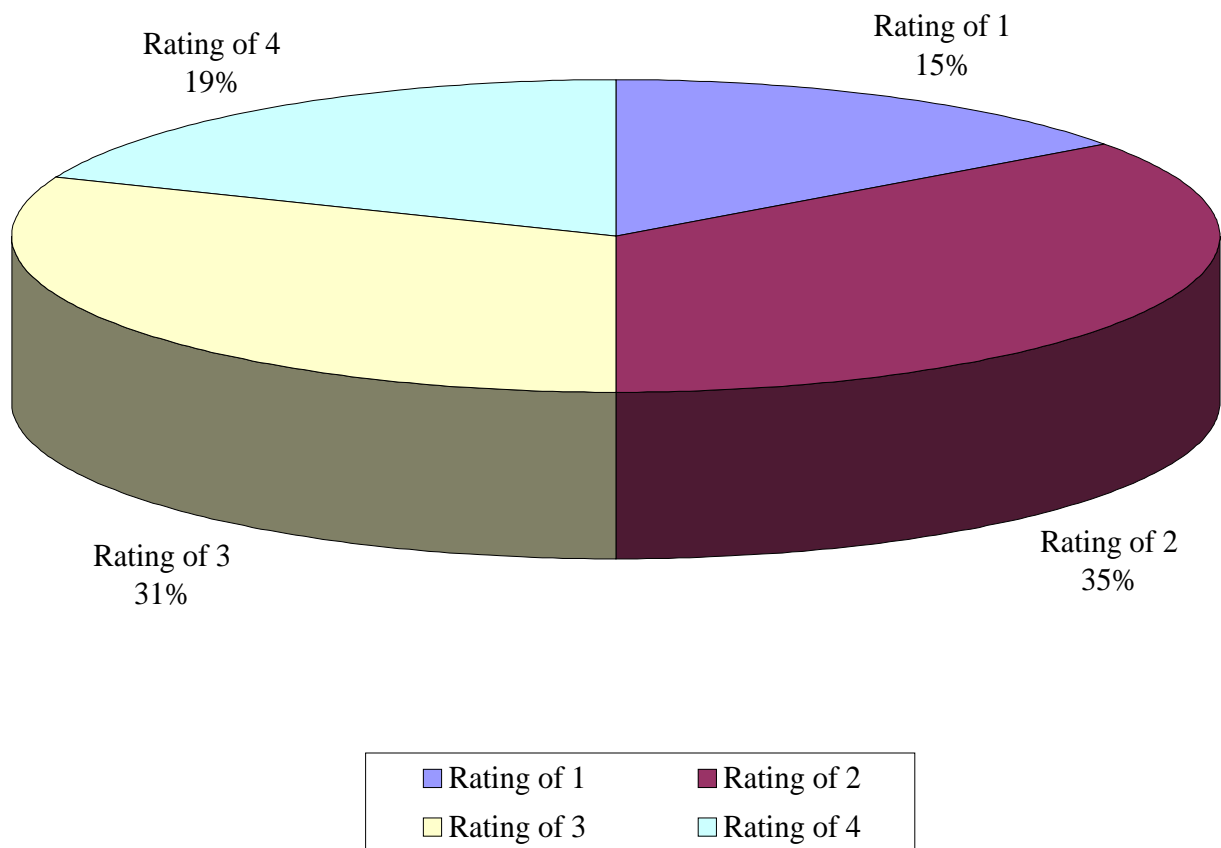


10 - 15%.....	32%
16 - 20%.....	34%
21 - 30%.....	22%
31 - 40%.....	2%
41 - 50%.....	1%
More than 50%.....	0%
Don't Know.....	9%

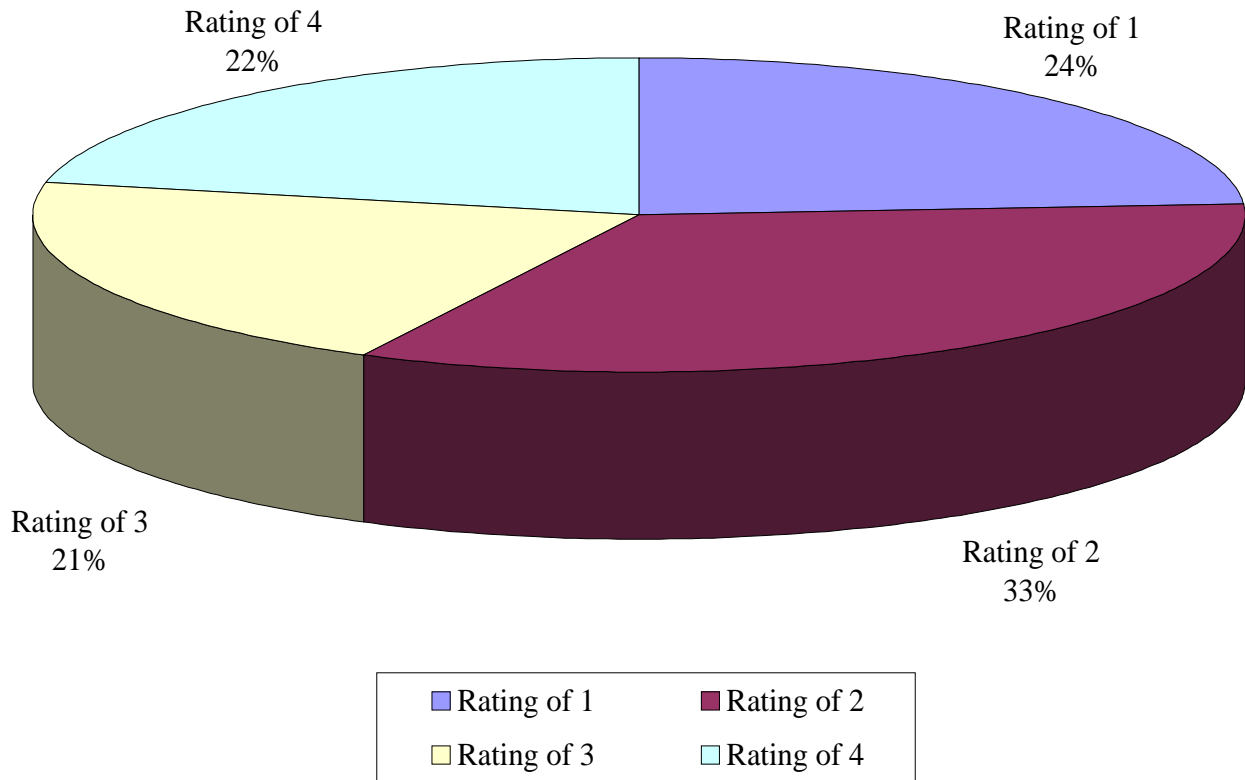
Q8. What One Cause Has Played the Largest Role in Escalating Prescription Benefit Costs?



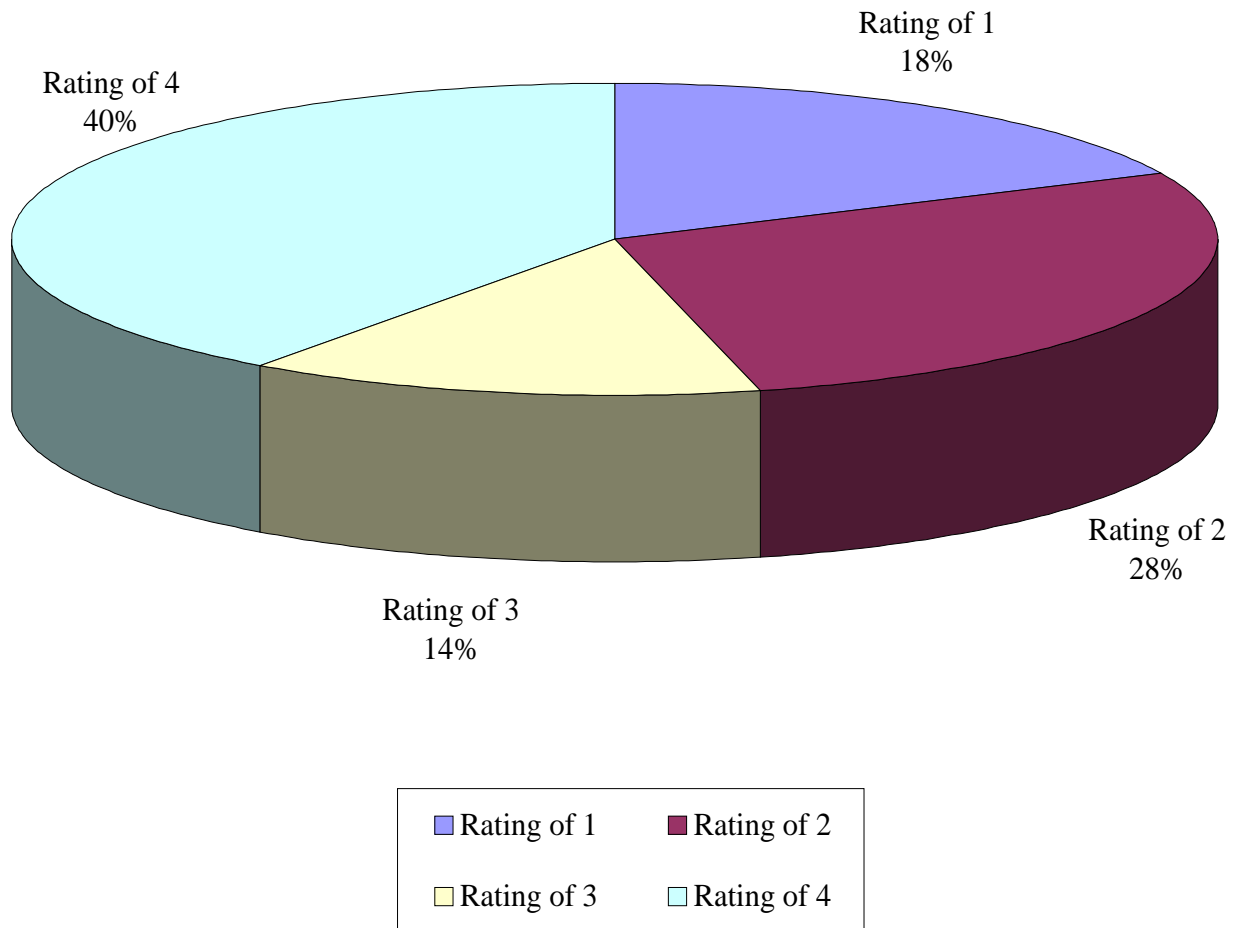
Q9. Rating of Potential Solutions: Providing Incentives to Use Mail Order Service (Rating of 1 = Most Impact; Rating of 4 = Least Impact on Slowing Increases in Prescription Benefit Costs)



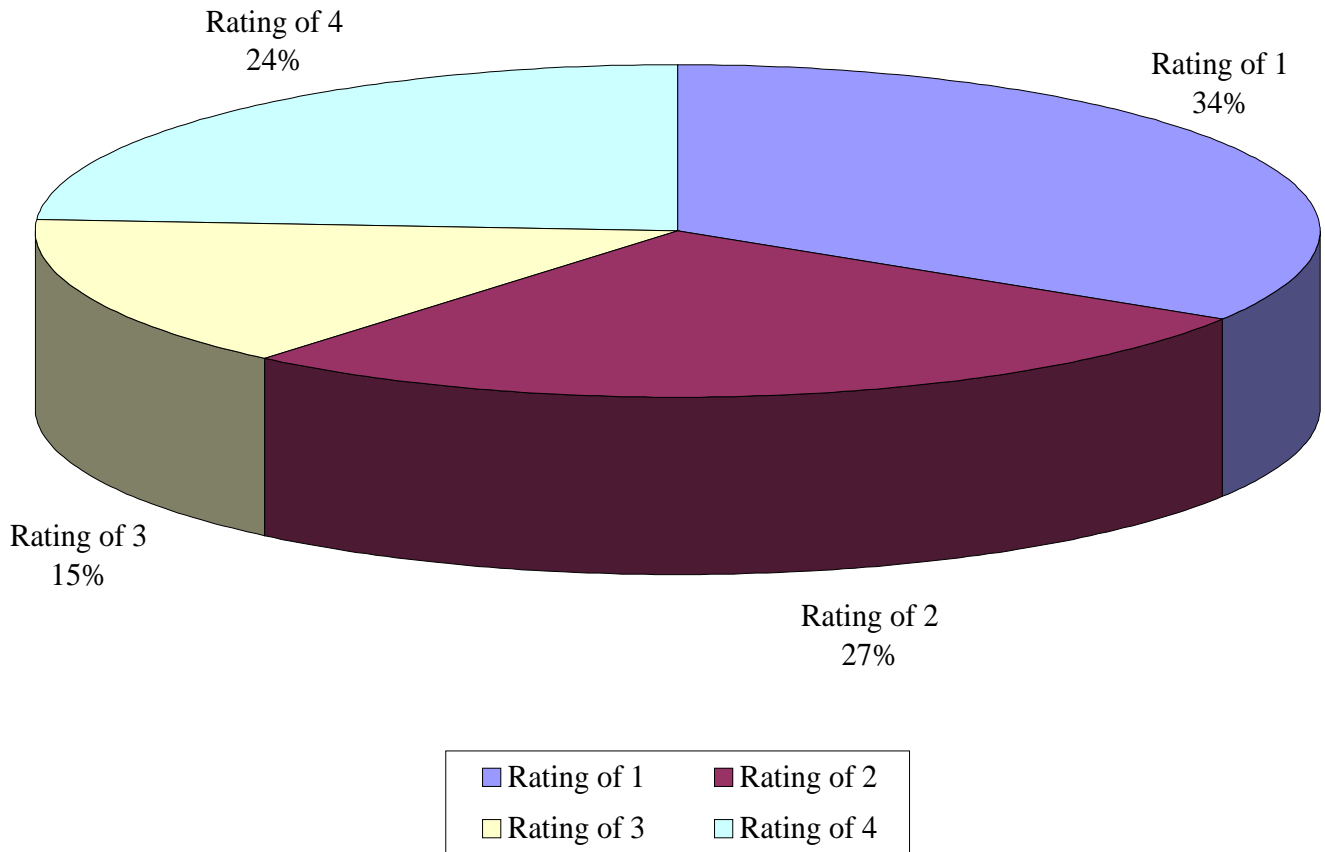
Q10. Rating of Potential Solutions: Patient Education About Cost Effective Use of Medicines (Rating of 1 = Most Impact; Rating of 4 = Least Impact on Slowing Increases in Prescription Benefit Costs)



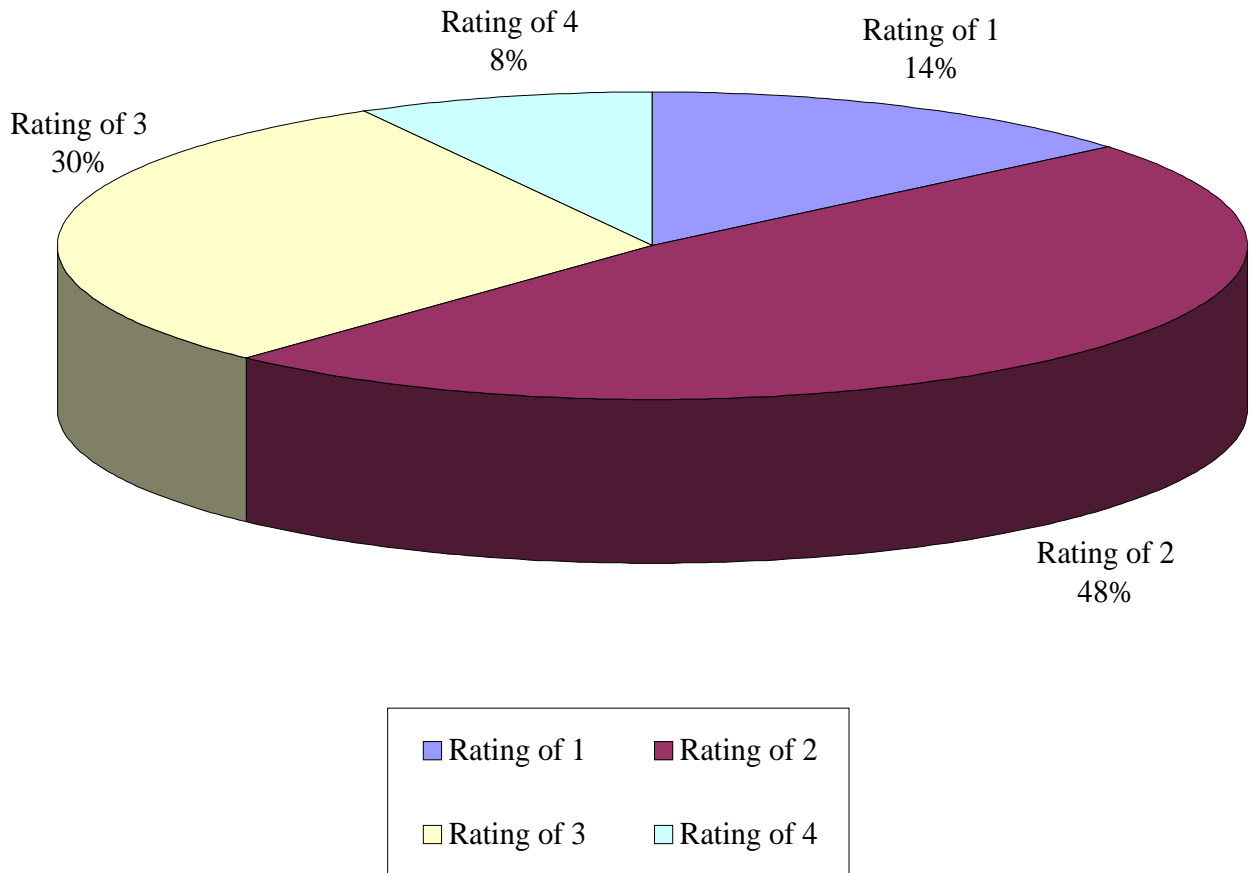
Q11. Rating of Potential Solutions: Educating Doctors on the Cost of Pharmaceuticals and their Proper Use (Rating of 1 = Most Impact; Rating of 4 = Least Impact on Slowing Increases in Prescription Benefit Costs)



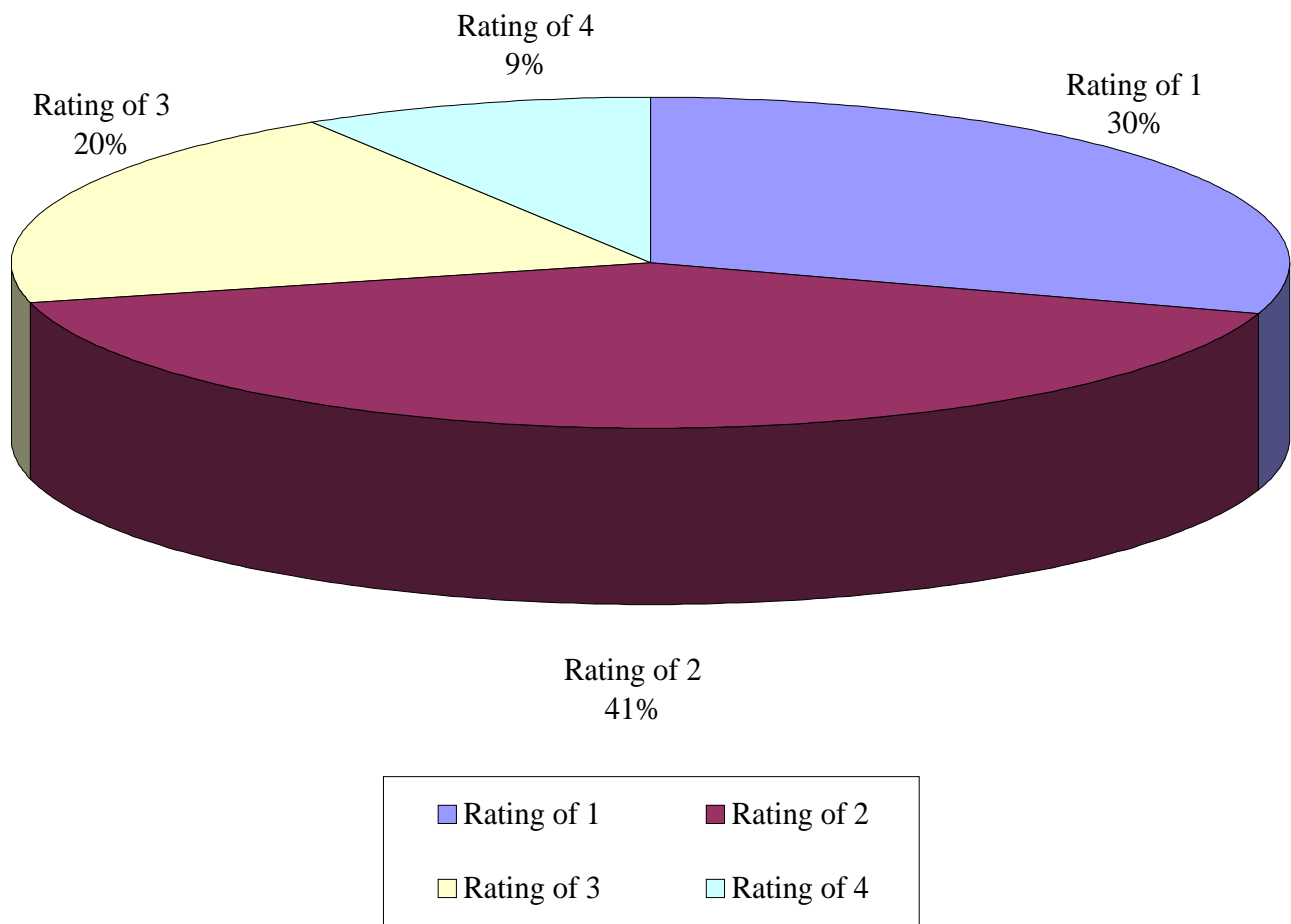
Q12. Rating of Potential Solutions: Limiting Coverage for High Cost Medicines (Rating of 1 = Most Impact; Rating of 4 = Least Impact on Slowing Increases in Prescription Benefit Costs)



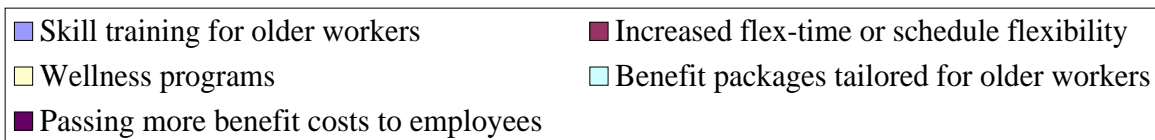
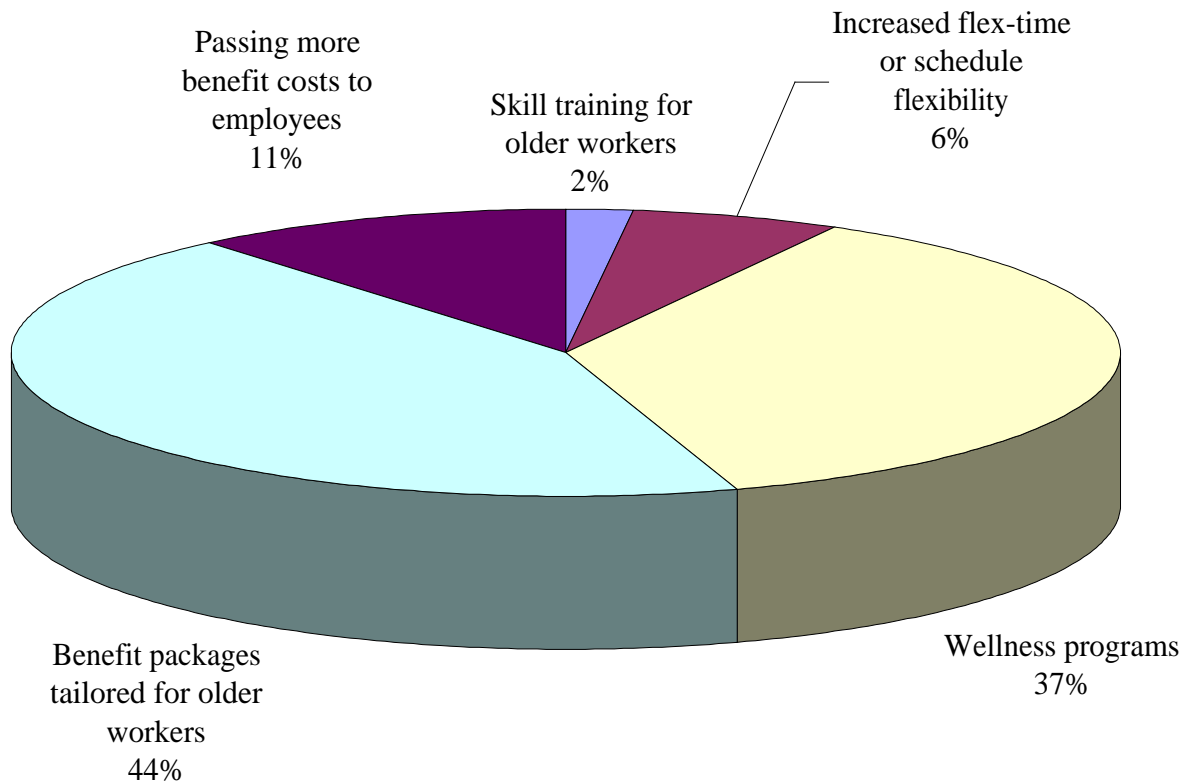
Q13. Rating of Potential Solutions: Increasing Clinical Oversight/Programs (Rating of 1 = Most Impact; Rating of 4 = Least Impact on Slowing Increases in Prescription Benefit Costs)



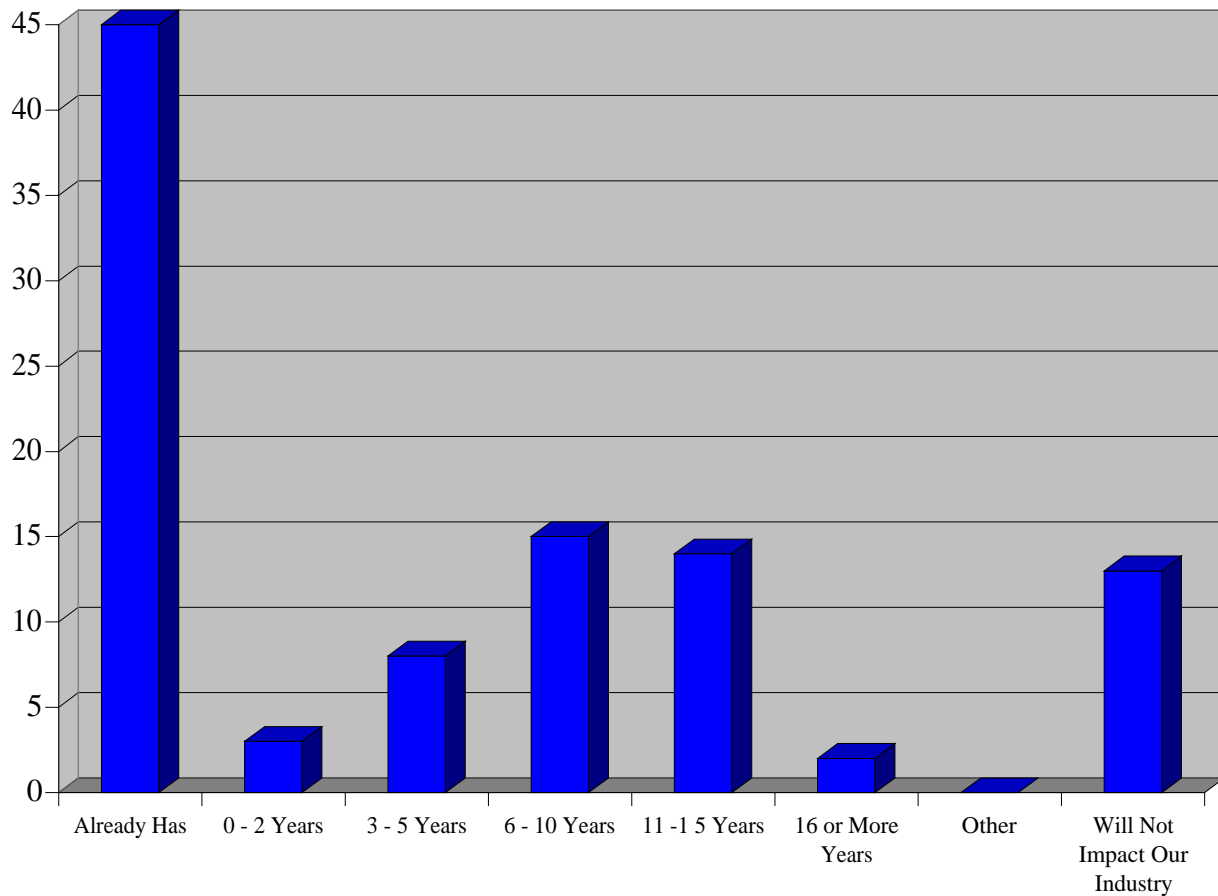
Q14. Rating of Potential Solutions: Increasing Member Cost Share through Tiered Co-Payments or Overall Higher Co-Pays (Rating of 1 = Most Impact; Rating of 4 = Least Impact on Slowing Increases in Prescription Benefit Costs)



Q15. Referring To The Aging of The American Workforce, Of The Following Possible Programs And Policies That Might Be Adopted By Employers, Which One Do You Believe Would Be Adopted Most Frequently?

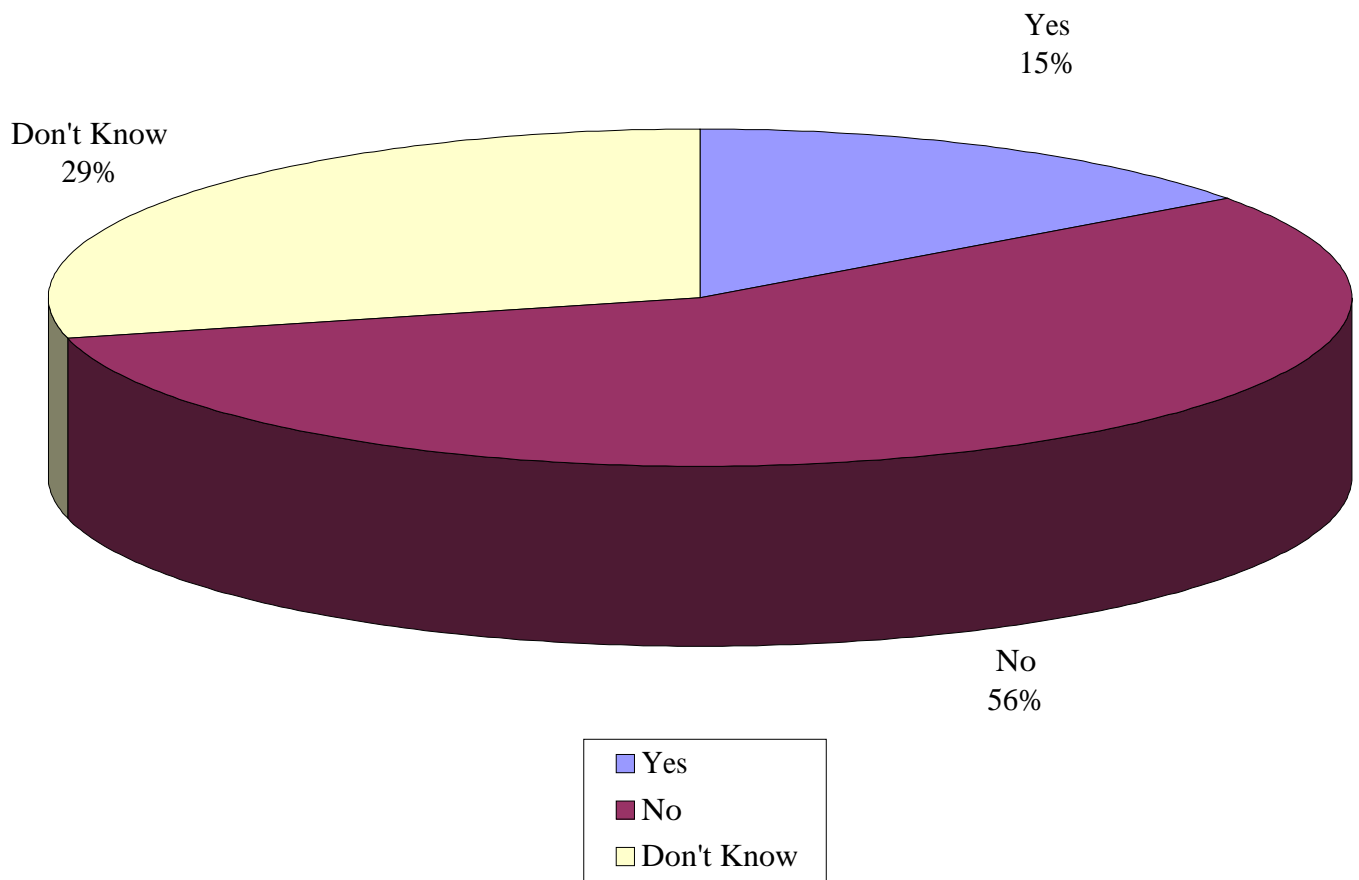


Q16. How Soon Will The Impact Of The Aging American Workforce Affect Your Industry?

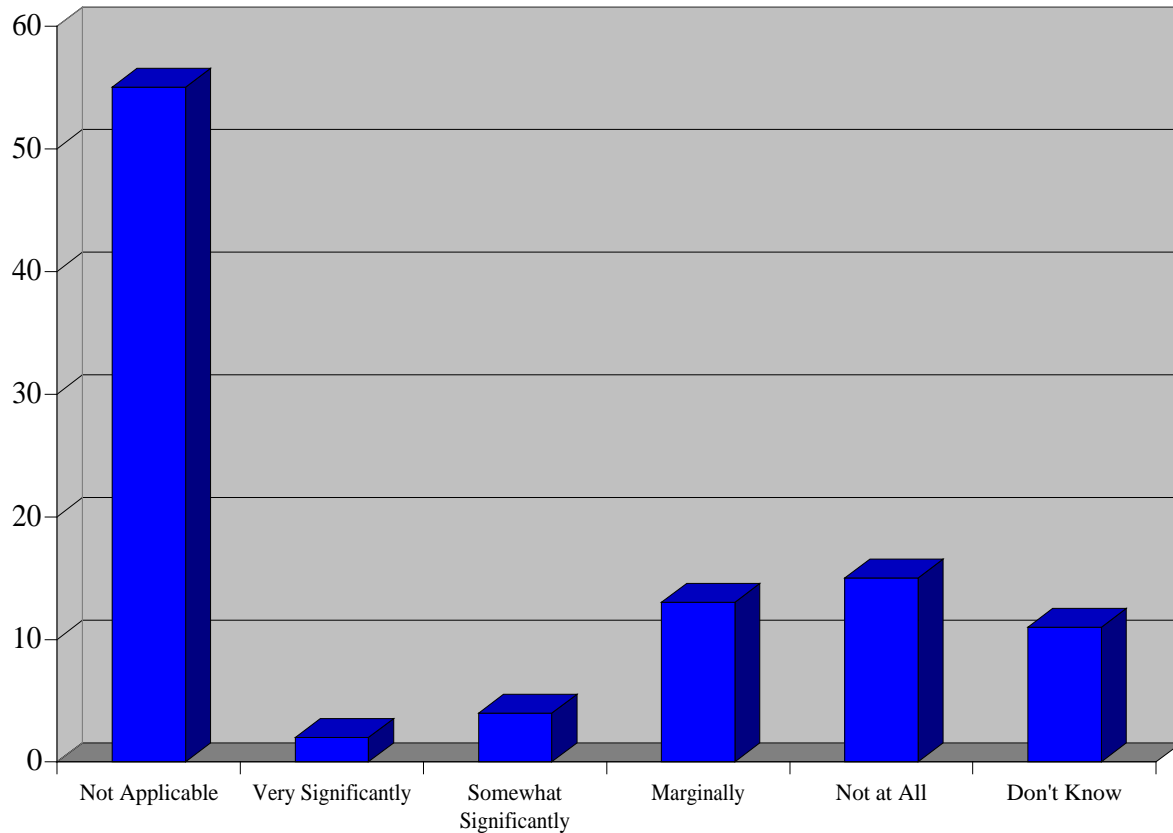


Already Has.....	45%
0 - 2 Years.....	3%
3 - 5 Years.....	8%
6 - 10 Years.....	15%
11 - 15 Years.....	14%
16 or More Years.....	2%
Other.....	0%
Will Not Impact Our Industry.....	13%

Q17. Do You Believe that the New Medicare Legislation Will Assist Your Company in Reducing the Escalating Costs Associated with Having an Older Employee Population on Your Prescription Benefit Program?

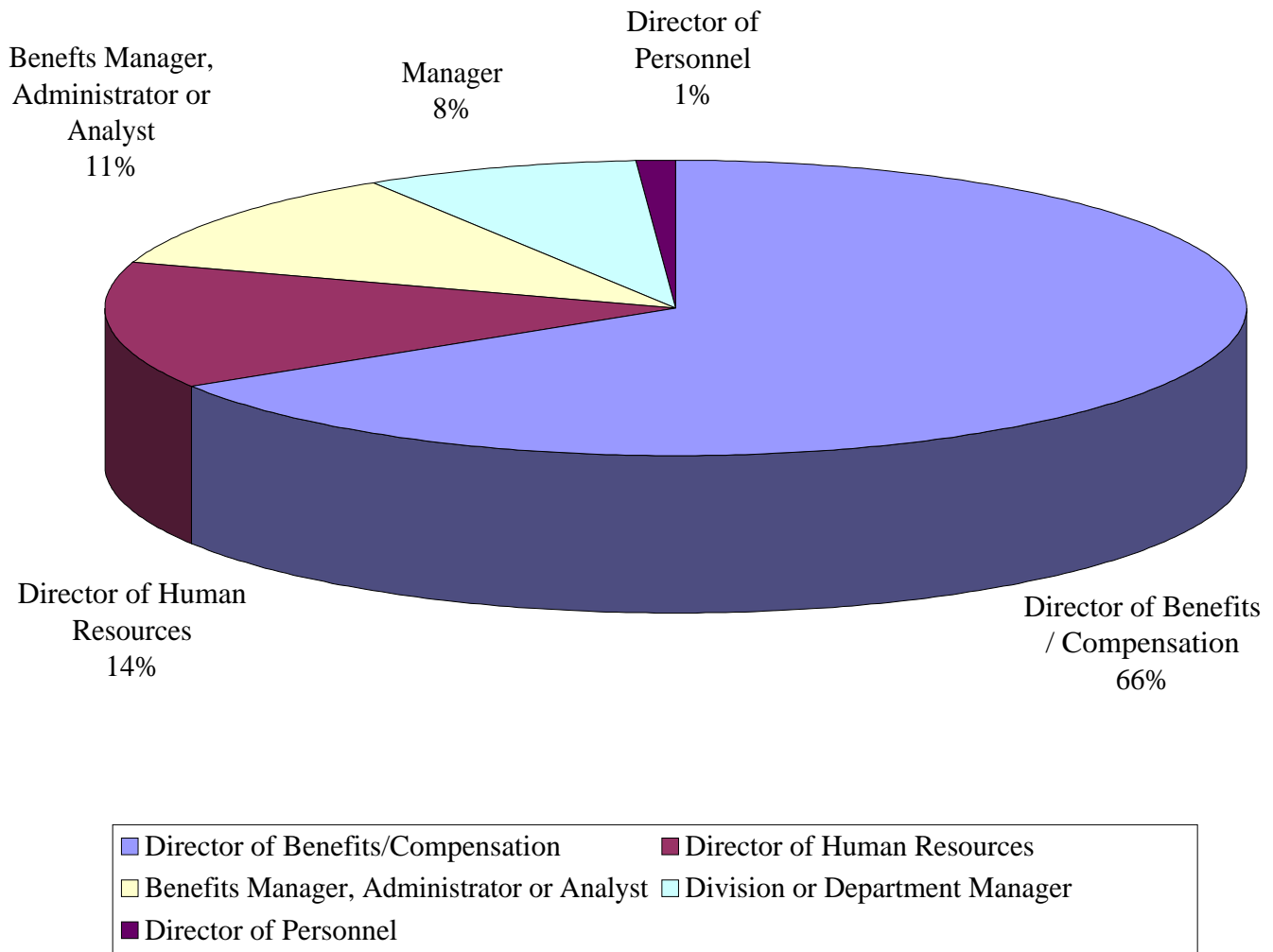


Q18. To What Degree Will The New Medicare Legislation Impact Your Company's Decision To Provide Its Retirees With A Prescription Benefits Program?



Not Applicable.....	55%
Very Significantly.....	2%
Somewhat Significantly.....	4%
Marginally.....	13%
Not at All.....	15%
Don't Know.....	11%

Q19. Title of Respondents



Q20. Geographic Region of Respondents

