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The top driver of rising health insurance premiums for 2017 is the cost of prescription drugs. Medical inflation for health insurance premiums is measured by a term referred to as "trend." In 2017, the prescription drug trend is projected to be 11.6 percent, up from 11.3 percent in 2016[1]. The annual prescription drug trend is alarming, considering that it is almost a 7x multiple of general inflation in our economy, represented by the Consumer Price Index (CPI).[2] Based on a host of factors, including individuals being treated at an increased rate for chronic conditions and diseases, aggressive pharmaceutical price increase policies for existing drugs and the introduction of new and very expensive drug therapies, it appears that annual drug price trend increases will continue at a pace that widely exceeds the CPI for years to come.

The single largest factor behind the year-over-year increase in prescription drug trend involves what are labeled as specialty drugs, which treat complex conditions such as cancer, hepatitis C, arthritis, multiple sclerosis, and a multitude of other chronic and debilitating medical conditions and diseases. Advances in complex genetic research over the past decade have served as the catalyst for the development of these drugs. Pharmaceutical companies collectively spend billions of dollars to develop specialty drugs that have a high risk of failure, as most specialty drugs do not pass stringent Food and Drug Administration (FDA) testing that is required before prescription drugs are approved to go to market. However, the relatively few specialty drugs that do pass FDA testing once introduced to consumers can produce "lottery ticket-like" revenues and profits for pharmaceutical companies. To put into context the cost impact of specialty drugs, consider that they account for less than 1 percent of all prescribed medications, yet they account for about 35 percent of total prescription drug cost trends for 2017![3]

For pharmaceutical companies, the high risk and correspondingly high return nature of specialty drug development make them a top priority for market introduction. It appears that this trend will continue to accelerate in future years with scores of promising new specialty drugs in the pipelines of many pharmaceutical companies. All of this translates into continued development of new specialty drugs that can treat and cure debilitating and even terminal conditions, yet at a cost that is increasingly becoming a financial burden for both consumers who use and pay more to acquire the medications and businesses that pay most of the cost of prescription drugs through company-sponsored health insurance programs. In a 2016 health care tracking poll, The Kaiser Family Foundation discovered that one in four people in the United States have trouble paying for their medication.[4] Expect affordability issues to increase in future years as businesses and consumers are forced to absorb the increasing cost of the ever-growing list of specialty drugs.

Specialty Drugs—the "Silver Lining" for Consumers

Specialty drugs produce powerful life-enhancing and sometimes life-saving results for consumers who need them. They can deliver rates of cure from disease and long-term relief from chronic health conditions that just a decade ago would have been impossible to treat with traditional drug therapies. For example, hepatitis C is a terrible disease that afflicts an estimated 3.5 million Americans. In 2014, the Centers for Disease Control (CDC) documented 19,659 deaths from hepatitis C, making it the leading cause of death of Americans from infectious disease.[5] In 2013 and 2014 the specialty drugs Sovaldi and Harvoni received FDA approval as a cure for hepatitis C. These drugs provide a cure of hepatitis C for over 90 percent of the patients who receive treatment. But the cost of both drugs is staggering and out of financial reach for those who do not have some form of insurance coverage or external subsidy. The average cost for Harvoni is $94,500 for a 12 week treatment program, resulting in a cost of over $1,100 per pill! (Note that a 12 week treatment of Sovaldi is about $84,000 or around $1,000 per pill.)[6] These drugs are often combined with other drug therapies when treating hepatitis C, resulting in a total price tag that often exceeds $100,000 to treat and cure hepatitis C.

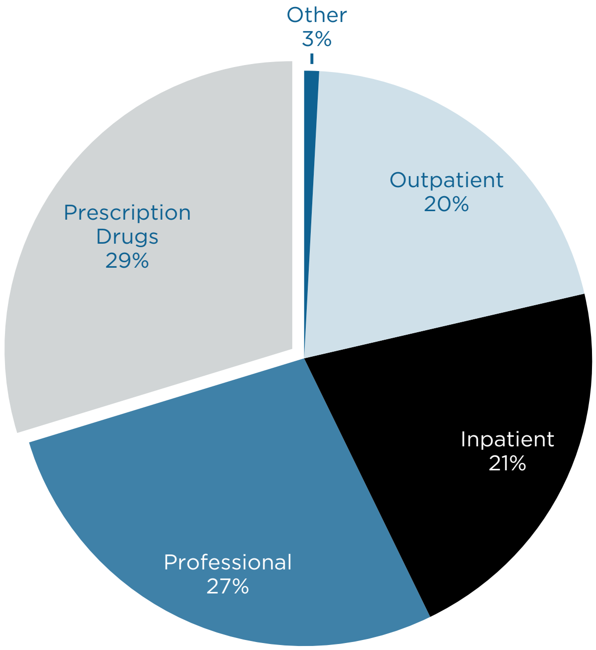
Naturally health insurance premiums are directly impacted by rising prescription drug costs. Figure 1 shows the breakdown of key components that factor into the pricing of health insurance premiums.[7] Note that prescription drugs represent the largest component of the total premium expenditure for health insurance, accounting for 29% of total health insurance premiums.

Just a few years ago, prescription drug spending accounted for less than 20% of the total health insurance premium

[1] Segal 2017 Health Plan Cost Trend Survey, September 27, 2016, www.segalco.com.
[2] Bureau of Labor Statistics, September 2016 CPI Detailed Report, www.bls.gov.
[3] Segal 2017 Health Plan Cost Trend Survey, September 27, 2016, www.segalco.com.
[4] Kaiser Family Foundation Health Tracking Poll, September 2016, www.kff.org.
[5] Centers for Disease Control, Clinical Infectious Diseases online publication, May 4, 2016.
[6] Hepatitis C Society, 2016.
[7] Blue Cross Blue Shield of Michigan Book of Business Analysis 2015.

expenditure, so rapidly growing prescription drug spending is a concern for both employers who continue to pay for a majority of health insurance premiums and for employees, who likely are now paying much more in out-of-pocket expenses to obtain necessary pharmacy benefits than they did just a couple of years ago.

Figure 1: Medical Service Costs As A Percentage of Total Health Insurance Premiums



Source: Blue Cross Blue Shield of Michigan 2015 Book of Business Analysis

Four Actionable Strategies for Controlling Rising Prescription Drug Costs

With drug costs continuing to rise, there are a number of strategies businesses can take to control cost and to encourage employees and their covered family members to utilize the lowest priced prescription drug therapy to treat a diagnosed condition. Here are four strategies to consider when managing the rising cost of prescription drugs:

1. Consider adopting or modifying any existing multi-tier prescription drug benefit. Insurance carriers and pharmacy benefit managers now offer a variety of prescription drug tiers in an effort to direct covered members to the lowest cost drug therapy. The most common multi-tier formats offer 4 to 6 tiers, with each tier representing a higher out-of-pocket drug cost for the member. Specialty drugs are represented in the last tier and carry the highest out-of-pocket cost. Be sure to understand the likely wide spectrum of multi-tier options available, including deductibles linked to prescription drug spending, fixed copayment, and coinsurance payments per drug tier. Making thoughtful adjustments to your pharmacy benefit can save significant premium dollars.

2. Educate employees on the cost of prescription drugs through targeted communications. With more employers introducing multi-tier prescription drug benefits that shift cost to members for higher tier drug use, it is important for your employees and their covered family members to understand why the sometimes confusing multi-tier approach is necessary and how they can lower their out-of-pocket costs by asking their health care provider to prescribe generics whenever possible. Your insurance company or pharmacy benefit manager should have a number of turn-key communications available to help you to communicate with employees and covered family members.

3. Work with a good health benefits agent or consultant to help you to navigate your prescription drug options and to recommend options that make the most sense for your organization. A good agent should present a number of viable prescription drug options for consideration and should also provide guidance on how to communicate coverage changes to employees and family members. Also seek the input of your current insurance carrier or current pharmacy benefit manager for their insight on what your organization can do to control rising costs while still providing a solid prescription drug benefit for your employees and their covered family members.

4. If your group is self insured or is experience rated for medical and prescription drug claims (typically if your group insures more than 50 employees, your plan will be experience rated), consider purchasing stop-loss coverage for prescription drug costs that exceed a designated level at the employee contract level (referred to as specific stop-loss coverage) and for the total amount of group pharmacy expenses (referred to as aggregate stop-loss coverage). For many companies, this extra form of risk reduction stop-loss coverage will be a good decision, as specialty pharmacy costs can exceed over $100,000 for just one treatment regimen.

The cost of prescription drugs will continue to rise, and understanding the factors that are driving these ongoing increases will allow you to take proactive steps to keep pharmaceutical premium increases in line with your health insurance budget. The decisions you'll need to make are by no means easy, but will be necessary to keep health insurance a viable option for your organization. Commit to understanding the factors driving your organization's pharmacy drug costs and take advantage of plan design and strategies to keep the rising cost of your pharmacy benefits in check. ■