Impact of the Health Insurance Marketplace on Participant Cost Sharing for Pharmacy Benefits

Prepared for:
Pharmaceutical Research and Manufacturers of America (PhRMA)

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I. EXECUTIVE SUMMARY

PhRMA engaged Milliman to analyze the differences between health care benefit designs offered to individuals in the public health insurance marketplace, also called Health Insurance Exchanges (HIX), and typical plans sponsored by employers. The focus of our analysis was to determine the impact on pharmacy benefits in HIX as a result of the relatively high prevalence of plans with combined deductibles for both medical and pharmacy benefits, compared to employer-sponsored plans. We evaluated the prevalence of various benefit design structures as well as the financial impact to the member of a combined deductible.

Our analysis confirmed the following conclusions:

- **Typical employer-sponsored plans are significantly more generous than typical Silver plans found in HIX.** In a typical Silver plan, the member cost sharing (prior to any government subsidies) is 38% more than the typical cost sharing in an employer plan in aggregate. The majority of HIX enrollment, as of February 2014, is in Silver plans (62%).

- **Silver plans offered on HIX are nearly four times more likely to have a single combined deductible for medical and pharmacy benefits** than typical employer-sponsored plans (46% of the time compared to 12%, respectively).

- **Silver plans with combined deductibles impose significantly higher member cost sharing for pharmacy benefits** than a typical employer-sponsored plan (130% higher).

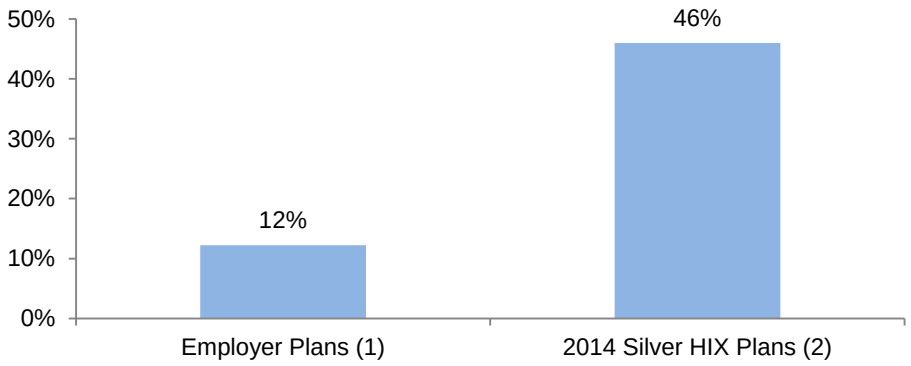
This report details our analysis and the methodology used to develop these conclusions.

II. DETAILED RESULTS AND DISCUSSION

Historically, employer-sponsored medical and pharmacy benefits have been subject to a separate and distinct set of plan design provisions. With the expansion of high-deductible health plans (HDHPs) and, more recently HIX, there has been an increase in the use of plan designs combining medical and pharmacy benefits under a common design structure.

Our analysis confirmed there are significant differences between a typical plan offered by employers and the typical Silver plan offered on the HIX. Chart 1 illustrates the differences by prevalence of combined deductibles in employer and Silver HIX plans.

Chart 1
PhRMA
Percent of Plans with a Combined Medical/Pharmacy Deductible



(1) Based on data from the Kaiser Family Foundation and Health Research and Educational Trust (HRET) Employer Health Benefits 2013 Annual Survey.
(2) Based on data from the Federally Facilitated Marketplaces and State Partnership Marketplaces.

The vast majority of employer plans (88%) do not have combined deductibles for medical and pharmacy benefits, while almost half (46%) of Silver plans have combined deductibles for medical and pharmacy benefits. According to Milliman's analysis of the Kaiser/HRET data, about 90% of employer plans that do not have a combined deductible provide first-dollar coverage for prescriptions (i.e., there is no separate deductible for pharmacy benefits). Among Silver HIX plans, it is more common to have a separate prescription drug deductible in plans that do not have a combined deductible.

Given the difference in the proportion of plans with combined deductibles in the employer-sponsored market as compared to the HIX market, we examined the implications combined deductibles have on cost sharing. Table 1 illustrates two different plan designs – a typical HIX plan design with a combined deductible that would qualify as a Silver plan and a typical plan design for employer groups. The typical HIX plan is based on an analysis of over 800 Silver plans from the Federally-Facilitated and State Partnership HIX. The cost sharing for the HIX plan in Table 1 generally represents a combination of the median and average (mean) levels of cost sharing for each plan design component. As necessary, the plan design was adjusted so the plan would have an actuarial value (AV) within the allowable limits for a Silver plan (68% AV to 72% AV).

Table 1 PhRMA Description of Plans Used in Comparison		
	2014 Silver HIX Plan Combined Deductible	**Employer Plan Separate Deductible**
Medical Plan Design Components		
Medical Deductible (Single)	$2,000	$1,135
Medical OOPM (Single)	$5,500	$3,000
Medical Coinsurance	20%	20%
Primary / Specialist Copay	$24 / $45	$23 / $35
Pharmacy Plan Design Components		
Pharmacy Deductible (Single)	Included with Medical	$0
Pharmacy OOPM	Included with Medical	Unlimited
Generic Copay	$10	$10
Preferred Brand Copay	$38	$29
Non-Preferred Brand Copay	$69	$52
Specialty Coinsurance	30%	32%
Plan AV [1]	**68.5%**	**77.1%**

[1] *AV as calculated by Milliman's Claims Simulation Model. Will not correspond exactly to AV calculator released by CCIIO.*

A key point to note is the typical employer plan has more generous benefits overall than a typical Silver plan. Based on the illustrative designs in Table 1, the typical employer plan has an AV of 77%, while a typical Silver plan has an AV under 70%. While the overall AV for employer groups is 77%, large group plans typically have higher AVs than small group plans. On average, the typical employer plan design is closer to a Gold HIX plan than Silver based on the AV. We estimated each plan's true AV using our *Claims Simulation Model*, but also verified the Silver HIX plan meets the 2015 final AV Calculator's requirements to qualify as a Silver plan.

Note the plan design modeling was all done on an individual basis. The results of the modeling could vary for family plans and is dependent on variables such as the multiplier for the family deductible and OOPM, and whether the individual limits are embedded in the family amount. Our analysis did not incorporate any subsidies for low income individuals in the HIX.

Those plans with a combined deductible (46% of Silver plans, as noted in Chart 1), have significantly different plan cost sharing for pharmacy benefits than a typical employer plan. These differences are illustrated in Table 2:

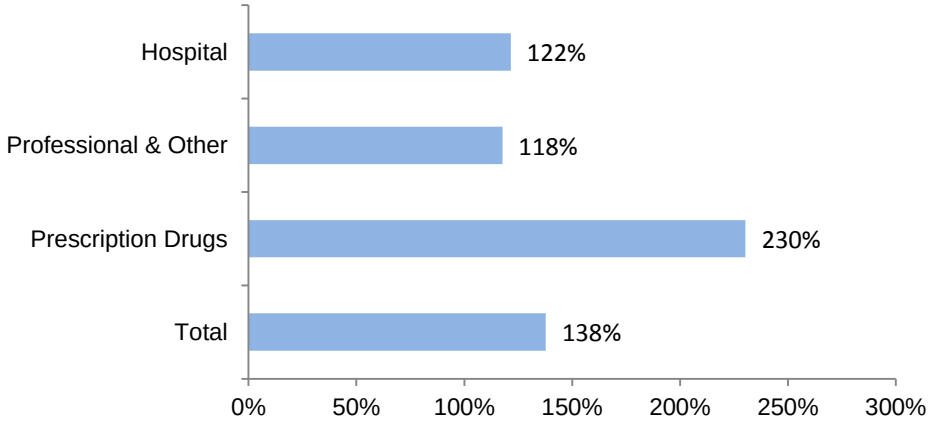
Table 2 PhRMA AV by Service Category		
	2014 Silver HIX Plan Combined Deductible	**Employer Plan Separate Deductible**
Hospital	72.4%	77.3%
Professional & Other	71.2%	75.5%
Pharmacy	53.8%	80.0%
Total Plan AV [1]	**68.5%**	**77.1%**

[1] *AV as calculated by Milliman's Claims Simulation Model. Will not correspond exactly to AV calculator released by CCIIO.*

As seen in Table 2, under a typical employer plan that does not subject pharmacy spending to a deductible, the actuarial value for the pharmacy benefit is 80%. In a Silver plan with a combined deductible, the actuarial value (AV) for the pharmacy benefit decreases to just 54%. It should be noted that part of the decrease is due to higher overall member cost sharing in Silver plans than in typical employer plans, as we previously discussed.

The following chart normalizes the member cost sharing across the different service categories to illustrate the relative impact of the design change on member cost sharing:

Chart 2
PhRMA
Relative Increase in Annual Out of Pocket Member Cost Sharing by Service Category for Silver Plans Compared to Employer Coverage



From Table 1, we noted typical Silver plans have lower AVs than typical employer plans. On average, the difference translates into 38% higher member cost sharing for a Silver plan compared to a typical employer plan. However, a combined deductible leads to a much different impact by service category. **Given the high frequency and low severity nature of pharmacy claims and the fact that a high percentage of members will have at least one pharmacy claim in a given year**, **combined deductible plans disproportionately impose a much higher member cost sharing burden for pharmacy benefits relative to other types of benefits.** The typical Silver plan with a combined deductible results in member cost sharing for pharmacy benefits that is 230% of the member cost sharing in a typical employer plan (130% higher member cost sharing).

It should be noted we did not make any assumptions regarding the utilization of pharmacy services as a result of the higher or lower member cost sharing. It is possible the utilization of pharmacy benefits could be impacted if the member cost sharing is materially different between plans. We utilized a static claims file and adjudicated the benefit under various plan designs to provide the results in this report.

III. METHODOLOGY FOR BENEFIT DESIGN ANALYSIS

In our analysis, we evaluated the changing landscape of pharmacy benefits by:

- Reviewing the prevalence of combined medical and pharmacy deductibles.
- Comparing standard types of plan designs for Silver plans and employer-sponsored plans.
- Assessing the impact of member cost sharing as a result of combined deductibles.
- Modeling the difference in AV as a result of combined deductibles.

The analysis of plans offered in the public marketplace is based on Silver HIX plans. There are many different types of plans offered on and off the HIX, including more generous designs such as Platinum and Gold plans and less generous designs such as Bronze and Catastrophic plans. Some lower-income individuals are also eligible for cost-sharing reductions (CSR) in Silver plans which effectively increase the AV of those designs, but were not considered for our analysis.

For purposes of this study, we focused on Silver plans because the majority of HIX enrollment is in Silver plans (62%). Through February 2014, 82% of HIX enrollees selected a plan with financial assistance, although there are no data on the number of enrollees with CSR plans. The results will vary for individuals with cost share subsidies and for those who in enroll in other plan types, in particular those who have separate medical and pharmacy deductibles. Even for those who elect Silver plans, the results by individual will vary based on the specific Silver plan selected.

We used data from two external sources to develop typical market plan designs:

- Data for typical employer plan designs reflect plans offered in 2013 was sourced from the *Kaiser Family Foundation and Health Research and Educational Trust Employer Health Benefits 2013 Annual Survey*.
- Data for typical Silver plans offered on a HIX was sourced from www.healthcare.gov and includes data from plans in the Federally-Facilitated and State Partnership Marketplaces.

We analyzed this data and developed a typical design for a Silver plan with a combined deductible for use in this study. The typical design is reflective of the median or average benefit plan provisions for each type of plan referenced in the study. A combination of medians and averages (means) were used to ensure that the overall plan design met the actuarial value requirement for a Silver plan. Please note this data set does not include all plans which are offered on HIX. However, we believe the source data provides a reasonable sample of the different types of plans offered.

The Silver plan design was run through the final 2015 AV Calculator, released by CMS on March 4, 2014, to ensure the design met the requirements of being a Qualified Silver plan. This final version of the calculator is nearly identical to the final 2014 AV Calculator and includes only minor changes, such as the ability to model higher out-of-pocket maximums. We then used Milliman's proprietary Claims Simulation Model to calculate the AV amounts and member cost sharing percentages which were used in the remainder of our analysis.

IV. CAVEATS, LIMITATIONS, AND QUALIFICATIONS

The results in this report have been prepared for the use of and are only to be relied upon by PhRMA. This information was developed to illustrate the impact of differences between individual healthcare benefit plans in the HIX and typical employer plans. This information may not be appropriate, and should not be used, for other purposes. PhRMA may share this information with outside entities with Milliman's permission. Milliman does not intend to benefit and assumes no duty of liability to other parties who receive this work product. Any third party recipient of this work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs. Any release of this report to a third party should be in its entirety.

Please note that in preparing our estimates, we relied upon data from the Federally-Facilitated Marketplaces and State Partnership Marketplaces to determine the prevalence data and design elements of a typical Silver HIX plan. In addition, we relied upon data from the Kaiser Family Foundation and Health Research and Educational Trust Employer Health Benefits 2013 Annual Survey for prevalence data and design elements of a typical employer-sponsored plan, reflecting employer-sponsored plans offered in 2013. To determine the AV of the typical Silver plan as it relates to qualifying for Silver metal status, we relied on the final 2015 AV Calculator released by CMS on March 4, 2014. For detailed analysis of the AVs, we used Milliman's proprietary Claims Simulation Model. Our results will vary with new information or models.

The results presented in this report are intended to show the average overall impact of a typical employer-sponsored plan and typical Silver HIX design, and may not be relevant for employer groups or Silver HIX plans with provisions differing substantially from the typical plan design. In addition, the results are not relevant for those individuals enrolled in HIX plans other than Silver plans, particularly those in more generous plan designs with separate medical and pharmacy deductibles.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. The authors are actuaries for Milliman. We are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

The terms of the consulting services agreement between Milliman and PhRMA, dated April 21, 2011, apply to this information and its use.