



2005 Arxcel Prescription Benefit Research Survey

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Arxcel Prescription Benefit Research Survey

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2005 Arxcel Prescription Benefit Research Survey Executive Overview

Conclusions

Causes of High Prescription Benefits Costs

Among benefits, compensation and human resources executives within corporate America, rising prescription benefits costs are seen as being caused by:

- Direct-to consumer (DTC) advertising as well as the expense of developing new drugs
- The expense of developing new drugs (R&D costs) received virtually the same response as the DTC advertising response.

DTC advertising had historically been pegged as the primary culprit in Arxcel's surveys for three years in a row. This year, there is a significant change from previous years and the continuation of a downward trend in respondents placing blame with pharmaceutical companies' product ads directly targeting consumers.

Possible Solutions

Corporate executives believe that the most likely solutions to escalating prescription benefits costs are tiered co-payment levels or higher co-payment levels and providing incentives for using mail order service. Other potential solutions were rated as follows:

- Patient education received a higher number of responses than in past years
- Limiting coverage for high cost medicines and increased clinical oversight fell in popularity as potential solutions

Member Cost Share

This year, the research results saw an upward trend regarding co-pay levels. Not only did the respondents lean toward an elevated co-pay as being the ideal amount that employees should contribute, but the levels of their companies' actual co-pays went up as well. For the first time, we saw co-pays in the 50% range.

Three-quarters of respondents feel that a member's co-pay should be 30% or less, compared to 20% or less in previous years' surveys. When asked about co-pays in reality, only 58% of respondents' answers were in the 30% or less categories, compared to 88% in the previous year. Most likely, this is because more respondents are saying their actual co-pays are in the higher level categories.



Access to Prescription Drugs from Canada

In responding to questions about whether or not Americans should have access to cheaper prescription drugs from Canada, there was a very strong response. 69% felt American citizens should be allowed to purchase prescription drugs from Canada. With 13% being undecided on the issue, only 18% felt Americans should not have such access.

Respondents were less sure on the topic of quality or safety concerns related to prescription drugs coming from Canada. While 52% felt there were no such concerns, 45% felt such concerns were legitimate, and 3% were unsure.



2005 Arxcel Prescription Benefit Research Survey Executive Summary

Introduction

The 2005 Arxcel Prescription Benefit Research Survey is the fourth annual study on the impact of and perceptions regarding prescription benefits provided as a 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 of 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 corporate executives who work primarily in employee benefits, as well as compensation and human resources.

The study examined the respondents' perceptions regarding **causes of high prescription benefit costs**, potential **solutions for slowing continuing cost increases** and **premium and co-payment price points**. This year, perceptions were also measured on the topic of **Americans gaining legal access to prescription drugs sold in Canada**.

Lastly, the study captured the demographic profiles of respondents, including the number of individual lives they covered, title of respondents and geographic locations.



Methodology

The Arxcel study was conducted during February of 2005. The study utilized telephone research interviews to capture the information desired. 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.



2005 Arxcel Prescription Benefit Research Survey Summary of Findings

Causes of High Prescription Benefit Costs

Respondents were read a list of causes that contribute on various levels to the escalating cost of prescription drug benefits. This is the fourth year that this question was asked with the same response choices. When asked to select the one cause that they believe plays the largest role in these escalating costs, the survey revealed that:

- Direct-to-consumer advertising (DTC), which had been the leading response choice by far in previous surveys, was virtually tied with the expense of developing new drugs as the cause seen as playing the biggest role in escalating prescription prices. This continued the trend of a decrease in selection of DTC advertising from the first year the survey was conducted.

30% of the respondents chose direct-to-consumer advertising in 2005, but an almost equal number, 29%, chose the expense of developing new drugs as the cause playing the biggest role.

- In the 2004 survey, 40% of respondents chose direct-to-consumer advertising
- In the 2003 survey, the number of responses was similar to 2004 results, with 38.6% choosing direct to consumer advertising
- In the 2002 survey, the overwhelming majority of respondents (6 in 10, or 61.3%) chose DTC advertising as the number one cause

The remaining causes selected were as follows:

- The expense of developing new drugs was chosen by 29% of the respondents in 2005, compared to 25% in 2004
 - 17% chose this cause in 2003
 - 20% chose it in 2002
- The increased price of medicines due to inflation was chosen by 20% of the respondents
 - 2004 research showed that 18% chose this cause
 - In 2003, this figure was 22.8%
 - In the 2002 survey, 4% selected inflation as the number one cause



- Changes in use of pharmaceutical products dropped to 5%
 - In 2004, it was selected by 10% of respondents
 - The 2004 result was consistent with the response received in 2003, which was 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 16% of the respondents in 2005, which represents an increase of six points compared to 10% of the respondents in 2004, 9.9% in the 2003 survey and 10.7% in the 2002 survey.

This trend on this question over the four surveys is as follows:

Year	DTC Advertising	Expense of Developing New Drugs	Inflation	Changes in Product Use	Aging of Population
2005	30.0%	29.0%	20.0%	5.0%	16.0%
2004	40.0%	25.0%	18.0%	10.0%	10.0%
2003	38.6%	17.0%	22.8%	10.9%	9.9%
2002	61.3%	20.0%	4.0%	4.0%	10.7%

Possible Solutions for Slowing Pharmacy Cost Escalation

As in previous surveys, respondents were asked to rate a series of potential solutions on the viability of each as a solution for slowing 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.

The potential solutions that netted the most positive responses were, in order, increasing the member cost share, providing incentives to use mail order and patient education.

- Increasing the member's cost share through tiered co-payments or overall higher co-payments tied for the largest share of positive ratings
 - Seven in 10 respondents saw this as the most viable solution, as 70% rated this a 1 or a 2 in our current survey
 - 71% rated it a 1 or 2 in 2004
 - 81.2% gave it a 1 or 2 in 2003
- Providing incentives to use mail order service
 - This solution came back up considerably this year compared to last year, after a drop from previous years. Seven in 10 respondents rated it a 1 or a 2.
 - In 2004, 50% of the respondents rated it a 1 or 2
 - However, in 2003, 72.3% gave it a 1 or a 2



- Patient education about cost effective use of medicines
 - This solution was the third-highest rated solution, same position as last year, with 66% rating this a 1 or 2
 - In 2004, 58% of respondents had a favorable response to this solution, rating it a 1 or 2
 - In 2003, 67.3% rated it a 1 or 2
- Limiting coverage for high cost medications
 - 61% gave this a favorable rating of 1 or 2, same as 2004 and similar to 2003 at 60.4%
- Increasing clinical oversight
 - Received a positive ratings from 53% of the respondents, and 47% gave it a low rating of 3 or 4, netting a split opinion
 - Down from 61% positive in 2004
 - 60.4% positive rating in 2003
- Educating doctors on the cost of pharmaceuticals and their proper use
 - Again, there was little consensus on the viability of this option. Results were split among respondents. However, there continues to be little enthusiasm for this being a viable option.
 - 48% rated this a 1 or 2 and 52% gave it a 3 or 4
 - 46% rated this a 1 or 2 in 2004 (a drop from 53.4% in 2003)
 - 54% rated it a 3 or 4 in 2004 (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, most respondents could not break out this cost.

In the 2005 survey, 70% of the respondents did not know or were not sure of this approximate figure. In the 2004 survey, only 27% could not name the figure, while in 2003, 50.5% did not know the amount of the prescription benefit portion of the total health premium.

Those respondents that could not cite a particular figure again commented that their prescription benefit premium was part of an overall per employee healthcare premium and they did not have a breakout for the prescription benefits portion of that overall premium.

It was difficult to determine if there were shifts in the premium costs cited last year because so many were unsure of the breakout figure. Of the respondents who did have knowledge of their prescription benefits premium:

- 10% said it was \$30 or less, compared to 13% in 2004 and 15.8% in 2003
- 4% said it was between \$31 – 45, compared to 12% in 2004 and 13.9% in 2003



- 6% said it was between \$46 – 60 in 2005, compared to 29% in 2004 and 8.9% in 2003
- No one cited the \$61 – 74 figure range
- 9% said it was \$75 or more, compared to 17% in 2004 and 8.9% in 2003
- 1% 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.

In the 2005 survey, 72% said they did not know or were not sure of this approximate figure. In 2004, 29% did not know and in 2003, 51.5% did not know the figure.

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.

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

- 8% said it was \$74 or less, compared to 7% in 2004 and 17.8% in 2003
- 11% said it was \$75 – 120, compared to 9% in 2004 and 10.9% in 2003
- 2% said it was \$121 – \$150, compared to 17% last year and 4% in 2003
- 2% cited \$151 – \$200, compared to 19% in 2004 and 5% in 2003
- 4% said it was more than \$200, compared to 17% in 2004's survey and 9.9% in 2003
- Again, 1% would not disclose

Respondents were asked what overall percentage increase they expected in their prescription benefit cost for calendar year 2005. Almost six in 10 expect an increase of up to 15%

- 18% expected it to stay the same, compared to 14% in 2004 and 18.8% in 2003
- 37% expected an increase of 1 – 10%, compared to 43% in the 2004 survey and 4.8% in 2003
- 21% expected an increase in the 11 – 15% range, compared to 26% in the 2004 research and similar to 24.8% in 2003's research



- 7% expect an increase of 16 – 20% (7% selected this response in 2004 compared to a drop from 19.8% in 2003)
- 3% expect it to increase by more than 20%, compared to 2% in 2004 and 6.9% in 2003
- 4% respondents expected a decrease, compared to 1% in 2004
- 9% did not know

When asked how much of this cost increase would be passed on to the employee as a premium increase (if there were 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.

- 12% 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 18% in 2004 results and even less than about a quarter of respondents in 2003
- 45% said about a quarter or less of it would be passed on
 - This was an increase from 35% in 2004 respondents, as well as an increase from 2003 respondents at about 40%
- 11% said between 26 and 50% would be passed on to the employee
 - This is a decrease from 20% in 2004 but an increase from 8.9% in 2003
- 1% said between half and three quarters would be passed on
 - This is a decrease from 6% and 4% in 2004 and 2003 respectively
- 1% said the employee would have to pick up between 76 to 99% of the increase, down from 4% in 2004 and 2% in 2003
- 4% said the employee would have to pick up all of the increase, a slight up tick from 3% in the previous year's survey but down compared to 5% in 2003

When asked what the ideal percentage of the cost of a prescription a member should contribute, the respondents leaned heavily toward a slightly elevated cost share. 76% chose the categories that were at the 30% level or less.

In 2004, 72% of respondents chose either the 10 – 15% or 16 – 20% category. In 2003's survey, the responses were similar with 78% choosing these first two categories.



- 26% said the co-pay should be in the 10-15% range
- 28% said the co-pay should be in the 16-20% range
- 22% said the co-pay should be in the 21 – 30% range
- 5% chose the 31 – 40% range, compared to 2% last year
- 6% chose the 41 – 50% range compared to 4% last year
- 1% said it should be higher than 50% and 2% didn't know, very similar to last year's results
- 10% were not sure or did not know

When asked what their employees' actual co-payment is as a percentage of the total prescription cost, 58% of the responses landed in the 30% or less categories, compared to 88% in these categories for 2004.

Overall, it appears the level of co-pays is increasing. This would reinforce previous years' surveys where higher co-pays were selected as a positive solution to escalating costs.

- 14% said their co-pay was in the 10-15% range (32% in 2004)
- 19% said their co-pay was in the 16 – 20% range (34% in 2004)
- 25% said their co-pay is in the 21 – 30% range (22% in 2004 and only 10.9% in 2003)
- 15% said it was in the 31 – 40% range (up considerably from 2% in 2004 and 2003)
- 3% said it was in the 41 – 50%, up from 1% in 2004
- 2% said it was in the greater than 50% range, compared to zero in 2004 and 2003
- No one chose a zero co-pay
- 22% said they were not sure or did not know



Access to Prescription Drugs From Canada

This year's survey explored a new area—whether U.S. citizens should be able to legally buy prescription drugs directly from Canada.

Respondents were asked if the U.S. Government should allow American citizens to legally purchase prescription drugs directly from Canada. The results were overwhelmingly in favor of the allowing access to Canadian drugs.

- Seven in ten (69%) felt that Americans should be allowed such access
- Only 18% were opposed to such a plan
- 13% were undecided, stating they said they did not know or were not sure

Respondents were asked if they thought safety or quality concerns about prescription drugs from Canada were legitimate. They were close to evenly split on the question.

- More than half (52%) said no, there were no such concerns
- 45% said yes, it was a legitimate concern
- 3% were Not Sure

Respondents were asked how viable a solution providing employees the ability to purchase prescription drugs directly from Canada is as a means to slow annual prescription drug cost increases. Very few saw this as a significantly viable solution.

- 2% said it was the most viable option currently available and 9% said it was a significantly viable option
- However, 52% found it a somewhat viable option
- A little more than a quarter of respondents (26%) said it was not viable at all
- 9% responded do not know or are not sure and 2% refused to respond

Asked what the percentage of savings would have to be attained for their company to seriously consider providing employees with a way to purchase prescription drugs directly from Canada, about one-third (31%) of the respondents said they did not know and the rest were fairly evenly split on the level of required savings.

- 11% said their company would have to see up to 15% savings
- 16% said the savings would have to total 16-25%
- 17% said the savings would have to be between 26-50%



- 8% said the savings would have to be at least 51-75%
- 13% said attained savings would have be more than 75%
- 31% said they did not know and 4% refused to respond



Demographics

Lives Covered

The respondents represented an excellent cross section of companies across the United States with even more coming from very large companies than in previous survey years

- 55% of respondents' companies covered less than 5,000 lives
- 20% covered between 5,000 and 10,000 lives
- 6% covered between 10,000 – 15,000 lives
- 5% covered between 15,000 – 25,000 lives
- 4% covered between 25,000 – 50,000 lives
- 6% covered between 50,000 – 75,000 lives
- There were no respondents in the 75,000 – 100,000 category
- 4% of the responding companies covered 100,000 or more lives

Respondents' Titles

Most respondents deal daily with the issues addressed by the research and were in high-level executive positions in their companies.

- Directors of Benefits and/or Compensation accounted for 62% of the respondents
- 10% were Directors of Human Resources or Director of Personnel
- 1% was at the Vice President level
- 12% were Managers of Benefits or Personnel
- 15% were Benefits Administrators or Analysts

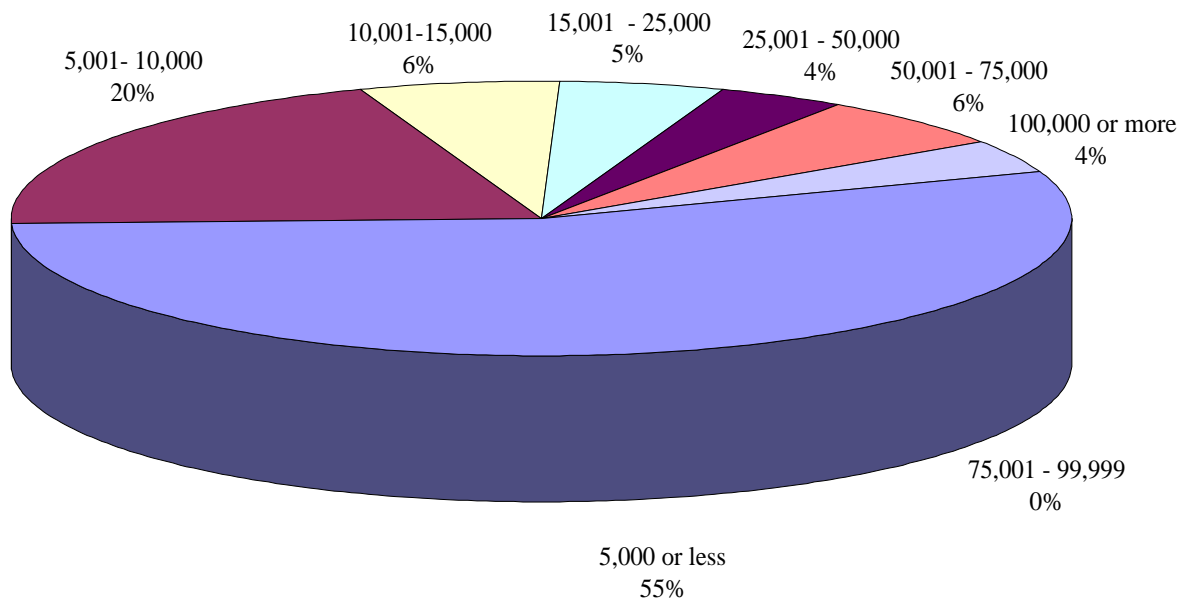
Geographic Breakdown

There was a good sampling from all over the United States.

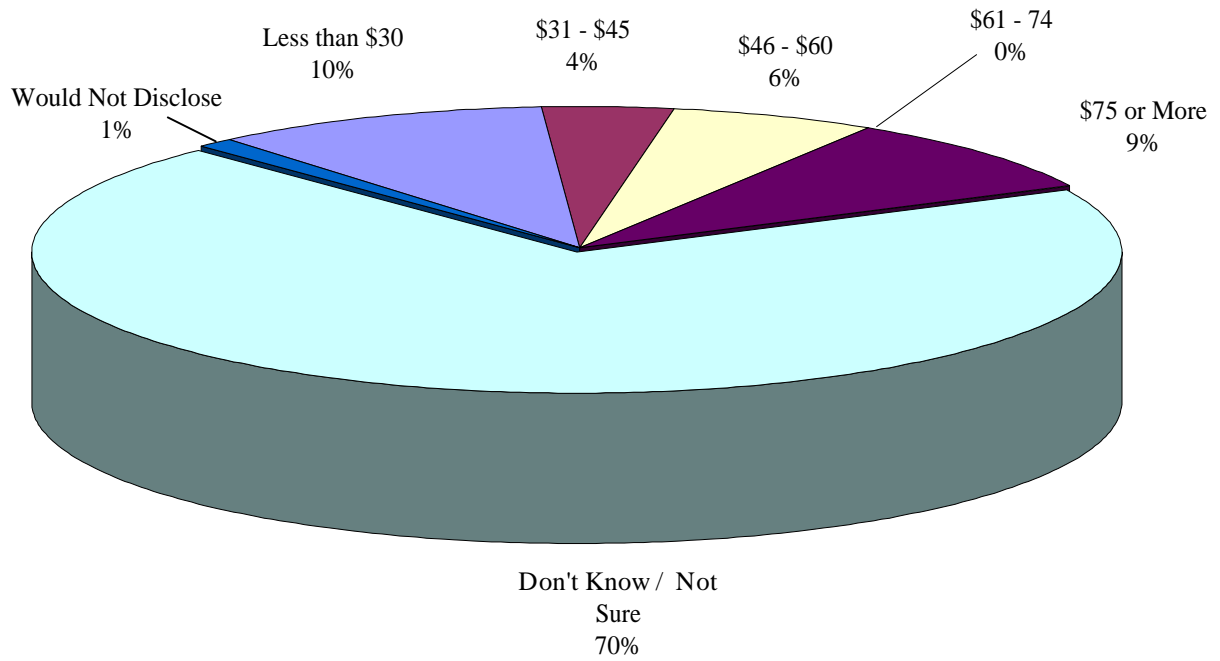
- 20% of the respondents were from the Northeast Region of the U.S.
- 23% were from the Southeast
- 33% were from the Midwest
- 12% were from the Southwest United States
- 12% were from the Pacific and Northwest area

2005 Arxcel Prescription Benefit Research Survey Charts

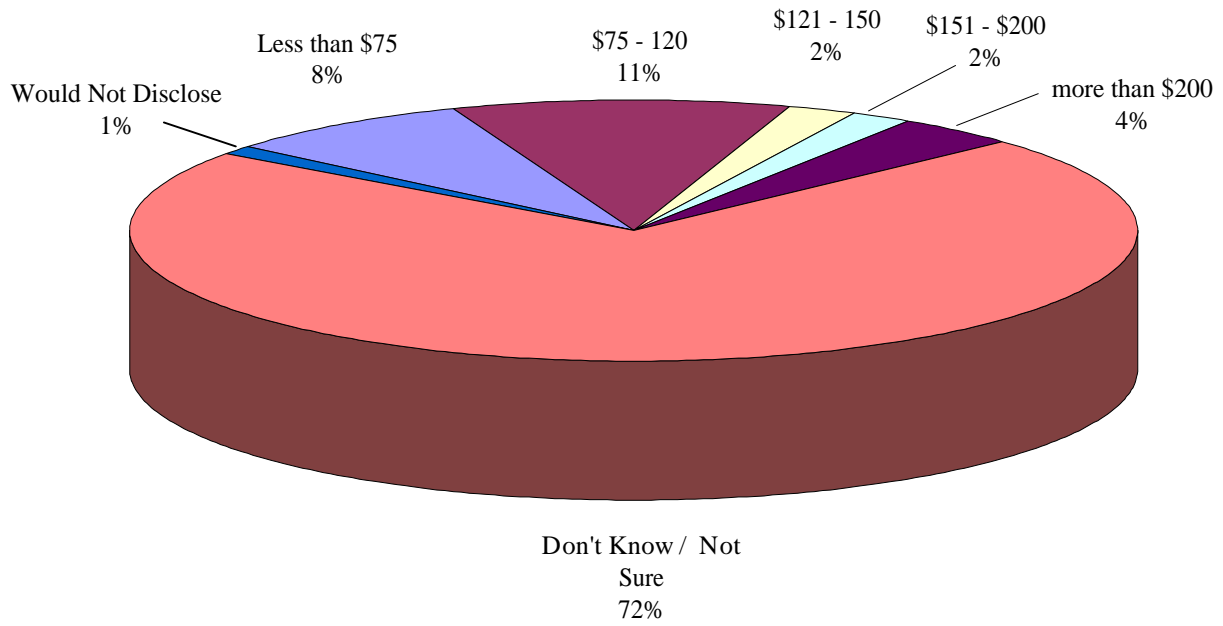
Q1. How many total lives at all locations are covered by your company's medical benefits program?



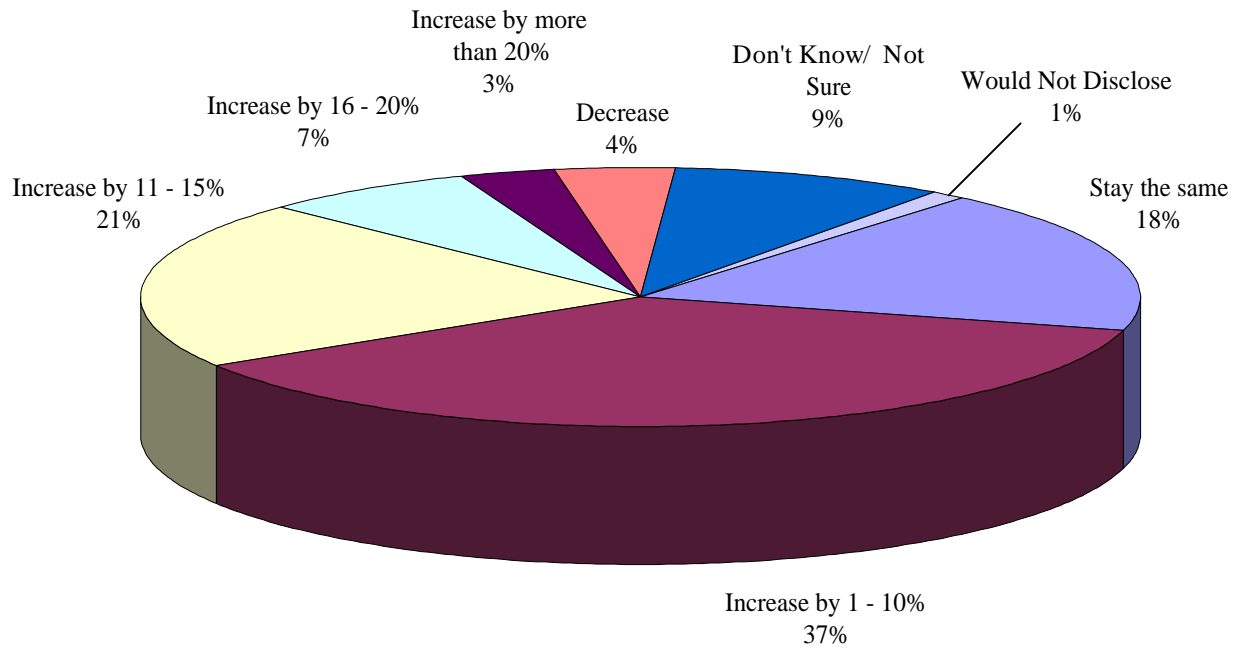
Q2. What is the total monthly cost for your prescription benefit program for a single employee?



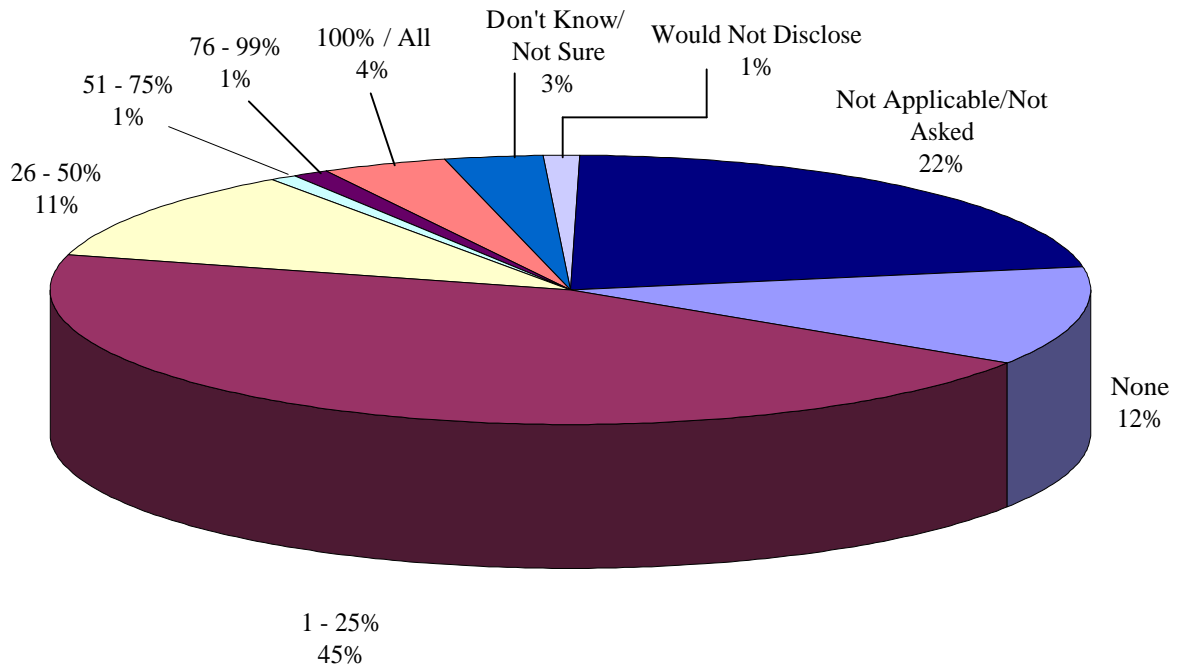
Q3. What is the total monthly cost for your prescription benefit program for an employee plus family?



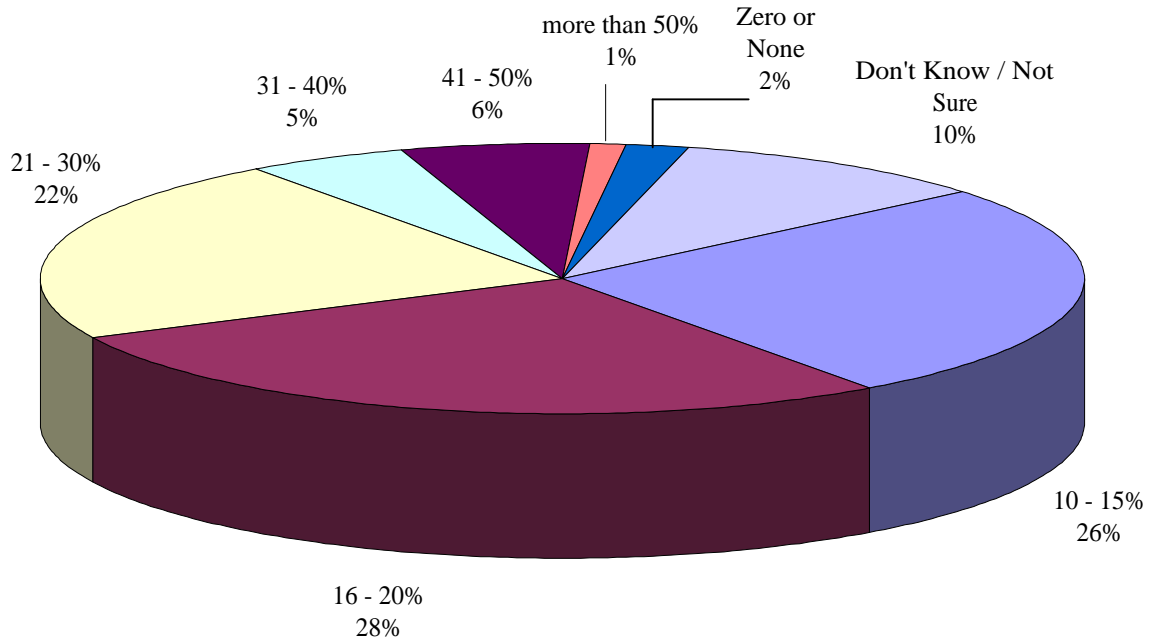
Q4. For this calendar year, 2005, what overall percentage increase do you expect in the cost of your prescription benefit program?



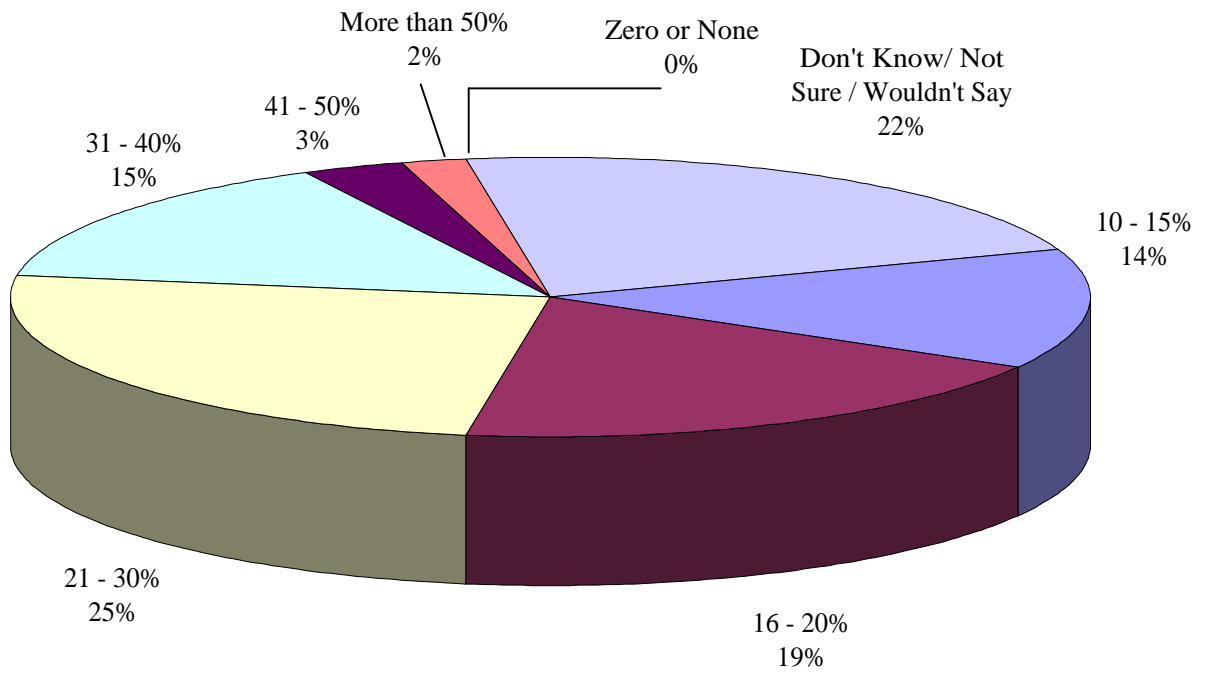
Q5. About how much of the percentage increase will be passed on to the employee in the form of a premium increase?



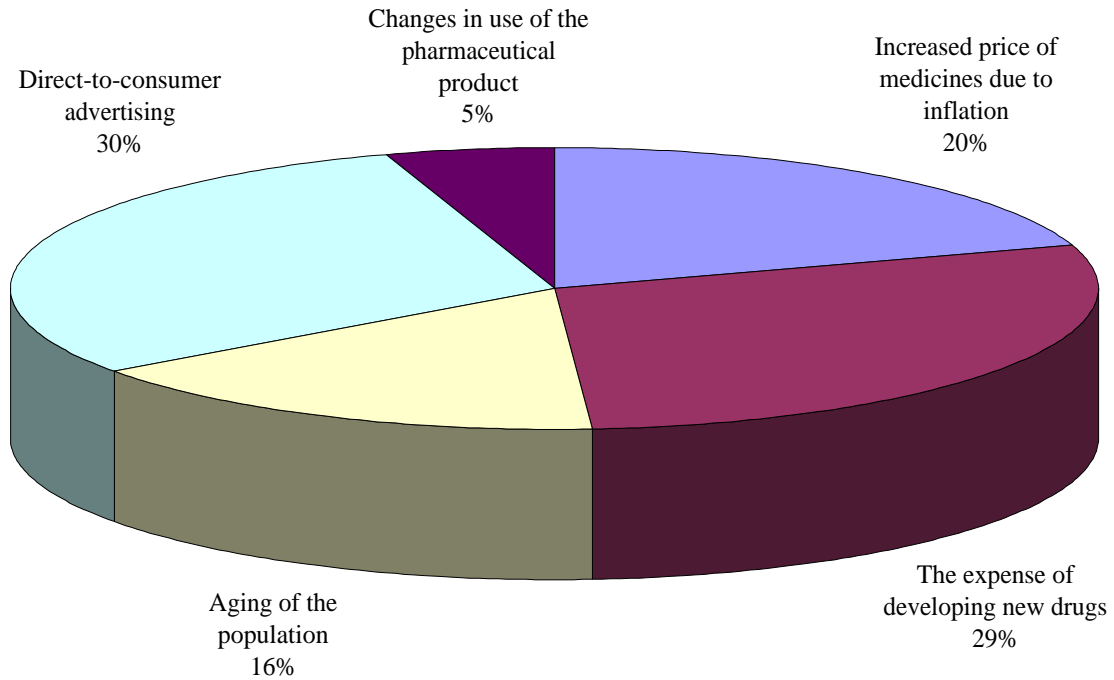
Q6. In an ideal situation, what percentage of the cost of a prescription should the employee co-payment represent?



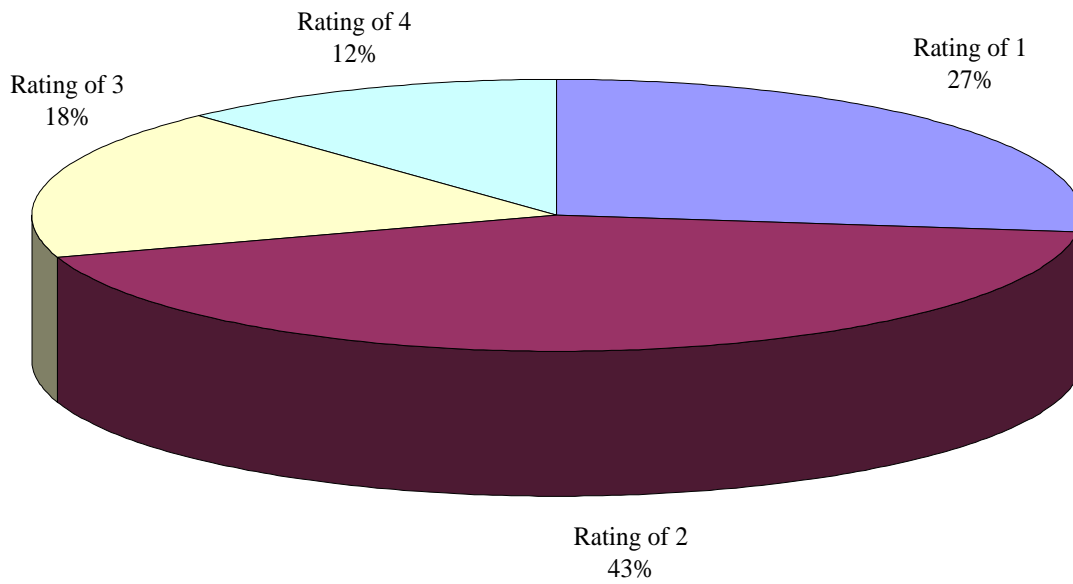
Q7. On average, what would you estimate your employees' co-payment to be as a percentage of the total drug cost?



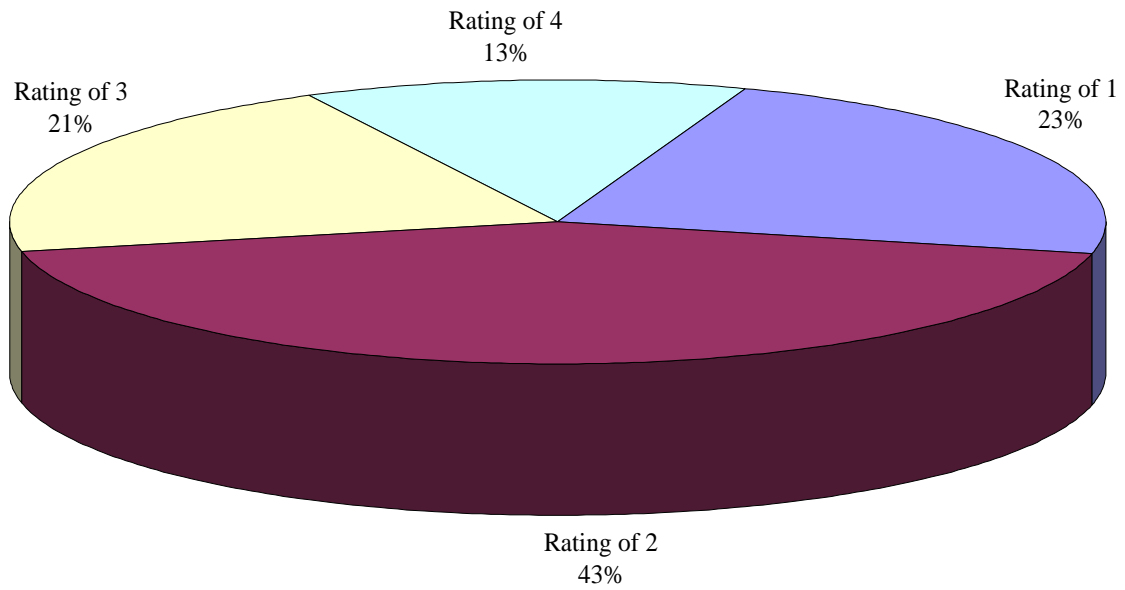
Q8. Of the following list of possible reasons for the increases in prescription benefit costs, which one do you believe has played the largest role in escalating costs?



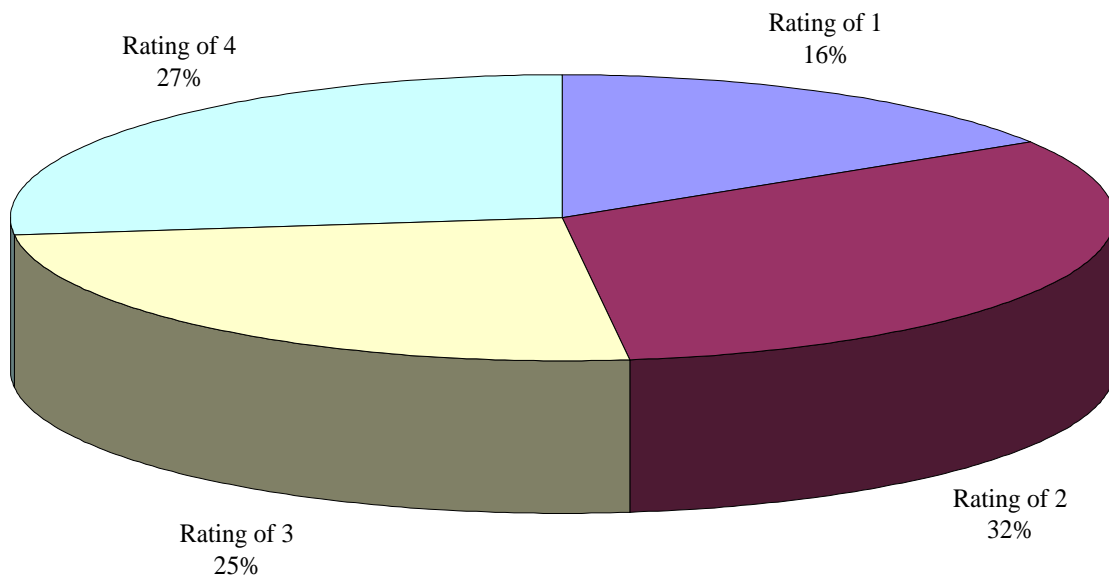
Q9. Rating of potential solutions: providing incentives to use mail order service (1= most impact, 4= least impact on slowing increases in prescription benefit costs)



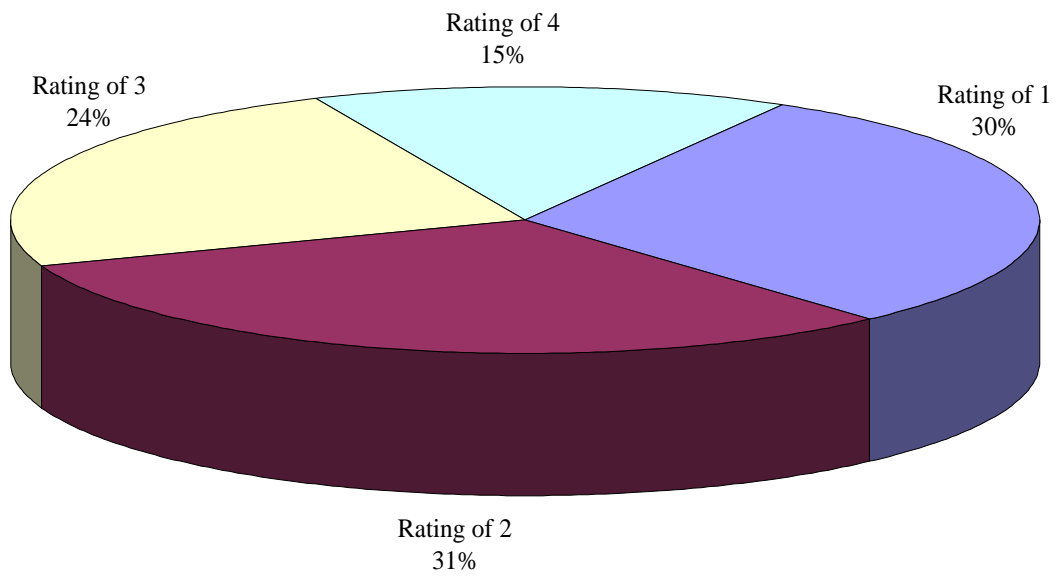
Q10. Rating of potential solutions: patient education about the cost-effective use of medicine (1= most impact, 4= least impact on slowing increases in prescription benefit costs)



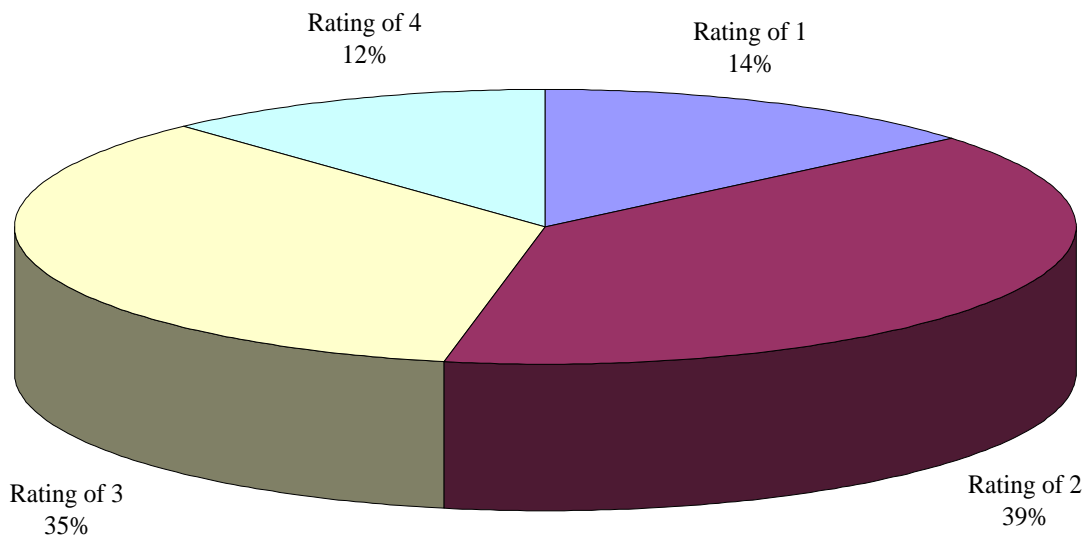
Q11. Rating of potential solutions: educating doctors on the cost of pharmaceuticals and their proper use (1= most impact, 4= least impact on slowing increases in prescription benefit costs)



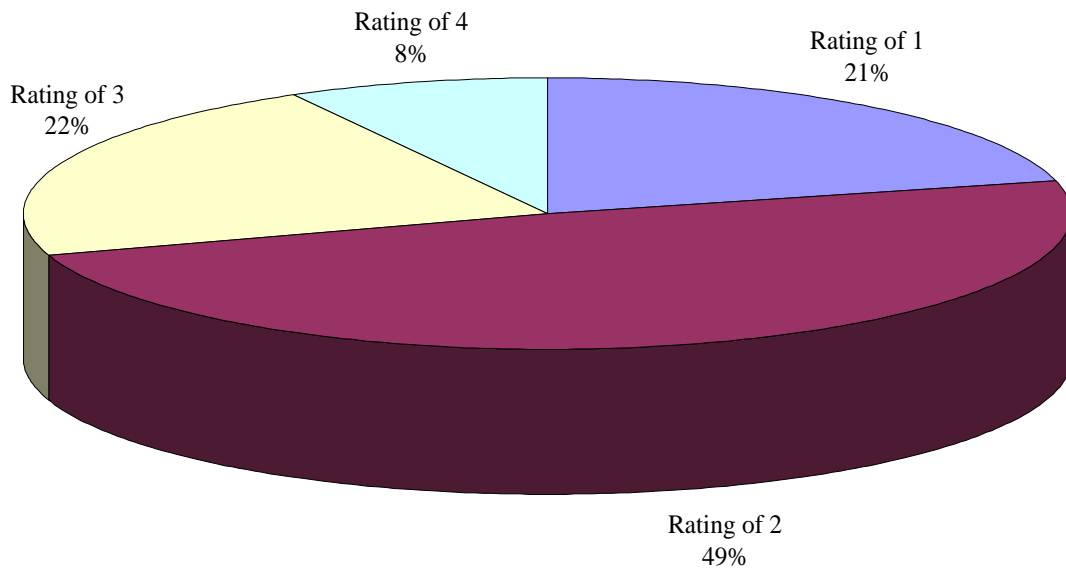
Q12. Rating of potential solutions: limiting coverage for high cost medicines (1= most impact, 4= least impact on slowing increases in prescription benefit costs)



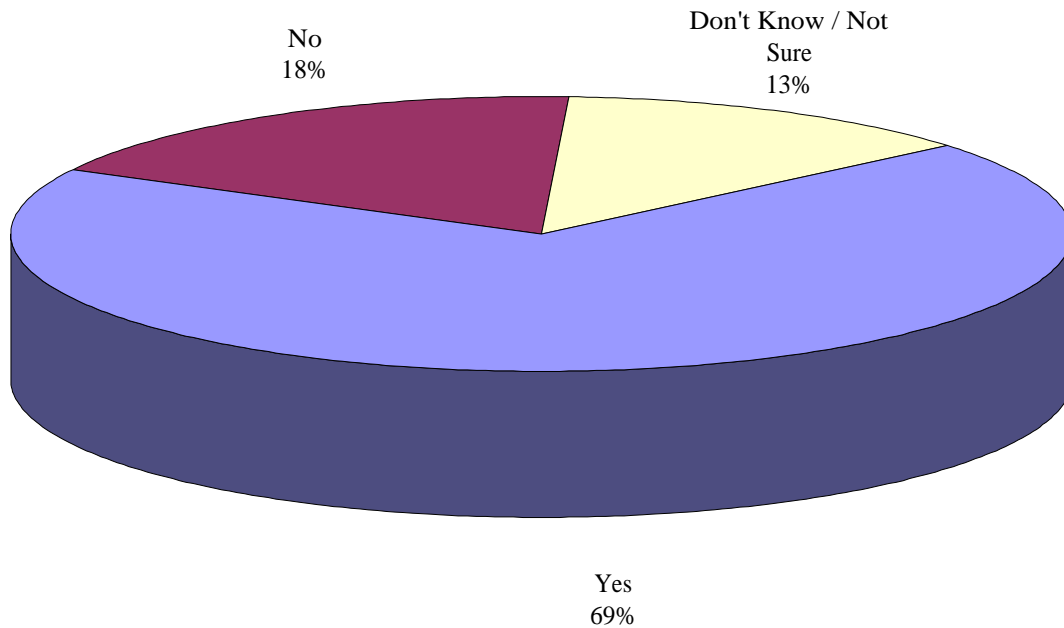
Q13. Rating of potential solutions: increasing clinical oversight/programs (1= most impact, 4= least impact on slowing increases in prescription benefit costs)



Q14. Rating of potential solutions: increasing the member cost share through tiered co-payments or overall higher co-payments (1= most impact, 4= least impact on slowing increases in prescription benefit costs)

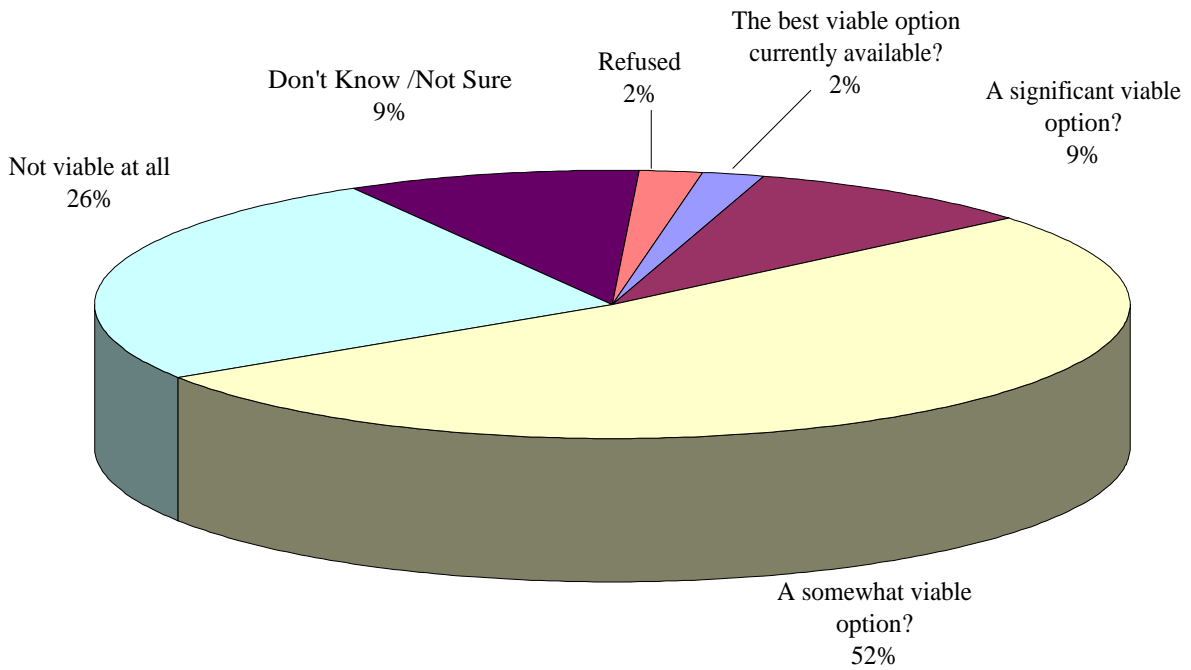


Q15. Should the United States government allow American citizens to legally purchase prescription drugs directly from Canada?

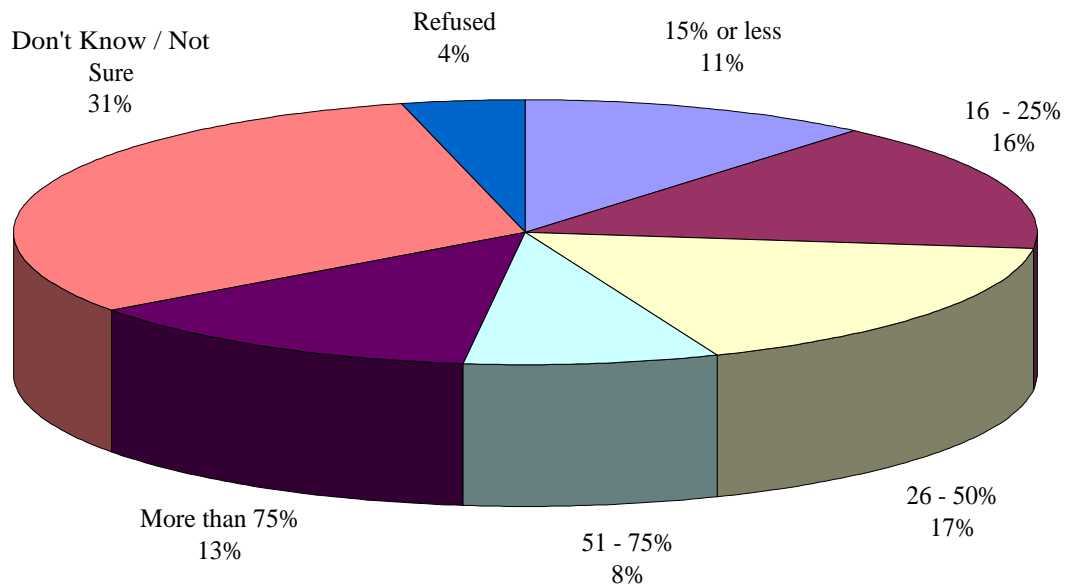


Please note that questions 16 and 17 were open-ended survey questions, so a chart cannot be used to summarize answers. Charts continue on the next page with question 18.

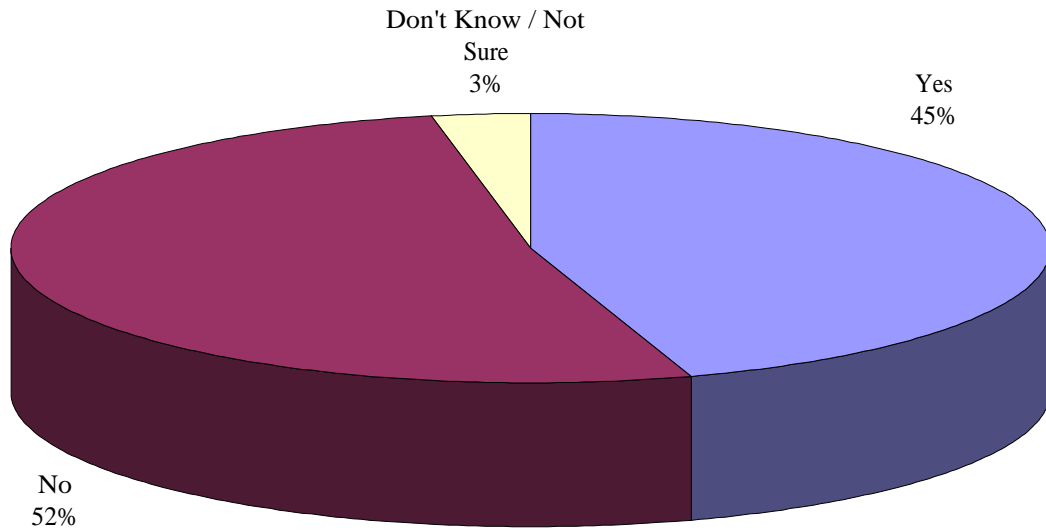
Q18. Thinking about ways to slow down the annual cost increases for prescription drugs, how viable a solution is providing employees with the ability to purchase prescription drugs directly from Canada?



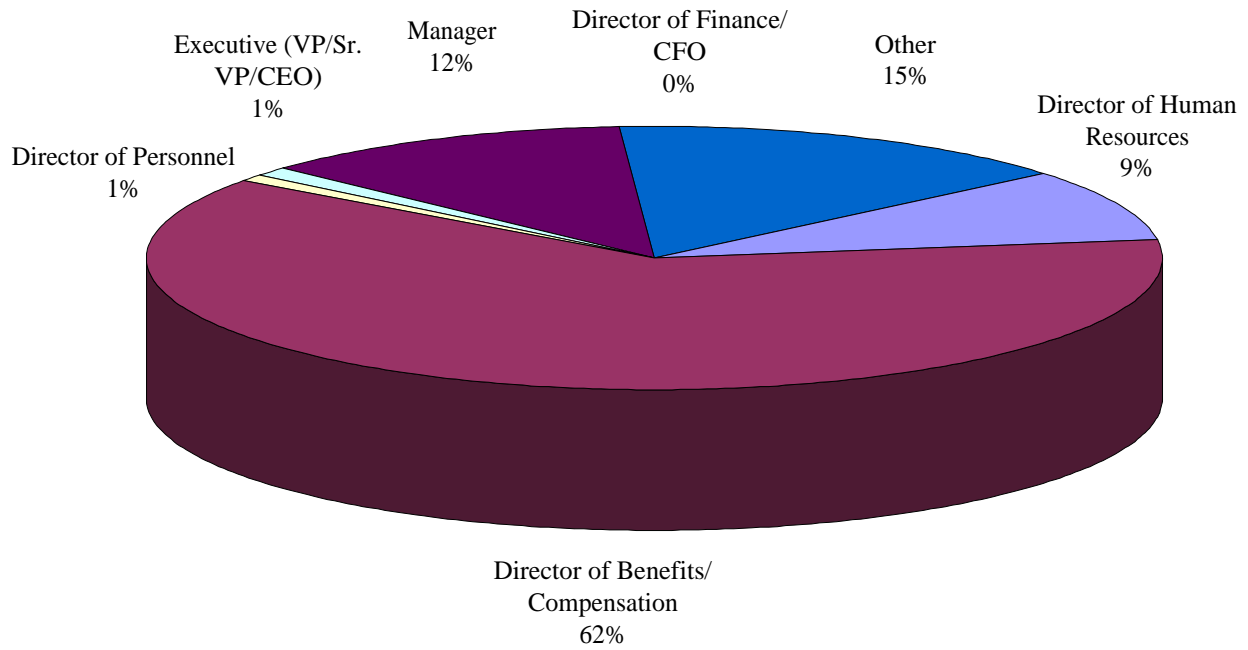
Q19. What would be the percentage of savings that your company would have to attain in order to seriously consider providing employees with a way to purchase prescription drugs directly from Canada?



Q20. Do you think that safety or quality concerns regarding prescription drugs from Canada are legitimate?



Q21. Respondents by title of respondent



Q22. Respondents by geographic region

