

# BENEFIT

## *Plan Developments*



A report covering plan design and legislative changes

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## Wal-Mart's \$4 Generic Drug Program Could Force Lower Prices

The recent rollout by Wal-Mart Stores Inc. of a discount generic prescription drug program appears to be placing pressure on drugstores and other retailers to lower generic drug prices. On the heels of Wal-Mart's announcement that it is expanding the program to stores in 27 states, drugstore operator CVS Corp. announced a merger with pharmacy benefits manager Caremark Rx Inc. The deal, CVS said, will enable employers and health plans to better manage costs, while still providing health plan participants with direct access to pharmacy services.

CVS operates the nation's largest retail pharmacy chain, with around 6,200 stores in 43 states. Caremark provides prescription benefit management services to more than 2,000 health plans, including seven mail service pharmacies supplying prescriptions to health plan members at

discounted rates. According to CVS and Caremark executives, the new company will provide consumers with the option of filling prescriptions by mail, phone, the Internet, or store visits.

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Commenting on the deal, Mac Crawford, chairman, CEO, and president of Caremark, said, "Combining Caremark's expertise in serving employers and health plans with CVS's expertise in serving consumers will create a powerful force for change in pharmacy services."

The anticipated benefits of the merger, according to CVS, include increased competitive strength, significant synergies, higher earnings, greater cash flow generation, and a platform from which growth can be accelerated. The merger is expected to produce \$400 million in annual cost savings.

Industry analysts speculated that the deal was in part a response to the threat posed by Wal-Mart's low-cost generic drug line. Wal-Mart made headlines in October when it announced the expansion of its generic prescription drug plan, which charges \$4 to fill a one-month prescription of certain

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generic drugs. Started in Florida, the expansion will make the prices available at 1,008 stores in 27 states. The 314 drugs currently offered make up more than a quarter of the prescriptions Wal-Mart dispenses nationwide, including medications commonly prescribed for conditions such as diabetes, high blood pressure, depression, and asthma.

Announcing the program, Wal-Mart President and CEO Lee Scott said, “No American should have to cut pills in half, decide between taking medicine and putting food on the table, or go without medicines altogether. We are very proud to be leading this effort to make sure our nation’s seniors, working families, and uninsured get the medications they need at a price they can afford.”

Other retailers, including Target Corp., have announced plans to lower some generic drug prices in response to the Wal-Mart discounts.

While the CVS/Caremark merger could result in lower prescription drug prices for consumers in certain cases, executives of the two companies have rejected the notion that the merger was formed to compete directly with Wal-Mart. According to news reports, CVS chief executive Thomas M. Ryan and Caremark’s Crawford said in a conference call with analysts that the combined companies have no plans to match Wal-Mart’s \$4 generic drug program, dismissing the discounts as “pricing promotion.”

## Automatic 401(k) Enrollment Not A Panacea For Low Savings Rates

Automatically enrolling employees in 401(k) plans is effective in increasing overall participation rates, but many enrolled workers will still fail to save adequately for retirement unless 401(k) sponsors improve

default contribution rates and the quality of default investment choices, according to a study by human resources firm Hewitt Associates.

Researchers analyzed the saving and investing habits of 2.6 million U.S. employees. Results showed that 90% of workers at companies with automatic retirement plan enrollment participated in their companies’ 401(k) plans, compared with 68% of workers at companies that did not practice automatic enrollment. However, the analysis also indicated that many of the automatically enrolled employees did not actively manage their accounts.

Some 70% of the plan sponsors that practice automatic enrollment had a default contribution rate of 3% or less, the study found. While the average contribution rate of workers who enrolled themselves in the plan was 8%, the average contribution rate of automatically enrolled employees was lower, at 6.8%, according to the analysis. Results further showed that automatically enrolled employees contributed an average of 1.2 times the company match, while voluntary plan participants contributed an average of 1.6 times the company match.

The study also revealed that 42% of 401(k) plan sponsors with automatic enrollment defaulted participants into a stable value or money market fund. Automatically enrolled participants defaulted into stable value funds invested just 31% of their assets in equities, the analysis showed. By contrast, automatically enrolled employees who were defaulted into a target maturity or balanced fund invested 67% of their assets in equities—the same percentage as participants who voluntarily signed up for the plan.

“While automatic enrollment is proving to be an effective tool for getting employees into the 401(k) plan, it isn’t a cure-all for helping people meet their retirement needs,” said Pamela Hess, director of retirement research at Hewitt Associates. “Most employees are defaulted at a low rate and into a conservative fund, and they do not take an active role in managing their 401(k) accounts.”

Hess observed that recent retirement legislation, such as the Pension Protection Act of 2006 (PPA), includes provisions that encourage employers to add automatic enrollment to their 401(k) plans. However, Hess added, it is also critical that employers “not only focus on getting people into the plan, but also consider the quality of participation.” She recommended that companies take time to review appropriate default contribution rates and investment funds; they should also consider coupling automatic enrollment with educational initiatives and other automated tools that force employees to save and invest more wisely.

Confusion and lack of investment knowledge may lead plan participants to remain invested in default funds for long periods of time, and the result can be an extremely conservative investment allocation, Hess added. She noted that, while a large percentage of companies default employees into a stable value or money market account, the PPA and recent Department of Labor guidance encourages companies to use equity-based default options under automatic enrollment.

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## Health Care Cost-Sharing Produces Different Outcomes For Different Populations

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Higher health insurance cost-sharing can reduce the use of medical services without affecting health outcomes for most workers, but people at high medical risk are negatively impacted by high co-insurance rates, especially if they are low-income, according to a study released by the Kaiser Family Foundation.

The report, by Jonathan Gruber of MIT, is based on an analysis of the findings of the RAND Health Insurance

Experiment (HIE), as well as more recent evidence on the impacts of patient co-insurance. The HIE was a large-scale social experiment started by the federal government in 1974, involving 2,000 non-elderly families. These families were randomly assigned health insurance plans with widely varying co-insurance and maximum out-of-pocket expenditure amounts. Participants in the experiment were followed for up to five years after enrollment.

Results of the study showed that the co-insurance rate of a given plan has a strong effect on the likelihood that participants will use any medical services, Gruber noted. The number of physician visits and total outpatient expenditures fall as co-insurance rates rise, though there is no clear correlation between inpatient utilization and co-insurance rates, Gruber said. Compared with free care, total medical expenditures were found to be 15% lower among participants in the 25% co-insurance plan, and 30% lower among enrollees in the 95% co-insurance plan.

According to Gruber, higher co-payment rates appear to reduce the use of both effective and ineffective care by the same amount. However, he added, the study also found significant reductions in preventive care.

On average, the health outcomes of participants in the various plans were roughly the same over the period studied, though differences were observed in specific areas of health, such as blood pressure, vision, and hearing. “This result is quite powerful,” Gruber said. “It suggests that, at least at the time of the experiment, the typical enrollee in the study was on the ‘flat of the medical effectiveness curve,’ the portion where additional care was not buying medically effective care. Thus, care could fall significantly without adverse health consequences for the average person.”

Differences do, however, emerge when the HIE data are divided into samples of those with high and low risk of illness, Gruber said. Results showed that people




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at high risk of developing illnesses are more likely to have negative health outcomes when enrolled in the high co-insurance plans. This effect was found to be especially strong when participants are low-income.

Gruber cautioned that these findings are not directly applicable to current health plan design for several reasons: The plans in the study imposed maximum limits on out-of-pocket costs depending on the income of enrollees, the three- to five-year time frame of the study was not sufficient to determine the long-term effects of varying degrees of preventive care utilization, and the treatments available in the 1970s were less effective than those offered today.

However, Gruber said, the findings suggest that co-insurance policies can be actively targeted to promote effective and efficient health care use. Results indicate that caps on service utilization can do more harm than good, and that high-deductible plans are inappropriate for low-income consumers.

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## Rising Costs Fuel Discontent With Health Care System

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Americans are increasingly worried about the impact of health care costs on their financial well-being, and they believe steps should be taken to slow the rising cost of medical care, according to an annual survey conducted by the Employee Benefit Research Institute (EBRI).

EBRI's 2006 survey of 1,000 adults showed that 52% of respondents are not satisfied with the costs of health insurance, and 48% are dissatisfied with the health care costs not covered by insurance.

When asked to identify which health care issues they would like Congress to address over the next five years, 55% chose slowing the rising costs of medical care, 48% said ensuring Medicare continues to pay future benefits, and 38% selected improved access to health insurance.

Of those respondents with medical coverage, 60% said they have experienced an increase in the amounts they are being asked to pay for health care over the past year. When asked if rising health care costs have led them to cut back in other areas, 36% of respondents in this group reported contributing less to retirement plans, and 53% have decreased contributions to other savings accounts. Moreover, 28% of respondents who indicated they are paying more for health care reported having difficulties paying for basic necessities, and 37% are having problems paying other bills.

When asked for their opinions on policy changes designed to increase health insurance coverage rates, 85% of respondents said they favor tax breaks to help people pay for individual coverage, and 83% approve of tax breaks for employer-sponsored coverage. In addition, 78% of respondents indicated they favor requiring employers to contribute to subsidized coverage for employees, 78% support allowing uninsured people to buy into government programs, 73% are in favor of expanding public programs to cover more people, and 67% support requiring everyone to buy health insurance.

The survey also showed, however, that most Americans who are currently insured are content with their own health care coverage. Of those respondents with medical insurance, 18% said they are extremely satisfied with their current health plan, 36% are very satisfied, and 35% are somewhat satisfied.




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