



***2007 Arxcel Prescription Benefit
Research Survey***

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2007 Arxcel Prescription Benefit Research Survey

Table of Contents

<i>Section</i>	<i>Page</i>
<i>Executive Overview</i>	<i>3</i>
<i>Background</i>	
<i>Introduction</i>	<i>5</i>
<i>Methodology</i>	<i>6</i>
<i>Summary of Findings</i>	<i>7</i>
<i>Demographics</i>	<i>18</i>



2007 Arxcel Prescription Benefit Research Survey Executive Overview

OVERALL 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 advertising, followed by the expense of developing new drugs
- Direct-to-consumer advertising has historically been pegged as the primary culprit in Arxcel's surveys for six years in a row. While in the first year, it was seen as the primary culprit by 6 in 10 of respondents, result levels declined but have since plateaued at one-third to one-half of respondents. Therefore, a steady number of benefits executives continue to place blame with pharmaceutical companies' product ads directly targeting consumers
- Close behind direct-to-consumer advertising, is research and development costs. This area has received consistent finger pointing over the life of this annual study.

It is interesting to note that both of these two responses chosen by survey participants are direct functions of pharmaceutical companies, whereas other possible causes (inflation, aging of the population) are external to pharmaceutical companies' control.

◆ Possible Solutions

Corporate executives believe that the most likely solutions to escalating prescription benefits costs center around:

- Patient education and increased clinical oversight, and providing incentives for using mail order service
- Limiting coverage for high cost medicines, and increasing member cost share continued to decline in popularity as potential solutions
- Educating doctors increased somewhat this year as a potential solution



◆ Member Cost Share

This year, the research results showed similar results as in 2006 regarding both ideal and actual co-pay levels. Respondents continued to lean toward a slightly higher co-pay as being the ideal, and the levels of their companies' actual co-pays stayed at the middle level (up to a 30% co-pay) in 2006 and 2007.

This year, three-quarters (78.2%) of respondents felt that a member's co-pay should ideally be 30% or less. A similar number of responses fell in the lower 20% or less co-pay range in 2004 and earlier. When asked about their company's co-pays in reality, 77.3% of respondents' answers were in the 30% or less category. There was more consistency this year between the "ideal" co-pay ranges and actual co-pay ranges.

◆ Perceptions of Prescription Benefits Management Companies

Half of all respondents had a positive opinion of the Pharmaceutical Benefits Management (PBM) industry, while one-third were neutral and about 14% had a negative image of the industry.

Respondents gave their company's PBM higher ratings in performance than the industry as a whole. 63% rated their PBM a seven or above (on a scale of 1 to 10), while 41% rated the industry a seven or above.

Respondents felt the most important function of a PBM was negotiating discounts on prescription drugs. 73% gave this function the top two importance rankings.

Asking about trust, 52% gave their PBM a positive response of seven or higher on a scale of 1 to 10. 40% gave their PBM a lukewarm level of trust and 8% had little trust in their PBM acting in their company's best interest.



2007 Arxcel Prescription Benefit Research Survey Background

INTRODUCTION

This is the sixth-annual study commissioned by Arxcel regarding the impact of and perceptions toward prescription benefits provided as a part of employee health benefits in corporate America. To accomplish the purpose, we conducted a primary research survey among high-ranking corporate executives residing in employee benefits, compensation, and human resources departments.

The population surveyed consisted of executives with significant knowledge regarding benefits from companies that employ 1,000 or more people at all of a company's locations. Both privately and publicly held companies participated.

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 survey year, perceptions were also measured on the prescription benefits management (PBM) industry as a whole as well as their individual PBM companies. Only companies that use an external PBM qualified to participate in the survey.

Lastly, the study captured the demographic profiles of respondents, including the number of individual lives their company's benefit plan covered, respondent title, and geographic location.

Key findings and recommendations are summarized in the Executive Summary, following.



METHODOLOGY

This study was conducted during winter-spring 2007. The study utilized telephone research interviews to capture the information desired. One hundred and one (101) usable surveys were completed from interviews with corporate executives from companies across the United States that employ at least 1,000 employees.

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.



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 sixth 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, which had been the leading response in previous surveys, again was selected most often as the one cause playing the largest role in escalating prescription prices. 45.5% of the respondents chose direct-to-consumer advertising in 2007.
 - In 2006, 36% of respondents chose this as the foremost cause
 - In the 2005 survey, 30% of the respondents chose direct to consumer advertising
 - 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
 - And in the 2002 survey, the overwhelming majority of respondents (6 in 10, or 61.3%) chose this as the number one cause

- Although the level of “blame” attached to this cause has decreased from the first survey (when direct to consumer advertising was newer to the marketplace and television airwaves) it has held steady as being seen as the main culprit by at least one-third of all respondents for six years now.

The remaining causes selected were as follows:

- The expense of developing new drugs was chosen by 24.6% in 2007, close to the 26% of the respondents in 2006, 29% in 2005, and 25% in 2004
 - 17% chose this cause in 2003;
 - 20% chose it in 2002

- Aging of the population was noted as the principal cause by 16.8% of the respondents in 2007. 16% of the respondents in 2006 and 2005 chose this reason compared to 10% of the respondents in 2004, 9.9% in the 2003 survey and 10.7% in the 2002 survey

- The increased price of medicines due to inflation was chosen by only 6.9% of 2007’s respondents. This is down from 14% in 2006 and 20% in 2005
 - The 2004 research showed that 18% chose this cause
 - 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 was selected by 6% of the respondents in 2007 and 8% in 2006
 - In 2005, this cause had dropped to 5% from 2004, when 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

Overall, the general order of “primary culprit” causes has not changed since the first survey six years ago. Pharmaceutical company advertising continues to be seen as the most significant cause of high prescription costs.

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 down the cost increases in prescription benefits. They were asked to rate the solution on a scale of 1 to 4, with one meaning the solution would have the most potential impact on deescalating prices and four meaning it would have very little impact.

An individual response rating the potential solution a 1 or a 2 would be seen as a favorable or positive rating, while a rating of a 3 or 4 would be unfavorable toward the solution having any real potential as a solution to this stated problem.

The potential solutions that netted the top three most positive responses were, in order, patient education, providing incentives to use mail order, and increasing clinical oversight.

It should be noted that there was only a ten-point differential among the top four most favored solutions, thus indicating a lack of overwhelming enthusiasm for any one potential solution.

Patient education about cost effective use of medicines

- Came in as the highest rated solution with 75% of 2007 respondents choosing this as a 1 or 2 favorable response. 2006 had the same result.
 - In 2005, 66% rated 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

Providing incentives to use mail order service

- This solution was high on the list again. 69% of respondents rated it a 1 or 2.
 - In 2006, 69% also gave this potential solution a rating of 1 or 2



- In 2005, 70% of respondents rated it a 1 or a 2
- In 2004, 50% of the respondents rated it a 1 or 2.
- In 2003, 72.3% gave it a 1 or a 2.

For four of the last five surveys, 69% or more of respondents saw this as a viable solution.

Increasing clinical oversight

- 66.3% gave this a favorable rating of a 1 or a 2
- In 2006, 72% of respondents gave this solution a positive rating
- This continues to be up from 2005's results where there was a split decision of 53% positive versus 47% giving it a low rating of 3 or 4
- This is back up over where the results were in 2004 at a 61% positive rating and a 60.4% positive rating in 2003

Educating doctors on the cost of pharmaceuticals and their proper use

There was more optimism for this solution in the 2007 survey. In the past, there was little consensus on the viability of this option. Results were always split among respondents. This year, two-thirds, or 65% rated it a 1 or a 2.

- In 2006, 54% rated this a 1 or a 2 and 46% gave it a 3 or 4
- 48% rated this a 1 or 2 in 2005 and 52% gave it a 3 or 4
- While in 2004, 46% rated this a 1 or 2 (a drop from 53.4% in 2003) and 54% rated it a 3 or 4 in 2004 (46.6% in 2003)
- In 2002, 53% rated this a 1 or 2

Increasing the member's cost share through tiered co-payments

or overall higher co-payments was rated a 1 or a 2 by 60.4% of respondents in 2007, a continuation of a steady decline in positive ratings since 2003

- It was selected by 65% of respondents as a good potential solution in 2006
- While in 2005, 7 in 10 respondents saw this as the most viable solution with 70% rating this a 1 or a 2
 - 71% rated it a 1 or 2 in 2004
 - 81.2% gave it a 1 or 2 in 2003
 - 69% rated this a 1 or 2 in 2002

Limiting coverage for high cost medications

- Popularity of this potential solution changed this year
- Only half of respondents (49.5%) gave it a 1 or 2 positive rating in 2007
- In 2006, 64% gave this a favorable rating of a 1 or 2
- In 2005, 61% gave this a favorable rating of 1 or 2, same as 2004 and similar to 2003 at 60.4%



Price Points and Member Cost Share

Single Employee

When asked what their company's total monthly cost was for its prescription benefit program for a single employee, about 6 in 10 (63.4%) of the respondents could not break out this cost. This is an increase in "Don't Know / Not Sure" answers seen in the past. It is possible that the root of this change this year is that we had more Vice Presidents participate than in the past. These high-level executives generally have fewer details at their ready grasp.

By comparison, in the 2006 survey, 54% of respondents said they could not name the total monthly cost for their prescription benefit for a single employee. 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.

It is a little difficult to see details of a shift in premium costs cited over the years because so many were unsure of the breakout figure. Of the total respondents and those who did have knowledge of their prescription benefits premium for a single employee:

- In 2007, 11.9% said their single employee prescription benefit cost was less than \$30
 - In 2006, 9% said their single employee prescription benefit cost was less than \$30.
 - In 2005, 10% said it was \$30 or less compared to 13% in 2004 and 15.8% in 2003
- In 2007, 5% said their single employee cost was between \$31 and \$45
 - In 2006, 12% said the single employee cost was between \$31 – 45
 - In 2005, 4% said it was between \$31 – 45 compared to 12% in 2004 and 13.9% in 2003
- This year, 10% cited the \$46 – \$60 range, whereas
 - In 2006, 15% cited this range
 - In 2005, 6% said it was between \$46 – 60 compared to 29% in 2004 and 8.9% in 2003
- In 2007, no one cited the \$61 – 74 compared to only 5% in 2006
 - In 2005 also, No one cited the \$61 – 74 figure range



- 7% in 2007 said it was more than \$75 compared to 5% in 2006
 - 9% said it was \$75 or more in 2005 compared to 17% in 2004 and 8.9% in 2003

Employee Plus Family

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. Again, 63.4% did not know or were not certain of the answer.

In 2006, 55% said they could not cite a figure. 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.

Among total respondents and those who did have knowledge of their prescription benefits premium for an employee plus family:

- In 2007, 8% said it was less than \$75 compared to 10% in 2006
 - In 2005, 8% said it was \$74 or less compared to 7% in 2004 and 17.8% in 2003
- This year, 12% said their company paid between \$75 and \$120. This was the same as in 2006 and close to results in previous years
 - In 2005, 11% said it was \$75 – 120 compared to 9% in 2004 and 10.9% in 2003
- In 2007, only 4% said their said their company premium was between \$121 and 150
 - In 2006, it was 14%
 - In 2005, 2% said it was between \$121 and \$150 compared to 17% last year and 4% in 2003
- In 2007, 4% cited the \$151 – 200 figure in 2006 compared to 5% in 2006
 - In 2005, 2% cited between \$151 and \$200 compared to 19% in 2004 and 5% in 2003
- The results for this category have not differed much over the years of the study. This year 6% said their company cost for an employee plus family was more than \$200
 - It was 6.5% in 2006
 - In 2005, 4% said it was more than \$200 compared to 17% in 2004's survey and 9.9% in the 2003 survey



Premium Increases

Respondents were asked what overall percentage increase they expected in their prescription benefit cost for calendar year 2007. Again, as in past years, 6 in 10 expect an increase of up to 15%

- In 2007, 17.8% expected it to stay the same
(same as the 18% for 2006 and 2005, and compared to 14% in 2004 and 18.8% in 2003)
- In 2007, 40.6% expect an increase of 1 – 10%, compared to 46% in 2006
(compared to 37% in 2005, 43% in the 2004 survey and 4.8% in 2003)
- In 2007, 20.8% expected an increase in the 11 – 15% range
(compared to 14% in 2006, 21% in 2005, 26% in 2004, and similar to 24.8% in 2003's research)
- 3% expect an increase of 16 – 20% in 2007, compared to 6% in 2006
(7% selected this response in both 2005 and 2004 compared to a drop from 19.8% in 2003)
- Again in 2007, as in 2006, no one said they expect it to increase by more than 20%
(compared to 3% in 2005, 2% in 2004 and 6.9% in 2003)
- 1% of 2007's respondents expected a decrease, compared to 3% in 2006, 4% in 2005 and 1% in 2004
- 12.9% did not know whether they would have an increase in premium



Passing Along the Premium Increase

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), a little less than half (46.6%) of the companies plan to pass on no more than 50% of the premium increase to the employee.

- In 2007, 11% said none of the premium would be passed on
 - In 2006, 14% said the company would absorb the whole increase so that none of it would be passed on to the employee.
 - This was a change from 12% in 2005, and especially from the 18% in 2004 and just under a quarter of respondents in 2003
- In 2007, 44.6% said their company would pass on up to 25% of the price increase to their employees
 - This is very close to the 2006 and 2005 number of 45%
 - This was an increase from 35% in 2004 respondents, as well as an increase from 2003 respondents at about 40%
- In 2007, only 2% said they would pass on up to half of the price increase to their employees
 - This was a decrease from the 2006 number of 4.7% and the 2005 number of 11% who said between 26 and 50% would be passed on to the employee
 - 2005's was a decrease from 20% in 2004 but an increase from 8.9% in 2003
- 2% said their company would pass on up to three quarters of the increase
 - Compared to 3% in 2006, 1% in 2005, and 6% and 4% in 2004 and 2003 respectively
- In both 2007 and 2006 no one said their employees would have to pick up between 76 and 99% of the increase compared to 1% in 2005, down from 4% in 2004 and 2% in 2003
- In 2007, 3% said 100% of the premium increase would be passed along.
 - In 2006, only 1% said the employee would have to pick up all of the increase, down from 4% in 2005 which was a slight up tick from 3% in the previous year's survey but down compared to 5% from 2003



Ideal Premium Levels vs. Reality

When asked about the ideal percentage of the cost of a prescription a member should contribute, the respondents leaned heavily toward the lower end of the scale. However, a few more respondents bled into the 21-30% category.

- This year, 78.2% said the cost share should be at 30% or less. This was very close to the 76% number in both 2006 and 2005.
 - But in 2004, 72% of respondents chose zero, the lower 10 – 15%, or the 16 – 20% categories.

In 2003's survey, the responses were similar with 78% choosing these first two categories. Both of those were a significant increase from the 2001 survey when 39% chose a level at 20% or less (however, that audience in 2001 was of a somewhat different ilk).

This year's results, which were generally close to 2006's results, are as follows:

- 1% said it should be zero
- 21.8% said the co-pay should be in the 10-15% range
- 35.6% said the co-pay should be in the 16-20% range
- 19.8% said the co-pay should be in the 21 – 30% range
- 2% chose the 31 – 40% range
- 4% chose the 41 – 50% range
- 2% said it should be higher than 50%
- 13.9% 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, 77.3% of respondents said 30% or less, thus citing a figure not too far off from their "ideal" category. In 2006, 74% and in 2005, 58% respectively of the responses landed in the 30% or less categories.

This year, it appears the level of co-pays is decreasing. This may be a function of companies not passing on much of premium increases in the past. This would also reinforce survey results where higher co-pays were selected as a positive solution to escalating costs.

- In 2007, 33.7% said their co-pay was in the 10 – 15% range
 - compared to 23% in 2006, compared to 14% in 2005, and 32% in 2004
- In 2007, 21.8% said their co-pay was in the 16 – 20% range
 - compared to 20% in 2006, 19% in 2005, and 34% in 2004)
- This year, 19.8% said their co-pay is in the 21 – 30% range



- compared to 31% last year, 25% in 2005, 22% in 2004, and only 10.9% in 2003
- In both 2007 and 2006, 1% of respondents said it was in the 31 – 40% range
 - compared to 15% in 2005 and 2% in 2004 and 2003
- In 2007, 2% cited the 41 – 50% category,
 - compared to no one in 2006, 3% in 2005 and 1% in 2004
- 2007's results showed 2% in the greater than 50% range
 - compared to 1% in 2006, 2% in 2005 and zero in 2004 and 2003
- 2% chose a zero co-pay compared to 1% in 2006
- 17.8% said they were not sure or did not know compared to 19% in 2006

Pharmaceutical Benefits Management Companies

A new area was explored in this year's survey. We wanted to find out what survey participants thought of the Pharmaceutical Benefits Management (PBM) industry and their company's PBM specifically. This meant that only companies that "carve out" their prescription benefit program and use an external PBM were eligible to participate.

The Industry's Image

Respondents were read explanations of the term Pharmaceutical Benefits Management and what these firms generally do for their clients. Then were then asked their opinion of the industry in general: Very positive, Positive, Neutral, Negative or Very Negative. (See survey for exact wording of prompted responses.)

- Half of all respondents had a positive opinion of the PBM industry
 - 50% said their opinion is Very Positive or Positive
 - § That 50% was made up of 45.5% characterizing their opinion as Positive and 4.5% saying their opinion was "Very Positive"
- One-third (35.6%) said they were Neutral toward the industry
- 13.9% had a Negative or Very Negative opinion
 - Made up of 12.9% Negative and 1% Very Negative

Rating the PBMs' Performance Areas

When read a list of four functions typically provided by a PBM for its clients,



- 46.5% of respondents saw negotiating discounts on prescription drugs as the most important function of a PBM
- Controlling costs through clinical programs, and paying claims, billing and customer service were seen as equally important at 20.8% and 21.8% respectively
- Only 10.9% chose providing data as the most important function

Respondents were asked to rank these four functions from 1 to 4, with 1 being the most important function, and 4 being the least important. Taking the percentages of respondents who ranked a particular function a 1 or a 2, overall, the respondents ranked the following functions in importance:

- Negotiating discounts- 73.2% - a 1 or 2 in importance
- Controlling costs – 51.5% - a 1 or 2 in importance
- Paying claims – 44.6% - a 1 or 2 in importance
- Providing data – 29.7% - a 1 or 2 in importance

Respondents were asked to rate the PBM industry's performance on a scale from 1 to 10 with 1 being Poor and 10 being Excellent

- 40.7% rated the industry on the positive end (a 7 or above) on the scale from 1 to 10.

However, when asked to rate their own PBM, on the same scale, they tended to rate their own PBM higher.

- 63.3% rated their own company's PBM a 7 or above.

For those who were satisfied with their company's PBM (that is, rated them a 7 or above) when asked what their particular PBM could do to increase satisfaction levels,

- One-third (33.7%) said service to their employees was the one area where improvement would matter most.
- A distant 16.8% cited adopting more transparent business practices

For those who were dissatisfied, (that is, rated their PBM a six or below), they were almost equally split on all the performance areas with which they were dissatisfied (multiple responses were allowed):

- 12.9% cited negotiating discounts
- 11.9% cited controlling costs
- Providing data and paying claims were each selected by 10.9% of the respondents



A Matter of Trust

When asked how much they trusted that their company's present PBM is currently operating in their company's best interest, on a scale of 1 to 10, with a 1 being a strong 'no' and a 10 being a strong 'yes,'

- Half (51.6%) of the respondents gave a positive response of a 7 or higher
- 40.6% gave a lukewarm trust level of 5 or 6
- 8% gave a low trust level of 4 or less

Sources of Information for Decision Making

Respondents were asked which sources of information they used when seeking information for making decisions on how to manage the company's prescription benefits. Multiple responses were allowed.

- 64.4% said they use external consultants
- 11.9% said they look to trade and industry publications
- 23.8% said they use in-house experts and staff
- 1% said they go to conferences and seminars
- 7.9% use associations or industry groups
- 6% use the Internet
- 5% use the consumer and general media
- 13% use other sources

Those who said they used industry or consumer publications were asked which publications they use the most. Keeping in mind that industry and/or consumer publications were cited by a total of 16.9% of respondents, the publications mentioned via top of the mind awareness were *USA Today, The Wall Street Journal, HR Executive, HR Magazine, Drug Topics, and Med Ad News*



Demographics

Lives covered

The respondents represented an excellent cross section of companies across the United States and as last year, there was more representation from very large companies.

- 57% of respondents' companies covered less than 5,000 lives
- 18% covered between 5,000 and 10,000 lives
- 9% covered between 10,000 – 15,000 lives
- 4% covered between 15,000 to 25,000 lives
- 9% covered between 25,000 to 50,000 lives
- 2% covered between 50,000 to 75,000 lives
- There were no respondents in the 75,000 – 100,000 category
- 1% 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 1% of the respondents
- 37.6% were Directors of Human Resources or Director of Personnel
- 43.6% were at the Vice President level
- 9% were Managers of Personnel
- 3% were Benefits Administrators
- 6% were Other

Geographic Breakdown

There was a good sampling from all over the United States

21.8% of the respondents were from the Northeast Region of the U.S.

24.8% were from the Southeast

36.6% were from the Midwest

11% were from the Southwest United States

6% were from the Pacific and Northwest area

