

# Benefit Insights

## ***Specialty Drugs Pose Health Cost Management Challenge***

Though increases in prescription drug spending still outpace the overall health care inflation rate, the pharmaceutical spending trend has moderated somewhat. According to the Segal Company's 2006 Health Care Cost Trend Survey, the cost increase for a prescription drug carve-out plan covering active employees and pre-65 retirees is running at 15.2% for retail drugs and 15.5% for mail-order drugs in 2005, and is projected to fall to 13.8% for retail drugs and 14.5% for mail-order drugs in 2006. These levels, according to Segal, are close to those of 1998.

Running counter to this trend is spending for so-called specialty drugs which, according to the same survey, is projected to increase by 21.6% in 2006, a rate significantly higher than that reported for non-specialty retail and mail-order pharmaceuticals. The Pharmaceutical Care Management Association (PCMA), in its publication "An Introduction to Specialty Pharmacy," estimates spending on specialty drugs amounting to \$25 billion to \$35 billion annually.

The cost to an individual patient of a specialty drug regimen will, of course, depend on the particular pharmaceutical; however, this cost will, by comparison, dwarf the cost of non-specialty drug therapy. Estimates of the per patient annual cost for specialty drug treatment range from \$10,000 to upwards of well over \$100,000—or more.

What are specialty drugs and why do they come at such a cost? The term specialty drugs encompasses types of pharmaceuticals that might differ from other prescribed products in their development, in how they are administered to the patient, and in their storage and handling requirements. For example, some specialty drugs are biologics—genetically engineered drugs. Some require administration by injection or infusion, or administration only by a medical professional. Some have special storage, handling and distribution requirements, meaning

that they may not be available through the local pharmacy.

Specialty drugs target complex and chronic conditions. Medical conditions for which specialty drug therapy currently is available include cancer, human growth hormone disorders, hemophilia, psoriasis, multiple sclerosis, rheumatoid arthritis, immune disorders, infertility, Crohn's disease, Parkinson's disease, lupus and HIV/AIDS.

Though expensive, a specialty drug—like any appropriately prescribed and properly managed pharmaceutical—can ultimately be a cost-effective part of a patient's therapy if it aids in that patient's recovery or prevents a condition from worsening, alleviates pain, or averts the kinds of medical costs and complications that can result from hospitalization and more intrusive interventions. However, because the cost of specialty drugs is so high, health plans and pharmacy benefit managers have implemented various controls to ensure that the outlays for these medications are well-spent and geared toward achieving the desired outcomes. Support services that commonly are seen in specialty drug management programs include injection training, extensive patient education, 24/7 dispensing services, patient monitoring to assure compliance, and automatic refill reminders.

Pharmaceutical market trends and the ongoing development of an increasing number of specialty drugs indicate that this area of pharmacy will grow, and with it the potential impact on an employer's health care costs. Employers would be well advised to get a handle on how their employee population is utilizing these products, and how their health plan and/or pharmacy benefit manager (PBM) is managing the benefits. Areas to examine include plan design, the plan's or PBM's initiatives to secure discount pricing and dispensing fees, and how the plan or PBM ensures optimal patient compliance with their specialty drug regimen.

### ***Welcome to Our Newsletter!***

**TOBIAS**  
INSURANCE GROUP, INC.

The new **Medicare Part D** (the prescription drug benefit) program, that is effective January 1, 2006, is a law that employers, regardless of size, cannot ignore. It imposes notice and coordination requirements for health plans that provide prescription coverage, even if the health plan is only for active employees. 1) Application for the government subsidy was extended to October 31, 2005. 2) Notification to Medicare eligible plan participants that their group health plan's prescription coverage is not "creditable coverage" must be distributed prior to November 15, 2005. **PLEASE DO NOT DELAY-CONTACT TOBIAS' BENEFITS DEPARTMENT FOR GUIDANCE ON HOW YOUR PLAN WILL ADAPT TO COMPLY.**

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## **Employers Discovering Wellness Programs Help Rein in Health Care Costs**

While employers continue to use cost shifting to control their health care plan expenses, many also are making wellness programs part of their health care cost control strategy and are seeing these programs as a long-term investment in a healthier workforce.

A survey of 365 companies by the ERISA Industry Committee (ERIC) and the Deloitte Center for Health Solutions found that 62 percent have implemented wellness programs to improve employees' health. Of these companies, 64 percent cited rising health care costs as a "major factor" in the decision to sponsor a wellness program, and 34 percent said that health care costs played "some role" in the decision. In a separate survey by PricewaterhouseCoopers, 80 percent of surveyed business executives said that the best option for reducing health care costs was to provide financial incentives for employees to lead healthier lifestyles.

Health risk assessments lead the list of wellness initiatives used by the ERIC/Deloitte-surveyed employers, followed by smoking cessation programs. Specifically, the surveyed companies offered the following wellness initiatives—

- Health risk assessments—61 percent
- Smoking cessation programs—56 percent
- On-site workout facilities—50 percent
- Employee diet groups—48 percent
- Adding healthier foods to the cafeteria menu—48 percent
- Subsidized gym programs—43 percent
- Allowing employees to use time during the workday to exercise—27 percent
- Diet counseling—27 percent
- Other initiatives, such as free flu shots, healthier vending machine choices, wellness Web sites, and on-site massages—32 percent

Almost half (47 percent) of the companies with wellness programs offered employees incentives to participate, including cash payments, reduced medical co-payment costs, rebates on wellness program costs, gift certificates and prizes.

While the surveys cited above focused on large companies, small and midsize businesses are also offering wellness initiatives. Data from the Small Business Administration cited by the National Federation of Independent Business indicates that more than 80 percent of businesses with 50 or more employees have implemented some type of wellness program.

Most companies with wellness programs understand that it will take some time to see the payoff from these programs. When companies in the ERIC/Deloitte survey were asked the question—"Do you believe that helping employees lead healthier lifestyles will make a noticeable difference to the company's health care costs?"—80 percent said "Yes, but it will take a while to see results." Only four percent expected immediate improvement. Another 14 percent thought an impact on health care costs was only a possibility, and that "there are other reasons we wanted to do this."

The actual financial payoff any company reaps from a wellness initiative is impossible to predict, and will depend on the type of program and extent of employee participation, the latter of which can vary, driven by such factors as the availability of participation incentives, employee awareness, and the extent to which the employer stands behind the program. However, wellness programs can do more for a company than help contain its health care costs. Healthier employees are likely to be more productive, have fewer absences, and have a better overall attitude toward the business. Sponsorship of wellness programs also can enhance a company's recruitment efforts, and improve its image in the community.

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Thus, it becomes important to emphasize the availability of the EAP during the annual benefits enrollment window, and periodically throughout the year. Even though the EAP typically won't be among the benefits that employees must make an active enrollment decision about, be sure to provide some communication materials about it during that time. However, since the health plan and other benefits

requiring an employee choice (and contribution) are likely to be employees' primary focus during the enrollment period, it's wise to provide additional EAP information at other times during the year. Contact your EAP vendor about the availability of newsletters, posters, tabletop displays for the lunchroom, paycheck stuffers and flyers. If your company

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## Take Steps to Spot Compliance Issues Before They Cause Problems for You and Your Benefit Plans

Reports indicate that the Internal Revenue Service (IRS)—one of the government agencies responsible for overseeing employee benefit plans—is staffing up and intends to increase its number of benefit plan audits. The agency expects to audit an overall 9,000 employee benefit plans in 2005 and 10,000 in 2006, with most of these audits being of qualified retirement plans.

Because of the large public trust placed in employee benefit plans—particularly qualified retirement plans—and because of the sizable tax breaks plans receive, the IRS seriously examines issues involving a plan’s compliance with applicable regulatory and reporting requirements. And an employee benefit plan sponsor should be serious about plan compliance, since both monetary penalties and other civil and criminal sanctions can result from noncompliance.

According to the IRS, the most common compliance mistakes include:

- Not following the terms of the plan document;
- Not covering the proper employees;
- Not giving employees the required information about the plan;
- Not depositing employee deferrals or contributions in a timely manner; and
- Not limiting employee deferrals and employer contributions to the amounts permitted by law.

The IRS recognizes that changes in a company’s workforce may inadvertently cause a compliance problem to arise. For example, a sudden increase in staffing at lower level payroll positions may produce a change in deferral patterns and resulting nondiscrimination testing problems in a salary deferral plan. For this reason, the agency urges employers to conduct periodic reviews of their plans.

The IRS characterizes its approach toward employee benefit plan compliance as one of a “carrot and stick,” with the carrot being the agency’s self-correction and voluntary correction programs, and the stick being an audit. The self-correction program enables plan sponsors to correct inadvertent errors in plans without IRS involvement. The incentive to self-

correct is that no IRS notification is required, no fees or penalties are assessed, and the plan, plan sponsor and participants retain the tax benefits. Compliance issues that cannot be rectified through the self-correction program may be able to be resolved through the voluntary correction program, which requires IRS involvement while correcting the errors and preserving the tax benefits.

If the IRS does audit a plan, noncompliance errors that have been corrected either through the self-correction program or the voluntary correction program will not be treated as continuing issues. Certain other noncompliance issues uncovered during an audit may be corrected at that time, though the fees and penalties imposed will be greater than if the errors had been caught and corrected at an earlier time. However, correction, even at this late date, can preserve the plan’s qualified status. The IRS will regard honest and inadvertent mistakes differently than abusive or prohibited transactions, which can put the qualified status of the plan in jeopardy and result in severe penalties for the plan sponsor.

The IRS maintains various tools to help employers meet compliance requirements and understand the plan examination process. These include the Employee Plans Examination Process Guide; a Web-based guide intended to help both plan sponsors and those that provide services to plans better understand the examination process. The agency also distributes a periodic newsletter; Retirement News for Employers, which features information useful to businesses that sponsor pension plans, 401(k)s, SEPs, Simple IRAs, and other qualified plans. Information on these products is available through the IRS Web site for retirement plans, [www.irs.gov/ep](http://www.irs.gov/ep).

It is important to remember that agencies besides the IRS—namely, the Department of Labor’s Employee Benefits Security Administration and the Pension Benefit Guaranty Corporation—also oversee benefit plans and have their own compliance processes. The IRS also advises plan sponsors to consult with their benefits plan professionals to determine “when and what” to change in a plan in order to achieve and maintain compliance. This advice should be followed, as staying current with compliance requirements can pose a challenge for the average business owner.

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uses e-mail as an employee communications tool, ask your EAP vendor about the availability of any electronic materials, and whether EAP information directed at employees can be found on its Web site. Also, it might be appropriate to arrange for a representative of the EAP to come speak at an employee meeting.

Since EAPs have tremendous potential to help employees facing the many problems caused by chemical dependency, it makes good business sense for employers to do what they can to encourage employees to use them.

*\*Hazelden Foundation is a nonprofit provider of treatment, research and training for chemical dependency issues. The survey, “Making Recovery America’s Business,” interviewed 1,190 employees nationwide.*

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## ***EAPs Are an Overlooked Resource for Employees Facing Substance Abuse Issues***

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Alcohol and drug abuse and addiction are recognized problems in America, and their damage reaches far into the workplace. In a nationwide survey conducted by the Hazelden Foundation,\* 36 percent of employees said that at least one of their co-workers had been distracted, less productive, or missed work because of an alcohol or drug addiction problem in their family. Furthermore, 69 percent said that if a family member were grappling with substance abuse issues, this would negatively affect their concentration at work. And, among the 26 percent who reported an addiction in their family, 42 percent admitted that it negatively impacted their workplace performance.

For workers who struggle with their own addiction, a business may find it more cost effective to help and encourage them to seek treatment, rather than replacing such employees. Replacing an employee entails recruitment and training time and costs. Furthermore, offering appropriate resources to employees with a chemical dependency problem has broader ranging benefits, including improved employee morale, increased productivity and reduced absenteeism.

Overall, businesses have a positive attitude about the benefits of substance abuse treatment for employees. Prior research by Hazelden found that most human resources'

professionals—89 percent—thought that treatment was effective in helping employees overcome their substance abuse problem, and 73 percent believed that employees who sought treatment returned to the workplace as productive employees.

Many companies offer employee assistance programs (EAPs) as the frontline resource for employees who are struggling with chemical dependency or who have a loved one with a substance abuse problem. EAPs can provide referrals and/or treatment, crisis counseling and related support to those using their services. In the Hazelden survey, almost half of employees said they would turn to their company's EAP for help, if facing a substance abuse problem of their own or that of a family member. However, 19 percent of the surveyed employees weren't sure if their employer even had an EAP.

These figures underscore the importance of not letting the EAP get overlooked as a key part of the employee benefits package. EAPs don't often make headline news, like health plans do because of ever-spiraling costs. Nor do employees think of the EAP when they review their paycheck stubs, since they don't see a deduction for the EAP, unlike the health plan, 401(k), dental coverage, etc.

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