

Waiting for the Clampdown

Think MCOs are counting beans *now*? Better be ready for the next wave of pharma cost reductions.
by Thomas Hayes

As employers, managed care organizations (MCOs), politicians, and consumers coalesce around the issue of pricing, the future of reimbursement looks grim. The New England Consulting Group (NECG) conducted a survey of more than 50 MCOs to understand how they are prioritizing cost reduction, how quickly they plan to move, and what strategies they expect to employ.

The results paint a challenging picture: MCOs, squeezed between the high expectations of members and employers' need to push back against the rising price of healthcare, are focusing their attention on pharma costs and contemplating steps that a few years ago would have been unthinkable. Employers are pressing for new healthcare models that control costs by giving patients a greater financial stake in their treatment—which historically has not boded well for pharma. These actions are taking place within the context of

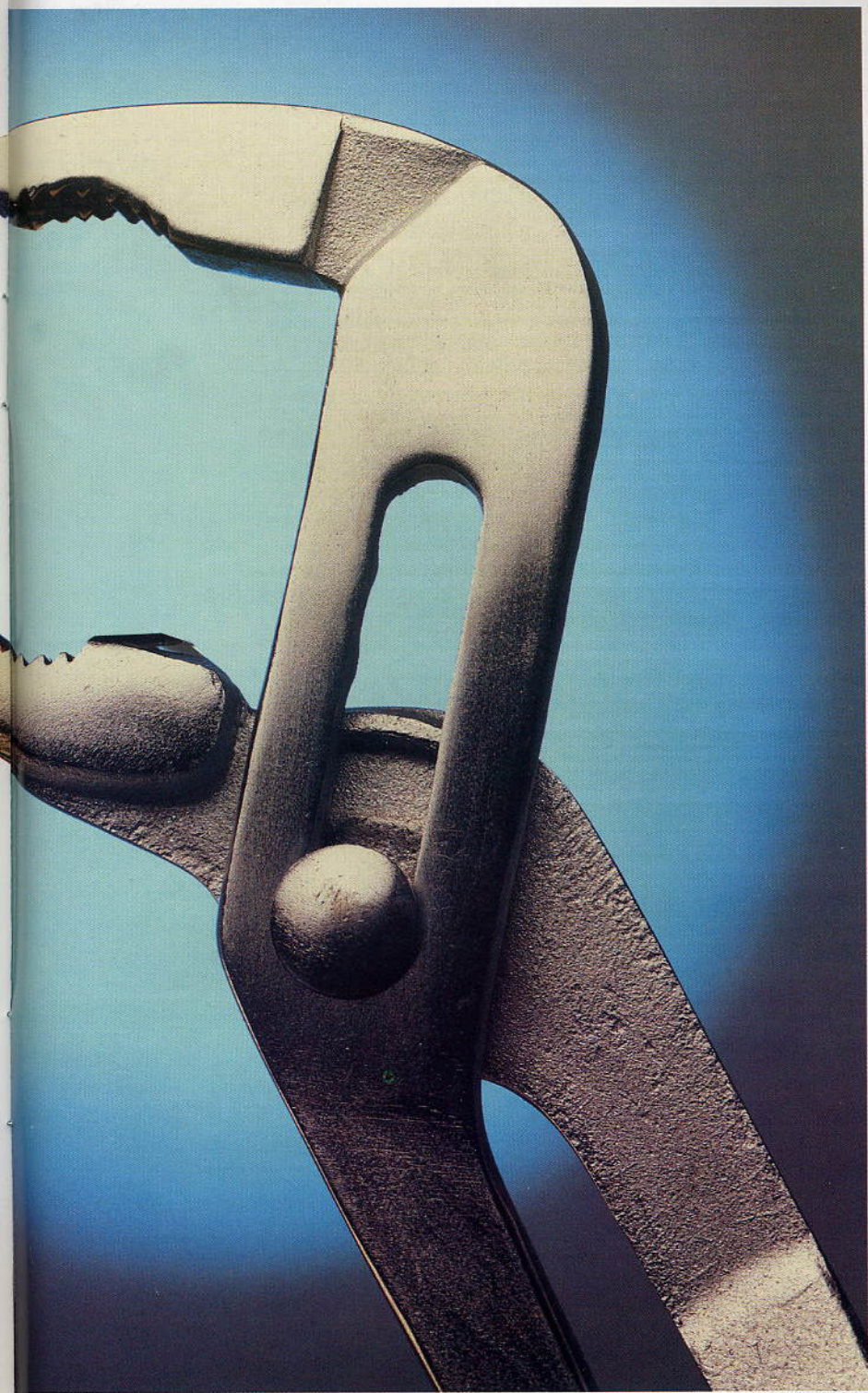
changing public attitudes: Consumers are beginning to regard prescription drugs as a basic human right, and they are becoming increasingly vocal in trying to impose this idea on government, MCOs, and the pharma industry.

This article reports the highlights of the NECG survey and points to some factors that marketers should consider when dealing with the new reimbursement landscape.

Tighter Belts

MCOs are caught between competing demands. Their members want unfettered access to treatment; their customers—the employers—want cost controls. Today, according to the survey, MCOs are initiating the process of reducing their customers' pharma costs, instead of responding to members' demands. In the survey, 87 percent identified reducing pharma costs as either "top priority" or "very important." (See "Cost Controls on the Rise," page 54.) And 86 percent said it was a much greater or somewhat greater priority than it was two years ago. (See "Growing Emphasis," page 54.) »

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Toward that end, MCOs are not only trying to keep down costs on a “negotiated per pill” basis, but are trying to reduce absolute consumption. (See “Cost Controls on the Rise.”) They have taken some dramatic steps. All have increased co-pays. All have stepped up programs to educate doctors about generic substitution and lower-cost alternatives to brand-name drugs. And the majority is either subjecting new products to more cost-value evaluations or is considering doing so.

Today’s MCOs are more opportunistic companies, subscribing to policies and procedures that would have been classified as unusual or even ludicrous a few years ago. Who would have imagined that more than 20 percent would promote pill-splitting as an economic measure—and close to 50 percent are considering doing so? (See “Proactive Policies.”) The therapeutic

classes of so-called “lifestyle” drugs are even more vulnerable in the current and future managed care environments. (See “Endangered Species,” page 56.)

- » 80 percent of companies have moved allergy pharmaceuticals to a second- or third-tier co-pay. More than half of companies are considering removing them from reimbursement.
- » 20 percent say ophthalmological pharmaceuticals that are currently reimbursed won’t be in the future, and a similar percentage say they are considering such a move.
- » Almost half (47 percent) say that dermatological treatments are candidates for moving to a second or third tier, and 40 percent say they will either cease reimbursement for dermatological products or are considering such a move for the future. »

Cost Controls on the Rise

In a survey of more than 50 MCOs, most report that pharma cost reduction is a top priority.

Top priority	43%
Very important	36%
Important	21%
Somewhat important	0%
Not currently a priority	0%

SOURCE: NECG analysis, May 2004

Growing Emphasis

MCOs’ top priority will remain at the top of the list.

Yes, much greater priority	29%
Yes, somewhat greater priority	57%
No, about the same	14%
Yes, less important	0%
Yes, much less important	0%

SOURCE: NECG analysis, May 2004

Proactive Policies

MCOs aren’t waiting for employers to drive change; they’re initiating it themselves.

	Yes	May consider	No
Encouraging switches from Rx to OTC status for certain prescriptions	79%	0%	21%
Encouraging/promoting OTC over Rx solutions in certain cases	71	8	21
Placing an entire therapeutic class into a second-tier co-pay	22	64	14
Promoting pill-splitting in certain cases	21	50	29
Distributing coupons for OTC drugs	43	21	36

SOURCE: NECG analysis, May 2004

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Paying Retail

Tacked onto the Medicare Modernization Act was a provision for Health Savings Accounts (HSAs). HSAs resemble Medical Savings Accounts authorized under the Health Insurance Portability and Accountability Act (HIPAA), but with key differences. When an employee signs up for a high-deductible health program (one with a deductible of more than \$1,000 for individuals and more than \$2,000 for families) he or she is eligible to establish an account with pre-tax dollars up to the amount of the deductible (or \$2,250 for individuals, \$4,450 for families, whichever is lower). The big difference between MSAs and HSAs is eligibility: MSAs were restricted to the self-employed and those working for businesses with fewer than 50 employers; the whole program was capped at 750,000 participants.

HSAs are expected to be widely accepted. Fully 85 percent of MCOs surveyed said their customers are demanding HSA options. United, Cigna, the big "Blues," and others are offering these plans, and

consulting companies including Mercer and Hewitt project a rapid buildup beginning in Fall 2004 as employers review their 2005 health plans.

The intent of consumer-directed health care is to change consumer behavior by ensuring that patients have a financial interest in their own healthcare. Earlier iterations of consumer-directed health plans, even before the more advantageous HSA, have resulted in a dramatic impact on drug utilization. The same will undoubtedly be true of HSAs. Many employees—perhaps for the first time in their careers—will be faced with the prospect of paying for drugs out of pocket, at full retail prices, or discounted at a much lower rate. The effects will almost certainly be lower absolute utilization of pharmaceuticals, lower compliance, and increased slippage (prescriptions ordered but never actually picked up). (See "When Consumers Decide," page 57.)

Life, Liberty, and Prescriptions

There is a growing sense that prescription drugs are a basic human right, no matter

Endangered Species

The future looks grim for reimbursement of so-called "lifestyle" treatments.

	Yes	May consider	No
Which are potential candidates for OTC switch?			
Allergy treatments	93%	6%	1%
Ophthalmological treatments	26	27	47
Dermatological treatments	40	27	33
Which are potential candidates for moving to a second- or third-tier co-pay?			
Allergy treatments	80%	0%	20%
Ophthalmological treatments	60	20	20
Dermatological treatments	47	27	26
Of the following currently reimbursed pharmaceuticals, which are likely to be so in the future?			
Allergy treatments	33%	48%	19%
Ophthalmological treatments	60	20	20
Dermatological treatments	60	19	21

SOURCE: NECG analysis, May 2004

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who developed the product or owns the intellectual property. While most people in pharma acknowledge the need to make products accessible, it is clear that some politicians and others see the issue in much more black-and-white terms, and they have begun to build their ideas into international agreements. The "forced licensing" of AIDS drugs to South Africa, essentially gifting the entire array of drugs, was a dramatic, watershed event. And "escape clauses" for ignoring intellectual property buried in the World Trade Agreements tend to codify entitlement.

Within the US market, increased awareness of differential pricing is driving the sense that the cost of medicines is somehow unfair. Discounting and, even worse, discounting based on income levels further fan the flames. People in adjacent demographics in an expanding circle feel they have the same right to pay less—or even nothing. No one wants to be the only passenger on the airplane paying retail.

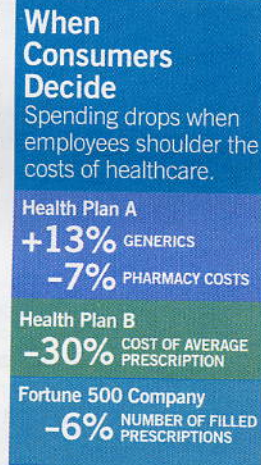
This attitude of entitlement in the senior or Medicare market is particularly pervasive, due to generational and perceived income issues, and a general smart, frugal approach to purchasing anything. But this age segment, which accounts for almost half of all prescription drug use, has been emboldened by the Medicare Reform legislation and the associated drug benefit, and now expects more.

How to Respond

While the future cost-conscious environment for pharmaceuticals will be difficult, there are actions responsible mar-

keters can take to counteract some of these trends. Here are a few broad suggestions for future consideration in your marketing plan:

- » Employ innovative pricing and promotional approaches.
- » Heighten communication of the actual medical necessity of "lifestyle" drugs.
- » Use direct-to-consumer marketing to create inherent patient demand and to create value.
- » Where medically appropriate, communicate restrictions against pill-splitting—even in the package insert.
- » Reserve drug discount programs for only the most extreme cases. (In any industry, giving away your product usually has a negative impact on creating value.)
- » Create a new paradigm and working relationship with MCOs beyond just arm wrestling over formulary status and pricing.
- » Work directly with large employers to market your pharmaceuticals. (Lifestyle medications take on new importance when framed within the context of workdays "saved.")
- » Formulate a plan to deal with generics upon patent expiration. (Look outside of the industry to other companies like many pharma clients who deal with the issue of private label every day.)
- » Be prepared to "switch" to an over-the-counter classification at or before patent expiration.
- » Target individuals in high-deductible health plans with HSAs, who essentially manage their own personal formulary. ■



SOURCE: NECC analysis, May 2004