# Drug Plans in a New Light

**Industry stakeholders share their expert advice on the sustainability of drug plans at a time when new drugs promise unprecedented health outcomes—at unprecedented prices**

Drug plans have come to acquire a dual nature. On the one hand, and since health benefit plans first arrived on the scene, they are the most utilized, and likely the most-valued employee health benefit. They provide coverage for drug costs that are generally predictable. On the other hand, and much more recently, they provide invaluable peace of mind for a relatively small number of people whose struggles with disease have led to the need for unexpectedly high-cost specialty drugs, which may otherwise be unaffordable for them.

How plan sponsors and their benefits providers choose to respond to this dual role will determine the long-term sustainability of their drug plans, assert insurance carriers and benefits advisors who recently gathered for an expert panel discussion on the future of drug plans, hosted by *Benefits Canada* and sponsored by TELUS Health.

## Give and take for sustainability

Panel participants state that the road to sustainability will likely be bumpy and require a process of give and take, where the employer's philosophy concerning the role of health benefits, and drug plans especially, must be weighed against the capacity of the organization to tolerate risk. Striking the right balance between philosophy and risk lays the foundation for drug plan management in a new era of breakthrough pharmaceuticals.

That may sound like too much theory to put into practice, but the panel's senior-level participants stress that practical steps are already at hand. They also emphasize that time is increasingly of the essence, due to growing pressures from both sides of the drug-plan equation.

"Since late 2015 or early 2016, we've been seeing inflationary growth from the 99% of claims that aren't for specialty drugs," says Martin Chung, assistant vice president of strategic health management at Equitable Life. "We are reaching that tipping point, where we recognize the merits of giving serious consideration to multiple approaches to drug plan management that focus on both the '99%' and the '1%.'"

"The number of conversations we're having around sustainability has skyrocketed compared to just a year ago," agrees Alan Kyte, senior pharmacy consultant at Willis Towers Watson. "This is a good thing, because at this point there is still enough time—not much time, but enough—to step back and be strategic about where we want to take drug plans."

## Why corporate philosophy must lead

For decades, the use of drug plans as a tool for employment attraction and retention has worked reasonably well. Increasingly competitive markets mean that employee health benefit plans have become part of the table stakes for hiring and for building loyalty. A potential downside to their positioning as part of compensation, however, is the fostering of a sense of entitlement among employees, who then equate value with frequency of use, and at minimal personal cost.

The attraction-and-retention philosophy also pushes the promotion of health more to the background. Annual drug plan maximums can be an extreme illustration of that: plan sponsors would rather risk the elimination of coverage for plan members who are ill and face catastrophic drug costs than risk new or higher deductibles or co-pays for all employees.

"If the philosophy for drug plans was more about keeping people healthy and off disability, drug plans would be going in the opposite direction of plan caps," says Barbara Martinez, practice leader, benefits solutions, at Great-West Life. "There would be an annual deductible or premiums that would amount to much more than any form of cost-sharing we're seeing today. Employees would understand that a key reason the drug plan is there is to protect those who are faced with sudden, catastrophic costs, just like other forms of insurance."

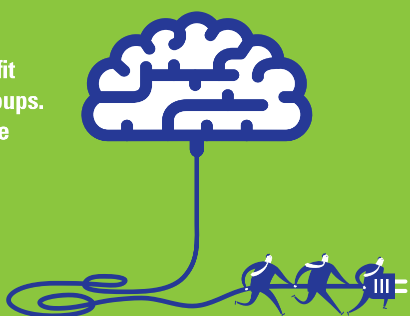
The arrival of high-cost specialty drugs has thrust the drug plan's role as insurance to the forefront. This role not only puts considerable strain on current plan designs, but it also does not sit well with an entitlement mentality.

The members of the expert panel stress, however, that the two philosophies are not necessarily mutually exclusive. "The benefit plan is a mix of compensation and insurance. Perhaps we've been thinking too much about it as compensation, but the goal is to find solutions that balance the two perspectives," says Nathalie Laporte, vice president of product development, marketing and strategy, at Desjardins Insurance.

Having said that, they also warn it likely won't be easy. "This will be a tough balance at first. There are good reasons why employers see the benefit plan as an opportunity to attract and retain talent, and employees' sense of entitlement runs pretty deep. We need to layer in a conversation about insurance and sustainability. At this point for plan members, their focus when looking at their benefit plan is not on their employer's need to manage costs and what role they can play in assisting with that to ensure sustainability," observes Karen Voin, assistant vice president, group benefits and anti-fraud, at Canadian Life and Health Insurance Association (CLHIA).

Plan sponsors can begin to change perceptions by thinking more broadly. "We're talking about philosophy in the limited context of benefit plans. Let's open that up and consider the workplace culture," suggests Lisa Callaghan, vice president of strategy, marketing and communications at Manulife. "Do employees feel any sense of accountability to the sustainability of the business? Do they feel like they contribute to its success, and if it's struggling, do they feel they're part of turning that around? When there is an overall culture of accountability, that influences

## Tapping the value of prevention



**Prevention is also an increasingly important touchstone when it comes to managing benefit plans, particularly in light of the growing prevalence of chronic disease across all age groups. The 2017 Sanofi Canada Healthcare Survey reports that 57% of employees have at least one chronic condition. This ranges from 42% among employees aged 18 to 34, to 72% among employees aged 55 to 64.**

**"There will be more prevention-based benefits. People are becoming more conscious that prevention has a big impact on health and they're more willing to participate," says Nathalie Laporte, vice president of product development, marketing and strategy, at Desjardins Insurance.**

**"The focus has to be more on prevention, or pre-claim, rather than post-claim intervention when plan members are ill," agrees Shawn O'Brien, vice president and national business analytics leader at Aon Hewitt. "A small but growing number of plan sponsors have begun to categorize benefits based on their preventative value. Mental health services are a good example: increasing the maximums for mental health services allows for a higher success rate in treatment outcomes, while also decreasing the likelihood of disability leaves due to mental illness."**

how employees think about their benefit plan. They are aware of its impact on employer costs."

## Risk tolerance: finding the X factor

Risk management will increasingly be brought to bear on drug plans. "At their core, benefit plans are a risk-management tool, for the employer and the individual," says Brian Lindenberg, senior partner at Mercer. "We need to acknowledge that the risks we are bearing in drug plans today are dramatically different than when plans were designed 20 years ago. And risks will probably change dramatically again in the next five years. This will lead to different conversations about how to design plans. Better conversations."

The conversation starts with determining an organization's tolerance for risk across all benefits, not just drug plans. "We need to start by breaking down silos, by considering all the money that's currently put into the drug plan, disability plans, wellness and so on," says Laporte. "If more plan members get access to higher-cost specialty drugs, will that reduce disability claims?"

Levels of risk tolerance may also change as business circumstances change, which can, in turn, influence the philosophy

behind benefit plans—which is as it should be, so long as risk management remains a key variable for decision-making. Once a good balance between risk management and philosophy is struck, "plan sponsors will be better prepared to answer one of the most fundamental questions: 'What is your organization's view of plan members sharing responsibility with respect to risk management and drug plan sustainability?'" says Chung.

He continues: "At the end of the day, it comes down to plan sponsors' expectations and objectives. They may choose to disrupt things and, with a good advisor and carrier involved, they're going to be very thoughtful about how to educate and prepare the workforce. The focus will be more about providing tools to help plan members manage change and become more engaged about both their benefits and their personal health."

## Keeping an eye on the future

The experts on the panel also emphasize the importance of planning for the future. "It is imperative not to design your plan for the workforce of today, but for the workforce five to 10 years down the road," says Lindenberg.

Millennials will account for more than 40% of employees by 2020; however, as a relatively transient workforce, they are not expected to trigger wholesale changes in benefit plans per se. As for drug plans specifically, "research shows time and again that drug benefits are the number-one benefit, irrespective of the age cohort," says Callaghan.

When it comes to the workforce of the future, perhaps the most important principle to keep in mind is that, thanks to the internet and mobile apps, consumers have become accustomed to getting what they need quickly, creating more personalized, interactive experiences and generally having more control over access to products

and services, in all parts of their lives. "We need to work toward tailored benefits in general, arguably more so for the older workforce, who are going to care more about medical coverage versus other health benefits," notes Chung.

This evolution in consumer behaviour and expectation could bode well for industry efforts to better balance the drug plan's dual objectives of attraction-retention and insurance protection. The good news is that some tools already exist—for example, health spending accounts and flex plans are offered by most insurers. However, technology needs to be leveraged to succeed in improving appeal and uptake by both plan members and plan sponsors.

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>
> **Barbara Martinez,**
> Great-West Life

## Taking stock of drug plans today

To free the funds to invest more in technologies and other tools for the future, panellists unanimously agree that most plan sponsors can do more with existing measures to generate savings from the 99% of drug claims that are not for specialty drugs. However, they again emphasize that drug plan management is unique to the plan sponsor, based on philosophy. "No two plan sponsors are going to think the same way, so as advisors we have to draw out their convictions, define their philosophy and from there guide them to make smart decisions," says Sandra Ventin, associate vice president at Accompass.

It's also important to recognize that drug plan management can be described as a continuum. Capped pharmacy dispensing fees and co-pays sit at the start of the continuum, while measures such as managed formularies are at the opposite end. "If you go back in time, plans gave 100% coverage for whatever the doctor prescribed. Over time, we've introduced coinsurance and dispensing fee caps, and we've reached a point where plan members expect those things. Managed formularies are a big step, because they mean that whatever your doctor prescribes may not be covered, or coverage could be lower. That's a bigger philosophical step that many employers are not ready to take. But I think we're getting there," says Martinez.

## The Panellists

**Top Row**

**Brian Lindenberg**, Senior Partner, Health & Benefits Leader Canada, Mercer

**Barbara Martinez**, Practice Leader, Benefits Solutions, Great-West Life

**Alan Kyte**, Senior Pharmacy Consultant, Willis Towers Watson

**Sandra Ventin**, Associate Vice president, Accompass

**Karen Voin**, Assistant Vice President, Group Benefits and Anti-Fraud, CLHIA

**Bottom Row**

**Lisa Callaghan**, Vice President, Strategy, Marketing and Communications, Manulife

**Shawn O'Brien**, Vice President, National Business Analytics Leader, Aon Hewitt

**Martin Chung**, Assistant Vice President, Strategic Health Management, Equitable Life

**Nathalie Laporte**, Vice President, Product Development, Marketing and Strategy, Desjardins Insurance

### Thumbs up for managed formularies

While the time may not be right for some plan sponsors, most panellists insist that managed formularies are the way to go. "The days of covering all new drugs at any cost are over," says Martinez. Adds Kyte: "We need to encourage the movement away from open formularies; otherwise, we are missing a lot of opportunity for sustainability. In our experience, a managed formulary always helps, sometimes very noticeably."

Tiered managed formularies tend to be more palatable than formularies that exclude coverage for some drugs. "Employers can still communicate that everything is covered, just at different levels," says Kyte.

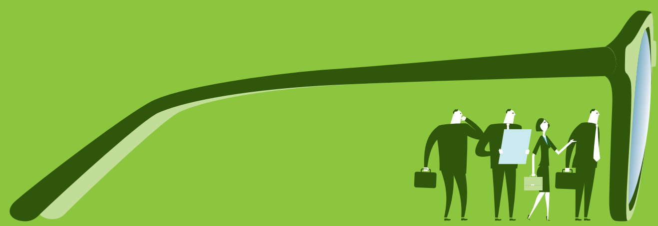
As well, the more transparent plan sponsors are about why they have implemented a managed formulary, the more likely plan members will be to accept it. Ideally, plan sponsors will share how savings will be reinvested into other health supports as part of their communications. "The change can be very positive if done in the right way. But I've also seen some plan sponsors put it in almost as a knee-jerk response, and employee reaction can be very bad because they feel they've been blindsided," says Shawn O'Brien, vice president and national business analytics leader at Aon Hewitt.

"Senior leadership needs to buy in to say it's the right thing to do, now let's make it work," adds Ventin. Without advance preparation and communication, "the resulting unpopularity of a program will likely knock the employer's philosophy off track. That can no longer happen in today's market. The company's philosophy for drug plans needs to stand firm and make consistent decisions."

The education of plan members can include simple facts about how managed formularies aim to give a better picture of the value of drugs. "In any other retail market, if something does not give enough value, it doesn't sell and it comes off the market. That doesn't happen in the drug world. As well, price does not necessarily reflect value—a more expensive drug does not necessarily mean that it works better than a less expensive drug. These issues are at the core of what managed formularies are trying to address," explains Callaghan. "It's about maximizing health outcomes cost-effectively, based on scientific, pharmacoeconomic evaluation."

### A glimpse into the not-too-distant future

Most large insurance carriers are at various stages of readiness to send targeted, health-related information to plan members via text, email or mail, with content driven by personal claiming activity. According to the 2017 edition of The Sanofi Canada Healthcare Survey, 70% of plan members would consent to receiving this type of information.



For example, plan members taking multiple drugs for chronic conditions could opt to receive reminders to take their medications, as well as referrals to local resources to assist with disease management. All plan members can agree to get more information about screenings to detect health risks, which can be targeted based on age.

Advances in wearable technology could take targeted communications to greater heights. For example, levels of coverage could be linked with adherence to medication or exercise. "We could get to the point where the choices plan members make day to day dictate what their benefits look like. It's not inconceivable," says Lisa Callaghan, vice president of strategy, marketing and communications at Manulife.