Cost sharing: implications of a well-intended benefits strategy

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As health care expenditures in the United States continue to increase year after year, payers are faced with the challenge of controlling costs while providing access. Medications, particularly higher-cost specialty products, contribute significantly to the overall health care spend. Prescription drug costs totaled \$535.3 billion in 2020, an increase of 4.9% compared with 2019, and are projected to increase by 4%–6% in 2021.¹ To help mitigate these increases, several cost-containment strategies, such as closed formularies, prior authorization, step therapy protocols, and cost sharing, have been widely used by payers.

Cost sharing, an arrangement in which consumers pay a portion of costs associated with health care services and prescription drugs, are intended for consumers to be good stewards of their pharmacy benefit. Examples of cost-sharing payment methods such as deductibles, coinsurance, and copayments may be considered by payers who are seeking solutions to control medication cost, while ensuring that patients get the medicines they need.²

In theory, as cost-sharing shifts some responsibility on consumers, it serves as a motivating factor for them to do the necessary due diligence—to assess all options and balance costs and benefits before making health care decisions. Many plans offer their beneficiaries incentive-based formularies whereby drugs are assigned to one of several tiers based on their cost to the plan, the number of close substitutes, and other various factors.

If a patient has a tiered formulary in which a brand-name medication is at a \$25 copay and its therapeutically generic equivalent is at a \$5 copay, it makes sense for that individual to fill his or her prescription with the generic drug, as long as the only considerable factor is cost.

Heightened financial awareness, as a result of increasing copays, can lead to a reduction in nonessential use and its correlating costs. While this may be the case, these savings may be offset by increases in other health care spending as a result of lower rates of drug treatment, poor compliance, and more frequent discontinuation of therapy.^{2–4} Essentially, as consumers face increasing out-of-pocket costs, access to necessary drug therapy and quality care may be compromised. In this vein, cost-related medication underuse leads to worsening health outcomes, such as uncontrolled hypertension and hypercholesterolemia, and can significantly increase medical costs.⁵ Prescription drugs are instrumental to managing and preventing chronic disease. Recent changes in cost sharing could affect access to them.⁴

The very idea of sharing health care costs with consumers so they have some “skin in the game” assumes that consumers (1) understand what cost sharing means and (2) are able to navigate through their pharmacy benefits, including cost-sharing scenarios, to make informed decisions. These assumptions bring to light the inherent complexities of benefit design; they can be very challenging

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for patients and lead to inadvertent consequences, the worst being not filling any medications altogether.⁶ With more emphasis on cost-sharing strategies and patient decision making, there is greater responsibility on the plan and other health care providers and educators to ensure that patients have the understanding and skills to balance their out-of-pocket costs with the health care they need. To facilitate the education, a baseline assessment of health insurance literacy is critical.

Health insurance literacy involves an individual's understanding, ability, and confidence with health insurance concepts to find and evaluate information to make informed health care decisions based on their financial and health circumstances. In their 2019 article entitled “Health Insurance Literacy: Disparities by Race,

Ethnicity, and Language Preference,” Villagra et al write that “health insurance literacy must be viewed as a unique skill, without which consumers cannot rationally choose or use health insurance or realize the full value of their policies.”⁷ In their study, over 500 individuals completed a 13-question telephonic survey. Questions targeted consumer understanding of various health insurance terms, such as *health insurance premium*, *annual health insurance deductible*, *annual out-of-pocket limit*, *copay*, *health insurance*, *formulary provider network*, and *appeal*. Overall, 62.4% of respondents correctly answered all questions. While gaps were evident among all respondents, racial and ethnic minorities, and those with limited proficiency in the English language were particularly disadvantaged. White respondents had the highest health insurance literacy score at 73.8%, followed by Black respondents at 53.3% and Hispanic respondents at 50.3%. English-speaking respondents scored higher than non-English speaking respondents at 66.5% and 44.9%, respectively. Based on these findings, consumers can obtain disparate value from identical plans based on their health insurance literacy.⁷

Enhanced health literacy may be realized through various concurrent activities. First, education is necessary for consumers to fully understand their health conditions, including preventive measures, signs of worsening status, and appropriate drug therapy. Second, consumers must have the skills to accurately calculate out-of-pocket expenses. Because benefits may entail deductibles, copayments vs coinsurance, maximum lifetime coverage, and other financial terms, consumers must understand what is covered and at what cost to them. Finally, general medical and pharmacy benefits knowledge is critical.

Specific to pharmacy, evidence-based formularies, tiered copayments, utilization management strategies, and other benefit design approaches serve to ensure access to safe, sound, cost-effective care leading to desired clinical outcomes. Given the complexities of such approaches, pharmacy benefit managers work closely with payers and offer supportive tools for consumers and their health care providers. A *real-time benefit check* is one tool with proven utility. It gives providers, at the point of prescribing, visibility to an individual's prescription benefit, including drug coverage, formulary alternatives, and out-of-pocket costs. This functionality allows providers to prescribe accordingly and helps minimize any adverse experience that the patient may encounter at the pharmacy.

Another digital tool, *electronic prior authorization*, functions similarly by providing a smoother experience for the prescriber, patient, and dispensing pharmacy. Electronically transmitted prior authorization requests are handled more efficiently, resulting in decreased turnaround times and improved access to necessary drug therapies.⁸ Digital technology certainly plays an important role in the health care delivery system by enabling convenience, enhancing health literacy and transparency, streamlining processes, and improving the consumer and provider experience.

In summary, payers continue to seek innovative means to control drug spend. Cost-sharing strategies, such as copayments, play a role in this domain, and while they are associated with reduced drug utilization, their long-term consequences are uncertain and may give rise to unintended consequences. To enhance the effectiveness of cost-sharing strategies, it is critical that consumers understand their benefits and how to successfully

navigate through their plans. Health insurance literacy is a substantial barrier, since simply having health insurance does not mean that an individual will get the full value of such benefit. Rather, low health insurance literacy may lead to a negative response with underuse or misuse of drug therapy. Further, low health insurance literacy, in combination with complex health plan structures, presents challenges for all, particularly for minority populations.

In short, while cost-sharing strategies are well intended, they may also lead to reverse outcomes and potential harm. Health insurance literacy education and support are key drivers in helping consumers make wise, informed decisions to become good stewards of overall health care.

Furthermore, with the heightened attention to health disparities, it is imperative that the impact of benefit design strategies on currently underserved and underrepresented populations are also considered. Villagra et al summarized it best: To improve insurance value for all, health insurance literacy education research, greater point-of-care coaching and support for insurance needs, and overall health insurance simplification are critical next steps.⁷

DISCLOSURES

The thoughts and opinions expressed in this article are those of the author only and are not the thoughts and opinions of any current or former employer of the author. Nor is this publication made by, on behalf of, or endorsed or approved by any current or former employer of the author.

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