

Learning History

Designed to capture lessons learned during the dynamic process of discussion, innovation and cooperation which takes place among Consortium members.

DECEMBER 2000 ♦ VOLUME 1 ♦ NUMBER 1

report from



THE BOSTON CONSORTIUM
FOR HIGHER EDUCATION

Pharmacy Benefit Carve Out Feasibility Study

June – October 2000

contents

Summary	♦ 1
Chronology	♦ 2
Participating Schools	♦ 2
Lessons Learned	♦ 4
Quantitative Analysis	♦ 6
Considerations for Future Action	♦ 10

This issue of The Boston Consortium's Learning History was prepared by Consortium staff, with input and counsel from PricewaterhouseCoopers and participants in the Pharmacy Carve Out Feasibility Study.

Last spring, Chief Finance Officers (CFOs) and Chief Human Resource Officers (CHROs) from The Boston Consortium (TBC) member schools expressed common concerns regarding the increasing cost of medical and pharmacy benefits. The schools agreed to engage in a feasibility study process with PricewaterhouseCoopers. The primary purpose of the study was to determine if collaborating to purchase joint prescription drug coverage would provide the schools with greater control over increasing costs.

This fall, TBC schools participating in the Pharmacy Benefit Carve Out (PBCO) Feasibility Study decided that the potential benefits of collaborating to purchase joint prescription drug coverage would not result in substantial cost savings nor would it necessarily increase the effectiveness of providing the benefit at the participating schools.

It is somewhat disappointing to learn that a joint carve out arrangement would only give the schools minimal control over escalating prescription drug costs. It also is frustrating given the schools sincere interest and readiness to collaborate in an innovative way to address the issue. Nonetheless, the feasibility study process has been valuable. Collectively examining the issue has helped the schools begin to explore other ways to address the challenge, which may be the best short-term solution given the complexity and magnitude of the issue.

This report presents information on the lessons learned during the feasibility study process. The schools have expressed their commitment to continuing to explore alternatives to gain greater control over increasing costs in the pharmaceutical arena. This document is intended to be a foundation for shared understanding and future dialogue.

Chronology

Winter 1999 – Spring 2000

- Chief Finance Officers (CFOs) and Chief Human Resource Officers (CHROs) from TBC schools express similar concerns re: increasing cost of medical and pharmacy benefits.
- CFOs, in particular, advocate that the schools engage in a joint effort to determine potential methods to control costs.
- Paula Breslin, Executive Director of the Massachusetts Health Purchasing Group, and Arthur Andersen Consulting speak to CFOs, CHROs, and Benefits Managers advising them on potential methods and opportunities to control costs. Paula Breslin notes that it will be difficult to create significant impact given “the die has been cast”.
- Based on what CFOs, CHROs, and Benefits Managers learn from Andersen and Breslin, they poll the group on top areas of interest: 1) Pharmacy Carve Out, 2) Self-Insurance, 3) Creation of a Single Risk Pool.
- The group chooses to evaluate the potential of a joint Pharmacy Carve Out arrangement since it offers the greatest potential for financial savings.
- Three consultants submit feasibility study proposals: Arthur Andersen, Buck Consulting, and PricewaterhouseCoopers.
- CFOs, CHROs, and Benefits Managers select PricewaterhouseCoopers.
- The participating schools agree to share the cost of PwC’s services (approximately \$30,000). By sharing these costs, the schools avoid significant costs of contracting individually with PwC. In addition, they will gain from the collective action of working together. Participants will develop a level of understanding that would have been difficult to achieve alone.

Participating Schools

Babson College

Frank Aubuchon, Director of Human Resources
John Eldert, VP for Business & Financial Affairs
Becca Rausa, Senior Manager, Benefits & Human Resources

Bentley College

Susan Glover, Director of Human Resources Operations
Kathleen Pacheco, Benefits Consultant

Boston College

John Burke, Director, Benefits, Human Resources
Ann Crowley, Associate Director Benefits
Robert Lewis, Associate VP, Human Resources

Brandeis University

Maureen Fessenden, Assistant VP of Human Resources
Joanne Heatley, Director of Benefits

Harvard University

Regina Perris, Director of Benefit Services
Polly Price, Associate VP, Human Resources

Northeastern University

Susan Fulton, Benefits Manager
Larry Mucciolo, Senior VP for Administration Finance
Joseph Murphy, Treasurer
Kater Pendergast, VP, Human Resources Management

Olin College for Engineering

Becca Rausa, Senior Manager, Benefits & Human Resources

Tufts University

Kathe Cronin, VP, Human Resources
Stephanie DiBurro, Director, Benefits

Wellesley College

Eleanor Tutty, Associate Director for Compensation & Benefits
Will Reed, VP

Wheaton College

Barbara Lema, Director of Human Resources
Remle Longtin, Assistant Director of Human Resources
Rick Wallick, VP for Finance and Operations

- PwC confirms with the health plans that they would be willing to carve out the pharmacy benefit.
 - Schools gather information from their health plans, which PwC uses to compare the current cost of the prescription drug coverage with the estimated cost of a carve-out program.
 - PwC calculates the expected cost under a carve-out program using the appropriate administrative and discount information provided under the most competitive arrangements available by Prescription Benefit Managers.
 - For fully insured plans, PwC asks the health plans to provide the cost impact of removing the prescription drug benefit from each of their plan offerings.
- In early October 2000, the group meets at PricewaterhouseCoopers' Boston Office to achieve the following:
 - Develop a shared understanding of the environment and a common language. PwC provides an in depth overview of the reasons for the current statistics and projected trends, and legislative activity.
 - Review the elements of a pharmacy carve out arrangement including: techniques used to mitigate costs, administration, funding, pricing methods, advantages, challenges, and total estimated financial impact based on data provided by schools.
 - Review and discuss the current state of pharmacy benefits offered by participating schools.
 - Review combined and individual confidential reports detailing projected savings.
 - A number of questions arise during the meeting. A second meeting is scheduled to review these issues and decide next steps.
 1. Where are the savings? The group asks PwC to breakout the cost savings information into the following categories: plan design, mandatory mail, administration, rebates.
 2. Those that are self-insured need further clarification re: the unique implications for their schools in a Carve Out Arrangement.
 3. The group requests more information re: the projected administrative needs and costs to support the Carve Out Arrangement.
- In late October 2000, the group meets to address issues raised in the first meeting and determine next steps. During the course of this second meeting it becomes evident that the potential benefits of collaborating to purchase joint prescription drug coverage would not result in substantial cost savings nor would it necessarily increase the effectiveness of providing the benefit at the participating schools.

Lessons Learned

Through the feasibility study process, members of The Boston Consortium of Higher Education sought to test their assumptions and gain a better understanding of the pros and cons of a pharmacy carve-out arrangement.

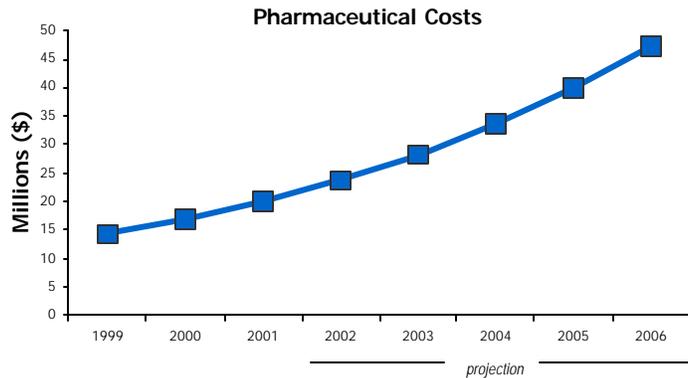
The following section details the anticipated advantages group participants expected from a pharmacy carve out arrangement along with what participants learned to currently be true. Quantitative analysis supporting these lessons learned can be found on pages 6 through 9.

Anticipated Advantage	What We Learned
<p>1 Economies of scale and the leverage created by collaboration in a Pharmacy Benefit Carve Out (PBCO) Arrangement would result in significant benefits and cost savings for the schools.</p>	<ul style="list-style-type: none">▪ Total savings are relatively modest for each school. Projected savings range from \$55,000 to \$1,530,000 in total. This amount represents less than 4% savings on the total cost of medical and prescription drug costs combined.▪ The effect on savings by increasing enrollment from 5,000 to 18,000 employees does not yield substantial cost savings. According to PwC, the schools must have at least 40,000 members enrolled to substantially impact costs since pharmaceuticals are such a high priced commodity.
<p>2 The health plans report that they would support carving out the pharmacy benefit.</p>	<ul style="list-style-type: none">▪ It is unclear as to whether health plans would grant proper credit due the schools for carving out the benefit. For the purposes of the study, PwC assumed full credit for claims expense and 50% credit for administrative expense.
<p>3 The schools will have a better understanding of the true cost of drugs and reduce uncertainty.</p>	<ul style="list-style-type: none">▪ Many of the plans were unable to provide data detailing actual prescription drug costs. This lack of information hinders the speed with which the exact savings can be captured. PwC projected that the schools would have to wait until at least Year 2 to know definitively.

Anticipated Advantage	What We Learned
<p>4 The schools will have more flexibility and discretion re: plan design, provisional features, covered /noncovered benefits, and direct communication with employees.</p>	<ul style="list-style-type: none"> ▪ Schools would gain more flexibility and discretion, but they also would own coverage rules, and grievance and appeals processes as opposed to being “buffered” by health plans.
<p>5 Employees will benefit. Their expectations and needs will continue to be met without their knowledge of significant change.</p>	<ul style="list-style-type: none"> ▪ Employees will need to be educated re: the new system. For example, health plans may not be able to address members’ questions. The new system may require separate cards for medical and drug coverage, and separate customer service numbers.
<p>6 The schools oversight of operations would lead to greater efficiencies, increased control, and access to specific plan information.</p>	<ul style="list-style-type: none"> ▪ A Pharmacy Benefit Carve Out Arrangement would create more organizational complexity since it would require sizable investments in administration including: <ul style="list-style-type: none"> - Increased staffing - Establishment of bank account to fund claims - Additional measures to include for stop loss purposes - Calculation of costs to add to medical rates - Medical data separate from pharmacy data ▪ Administrative savings is only 1/5 of the 13% total projected savings.
<p>7 Working with Pharmacy Benefit Manager (PBM) to monitor performance would enhance control and accountability.</p>	<ul style="list-style-type: none"> ▪ Will need to manage and negotiate with another vendor on contracts, fees, cost information, and service. ▪ Will need to create IT interface with PBM.

Quantitative Analysis

According to PricewaterhouseCoopers, pharmaceutical costs are expected to grow at 18-19% per year for the foreseeable future. These increases are increasing at a higher percentage than increases in the whole medical benefits package.



Current and Projected Costs (collective)	Prescription Drug Only		Medical & Prescription Drug	
	\$	% ▲	\$	% ▲
1999	\$14,279,333		\$81,218,576	
2000	16,743,453	17.25%	89,181,332	9.80%
2001	19,925,797	19.00%	98,284,250	10.21%
2002	23,700,852	18.95%	108,458,188	10.35%
2003	28,178,541	18.89%	119,850,654	10.50%
2004	33,489,133	18.84%	132,632,263	10.66%
2005	39,787,414	18.80%	147,001,062	10.83%
2006	47,256,403	18.77%	163,186,404	11.01%

Pharmaceutical Trends

Factors effecting growth of costs

- Higher utilization by an aging population and by those seeking therapeutic benefits
- Introduction of newer, more expensive drugs which may or may not offer therapeutic advances compared to existing drugs
- Increased direct consumer advertising
- Higher drug prices
- Higher R&D costs
- Increased use of drugs as a substitute for lifestyle changes and/or as outpatient treatment
- Managed care = greater drug demand
- Decreased FDA approval times

Factors potentially effecting control of costs

- Legislation/political environment may force pharmaceutical companies to reduce level of price increases
- Increase of on-line dispensing
- Removing drugs from formulary list
- Moving drugs to over-the-counter

This chart presents the projected savings of implementing two possible scenarios in a collective pharmacy carve out arrangement. Collective savings range from \$3.2 to 6.6 million annually, and \$19.5 to 24.4 million over five years. (NOTE: Please contact your individual school representative for individual projected savings information at your school.)

	Projected Prescription Drug Only					TOTAL	Medical & Prescription Drug Combined					TOTAL
	2002	2003	2004	2005	2006		2002	2003	2004	2005	2006	
Total Projected Expenses	23,700,852	28,178,541	33,489,133	39,787,414	47,256,403	172,412,343	108,458,188	119,850,654	132,632,263	147,001,062	163,186,404	671,128,571
Scenario 1: \$10/\$20/\$30 Retail \$20/\$40/\$60 Mail Order	20,402,064	24,606,215	29,615,994	35,582,694	42,685,552	152,892,519	105,230,669	116,355,689	128,843,208	142,887,863	158,715,324	652,032,753
Projected Savings	3,298,788	3,572,326	3,873,139	4,204,720	4,570,851	19,519,824	3,227,518	3,494,965	3,789,055	4,113,199	4,471,080	19,095,817
% Savings	13.9%	12.7%	11.6%	10.6%	9.7%		3.0%	2.9%	2.9%	2.8%	2.7%	
Scenario 2: Greater of \$10/\$20/\$30 or 10%/20%/30% Retail \$20/\$40/\$60 Mail Order	20,174,526	24,362,627	28,768,375	34,068,307	40,691,799	148,065,634	105,010,663	116,120,161	128,022,010	141,420,211	156,782,975	657,356,020
Projected Savings	3,526,326	3,815,914	4,720,757	5,719,107	6,564,604	24,436,708	3,447,524	3,730,493	4,610,253	5,580,850	6,403,429	23,772,549
% Savings	14.9%	13.5%	14.1%	14.4%	13.9%		3.2%	3.1%	3.5%	3.8%	3.9%	

Profile of Participating Schools

Current Plan Design

Generic	Preferred Brand	Non-Preferred Brand	% of Enrollment	# of Participating Schools
\$5	\$10	\$25	71%	6
\$10	\$15	\$30	20%	4
\$10	\$15		6%	1
\$5	\$10		2%	1
\$7	\$15	\$30	1%	1

As of October 2000

Quantitative Analysis

The effect on savings by increasing enrollment from 5,000 to 18,000 employees does not yield significant cost savings in the pharmacy carve out arrangement studied. According to PricewaterhouseCoopers, the schools must have at least 40,000 members enrolled to create substantial cost savings since pharmaceuticals are such a high priced commodity.

Number Enrolled	Range of % Savings per School	Collective % Savings
5,000	6.6-23.5%	13.2%
10,000	7.2-24.0%	13.6%
18,000	7.5-24.3%	13.9%

prescription only

Profile of Participating Schools

Percentage Enrollment by Health Plan

Health Plan	% Enrollment
Blue Cross Blue Shield of Mass	4%
Fallon Community Health Plan	3%
Harvard Pilgrim	59%
Tufts Health Plan	33%
United HealthCare	1%

Participation by Plan Type

Plan Type	% Enrollment
Health Maintenance Organization	66%
Point of Service	23%
Preferred Provider Organization	11%

Participation by Funding Type

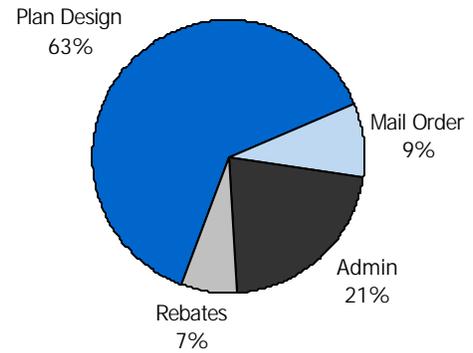
Funding Type	% Enrollment
Fully Insured	82%
Self-Insured (2 schools)	18%

Data as of 1999

How the Savings Breakout

Most of the cost savings are accomplished through plan design modification – an option also available to schools on an individual basis.

Individual school’s projected savings from range from \$55,000 to \$1,530,200 in total. These amounts represent 7.5% to 24.3% of total plan costs, and less than 4% of the total cost of medical and prescription drug costs combined.



Savings Breakout (Collective) Year 2002	Current Plan Expense	Scenario 2 Expense	\$ Savings	%	% of Total Savings
Plan Design	\$23,700,852	\$21,617,672	(2,083,180)	8.8%	63.1%
Mandatory Mail Order		\$21,323,360	(294,312)	1.2%	8.9%
Administration		\$20,618,958	(704,402)	3.0%	21.4%
Rebates		\$20,402,065	(216,893)	0.9%	6.6%
Total		\$20,402,065	(3,298,787)	13.9%	

Range of Savings (per School) Year 2002	\$ Range	% Range
Plan Design	\$27,000 – \$974,000	42.3 – 76.7%
Mandatory Mail	\$3,100 – \$135,700	5.6 – 15.0%
Administration	\$7,500 – \$331,200	12.0 – 35.2%
Rebates	\$3,100 – \$89,000	5.1 – 13.0%
Total Range of Savings	\$55,000 – \$1,530,200	7.5 – 24.3%

Considerations for Future Action

Based on the lessons learned, group participants agreed to continue to work together to explore other techniques to mitigate escalating prescription drug costs including: cost sharing, relationships with retail networks, mail order service, generic drug incentives, utilization management, formulary management, inclusion/exclusion of drugs, physician profiling, and health management.

Participants reflected and brainstormed alternative methods and ideas to address pharmacy cost issues. See below for a summary of conclusions drawn and considerations for future action.

Conclusions Drawn

1 The range of savings was determined to be modest when translated into dollars, and was equally modest relative to the political capital that would have to be expended at this point in time to implement a carve out arrangement. As well, while pharmaceuticals are an increasing percentage of total healthcare costs, the projected cost savings only address this problem at the margin.

An example cited by one member: if the savings for mail order pharmaceuticals order were in the area of 20%, then it might be a worthwhile change. However the projected 10% cost reduction (\$12,000) was hardly worth the risk of potentially upsetting employees.

2 Simply stated, the complexity and magnitude of the current healthcare environment seriously limits the schools' ability to create immediate solutions alone.

Considerations/Next Steps

- However, while the projected savings of a carve out arrangement are modest from year to year, the costs (and potential savings) in the pharmacy area will continue to increase. The compounded impact of these costs increases (and potential savings) is substantial.
- It is worth noting that two schools reported that they are using mail order pharmaceuticals and that they have had no objections from their employees.

- There is no short-term economic solution unless in the unlikely event of political action to create Universal Health Care Coverage. School presidents, to the degree that they agree and are committed to addressing this issue, need to present the schools' case to legislators.
- School representatives should continue to reach out to and work with health plans, governmental agencies, providers and others to help create solutions.

Conclusions Drawn

3 There is some potential for cost savings in modification of plan design and utilization of mail order pharmaceuticals. There are changes that the schools can consider making collectively or individually to achieve savings including:

- Raise co-pays
- Introduce % based co-pays
- Introduce deductibles
- Limit the number of retail network pharmacies
- Encourage increased use of mail order
- Generic drug incentives
- Formulary management
- Inclusion/exclusion of drugs
- Review of physician prescription-histories
- Health management

4 Most employees are unaware of the real costs/value of their benefits package. There is little or no motivation for employees to play a role in control costs since the schools are simply absorbing the increases from the health plans.

5 Participants gained a depth of understanding that would have been difficult to achieve alone. The collective action of working together was a mutually beneficial exercise.

Considerations/Next Steps

- Through collective action, the schools may be in a better able to modify their plans through raised co-pays or introduction of deductibles.
- A large-scale collaborative effort to introduce cost saving techniques may have greater impact than similar efforts at individual schools. However, it is worth noting that as schools compete for staff some may use health benefits as a tactic to compete, adding to the “tragedy of the commons.”

-
- Employees should be educated re: their total salary and benefits package. Incentives should be restructured to help control costs. Ideas raised include refinement of existing wellness programs and lower cost sharing to influence member behavior.

-
- The Boston Consortium should continue to support discussion and progress on initiatives aimed at reducing costs, creating operational efficiencies and increasing quality. Members collective action reinforces deep understanding and will better prepare and enable the schools to address the issues they all face.

THE BOSTON CONSORTIUM FOR HIGHER EDUCATION

special thanks

The Boston Consortium would like to thank and acknowledge the Benefits Managers for their participation and important contributions to the Pharmacy Carve Out Feasibility Study process.

We also thank the Chief Human Resource Officers and the Chief Financial Officers who offered invaluable information, input and support.

As well, we extend our appreciation to Kevin Gulino, Mary Gore and Dr. David Chin of PricewaterhouseCoopers for providing their expertise, counsel and thorough analysis to help the schools make a well-informed decision.

Mission & Background

By promoting collaboration among its members, The Boston Consortium for Higher Education develops new and creative ideas that save money and improve quality at Boston's world-renowned colleges and universities. A competitive advantage for Boston's higher education institutions is secured through the dynamic forum The Boston Consortium provides for discussion, innovation and cooperation.

The Boston Consortium consists of Babson College, Bentley College, Boston College, Boston University, Brandeis University, Harvard University, Massachusetts Institute of Technology, Northeastern University, Franklin W. Olin College of Engineering, Tufts University, Wellesley College and Wheaton College.

The Boston Consortium for Higher Education gratefully acknowledges the generous support it receives from The Davis Educational Foundation.

Staff

Managing Director	Phil DiChiara
Program Coordinator	Laura Blake Cannata
Program Coordinator	Anne Gregory

Service & Permissions

The Boston Consortium Learning History is published periodically. To order reprints or request permission to copy or distribute, please call 781.239.4401

Send questions, comments, and Learning History ideas to:

Laura Blake Cannata
The Boston Consortium for Higher Education
150 Great Plain Avenue
Wellesley, MA
lcannata@babson.edu
P 781.239.4463
F 781.239.5508