



Excellence in Prescription Benefit Management

2002 Arxcel Pharmaceutical Benefits Research Survey

4390 Quinby Drive, Ste. D
Hamburg, NY 14075
(716) 646-9292
fax: (716) 646-6985
www.arxcel.com

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Arxcel Pharmaceutical Benefits Research Survey

WINTER 2001-2002

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EXECUTIVE OVERVIEW
Arxxel Pharmaceutical Benefits Research Survey

WINTER 2001-2002

- Within the pharmacy benefits industry, rising prescription costs are seen as being caused by
 - Direct to consumer advertising, and
 - expenses associated with developing new drugs
- The industry leaders interviewed consistently indicated that pharmaceutical companies are most responsible for the increased costs
 - 8 in 10 respondents chose drug companies as the party most responsible
- This is supported by the causes most often cited, direct to consumer advertising and research & development expenses, which also stem from the pharmaceutical manufacturing industry
- The industry leaders surveyed believe that the most likely solutions centered around
 - tiered co-payment levels
 - education of doctors and consumers
 - a higher share of costs borne by consumers, and
 - some government regulation
- A considerable number of respondents who said they were opposed to government involvement cited regulations and price controls as potential initiatives to improve the situation
- There is little consensus among industry leaders on price points, realistic annual cost increases and patient cost share.
- Most respondents indicated that they oppose government involvement primarily due to negative views of government.
- Those who are in favor, almost 4 in 10, feel that the government has to do something to control prices and regulate pharmaceutical companies

INTRODUCTION

The Arxcel study evaluated the opinions of managed care executives, third-party administrators and employers regarding the current state of and future trends in the prescription drug industry. This research data provides a timely picture of the pharmacy benefit industry's opinions. The study determined respondent's viewpoints regarding the rising cost of pharmaceutical benefits, solutions for the cost increases and the viability of the solutions available.

To accomplish this, a primary research survey was conducted among high-ranking executives in three types of companies: health plans, self-insured employers and third party administrators.

The study examined the respondents' perceptions regarding causes and sectors responsible for prescription drug costs, potential solutions for slowing cost increases and the role of the government in the situation.

The study also examined insurance coverage price points and rate increases relating to providing pharmacy benefits.

Lastly, the study captured the demographic profile of these companies relating to company type, the number of lives they covered, title of respondent and geographic location.

Key findings and recommendations are detailed in this survey report.

METHODOLOGY

This study was conducted during December 2001 and January 2002. The study utilized telephone research interviews to capture the information. 75 surveys were completed from interviews with corporate executives in health plan companies, self-insured employers and third party administrators from across the United States.

The sample was randomly selected from a list of industry executives culled from industry directories. While this sample is not large enough to be a scientific study of the total population of executives in the pharmacy benefits industry, the sample is large enough to provide a solid understanding of the perceptions of this population. Based on the population and the sample of 75, 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.

FINDINGS

Causes of and Contributors to Prescription Drug Costs

- ⇒ Respondents were read a list of causes that contribute on various levels to escalating prescription drug costs. (See figure 1, p. 9.) When asked to select the one cause that they believed has played the largest role in these escalating cost,
- 6 of 10 respondents (61.3%) chose direct to consumer advertising
 - The next most often selected cause was the expense of developing new drugs at 20%
 - The remaining causes ranked as follows:
 - Aging of the population at 10.7%
 - Changes in use of pharmaceutical product and inflation at 4% each
- ⇒ Respondents indicated that pharmaceutical companies are most responsible for high pharmaceutical costs with 80% choosing pharmaceutical companies as most responsible party (See figure 2, p. 10.)
- 16% chose consumers
 - 2% chose the government
 - None named managed care organizations or physicians as most responsible

Possible Solutions for Slowing Pharmacy Cost Escalation

- ⇒ Respondents were split on selecting the one solution that they felt would be most likely to provide the best potential fix for the problem with no one solution coming out as the clear leader. (See figure 3, p. 11.) Potential solutions selected in order of preference were
- Providing incentives through tiered co-payment levels at 25.3%; and
 - Educating doctors about the cost of pharmaceuticals and proper use at 20%
 - Remaining solutions ranked as follows
 - Government involvement at 17%
 - Increasing the patient's cost share at just under 15%
 - Patient education about cost effective use of medicines at about 11%
 - Identifying and measuring medical savings through proper use 6.7%
 - Limiting coverage for high cost medications 5.3%
 - None selected establishing financial incentives for physicians or limiting access to certain pharmacies

Respondents were asked to rate each of these potential solutions as to its individual viability as a solution for slowing down the rate of price increases. They were asked to rate the solution on a scale of 1 to 4 with 1 meaning the solution would have high potential to make an impact and a 4 meaning it would have very little or no impact at all.

- Increasing the patient's cost share (*See figure 4, p. 12.*)
 - Most respondents saw this as a viable solution.
69% rated this a 1 or 2.
- Providing incentives through tiered co-payment levels (*See figure 5, p. 13.*)
 - This solution was seen as the most viable, based on ratings,
With 73% rating it a 1 or 2
- Limiting access to certain pharmacies (*See figure 6, p. 14.*)
 - Very few selected this as a workable option.
72% rated this one a 3 or 4.
- Educating doctors on the cost of pharmaceuticals and their proper use (*See figure 7, p. 15.*)
 - There was little consensus on the viability of this option. Results were split among respondents.
53% rated this a 1 or 2
46% rated it a 3 or 4
- Establishing financial incentives for physicians (*See figure 8, p. 16.*)
 - Respondents were split on this.
45% rated this one a 1 or 2.
55% rated this one a 3 or 4.
- Identifying and measuring medical savings through proper use of pharmaceuticals (*See figure 9, p. 17.*)
 - The sample population was largely undecided on this one.
52% rated it favorably, and 48% rated it unfavorably.
- Patient education about cost effective use of medicines (*See figure 10, p. 18.*)
 - Respondents had a favorable response to this solution.
71% rated it a 1 or 2.
- Limiting coverage for high cost medications (*See figure 11, p. 19.*)
 - Respondents saw this as a potential solution.
56% rated it a 1 or 2, with 44% rating it unfavorably.
- Government involvement in providing prescription drug benefits (*See figure 12, p. 20.*)
 - This was not a popular solution and tracks Question 18.
72% rated this solution a 3 or 4.

Price Points and Rates of Cost Increases

⇒ When presented with a list of realistic annual rate of increase in overall cost of a pharmacy benefits program, most respondents chose the lower end of the scales provided. (See figure 13, p. 21.) Overall, 83% chose less than 15% average annual increase.

- 40% chose 6 to 10%
- 24% chose 0 – 5%
- 19% chose 11 to 15%
- 13% chose 16 – 20%
- 3% chose more than 25%
- and no one chose 21 – 25%

⇒ Respondents were asked to choose a price point at which the per member per month pharmacy benefit cost would be too high to provide coverage. There was little consensus on price point. (See figure 14, p. 22.) Although the category garnering the highest number of responses was \$46 – 55 per member per month, and 38.6% chose \$45 or below per month. Results were as follows:

- 1.3% chose \$15 – 25 per member per month
- 20% chose \$26 – 35 per member per month
- 17.3% chose \$36 – 45 per member per month
- 22.7% chose \$46 – 55 per member per month
- 6.7% chose \$56 – 65 per member per month
- 16% chose \$66 – 75 per member per month
- 7% chose more than \$75 per member per month
- And 5% actually said that there is no price point that is too high

⇒ When asked what the ideal percentage of the cost of a prescription a member should contribute, the respondents chose the 21 to 30% level with almost half (47%) choosing that answer. (See figure 15, p. 23.)

- The next highest category selected was the 16 – 20% level at 28%.
 - None chose more than 50%.

Government Involvement

⇒ When asked if the government should become involved in the issue, most respondents said no (63%). (See figure 16, p. 24.)

- 37% said Yes

⇒ For those who said yes, the most reasons why spoke to

- A need to regulate pharmaceutical companies and the industry
- Only way to control costs
- To keep costs down

- ⇒ For those who said no, open ended responses generally cited
 - The government making the situation worse
 - Not qualified to intervene
 - Need to let free market correct itself

- ⇒ When asked what initiatives the federal government could undertake to help the problem, open-ended responses generally cited the following:
 - Price controls
 - Regulation of pharmaceutical industry
 - Eliminating direct to consumer advertising
 - Shortening patent time frames and loosening FDA regulations new drugs to market
 - Educating doctors
 - Educating consumers

Demographics

⇒ Lives covered

- The respondents represented a cross section of companies *(See figure 17, p. 25.)*
 - Half of the respondents' companies (57%) covered less than 50,000 lives.
 - The next two categories were equally represented at 17.3% each.
 - 3% covered between half a million and one million lives.
 - 5% covered over one million lives.

⇒ Company Category

- Most respondents were employed by Third Party Administrators *(See figure 18, p. 26.)*
 - 49% worked for TPAs
 - 32% represented Self-Insured Employers
 - 19% represented Health Plans

⇒ Respondents' Titles

- Most respondents were high-level executives in the companies *(See figure 19, p. 27.)*
 - Executive Management holding titles such as President, CEO, CFO, COO, Vice-President, or Director comprised 37% of respondents
 - Medical Managers and Pharmacy Directors each made up 8% of the respondents
 - 8% were in the Human Resources / Benefits division of their company

⇒ Geographic Breakdown

- Responses were drawn from all over the United States *(See figure 20, p. 28.)*
 - 31% of the respondents were from the Northeast
 - 21% were from the Southeast
 - 27% were from the Midwest
 - 12% were from the Southwest
 - 9% were from the Pacific and Northwest

Figure 1

Of The Following Causes, Which One Reason Do You Believe Has Played The Largest Role In Escalating Costs?

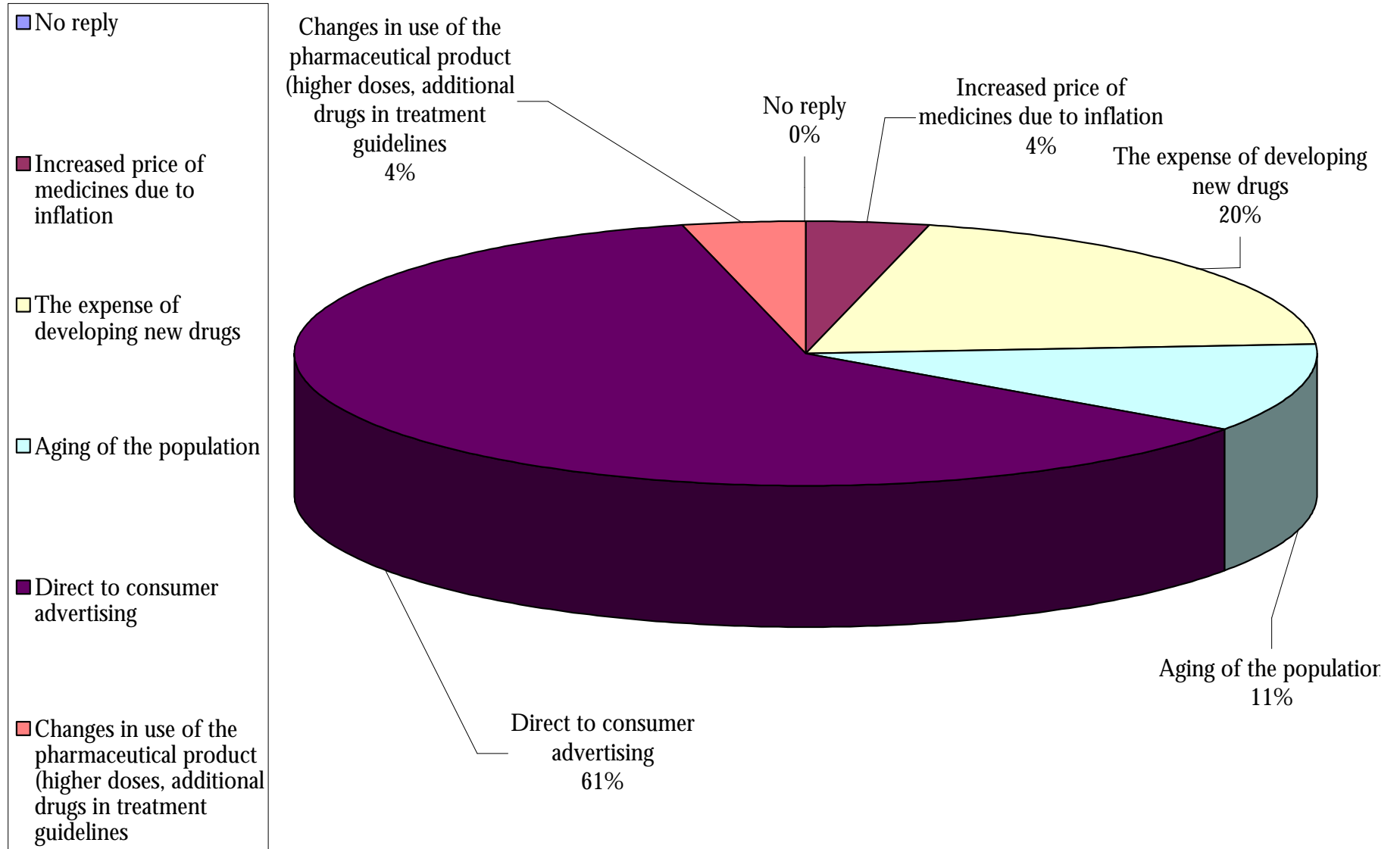


Figure 1

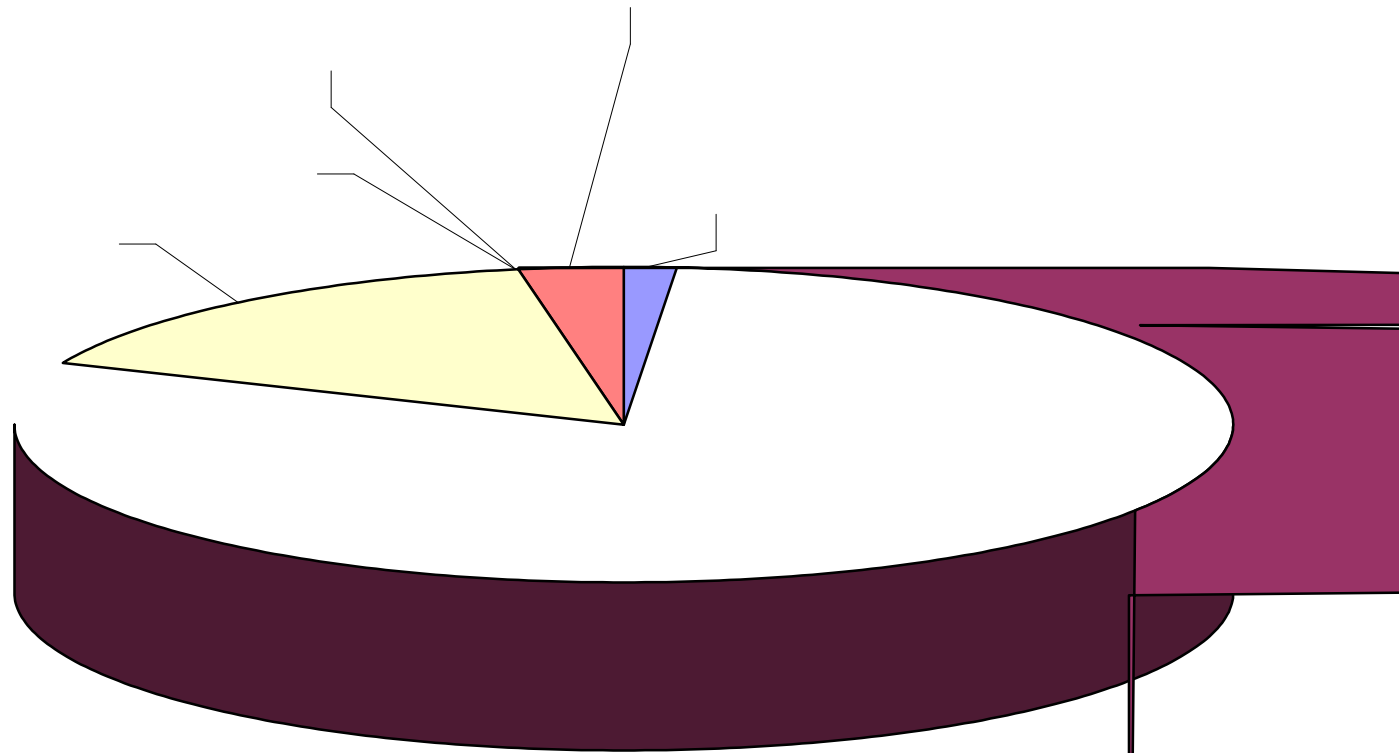


Figure 2
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Figure 3

Choose The Solution Most Likely To Slow The Rate of Cost Increases

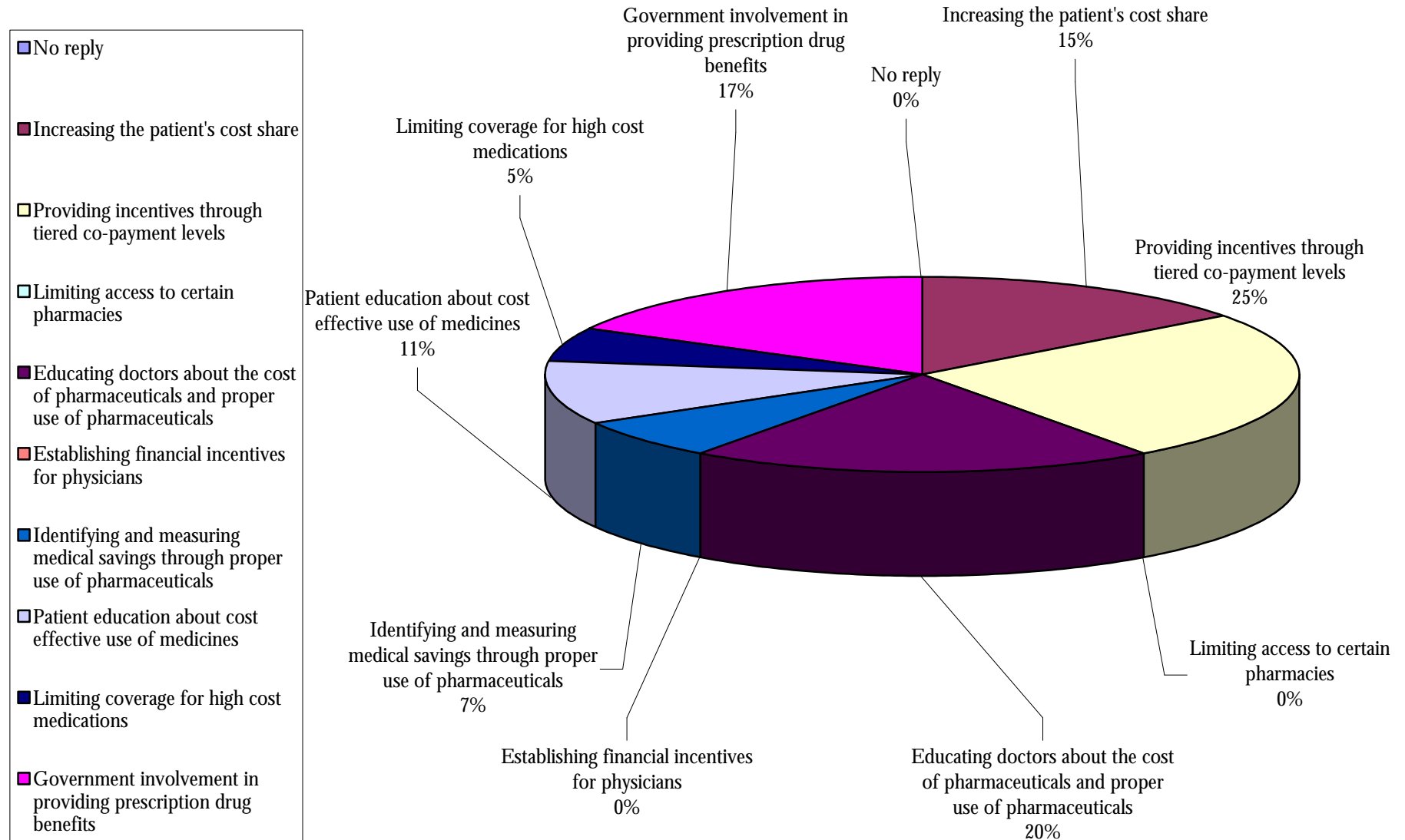


Figure 3

Figure 4

Slowing The Rate Of Price Increases: Increasing The Patient's Cost Share

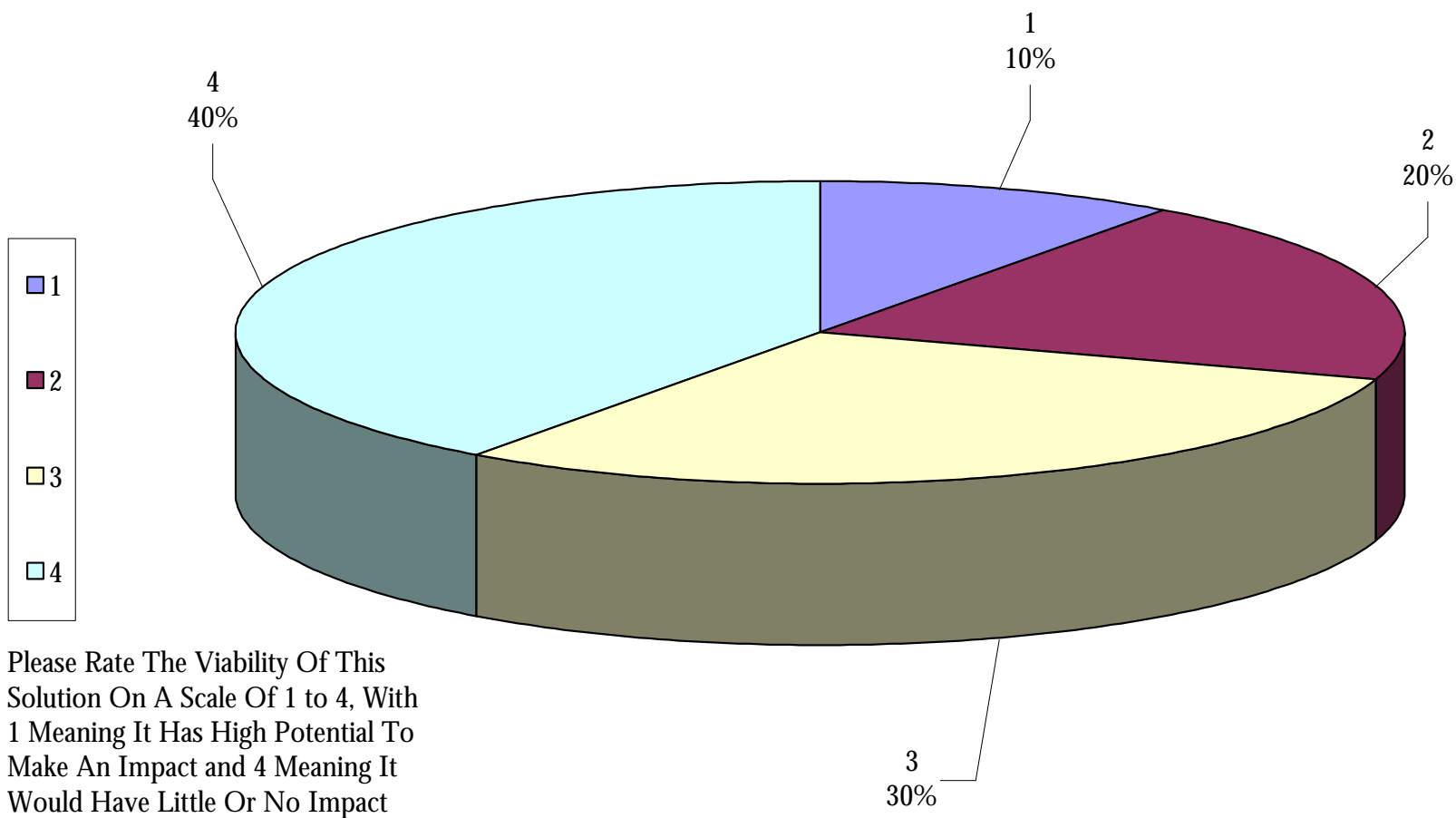


Figure 4

Figure 5

Slowing The Rate Of Price Increases: Incentives Through Tiered Co-Payments

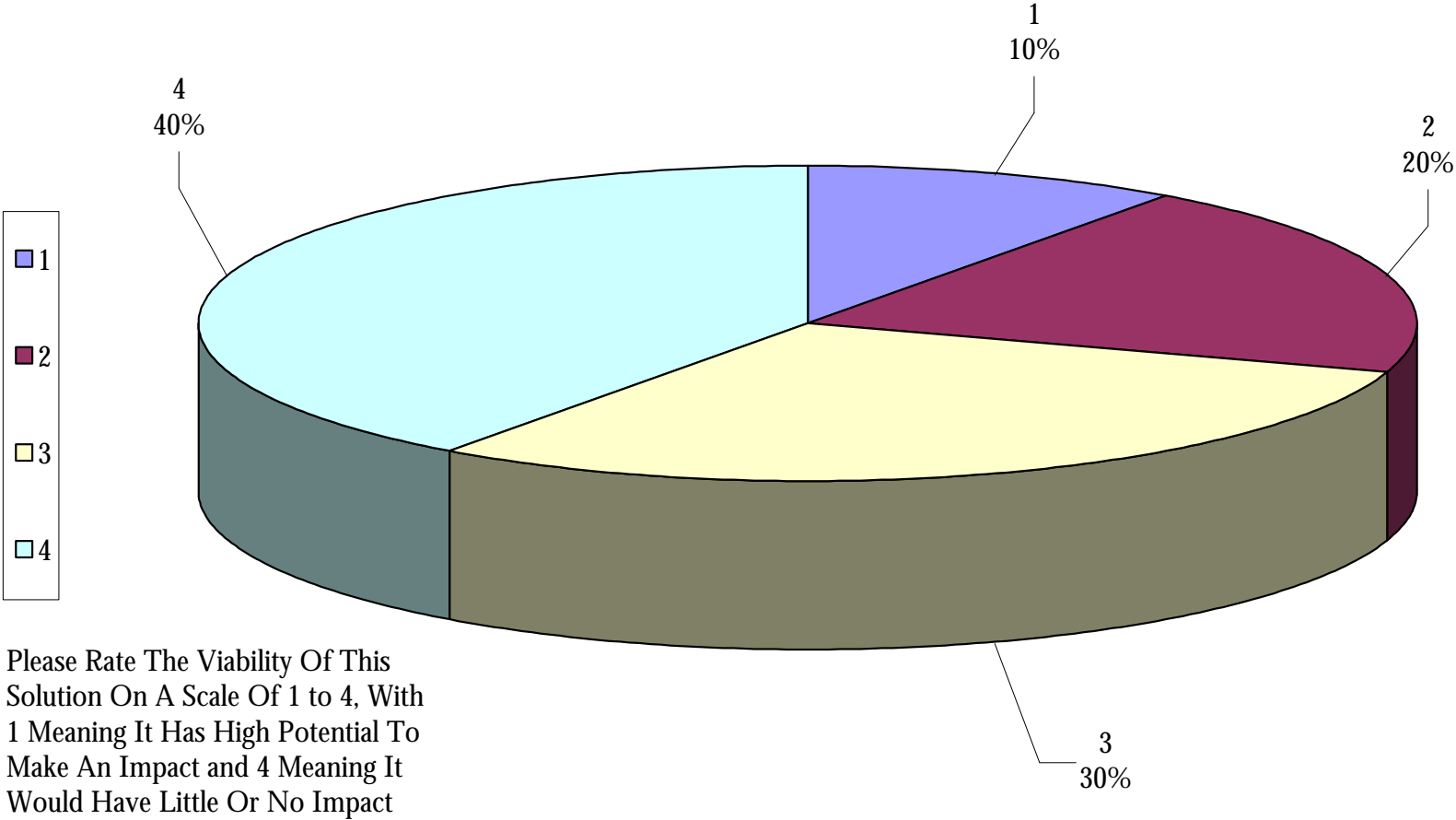
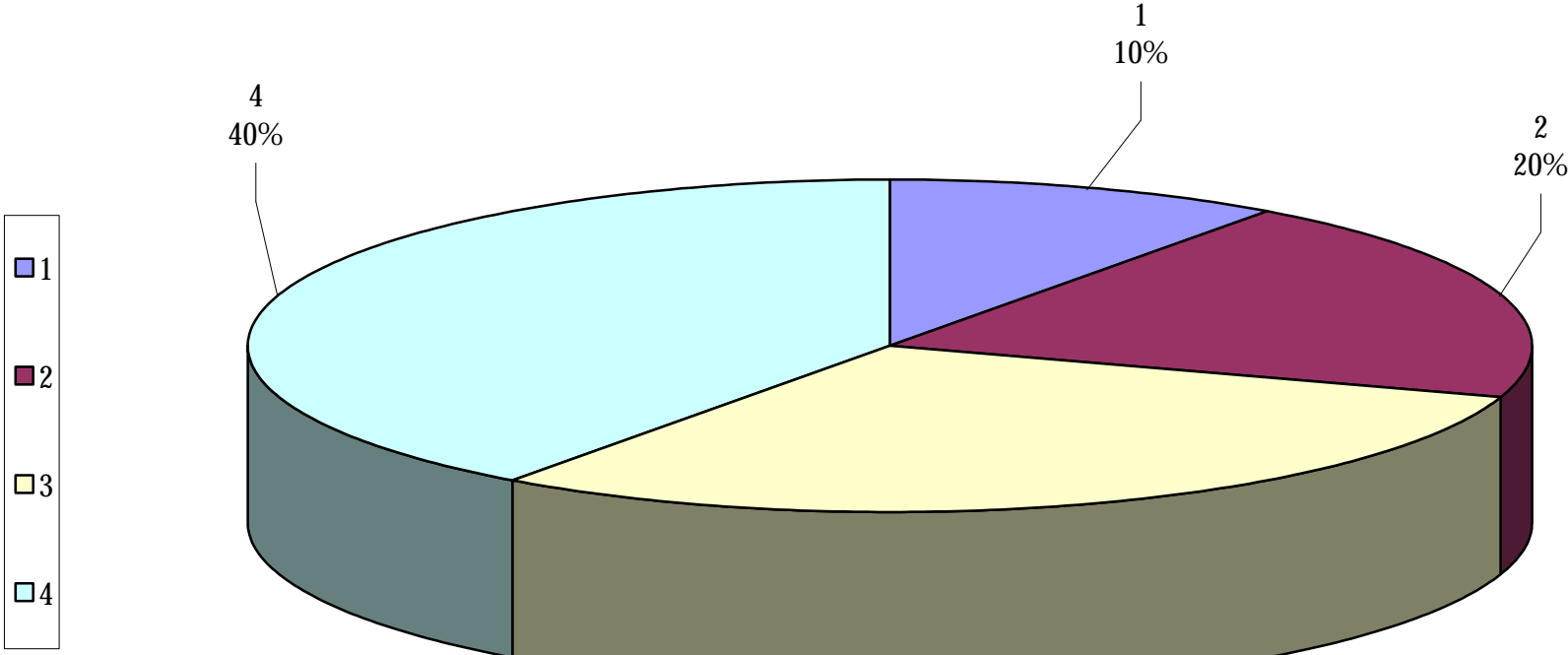


Figure 6

Slowing The Rate of Price Increases: Limiting Access To Certain Pharmacies



Please Rate The Viability Of This Solution On A Scale Of 1 to 4, With 1 Meaning It Has High Potential To Make An Impact and 4 Meaning It Would Have Little Or No Impact

Figure 7

Slowing The Rate Of Price Increases: Educating Doctors On Cost Of Pharmaceuticals & Use

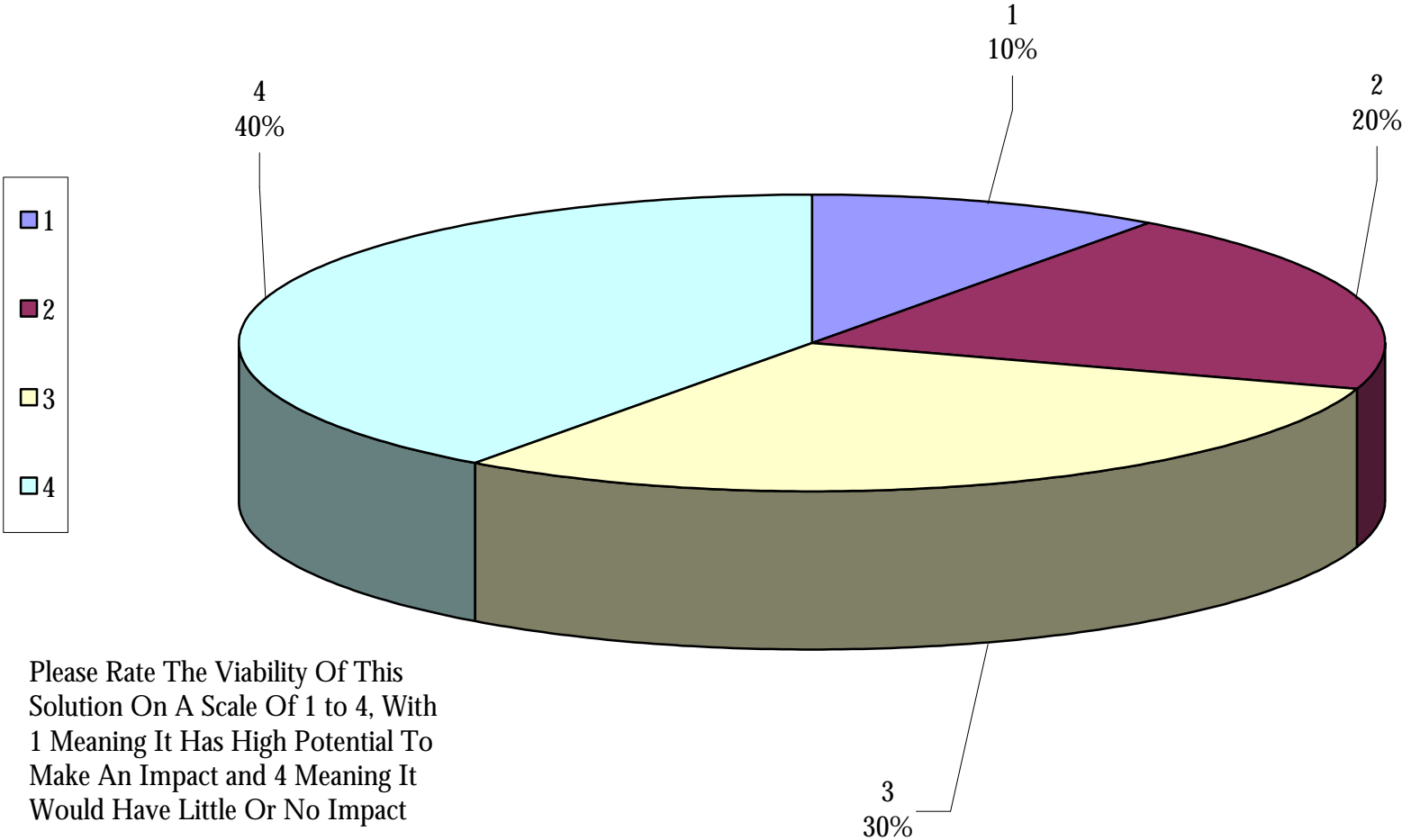


Figure 8

Slowing The Rate Of Price Increases: Establishing Financial Incentives For Doctors

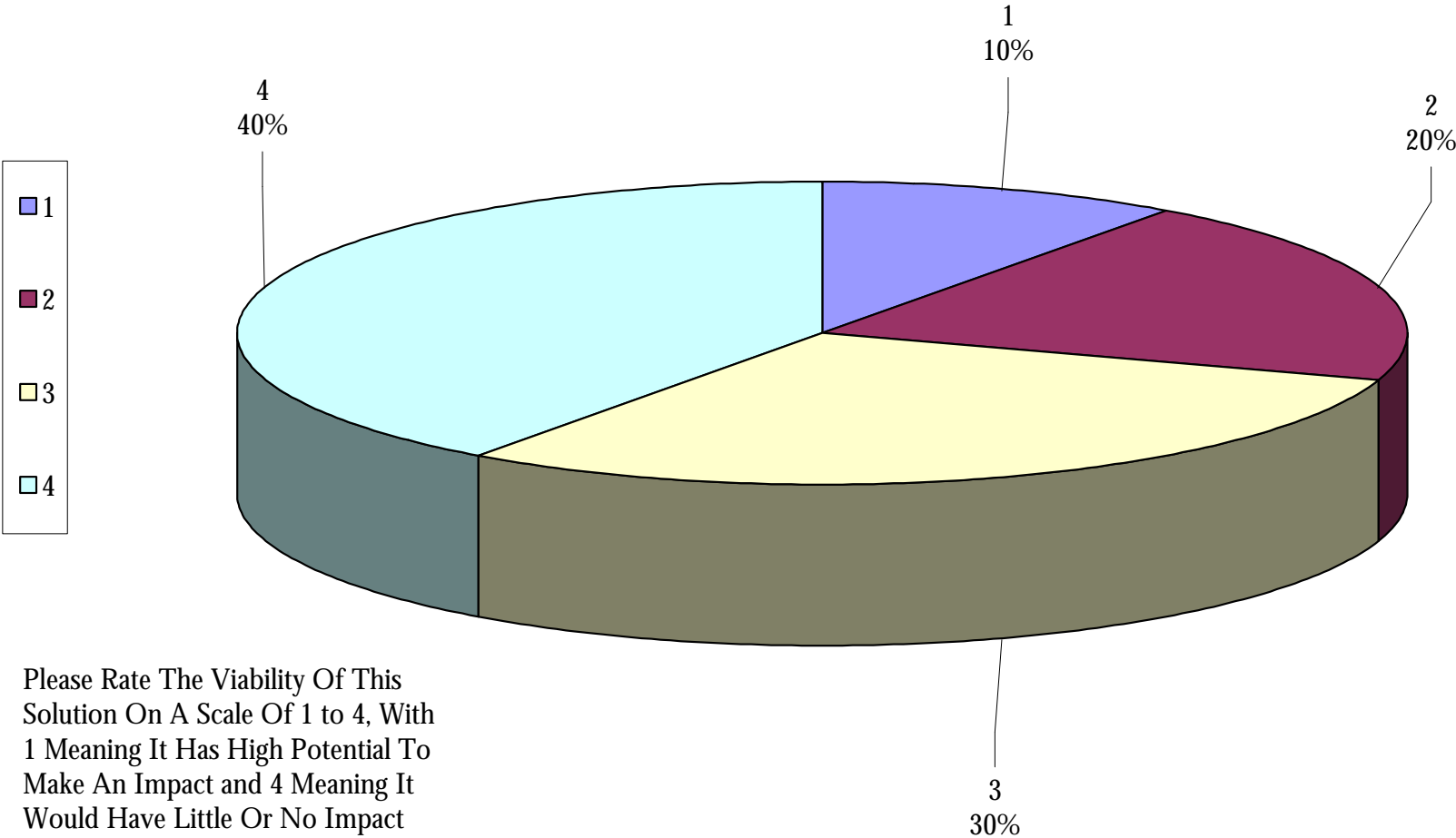


Figure 9

*Slowing Rate Of Price Increases: Identifying, Measuring Savings
Thru Proper Use of Pharmaceuticals*

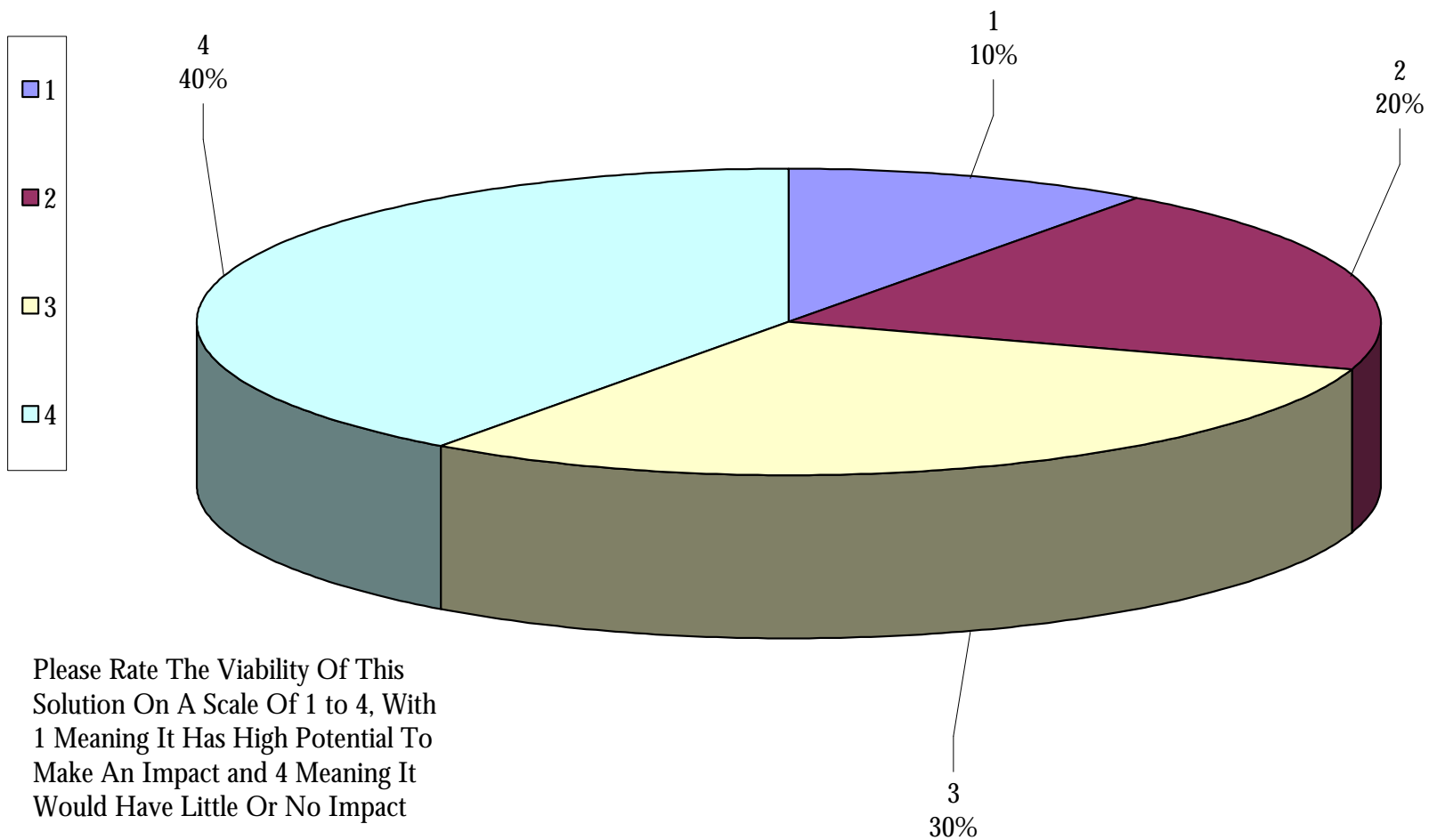
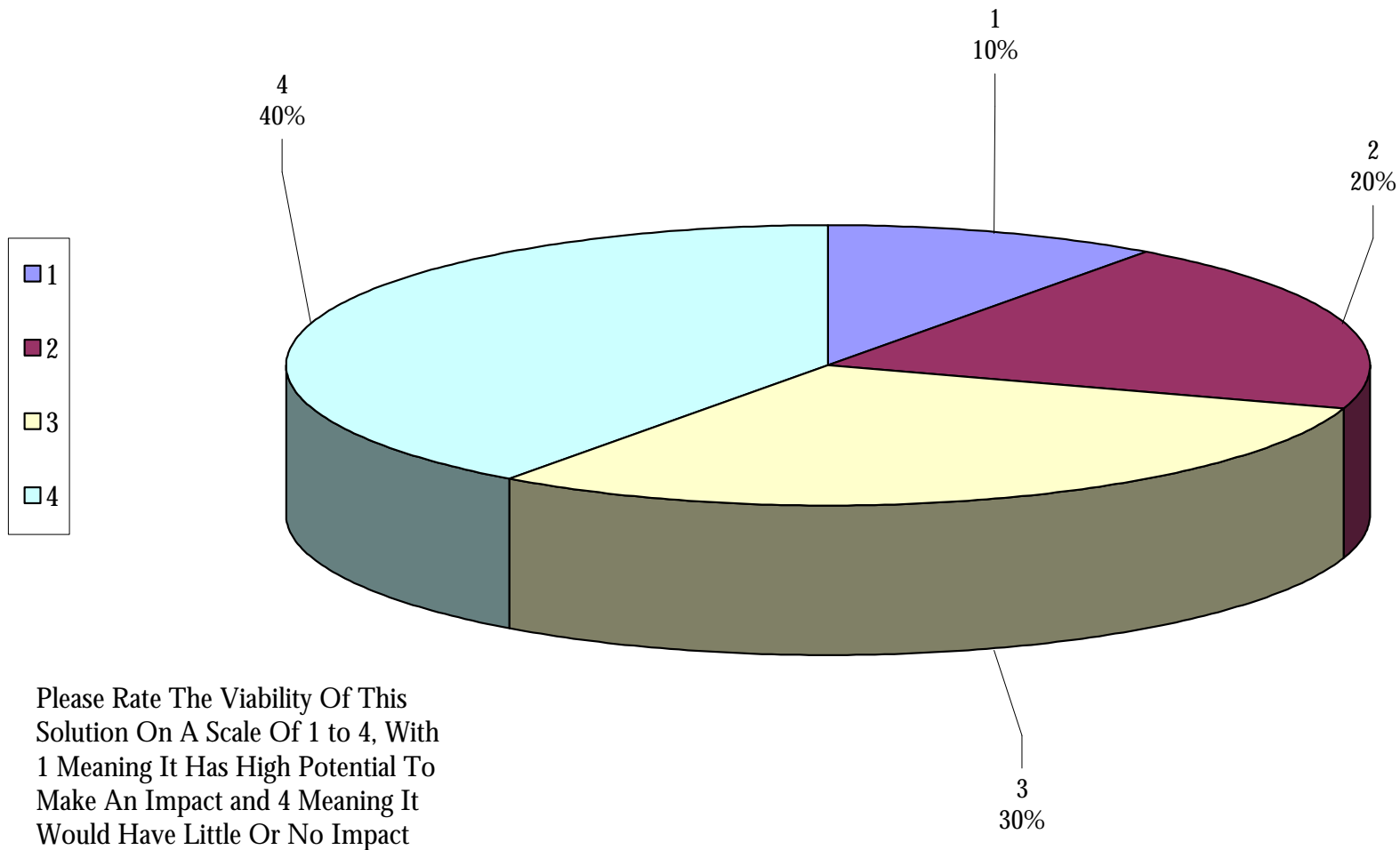


Figure 9

Figure 11

Slowing The Rate of Price Increases: Limiting Coverage for High Cost Medications

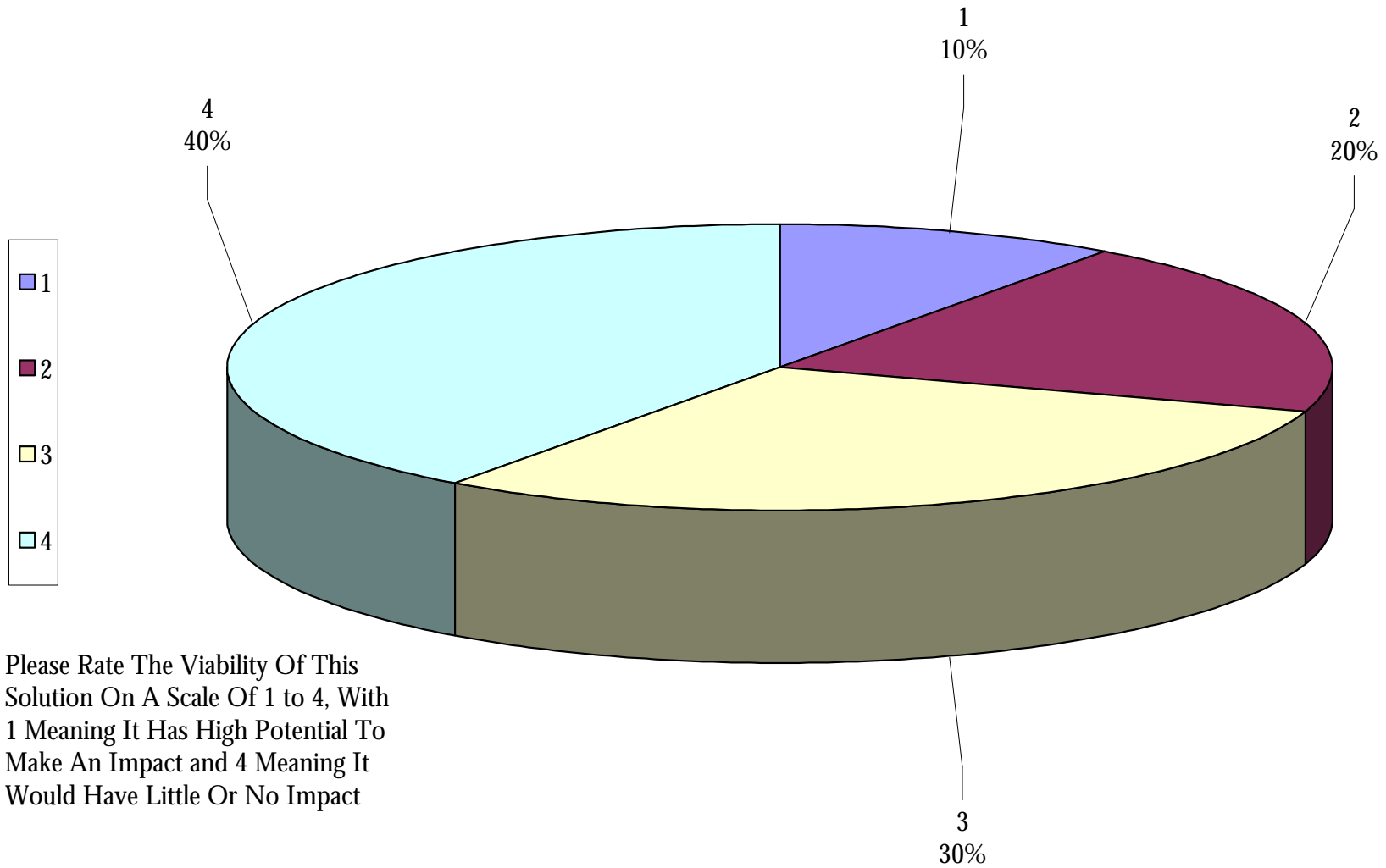


Please Rate The Viability Of This Solution On A Scale Of 1 to 4, With 1 Meaning It Has High Potential To Make An Impact and 4 Meaning It Would Have Little Or No Impact

Figure 11

Figure 12

Slowing The Rate of Price Increases: Government Involvement in Providing Rx Drug Benefits



Please Rate The Viability Of This Solution On A Scale Of 1 to 4, With 1 Meaning It Has High Potential To Make An Impact and 4 Meaning It Would Have Little Or No Impact

Figure 12

Figure 13

What Do You Think Is A Realistic Annual Rate Of Increase In The Overall Cost Of A Pharmacy Benefits Program?

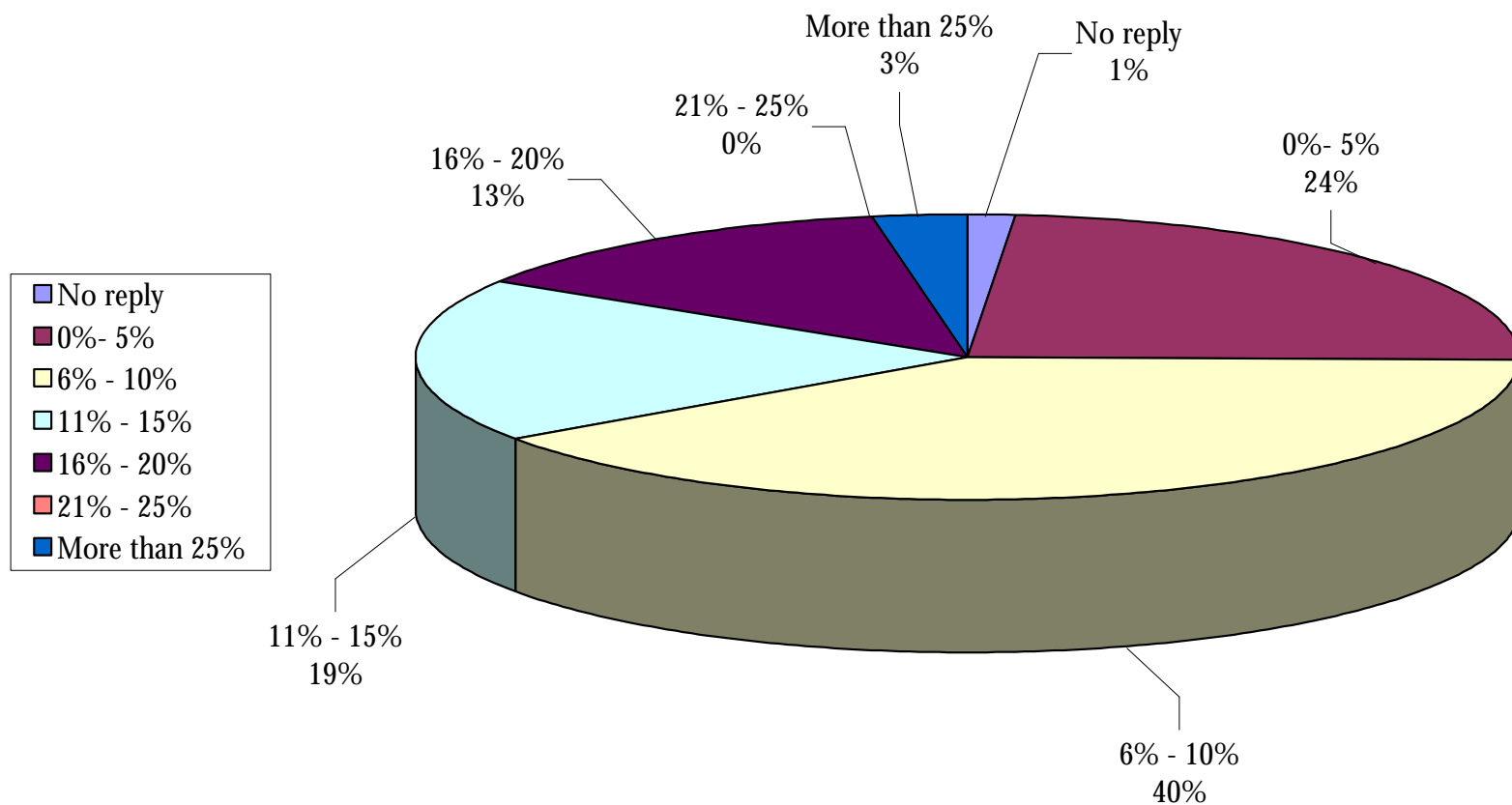


Figure 13

Figure 14

At What Price Point Will The Per Member Per Month Pharmacy Benefit Cost Be Too High In Order To Provide Coverage?

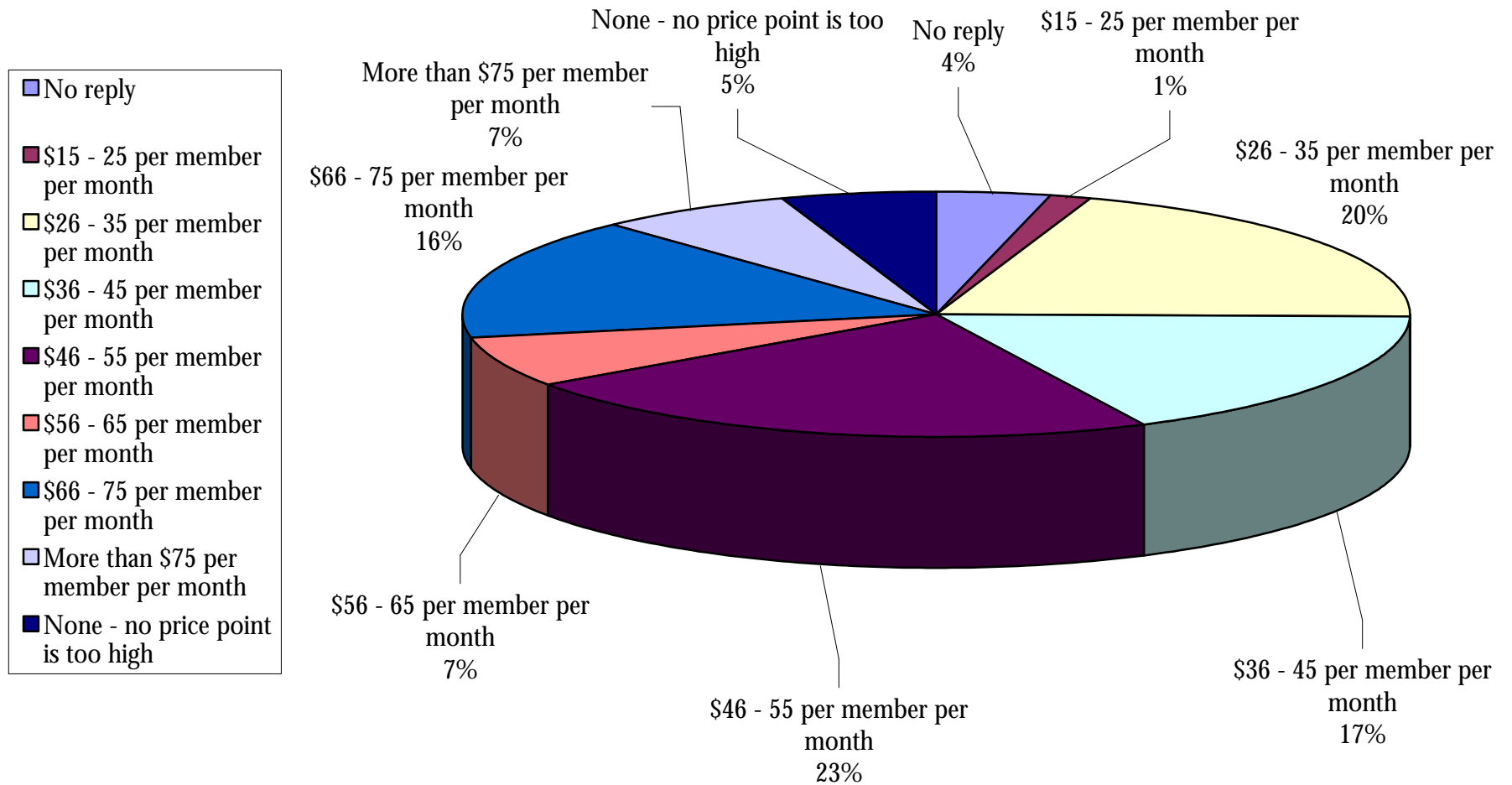


Figure 14

Figure 15

In An Ideal System, What Percentage Of The Cost Of A Prescription Should The Member Contribute?

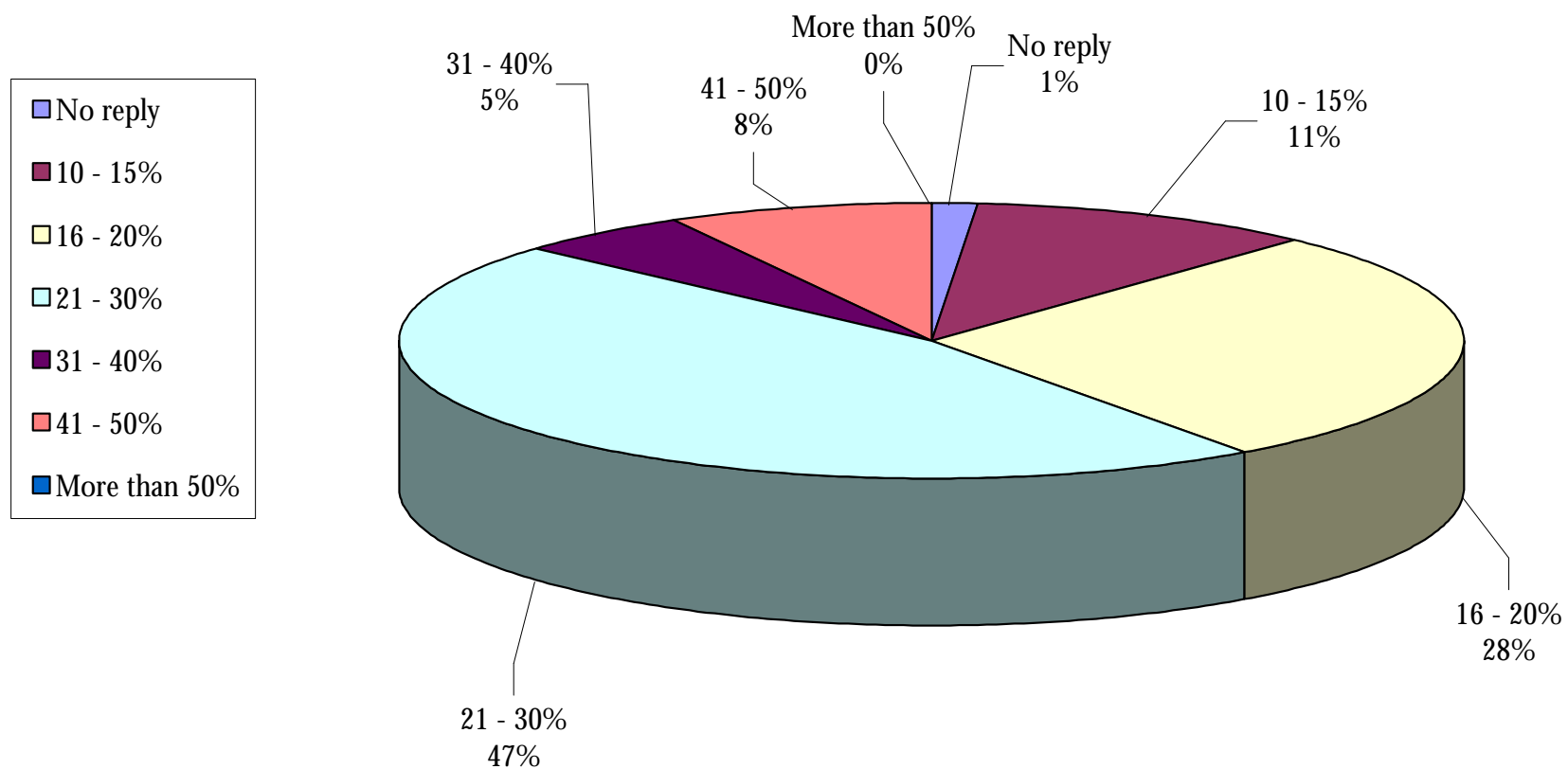


Figure 15

Figure 16

Should The Government Become Involved In The Issue?

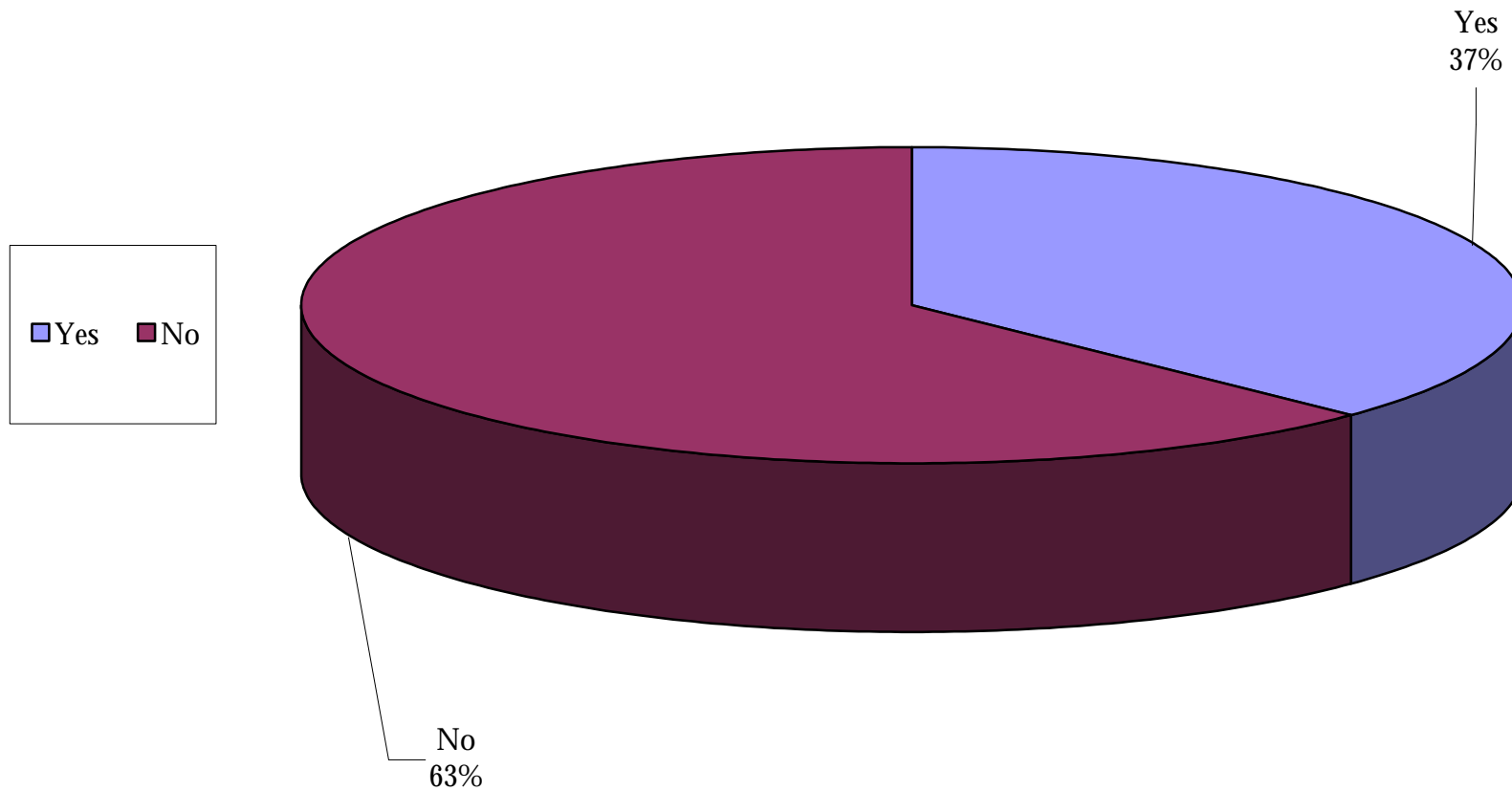


Figure 16

Figure 17

How Many Total Individual Members Are Covered By Your Company's Pharmacy Benefits?

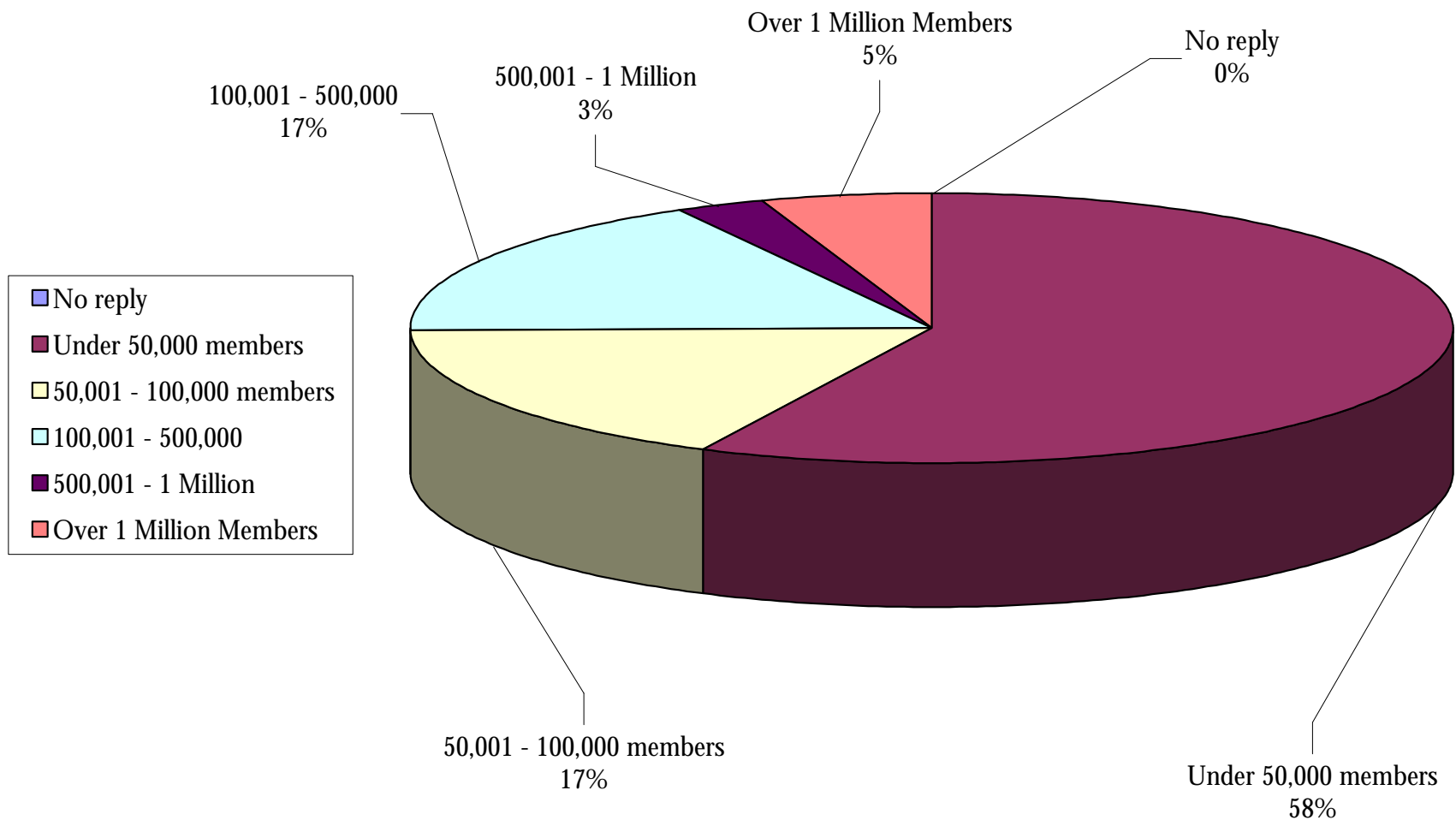


Figure 17

Figure 18
Company Category

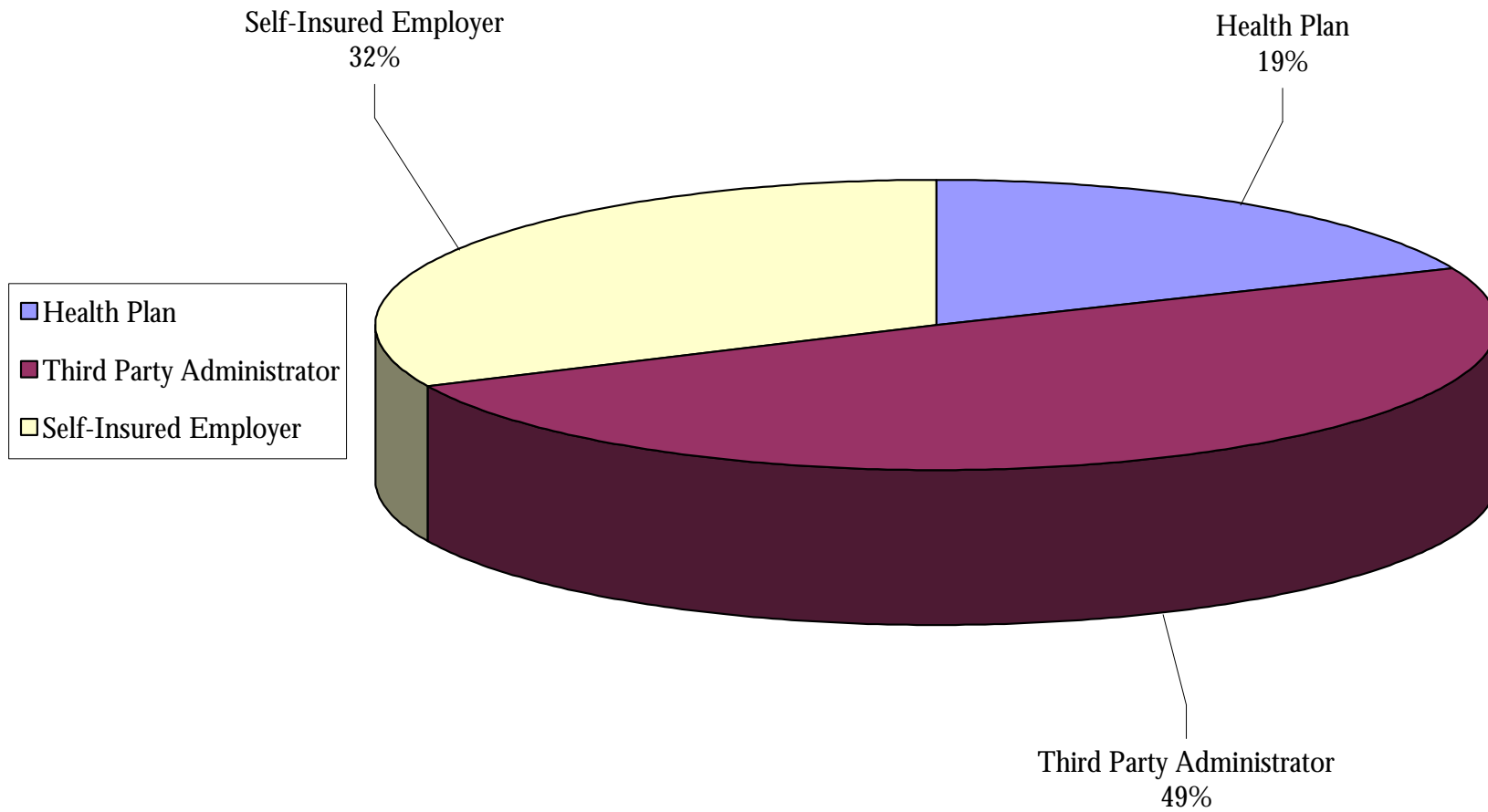


Figure 19

Title of Respondent

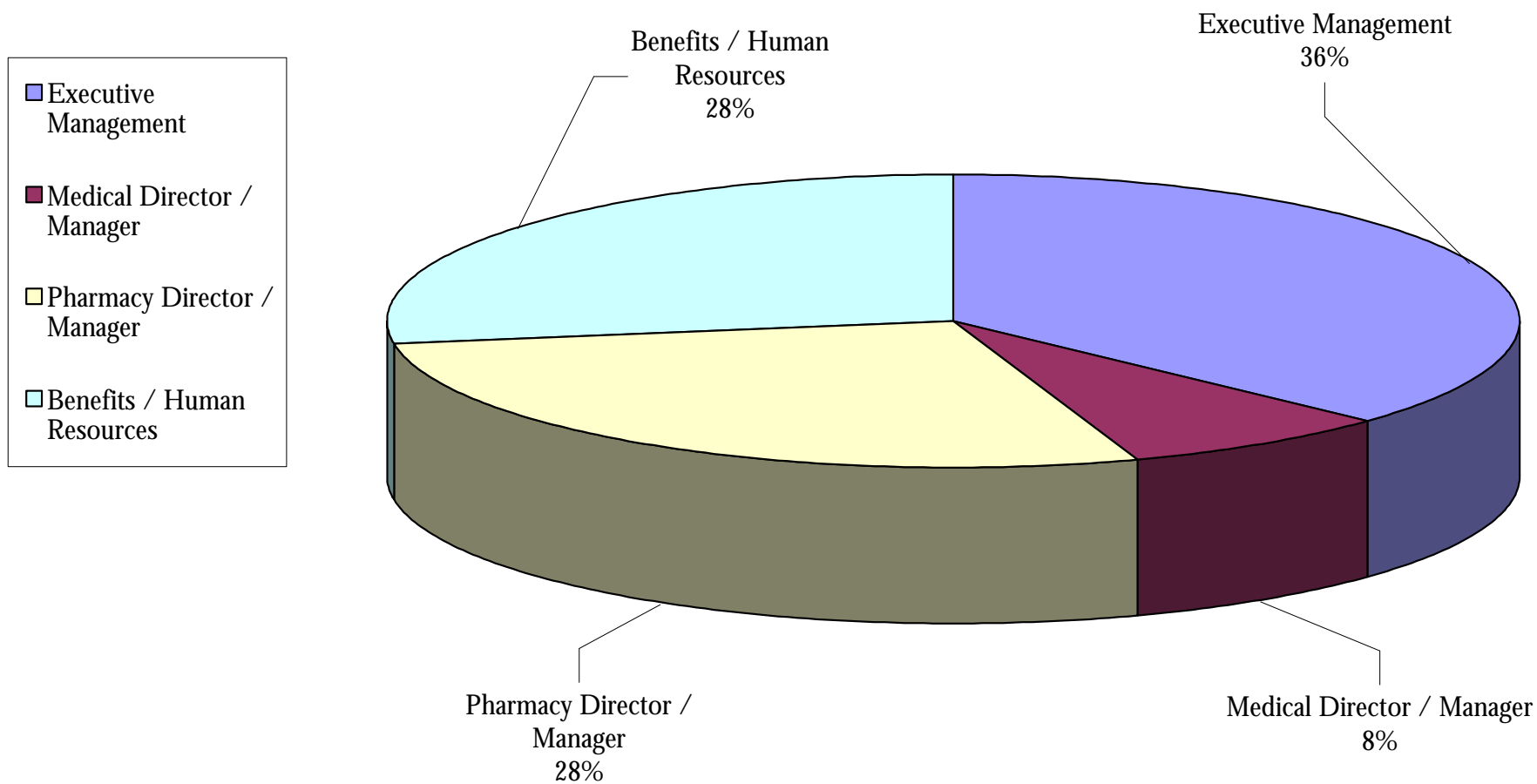


Figure 19

Figure 20

Respondents By Region

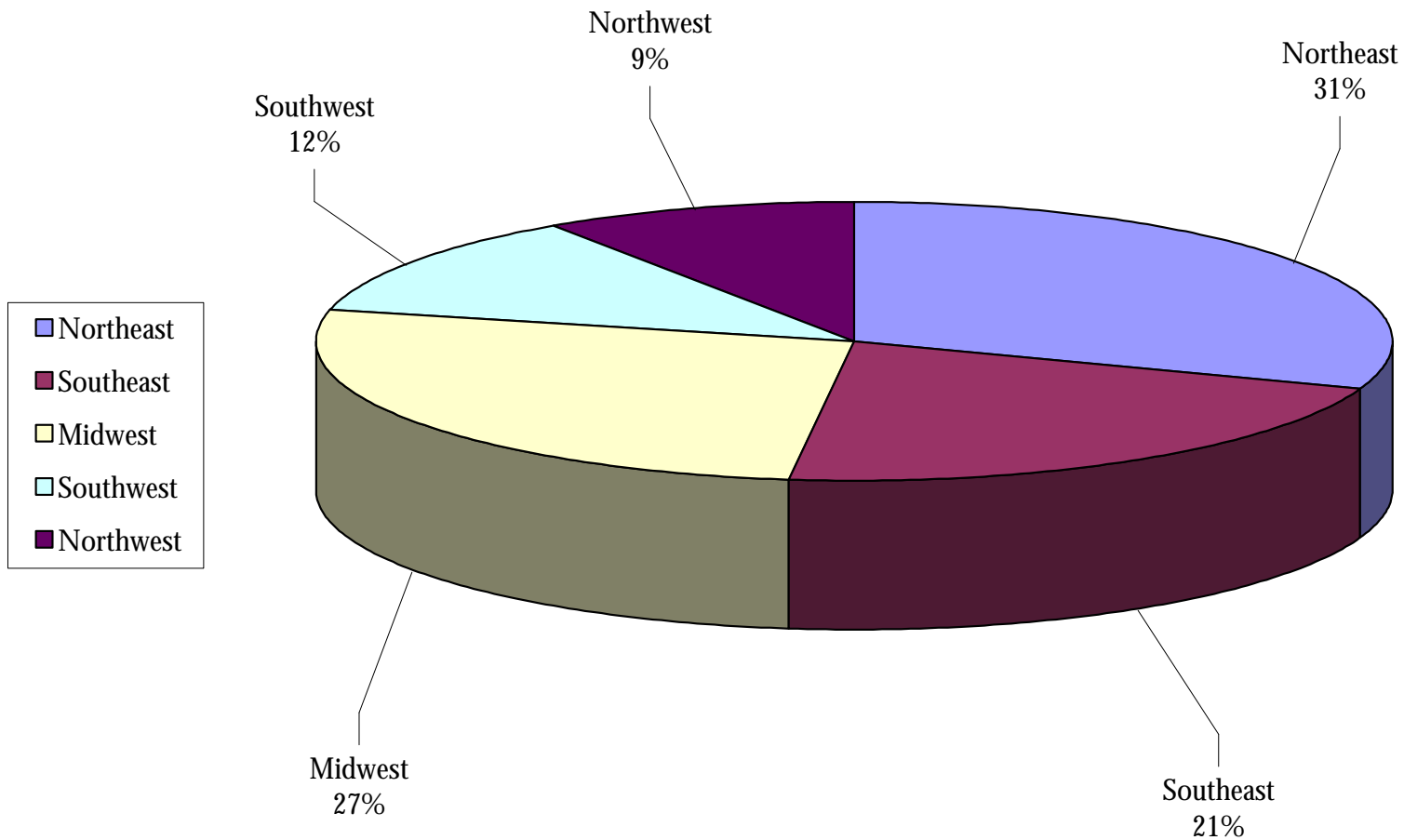


Figure 20