

# Benefit Insights

## **Generics Help Lower Prescription Drug Spending Trend**

Prescription drug spending by employers rose by 5.4% in 2005, according to the annual Drug Trend Report from prescription drug benefit manager Medco, the smallest increase since the company began tracking this data in 1999. With the overall cost increase in health insurance premiums in 2005 averaging 9.2% (according to a separate study from the Kaiser Family Foundation), prescription drug costs, once a primary driver of health benefits spending, now lag behind the overall annual increases.

According to the Medco report, 2005 is the fourth straight year that increases in the drug trend have become smaller—the trend was 8.5% in 2004, for example—and the rate is about 70% lower than the 16.4% increase recorded in 1999.

Growing acceptance and utilization of generic drugs is a key factor in continued moderated prescription drug spending, along with a slowdown in the growth rate for overall drug utilization and declines in high-use drug categories. Overall prescription drug utilization increased by only 2.7% in 2005, half the increase seen the year before. And, the introduction of new drugs—those usually bearing a high price tag—was down: 2005 saw the fewest total approvals since 2002 and the third lowest number in the past quarter century, with none of the drugs newly approved in 2005 considered to be of blockbuster status.

The generic trend is the significant story here, however, and the report predicts that this trend will continue. Between 2002 and 2005, 57 first-time generics were introduced; 15 of these premiered in 2005, including generic versions of Duragesic patches and Oxycontin (chronic pain relief), Allegra (allergy relief), and Zithromax (an antibiotic), which together accounted for nearly \$6 billion in brand-name market sales in 2004.



Furthermore, in the next four years, brand-name drugs with U.S. sales of nearly \$43 billion could lose patent protection. According to the report, acceptance of generics has become so widespread that, once a brand-name drug does lose patent protection and competing generics enter the market, consumers rapidly move to the lower-cost alternative. An analysis by Medco showed that the generic dispensing rate for four brand-name drugs—Allegra, Zithromax, Arava (anti-rheumatic) and Amaryl (for treatment of diabetes)—topped 87% within 30 days after the generic alternative became available.

Research such as this clearly shows the cost savings potential that generic drugs can offer to an employer's health plan. Co-payment differentials that make generics significantly more cost-effective for employees and communications that educate employees on generics' safety, effectiveness and affordability can lead to increased generic usage and, ultimately, help in moderating health plan costs.

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## **Higher Premiums for Those with Unhealthy Lifestyle Behaviors Gaining Acceptance**

With health care costs continuing to rise—albeit at a more moderated rate than a few years ago—some employers have tried to manage this trend by encouraging healthier employee lifestyles. Wellness programs, such as fitness classes, smoking cessation programs, and weight management counseling, could be considered “carrots” to achieve a healthier lifestyle, in that they provide encouragement and motivation toward leading a healthier life. An opposite approach, or “stick,” toward this same end, is the allocation of a higher share of health care costs to employees whose lifestyle behaviors are more likely to result in them having the need for more health care services.



A survey by Harris Interactive and the Wall Street Journal found increased support among individuals for the “stick” approach. The survey, conducted in the summer of 2006, found that more than half—53%—felt it was fair to ask people with unhealthy lifestyles to pay more for their health insurance or for their health care, than those who have healthier lifestyles. When a similar question was asked three years earlier, only 37% of the surveyed group thought such differentiated treatment was fair.

Those surveyed were asked separately about higher premiums, versus higher deductibles or co-payments, being assessed for individuals with unhealthy lifestyles. For both questions, 53% of the surveyed group thought higher co-payments were fair, though a slightly larger percentage (30% versus 32%) thought higher premiums were unfair. The remainder of the respondents were unsure about the fairness of either approach.

The behaviors characterized as healthy in the survey question were not smoking, exercising frequently, and controlling one’s weight. These are among the behaviors that are associated with a number of chronic conditions, especially as an individual ages—high blood pressure, heart disease, diabetes, and muscular and joint problems, to name a few.

An employer trying the carrot or stick approach—or a combination of both—needs to be aware of any legal requirements that may apply. Federal laws such as HIPAA and the Americans with Disabilities Act, along with state insurance mandates or other state laws, should be considered, so that any action taken will not be construed as discriminatory. Consultation with your legal counsel or benefits plan professional can guide your approach and help ensure that it satisfies any compliance issues, along with being implemented and communicated in a way that employees understand and respond to.



## Higher Engagement, Lower Costs Characterize CDHP Enrollees

Participants in Consumer-Directed Health Plans (CDHPs) are more likely to make engaged, informed decisions about their health care, and more likely to use preventive health care services than non-CDHP participants, according to a study from UnitedHealth Group. The study covered three years of data from 40,000 CDHP participants and 15,000 individuals who were enrolled in preferred provider organizations (PPOs).

Other conclusions from the study include:

- In each of the three study years, up to 5% more CDHP members sought preventive care services than did PPO members.
- CDHP members reduced their hospital admissions by 22% and their emergency room visits by 14%, while the relative utilization of these services by PPO members increased. Importantly, this reduction in acute care services came without adverse health effects or outcomes for the CDHP members.
- Hospital admissions and emergency room visits by CDHP members with chronic conditions also decreased, by 8% for hospital admissions and by 12% for emergency room visits. Importantly, these enrollees continued to visit a primary care physician at the same rate as chronically ill PPO members.
- Health plan costs per plan member over the study period decreased for CDHP enrollees while increasing for PPO enrollees. After adjusting for demographics, health status, plan design impact and geography, costs per CDHP member decreased 3% to 5%, while increasing 8% to 10% for PPO enrollees.

This cost data is consistent with the results of a survey released earlier this year by Deloitte which, though reporting an increase in CDHP health plan costs from 2004 to 2005, found that this increase averaged only 2.8%, compared to increases of 8% for health maintenance organizations, 8.5% for point-of-service plans, 7.2% for PPOs, and 6.4% for indemnity plans.

Currently, a small but growing number of employers offer CDHPs to employees, according to a report from the General Accounting Office. Most do so in order to help control health care costs, through increasing employees' awareness of health care spending and by giving employees a more immediate financial stake in their health care decision-making.

According to UnitedHealth Group, health care spending and consumer behavior can be positively impacted, without adverse effects on members' health, when CDHP enrollees are given the necessary support. Thus, employers wishing to see the best that CDHPs can offer must commit to providing—or commit to ensuring that the CDHP vendor provides—tools and information that enable employees to make smart health care decisions. Such a commitment includes ensuring that employees understand how CDHPs work; having plan provisions that encourage utilization of wellness programs and preventive care services; offering easy-to-use tools that give employees useful, comprehensible information on health care issues, services and providers; and educating employees that how they manage their health and use health care services is a financial—as well as a personal—issue for them.

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changes to save on health care costs. Many of the individuals in this group have never switched health plan options since initially enrolling in their plan.

According to Fidelity, understanding that employees broadly fall into these four personality types can help an employer to deliver more personalized health benefit options and communications. All four groups can become more savvy health care consumers, the study asserts, in part by learning more about their plans.

The study identified three specific areas where employees could better maximize their health benefits: using FSAs more effectively, adopting healthier lifestyles, and making greater use of online health plan support tools and resources. For example, only about one-third of the surveyed group participated in an available FSA, and 45% of the two-thirds that did not cited the risk of losing unspent contributions as a primary reason for nonparticipation. Understanding the range of expenses eligible for reimbursement (including over-the-counter drugs in most plans) and that the tax

savings gained can outweigh small forfeited amounts might help some employees decide to participate.

While most employees (89%) agreed that they have all the information they need to understand their health plan, a majority (59%) expressed the desire for information that was more personalized to their individual needs. Many employees may not realize that individualization may already be available to them, in the form of online planning and support tools provided as part of many health plans. The vast majority of surveyed employees (87%) who used such tools described them as valuable; 58% said they made decisions easier; and 29% said they could not have made the best decisions without them.

As noted at the outset, most employees recognize the need for smarter health care consumerism. FSAs and online planning and support tools contribute to savvy consumerism, and could be used by employees of all four personality types to reach this goal.

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## **Personality Helps Drive Health Care Decisions, But All Types Can Become Smarter Consumers**

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Personality traits play an important role in employees' health care choices and usage, according to a recent survey. But despite these differences, a large majority of employees believe that, in order to combat health care cost increases, people should adopt healthier lifestyles (88%) and should become smarter shoppers for health care services (74%).

Fidelity Investments surveyed 1,084 employees who participate in a health care plan and/or have a medical flexible spending account (FSA) available to them. In analyzing the surveyed employees' behaviors and attitudes toward health care, four distinct personality types emerged—

- Early adopters (9% of the survey group) were the most cost-conscious and most willing to try new ways to cut health care costs, such as by enrolling in consumer-directed health plans, high-deductible health plans, and health savings accounts. This group, which tended to have moderate health care needs, also was willing to make lifestyle changes and use FSAs to manage health care costs. They are very engaged in managing their benefits, and actively shop plan options.
- Maximizers (27% of the survey group) also are cost-conscious and involved in shopping health care options, but tend to have greater health care needs, and won't

neglect these needs in order to save money. Like early adopters, they use FSAs and available health plan support tools, and are willing to make lifestyle changes in order to save on costs.

- Evaluators (33% of the survey group) make little use of FSAs and other health plan tools, primarily because they have minimal health care needs. As such, they are not particularly cost conscious, but are likely to switch plans given the right circumstances (for example, a new health plan option that offers more flexibility).
- Complacents (31% of the survey group) also have minimal health care needs, but unlike Evaluators are rather detached from their health benefits, viewing them as “out of sight, out of mind.” They are the least cost-conscious of the four personality profiles, seldom use FSAs or other health plan decision-support tools, and are unlikely to make lifestyle



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