The Rising Cost of Specialty Care Drugs and its Impact on Businesses

Even though the cost of prescription drugs has plummeted for many Americans, a small slice of the population is being asked to shoulder more and more of the cost of expensive treatments for diseases like cancer and hepatitis C. Rare and often more serious diseases requiring specialty drugs can come with breathtaking price tags, according to a report by the IMS Institute for Healthcare Informatics (IMS). On average, the monthly price tag for a specialty drug is $2,000, which is 10 times greater than the price tags for non-specialty medication. The high monthly price tags for these drugs (and the long-term treatment that is required for serious diseases) can put severe financial hardships on affected individuals.

We can all understand how it would feel to have family members burdened with expensive medications for a rare condition, but how are these prices set and why are there so few alternative choices? Further, what can businesses do to keep their costs from growing while still caring for their employees?

What are specialty care drugs?
Specialty care drugs are used to treat chronic, serious or life-threatening conditions (such as cancer, rheumatoid arthritis, growth hormone deficiency and multiple sclerosis). These specialty drugs are biologic – in other words, derived from living organisms – and have no substitutes, unlike the overwhelming majority of pharmaceutical drugs that are made chemically. In addition, a small number of individuals (relative to the overall population) are impacted by these serious ailments, so the demand for such drugs is limited to the applicable small pools of patients.

Most notably however, specialty drugs require prescription by a specialist, special handling, intravenous administration, and a high degree of patient management to ensure compliance and safety.

Why are the costs of these drugs so high?
Drug companies have increasingly turned to treatments for smaller and more complex diseases as sales of dozens of blockbuster drugs have collapsed in recent years in the face of competition by cheaper generic versions. In 2013, drug companies debuted 36 new drugs, including 10 notable cancer treatments, the most in more than a decade, the IMS report found. Other significant new drugs on the market included treatments for hepatitis C, multiple sclerosis and diabetes. Pharmaceutical companies began selling 17 drugs last year to treat so-called orphan diseases — those that affect fewer than 200,000 people nationwide.

In this, it’s clear that the demand and market for specialty drugs is growing, but arguments about why their costs are so high varies depending on who you are talking to. Innovative exploration, testing and manufacturing for such a small part of the population is a large factor, though discussions on responsibility for keeping the prices low contrast. For instance, leaders in the insurance industry have been vocal about pharmaceutical companies arbitrarily setting the costs of drugs and has even accused certain companies of using U.S. consumers to subsidize lower drug prices in other countries.

On the other hand, the pharmaceutical companies, who develop these specialty care drugs, say the high prices are necessary to recoup research and development costs.

Influence on Businesses
The increased cost of specialty care drugs has a resounding impact on employers. Taking into account an aging workforce who is retiring later in their careers, increasing health insurance costs as a result of
rising costs on specialty drugs significantly impact employers’ bottom line. Yet, many employers do not know what specialty drugs are and/or how their rising costs impacts them. According to recent surveys conducted by the Midwest Business Group on Health, 78 percent of employer respondents had a low to moderate understanding of specialty pharmacy costs, and nearly 30 percent did not know what their specialty pharmacy cost increases had been over recent years.

Currently, specialty drugs account for 17 percent of the average employer’s overall pharmacy costs, but it’s estimated they’ll make up 40 percent of the average employer’s overall pharmacy costs by 2020. In 2013, it is reported that 23 percent of employer-sponsored health plans placed specialty drugs in their own group, or tier, in which consumers were asked to pay a percentage of the drug cost rather than a set co-payment. In 2006, just 5 percent of employer plans had a specialty tier. As this trend is likely to continue in new plans offered through health insurance marketplaces, it’s important for employers to proactively manage specialty drug costs within the health insurance plans that they have.

**What Employers Can Do to Minimize Specialty Care Drug Costs on Their Businesses**

There are several ways employers can minimize specialty care drug costs. First, employers can make sure employees understand their benefits, and in particular, their out-of-pocket costs. This empowers employees to make smart, financially-sound decisions about appropriate health care needs and prices. In addition, employers can provide education and coaching about specialty drug dosages, side effects and adverse reactions. This is to ensure that when medical situations arise, employees will be better informed about their options and make decisions that are appropriate for their specific medical needs.

Working with a benefits manager, employers can also establish baselines, using data to determine what illness or specialty drugs are most relevant to their business and/or industry. This way, employers can be knowledgeable about which illnesses will have the greatest effect on their employees.

And finally, employers can self-educate themselves to stay up to date on the latest trends and the drug pipeline in the specialty drug market. Since the specialty drug pipeline has accelerated recently (notably that the FDA can now designate “breakthrough medicines” and significantly fast-track their approval process), it is imperative for employers to know the types of drugs hitting the market as well as their costs so they can evaluate and adapt measures to maintain their health insurance costs.