

## Benefit Fact Sheet

### What is it?

Prescription drug insurance allows plan members to purchase prescription drugs at a reduced cost. Prescription drug benefits are typically included in the design of a standard medical plan, but can also be carved out as a separate plan. The most common plan designs are copay-based.

Prescription drug programs usually include a formulary, or list of preferred drugs that the plan will cover, usually at a lower out-of-pocket cost for the insured. A formulary can be used to contain or lower cost.

There are three common prescription drug plan design structures:

- **Open Formulary:** offers members access to non-formulary drugs at a higher copay. Open formulary plans may include two or three tiers. Example of three-tier structure: \$10 generic formulary, \$20 brand name formulary, \$35 non-formulary.
- **Closed Formulary:** offers members access to only drugs that are on a formulary list. Coverage for non-formulary drugs is not available. Non-formulary drugs can be purchased at retail cost.
- **Non-Formulary:** offers members access to any drug. Formulary listings do not apply to these plans.

Most plans include a mail-order prescription drug program that allows members to receive a 60 or 90-day supply of medication through the mail. Copays are generally two times the normal copay for a 90-day supply.

Under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (P.L. 108-173) prescription drug coverage became available to everyone eligible for Medicare. The costs of the plans differ based on the coverage level, but all plans provide at least a standard level of coverage set by Medicare.

### Why offer it?

- Basic component of a competitive benefit program.
- Prescription drugs are playing an increasing role in health care.
- The rapidly rising cost of prescription drugs makes it difficult for individuals with health problems to bear the full cost of medication.

### What types of employers offer it?

All types of employers offer prescription drug coverage.

### What size employers offer it?

All sizes of employers offer prescription drug coverage.

### What are the critical underwriting or participation requirements?

- Minimum of two employees
- Employer location and industry
- Employee demographics
- Prescription drug experience rating may apply, depending on employer size

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### What's new in this area?

- Prescription drug expenditures have grown at double-digit rates for a number of years. Several factors contribute to increases in drug spending with increased utilization (number of prescriptions being written) being the main contributor. The influx of new higher-priced drugs to the market and increases in costs for existing drugs are also responsible for the rising expenditures.
- Specialty medications represent an increasing component of prescription drug costs. Specialty medications can cost several thousand dollars and often require special handling. These medications are used to treat complex diseases such as cancer, hemophilia, and multiple sclerosis. Most large insurance companies have established specialty pharmacies to help manage the costs of these drugs. Some health plans have begun to charge higher copayments for specialty medications.

### How much does it cost?

- The cost of prescription drug coverage varies depending on geographic region, past claims experience, group characteristics and the level of benefits provided by the plan.
- The addition of prescription drug coverage typically causes a 15% increase in the health plan premium.

### Informational links

- [Online publications - Collection of Rx studies](#) (Express-Scripts.com)
- [Medicare Prescription Drug Coverage](#) (Medicare.gov)

### Pros and cons

#### Pros

- Provides employees with financial coverage for a significant healthcare option
- Basic component of group benefit package

#### Cons

- Rapidly increasing premium rates

This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization. A menu of additional topics is available online at: [www.arlengroup.com/facts](http://www.arlengroup.com/facts).