

# OUTPATIENT PRESCRIPTION DRUG COVERAGE 101

DECEMBER 18, 2014



## ABOUT THIS RESOURCE

This resource has been prepared by the California Health Benefits Review Program (CHBRP) as a tool for policymakers to help clarify and explain the common terms associated with prescription drug coverage and the general benefit design for coverage, both of which are often addressed in health policy legislation. CHBRP responds to requests from the California State Legislature to provide independent analysis of the medical, financial, and public health impacts of proposed health insurance benefit mandates and repeals, including bills focused on outpatient prescription drug coverage.

Outpatient prescription drug coverage is a specific type of covered benefit within health insurance, just as an enrollee receives coverage for doctor's visits or for lab tests. The Affordable Care Act (ACA) requires coverage for ten categories of essential health benefits (EHBs) for most health insurance plans and policies,<sup>1</sup> including coverage for prescription drugs. Coverage for outpatient prescription drugs generally includes those drugs for which an enrollee receives a prescription and fills the prescription either at a retail pharmacy or by mail through a mail-order pharmacy.<sup>2</sup>

## DEFINITIONS OF COMMON TERMS

There are some common terms it is helpful to define when trying to understand outpatient prescription drug coverage.

- **Brand-name drug:** A brand name drug is a drug marketed under a proprietary, trademark-protected name.<sup>3</sup>
- **Generic drug:** A generic drug is no longer covered by patent protection and thus may be produced and/or distributed by multiple drug companies. On essential aspects, such as drug dosage, safety, and strength, the U.S. Food and Drug Administration (FDA) considers a generic

drug to be the same as a brand name drug,<sup>4</sup> but generic drugs are generally cheaper.

- **Specialty drug:** There is no standard industry definition of specialty prescription drugs, but a 2011 national survey of 102 commercial and Medicare/Medicaid plans found that 84% of payers identify cost as this category's primary characteristic, with an average minimum monthly cost of \$1,154. Other criteria for defining a specialty prescription drug include treating a rare disease, requiring special handling, or having a limited distribution network (EMD Serono, 2012).
- **Prescription drug formulary:** A formulary, or a drug list, is a list of the prescription drugs covered by a health insurance plan<sup>5</sup> or a prescription drug plan.<sup>6</sup> A plan may provide outpatient prescription drug coverage, but that does not mean all prescription drugs are covered; the formulary identifies the drugs covered under the plan.
- **Preferred drug:** A preferred drug is one included on a formulary or preferred drug list, such as a brand-name drug without a generic substitute (KFF/HRET, 2014).
- **Nonpreferred drug:** A nonpreferred drug is one not included on a formulary or preferred drug list, such as a brand-name drug with a generic substitute (KFF/HRET, 2014).

<sup>1</sup> Affordable Care Act (ACA) Section 1302.

<sup>2</sup> To note, prescription drugs, such as injectable drugs (e.g., chemotherapy), administered in a doctor's office or another outpatient setting are also considered an outpatient prescription drug. These outpatient prescription drugs vary in whether they are covered under an enrollee's outpatient prescription drug benefit or under an enrollee's medical benefit.

<sup>3</sup> Definition available at:

[www.fda.gov/Drugs/InformationOnDrugs/ucm079436.htm#B](http://www.fda.gov/Drugs/InformationOnDrugs/ucm079436.htm#B).

<sup>4</sup> Definition available at:

[www.fda.gov/Drugs/InformationOnDrugs/ucm079436.htm#B](http://www.fda.gov/Drugs/InformationOnDrugs/ucm079436.htm#B).

<sup>5</sup> California has two health insurance regulators that oversee health insurance plans and policies. For brevity, this factsheet refers only to health insurance plans.

<sup>6</sup> Definition available at: [www.healthcare.gov/glossary/drug-list/](http://www.healthcare.gov/glossary/drug-list/).

- **Prescription drug tiers:** Health plans may design their outpatient prescription drug benefits as a “tiered” benefit, each tier having a distinct cost-sharing level; the prescription drugs in the lower tiers are less costly to both the enrollee and to the health plan.

## COST SHARING AND TIERS

Outpatient prescription drug coverage is usually subject to cost sharing,<sup>7,8</sup> and how the benefit is structured – the benefit design – for this category of coverage is complex and varies widely within and between plans. A drug benefit design may require coinsurance on a prescription drug, but cap the amount paid per 30- or 90-day supply. A health plan may have lower cost-sharing rates for prescriptions filled through a mail-order pharmacy service instead of at a retail pharmacy, or at a preferred versus nonpreferred pharmacy. In addition, a health plan may require copayments for generic or preferred drugs and coinsurance for nonpreferred or specialty drugs; benefit designs such as this often depend on the number of tiers a plan has in its outpatient prescription drug coverage. Tier designs are generally as follows:

- **One-tier** designs have the same cost sharing regardless of drug type.
- **Two-tier** designs generally have one payment for (1) *generic* drugs and another for (2) *brand-name* drugs.
- **Three-tier** designs generally have one payment for (1) generics, and two different payments for brand-name drugs, dividing them into (2) *preferred*, with lower cost sharing, and (3) *nonpreferred*, with higher cost sharing.
- **Four-tier** designs generally have the three tiers above, plus a fourth and/or fifth cost-sharing level for specific drugs, such as “lifestyle” drugs (e.g., infertility, erectile dysfunction, weight loss), specialty drugs, or others for which a plan may

want to impose differential cost sharing (CHCF, 2014; KFF/HRET, 2013).

A national survey found that fourth-tier drug copayments averaged \$83 in 2014, and the average coinsurance was 29% (KFF/HRET, 2014). The national survey also reported that workers in a four-tier system were divided between cost-sharing type – 39% copayment and 49% coinsurance (KFF/HRET, 2014).

### California: Outpatient Prescription Drug Coverage and Cost Sharing

Overall, it appears that California enrollees with outpatient prescription drug coverage have less exposure to high levels of cost sharing for prescription drugs than their counterparts in other states. Table 1 shows the prevalence of different prescription drug benefit structures among employer-sponsored health insurance in California and nationally. Table 2 shows the percentage of works with tier 4 cost-sharing structures. The percentage of workers in plans with 4 tiers in California is lower than the rest of the nation, and between 2005 and 2013 the percentage has not increased as much as it has nationally; national there was a statistically significant increase in the percent of workers shifting to a four-tier benefit design structure between 2005 and 2013 (CHCF, 2014).

**Table 1.** Distribution of the Types of Prescription Drug Benefit Structures for Health Insurance Products in California and Nationally, 2013

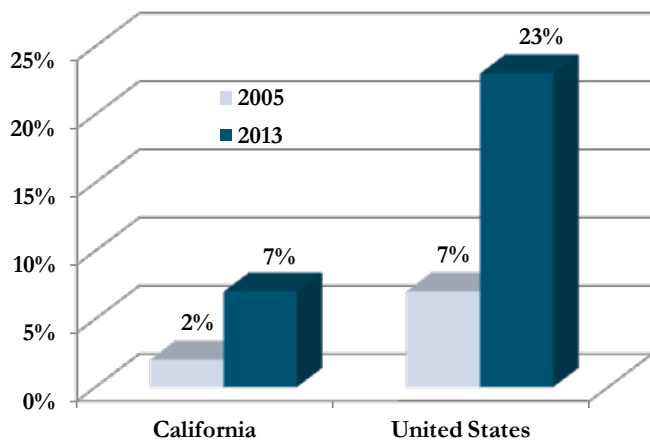
Tiered Prescription Drug Design	California	United States
1 Tier	9%	5%
2 Tier	22%	10%
3 Tier	59%	59%
4 Tier	7%	23%
Other	3%	4%

Source: CHCF, 2014.

<sup>7</sup> For more information on cost sharing, see CHBRP’s resource, *What is Cost Sharing in Health Insurance? An Overview of Common Terms*, available at: [www.chbrp.org/other\\_publications/index.php](http://www.chbrp.org/other_publications/index.php).

<sup>8</sup> It is important to note that in Medi-Cal, California’s Medicaid program, enrollees are subject to different cost sharing requirements, with minimal cost sharing required for prescription drugs. The Kaiser Family Foundation reported that in 2012 Medi-Cal required a \$1.00 copayment for a prescription drug (<http://kff.org/medicaid/state-indicator/prescription-drugs/>).

**Table 2.** Percentage of Workers in Prescription Drug Tier 4 Cost-Sharing Structures



Source: CHCF, 2014.

The California Employer Health Benefits Survey found that the average copayment among California workers in 2013 was \$10.04 for generics, \$25.41 for preferred, and \$41.85 for nonpreferred drugs (CHCF, 2014), meaning that a preferred drug has, on average, 60% the copayment of a nonpreferred drug for California enrollees with an employer-sponsored plan.

## SPECIALTY PRESCRIPTION DRUGS

Specialty drugs are used to treat a range of conditions. An industry survey reported that more than 70% of respondents agreed on a list of the top 25 therapy categories classified as specialty drugs (EMD Serono, 2012). Most of the conditions targeted by these specialty drugs tend to be chronic and progressive in nature and can affect quality of life, along with morbidity and mortality. Examples include rheumatoid arthritis, asthma, multiple sclerosis, hepatitis C, hemophilia, cancer, and lupus.

The number and cost of specialty prescription drugs continues to increase and payers are increasingly attempting to manage these high-dollar drugs with different cost-sharing methods. For example, in the aforementioned survey, 49% of plans place specialty drugs in tier 4, and 51% distribute specialty drugs among tiers 2 and 3 depending on their preferred status. Of the commercial plan respondents, 25% reported an average copayment of \$120, and 72% reported an average coinsurance of 22% for specialty drugs. Specialty drug copayments among all tiers ranged

from \$10 to \$250 per prescription, and coinsurance ranged from 10% to 50%. About 40% of plans used coinsurance rather than copayments for specialty drugs. In 2011, 71% of plans with coinsurance had a maximum dollar amount cap on cost sharing for a prescription drug with an average cap of \$218 (EMD Serono, 2012).

## REFERENCES

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