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Insights & Analysis

Analysis: Exchange Formulary Structure More Similar To Part D Than Employer Coverage

Summary

An analysis from Avalere Health finds that most individuals in exchanges will face formularies with four or five cost-sharing tiers that commonly use coinsurance techniques for top-tier medications.

In an analysis of more than 600 exchange plans, 91 percent of formularies had four or more tiers, compared with just 23 percent in the employer market today.¹

“In the exchange market, many carriers have added additional tiers compared to employer-sponsored plan formularies. Most frequently, we have seen tiers designated for specialty products, which has historically been less common in the commercial employer market,” said Matt Eyles, Executive Vice President at Avalere Health.

The use of formularies with a greater number of tiers, while uncommon in the commercial employer market, is not a new trend. Since the inception of the Medicare Part D program in 2006, many seniors have faced formularies with four or five tiers. Today in Part D, four or more tiers is standard practice with 94 percent of Part D plans offering these types of products in 2014.

Drugs on Tier 4 of a formulary are more likely to have coinsurance, where patients pay a percentage of total drug costs (e.g. 30%), rather than flat dollar copayments (e.g., $50). Among exchange plans, 63 percent use coinsurance for fourth-tier drugs. As such, consumers in
exchanges and Medicare Part D are more likely to face coinsurance than consumers in the commercial employer market, where four-tier formularies are less common. Among silver exchange plans with four-tier formularies, 65 percent of plans are charging coinsurance for the top formulary tier. Among bronze exchange plans with four-tier formularies, 73 percent of plans charge coinsurance on Tier 4.

“Consumers relying on specialty pharmaceuticals should anticipate out-of-pocket costs tied to a percentage of their medication cost, said Caroline Pearson, Vice President of Avalere. “With many specialty drugs costing several thousand dollars, this could require patients to outlay significant dollars before reaching out-of-pocket maximums.”

Methodology: Avalere Health Avalere analyzed 603 different plan designs across metal levels offered by 60 different carriers in 19 states, both federal and state-based exchanges. Avalere used a variety of sources to get to benefit design information, including web-broker websites and issuer websites, in addition to exchange portals. Avalere compared formulary design details among this sample of exchange plans to product design details in Medicare Part D for the 2014 plan year, using DataFrame®, a proprietary database of Medicare Part D plan features, and to employer formularies from Kaiser Family Foundation and Health Research and Educational Trust’s Employer Health Benefits 2013 Annual Survey for the 2013 plan year. Note that employer statistics above are weighted by covered workers whereas exchange and Part D statistics weight all plans equally.

(1) Kaiser Family Foundation and Health Research and Educational Trust’s Employer Health Benefits 2013 Annual Survey.

See the distribution of formularies by number of tiers, by market segment in the PDF below.