

**University of Michigan  
Benefits Office**

**2007 Prescription Drug Plan Annual Report  
January 22, 2008**

**Executive Summary**

In CY2007 the University self-administered Prescription Drug Plan concluded its fifth year of operation. There were seven major milestones reached in CY2007:

- Substantial cost savings to the plan and members due to a 9.85% increase in generic dispensing rate 1/1/2007 through 12/31/2007 and a low per member per year (PMPY) plan trend rate increase of 3.21%,
- Implementation of the MHealthy Focus on Medicines, a Drug Optimization Therapy research program,
- Implementation of two major U-M provider intervention generic switch programs funded by the plan and facilitated by the U-M Health System's Medical Outcomes Program,
- Publication of two College of Pharmacy whitepapers ( Prescription Drug Copays and SpecialtyRx) which provided plan analysis, insights and recommendations for future plan operations,
- Per whitepaper recommendations, established a half-time Specialty Rx pharmacist charged with strategic planning and new targeted initiatives to mitigate a U-M Specialty Rx cost trend. Cost trend rate for specialty drugs is 13 times higher than the U-M traditional drug trend,
- Successful transfer of 2,058 new GradCare lives from M-CARE to the U-M Drug Plan for 2008,
- Implementation of a compound drug multi-ingredient claim processing segment requirement that improved the accuracy of payments to pharmacies.

The drug plan completed its second year of administration by SXC Health Solutions (SXC) that continues to provide 1) outstanding customer services to our plan participants, 2) a strong partnership for implementing innovative pharmacy programming and plan design, and 3) support for attaining a trend rate less than half the national average due to plan flexibility and rapid response in capitalizing on market changes. The drug plan has a separate mail order service with Walgreens Mail Service. Our experience continues to confirm the responses of the U-M College of Pharmacy's 2006 Customer Satisfaction Survey showing a level of member service problems consistent with previous surveys: inability of the mail service operation to provide consistently high-quality member service and inability to accommodate the University's customized plan design.

**2007 Cost Savings**

In 2007, U-M total drug cost for the plan and its members rose to \$73.8M. The annual trend rate for university cost (\$61.7M), adjusted for a 2.33% increase in new member enrollments, showed a 3.21% increase on a PMPY basis over the 2006 Plan PMPY. It is important to note the Focus of Diabetes research project provided member copay relief which increased plan cost by \$425,646 for 2007. The U-M 2007 Plan PMPY trend without the additional FOD plan cost would have been 2.5% Plan PMPY. The U-M trend rate is far below the 2007 Segal health care cost survey projection of 11.9% annual trend rate. Other national surveys predicted 2007 trend rates averaging in a range from 7% to 9%. U-M plan cost increases are some of the lowest

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nationwide for employers and health plans, due to continued aggressive medical evidence-based plan design decisions and pharmacy management approaches developed by faculty lead committees and operations by Benefits Office staff.

Analysis was conducted to determine the overall estimated cost savings or “cost avoidance” achieved by the U-M drug plan over the past 4 years of operation. During the period 2003-2007 the university spent \$269.35M on prescription drugs. Using a composite trend rate from several national drug trend surveys, if U-M had followed the national composite trend rate the U-M plan would have paid \$329.9M for the same period, a net different of \$60.4M in estimated university savings under the self-administered drug plan. These savings were achieved by various plan design changes, assertive formulary management, drug intervention and switch programs, improved methods at pricing accuracy and, most importantly, an increase in the generic dispensing rate from an initial 42% in early 2003 to 65.4% by the end of 2007.

It is estimated that savings in the range of \$3.7M experienced by the drug plan can be attributed to capitalization on market changes, specifically in three major top cost drug classes:

- 1) New entry of generic statin cholesterol-lowering drugs simvastatin and pravastatin.
- 2) Dramatic price reduction on prescription omeprazole, a proton pump inhibitor drug for gastric acid reduction. The statin and PPI's were part of a physician intervention switch
- 3) New entry of generic antidepressant Zoloft in the SSRI drug class. Total 2007 costs for the entire SSRI drug class were \$768K lower than the 2006 costs for this class.

Drug plan total administrative fees paid for 2007 were \$791,588.11 for all processing fees, clinical services, ID cards and drug plan costs for MHealthy projects. Rebates paid for 2007 by SXC were \$1,060,446. Additional rebates for 2007 claims are in process for payment throughout 2008. As new generics entering the market continue to lower plan and member cost, total rebates for branded drugs are expected to decline.

### **Generic Opportunities for Cost Savings**

Looking forward, consumers will continue to have more generics to choose from as older brand drugs lose patent protection. Generics save money for the plan and members, as members selecting generic drugs receive the lowest copays. It is estimated that for each 1% increase in generic drug utilization rate (GDR) the drug plan reduces cost 1%, resulting in about \$496,370 in savings. The average annual GDR was 63.12% in 2007, a 5.67% increase over the annual average in 2006. This GDR increase may have resulted in avoiding \$2.8M in additional drug plan cost. Increasing the GDR will continue as a priority in 2008.

### **U-M drug plan cost (drug claims), member share and average utilization**

79.7% of eligible members used the drug plan in 2007. 905,456 total prescriptions were dispensed at a total drug plan cost of \$61.7M, up 5.27% in total cost over 2006. The average member received 11.07 prescriptions per year. Overall, in 2007 the University paid \$753.76 per plan member per year (up 3.2% per member) while members paid \$148.80 per member per year (up 1.2% per member). Active employees received on average 10.7 normalized 30-day prescriptions, whereas retirees received 37.0.

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Drug plan members paid \$12.2M in out-of-pocket cost, a 3.6% increase over 2006. Member contributions continued to decline to 16.5% of the total drug spending in 2007 compared to 16.8% in 2006. On average members paid \$13.44 per prescription in 2007, a decrease of 0.4% over 2006.

21 members reached the annual out-of-pocket (OOP) maximum in 2007, compared to 34 members in 2006.

Large supplies, 84 to 90 days, accounted for 18.2% of prescriptions (up 1.5%). Mail Service filled 8.5% of the large supplies in 2007, down from 8.8% in 2006. Retail network filled 9.7% of large supplies, up from 7.9% in 2006. Most of the increase in large supplies at retail can be attributed to the Focus on Diabetes (FOD) program members obtaining 90-day free generic prescriptions at retail. The top three drug classes by cost in 2007 were: anti-depressant medications, anti-acid (proton pump inhibitor) medications, and cholesterol-lowering medications (statins). The number of members using a statin medication grew by 8.58% in 2007.

The most significant change was seen in the Tier 1 generic dispensing rate (GDR). The U-M drug plan had an average annual GDR of 63.12% in 2007, a 5.67% increase over the annual average in 2006. Tier 2 preferred brand-name drug prescriptions accounted for 23.3% of all prescriptions, while Tier 3 non-preferred brand-name drugs accounted for 13.51%.

While the U-M drug plan experienced proportional savings in 2007, pharmaceutical companies continue to raise the cost of medications. The average ingredient cost for single-source brand prescriptions rose by 13.7% to an average of \$177.91 per prescription. In contrast, the average ingredient cost for generic prescriptions price rose only 2.91% to an average of \$24.78 per prescription. The aggressive generic price controls by SXC continue to hold generic cost down.

### **Unique Drug Therapy Projects Realize Cost Savings for U-M and Members**

**Pill-splitting:** The voluntary pill-splitting program started in 2006 for plan participants who split “statin” (cholesterol-lowering) medication pills saved the university \$151,000 and saved members \$34,302 in 2007. The U-M College of Pharmacy study of this program was published by researcher Hae Mi Choe, et al, in the American Journal of Managed Care, June 2007 (vol. 13, no. 6, pp. 298-304). There was a slight reduction in the number of Focus on Diabetes study members pill-splitting in 2007 due to FOD members receiving their statins at even lower cost, a disincentive to pill-split, resulting in some lost opportunity for drug plan savings.

**340B Pricing:** A cost sharing arrangement with UMHHC Department of Pharmacy to capitalize on their qualification for lower pricing under the federal guidelines for public health service (also known as 340B) was expanded in 2007 to include several additional drug classes of specialty medications. The U-M program began in 2005 to target high-cost and low volume specialty injectable medications. In 2007, approximately \$701,230 in total University savings occurred under the 340B pricing up from \$512,615 in 2006. This was equitably shared between the Benefits Office and the Department of Pharmacy. The saving was approximately \$598 per prescription.

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**Switch Programs:** The Benefits Office contracted with the Health System Medical Outcomes Program to conduct two separate physician and member intervention drug switch programs. The switch programs targeted U-M prescribers who write approximately 50% of all prescriptions for the drug plan. Both programs were funded by the Benefits Office. The statin switch program resulted in \$208,851 in savings as of January 2008 and a ROI of 3.66 to 1. The PPI switch program resulted in \$86,167 as of January 2008 and a ROI of 2.29 to 1. The generic market entries in the statin class, the PPI class and over-the-counter products offered a unique opportunity to review and change formulary drug classes, send letters to members on individual opportunities for cost savings, and employ a switch program. As a result of multiple efforts the 2007 statin medications total drug cost on the whole were \$2.7 million less than in 2006, while the PPI acid reduction medications were \$205K less in 2007.

**UHealthy Focus on Medicines:** FOM is a two-year U-M IRB research pilot project at the College of Pharmacy developed in conjunction with the U-M Drug Plan and SXC Health Solutions. Unique to the industry, SXC developed software for U-M to accommodate the research design and produce monthly patient letters. The program targets drug plan members over age 18 taking 9 or more unique medications in the past 120-day period. The goals of the program are to improve and preserve health of members, reduce cost to members and U-M Drug Plan through advising members on safe use, identify potential adverse incidents with multiple medications, and optimize therapy through education. In 2007, 2,547 letters were mailed to plan members including an individualized medication history and recommendations. 30% of the study population were invited to speak with a pharmacist. The Comprehensive Medication Review subgroup has had over 60 members inquire about individual sessions with a pharmacist.

### **Special Strategic and Planning Initiatives**

In 2007 the Benefits Office and the University drug plan committees identified strategic goals in the areas of quality improvements and opportunities for cost savings. These resulted in new initiatives where University faculty and staff expertise was utilized and supported through additional administrative funding.

**CMUPE White Papers:** The Center for Medication Use, Policy and Economics (CMUPE) was funded to study three plan priorities: 1) Prescription Drug Co-Pays 2) Specialty Drugs, and 3) Prescribing Practices of Non-University Physicians. The first two have been published and provide national benchmarking and recommendation on strategic directions.

**MHCI “Focus on Diabetes”:** The Michigan Healthy Communities Initiatives (MHCI) coordinated a benefit-based copay study with U-M diabetics enrolled in the U-M drug plan. The study will evaluate the impact of reduced patient financial liability on patient drug adherence and compliance. Diabetic members receive reduced or eliminated copays for several different drug classes. SXC supports significant computer system coding required to provide the copay relief and evaluation data. The Focus on Diabetes program added \$425,646 in additional 2007 plan cost directly due to member copay relief on claims. The 2771 U-M diabetics that benefited from the FOD program realized \$153.36 in copay relief. Since inception of the FOD program on July 1, 2006, there have been 2979 U-M diabetics who benefited from the program with an average of \$209.25 in copay relief. The FOD program research period ends June 30, 2007 and copay relief

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is scheduled to continue through December 31, 2007 while the research results are evaluated and reviewed.

**Customer Satisfaction Survey:** The College of Pharmacy conducted the annual customer satisfaction survey to assess drug plan members' views and satisfaction levels in terms of plan vendors, pharmacies (retail and mail) and potential plan changes. The results were published in spring 2007 and will assist with future planning and service improvements.

**Rebate Audit:** Typically plan sponsors experience an adversarial rebate audit process with PBM vendors. In an effort to provide full disclosure of the rebate processes and sample claims, SXC and several of its clients met to propose a SAS 70 type of report on SXC rebate processes, and to make the report available to the public. The audit, conducted by McGladrey & Pullen, Certified Public Accountants, was completed on March 30, 2007 and showed that the SXC functional processes reviewed represented the internal controls of SXC and were reasonable and tested as to their effectiveness.

**Medicare Retiree Drug Subsidy:** In 2007 U-M continued to receive the employer subsidy for eligible retiree and Medicare eligible drug claims from the Center for Medicare and Medicaid Services (CMS). An extensive data analysis, subject to audit, is used by the Benefits Office system personnel and drug plan staff, supported by claims data provided by SXC. CMS paid U-M approximately \$3.5M in 2006 and a similar amount is expected for 2007. Subsidy funds will be used to help mitigate future plan cost increases.

### **Future Initiatives**

Major projects planned by the drug plan for 2008 include:

- 1) Completing a study for university executive officers to consider future changes to the self-administered drug plan,
- 2) Reviewing contractual options for 2009 PBM/claim processing services,
- 3) Soliciting proposals for a Specialty Rx vendor, setting new policies and implementing specialty management programs,
- 4) Evaluating expanded cost saving with hospital 340B and "own use" pricing discounts,
- 5) Implementing U-M Rx data availability for any prescriber capable of e-prescribing,
- 6) Reconsidering use of the current conventional large model mail order facility service versus an in-house mail operation to improve customer services and further cost savings,
- 7) Coordinating additional switch program with the U-M Health System's Medical Outcomes Program where appropriate opportunities exist.

**End**