Pharmacy Consumerism in the Wake of Health Reform-- Some Initial Thoughts for Health Plans

These are transformational times for US healthcare. On March 23rd President Obama used 22 different pens to sign the Patient Protection and Affordable Care Act (PPAC). Regardless of political beliefs, this was by any standards a monumental event. As health executives we are now faced with the daunting challenge of understanding the short- and long-term consequences of the legislation, and then charting a course forward in its wake. Confounding our planning is a 2,000 page highly technocratic law, a need to guess at the substantial regulations yet to be written by Secretary Sebelius, all while implementing immediate tactical changes mandated for 2011. We at RxEOB have no definitive prognostication on a dominant strategy in the wake of PPAC. However, we have attempted to outline below some potential dynamics that we think our clients and partners should consider as they develop their post-reform strategies:

- **Minimum actuarial values and tight price bands will reduce the health plan’s ability to control utilization through benefit design and pricing.** Overall, PPAC sets floors for coverage, and requires that plans maintain minimum actual values of benefits. In the small market, it further reduces a plans ability to fully price the underlying health risk on certain policies. As such, it is now more imperative than ever to develop capabilities to manage the underlying demand for care, including pharmaceuticals, particularly as the law does little to address care-supply shortages or put in place pharmacy cost controls. Just as critical, plans must simultaneously automate labor intensive services, including pharmacy data analytics and prior authorization.

- **The MLR requirements will need to be addressed through both recategorization and reprioritization of spending.** The legislation imposes 80% - 85% floors for Medical Loss Ratios for many plan types. Some of the impact of this will be likely managed through recategorization of medical management & wellness activities from “Administrative Loss” to “Medical Loss”. However, recategorization alone is not necessarily sufficient. Many health plans may need to explore re-tasking resources from programs that are seemingly non-clinical in nature, (e.g., actuarial, marketing, general IT) and expanding those programs more easily associated with care coordination and health maintenance.

- **An influx of younger consumers into the insurance pool will put new pressures on health plan marketing departments.** Overall, PPAC is expected to grow the insured population dramatically, including Medicaid and the individual and family plan (IFP) markets. IFP growth will be driven from mandates on consumers to purchase an insurance product. IFP growth may further come from employers opting to drop coverage for certain workers and pay the associated penalty, particularly in the out years when the cost growth may outstrip the fines. For insurers, capturing these often younger and healthier members is critical to keeping the risk-pool functioning, particularly in light of tighter pricing / actuarial bands. These consumers will likely have different expectations of service levels and overall different purchasing criteria than what has defined the IFP market in the past. Plans will need to segment their markets and address the wants of these “Gen Xers” and “Gen Yers.”

- **The launch of health exchanges will drive consumers to purchase their health insurance online, further integrating an “eRetailing” mindset with healthcare services.** Using the Massachusetts Health Connector as model, PPAC establishes health exchanges to allow
consumers to purchase coverage online. Doing so will not only put more pressure on marketing departments as mentioned above, but it will further accelerate the already existing trend of driving consumers to the world-wide-web to both research and buy care. Having consumers more receptive to online engagement creates several opportunities to promote lower-cost meds, improve guideline compliance, and expand wellness programs via this low cost channel.

- **Health plans should consider development of new switching infrastructure to capitalize on generic biologics.** While details remain to be sorted out, PPAC allows for generics for biologic medications. In the long run, capitalizing on this competition in these high cost specialty medications will require enhanced switching infrastructure. The existing tools, developed for small molecules, will like not be sufficient for specialty, where the prescribing behavior, the dispensing processes, and the patient-education requirements are so different.

- **For the Medicaid and Medicaid MCOs programs, pharmacy analytics and consumer engagement will be more critical than ever.** Firstly, under the new law Medicaid members will have access to more drugs, including barbiturates, benzodiazepines, and smoking-cessation medications. In parallel, offsetting costs via rebating becomes somewhat more challenging as the federal government retains larger portions of the rebates previously paid to the states. Fortunately, Medicaid MCOs can now take advantage of Section 340B pricing, which can be very low. As such, State Governments and Medicaid MCOs should consider expanding infrastructure to (i) ensure appropriate consumption of medications, including PA, for those medications subject to abuse, (ii) developing analytic tools to identify early cost-saving / waste-minimizing opportunities, and (iii) having effective means of steering consumers to lower cost pharmacy networks.

The potential dynamics and the associated advice above are opinions. However, RxEOB believes more so than ever that plans who can cost-effectively partner with consumers in making the right decision around their health, including their medication use, will be best positioned in long-term. Doing so requires integrating the care coordination over several communication channels, including online, print, phone, and mobile, and supporting these programs with actionable analytics and low-cost automated administrative processes.

As always, RxEOB is eager to share ideas with and learn from our clients, our business partners, and others in the industry. More generally, we are committed to ensuring our health plan and PBM clients continue to excel in the market, avoid any pitfalls PPAC may cause, and capitalize the opportunities it affords. Please contact us at newsletter@rxeob.net if there is anything we can do to help.