

DRUG COST MANAGEMENT REPORT

Maximizing Value of OTC Drug Conversions in Payer Populations

by Tim Watson, Pharm.D., M.B.A.

When a product is converted from prescription-only to over-the-counter (OTC) status, payers have the ability to generate savings if cost-reduction strategies are deployed properly.

Consider the recent example of Claritin, the former market leader in the nonsedating antihistamine (NSA) class of drugs. Allergy preparations, including NSAs, are typically responsible for more than 4% of a payer's overall drug spend, according to AIS's quarterly survey of PBMs for the second quarter of 2003.

In 2002, FDA approved the conversion of Claritin (loratadine) to OTC status. There are now several versions of loratadine available over the counter — including Claritin and Alavert — in the same strength as the original prescription form, but at a fraction of the cost.

With the advent of OTC loratadine, payers have several management options to consider, all of which have

an impact on participants and potential savings. They are summarized in Figure 7.

The management choice elected by a payer will have a material impact on overall costs for this category of drugs. OTC loratadine products are substantially less expensive than are the other prescription antihistamines. In this example, the cost to the health plan for a 30-day supply is \$70.80 for Allegra and \$63 for Zyrtec, while OTC alternatives cost \$28.60 for Claritin and \$22.74 for Alavert.

To maximize savings, payers may want to consider adopting a "hard line" coverage strategy on the remaining NSAs. For example:

Assume a payer has 1,000 prescriptions for branded NSAs, split roughly 50-50 between Allegra and Zyrtec (Claritin is a noncovered drug in this example). Based on an assumed copay of \$20 for brands, the costs for this category of drugs would be as shown in figure 8.

The total costs of providing this form of coverage is almost \$67,000, with 30% of total costs being borne by members. What if, rather than covering the other NSAs, the plan instead offered to cover 100% of the cost of OTC loratadine? The resulting savings would be dramatic, as shown in Figure 9.

In this example, members now have no copay for the former market leader in the NSA therapeutic class. And the plan pays much less than it would if it continued to cover the other branded NSAs at a \$20 copay. The gross savings from this approach would be over \$40,000, split equally between plan savings and member savings. Thus

Figure 7. Options for Managing OTC Conversion of Claritin

Strategy	Member Impact	Savings Impact
Cover OTC Claritin and exclude coverage of all remaining Rx NSAs except by medical exception.	High	High
Continue to provide coverage for prescription NSAs, but place them in the highest copay tier.	Medium	Low to Medium
Continue to provide coverage for prescription NSAs at their current copay levels.	None	Minimal
Begin covering OTC versions of Claritin at the current generic copay, and continue to cover all remaining antihistamines at current copay tiers.	Minimal	Low

Figure 8. Example: NSA Costs With \$20 Rx Copay

	Copay	Plan Cost	Net Cost	Market Share Before	Rx Volume	Total Plan Cost	Total Member Copay	Total Costs
Zyrtec	\$ 20	\$ 63.00	\$ 43.00	50%	500	\$ 21,500	\$ 10,000	\$31,500
Allegra	\$ 20	\$ 70.80	\$ 50.80	50%	500	\$ 25,400	\$ 10,000	\$35,400
						\$ 46,900	\$ 20,000	\$66,900

Figure 9. Example: NSA Costs With Coverage of OTC Claritin

	Copay	Plan Cost	Net Cost	Market Share After	Rx Volume	Total Plan Cost	Total Copay	Total Costs
Zyrtec Rx	\$ 63.00	\$ 63.00	-	0%	0	-	-	-
Allegra Rx	\$ 70.80	\$ 70.80	-	0%	0	-	-	-
Claritin OTC	-	\$ 28.60	\$ 28.60	50%	500	\$ 14,300	-	\$14,300
Alavert OTC	-	\$ 22.74	\$ 22.74	50%	500	\$ 11,370	-	\$11,370
						\$ 25,670	-	\$25,670

on a per-prescription basis, the plan and the member each save \$20 or more per prescription.

If plans elect to optimize savings presented by OTC conversions, they should consider several factors, including:

- ◆ Analysis of how proposed changes will impact providers, pharmacies and members (how many are affected, who will pay more or less, etc.)
- ◆ Analysis of how coverage decisions will impact the value of other elements of financial arrangements between the PBM and the payer (e.g., value of rebates lost from exclusions. Note that these will usually *not* offset the value captured by covering the less expensive OTC product.)
- ◆ Development of an appropriate communication strategy for all stakeholders.
- ◆ Establishing a process with the PBM partner to manage the program. Will the program rely on coupons, require prescriptions for OTC products, etc.?
- ◆ Establishing a process for members to obtain noncovered brands via medical exception.
- ◆ Developing a process to track outcomes of interventions over time.

OTC product conversions will increase in importance in the coming years. Most recently, FDA has approved an OTC version of Prilosec, which is now beginning to be available in stores. Developing a proactive and compre-

Figure 10. Savings Generated by Implementing Coverage of OTC Claritin



hensive OTC coverage strategy can become a key element of a payer's overall strategy to contain ever-increasing prescription drug costs.

In fact, in just two classes, the potential savings opportunity is valued at more than 10% of a typical payer's drug costs. And depending on how the program is implemented, it can also allow the member to obtain a product at little or no cost. ♦

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