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scription, which costs between $60 and $80. Second, almost 300 specialty drugs are either in the research pipeline or already on the market and will soon have additional indications.

Furthermore, there will be little or no help from generics to help mitigate cost.

Hidden medical costs

In addition to greater pharmacy costs, specialty pharmacy costs also may be hidden in medical benefits because they are administered in a physician's office or hospital/clinic.

When a specialty pharmacy product is dispensed in this setting, it generally is priced using a "J-code." J-codes are a set of codes physicians use to bill both the product cost and physician's charges.

Pharmacy or PBM product costs, on the other hand, are captured by a National Drug Code number and are specific about package size and cost; J-codes, however, are vague and hard to track.

Tim Thomas

For example, in one of the most commonly prescribed drug classes, erythropoiesis-stimulating agents (which stimulate the growth of red blood cells to treat anemia), there is a drug called Epogen. One 20,000-unit vial of Epogen costs around $2,500, according to the NDC number assigned to it. However, the same product, dispensed under a J-code, could cost $1,000 to $5,000.

Role of physicians

Physicians also can be swayed by pharmaceutical company representatives on how and when to use these specialty products. This is not a news flash, as the practice has been going on for many years. However, the difference now is the tremendous financial price employers can be exposed to if physicians don't consider the cost of these products.

For example, consider the shift in treatment for the skin ailment psoriasis. Historically treated with topical creams, special light treatments or a combination of such therapies, this disease has an average yearly treatment cost of approximately $1,000 to $1,500.

While new specialty drugs can greatly improve patients' conditions, there can be significant side effects.

Furthermore, not every psoriasis patient needs the injectible products that can increase the annual cost of psoriasis treatment to more than $30,000.

The influx of specialty drugs means that costs will significantly increase for not only psoriasis, but for arthritis, Crohn's disease and many chronic conditions.

With the increasing specialty pharmacy products starting to reach the market, it is imperative for employers to bring knowledge about such drugs and their pricing to PBM negotiations. —*E.B.N.*

Tim Thomas is a senior partner at Pharmacy Benefits Advantage a consulting group based in Centennial, Colo. Thomas has 25 years' experience in developing and managing pharmaceutical therapy and cost-containment projects in the managed care industry.

Employers fancy HR technology that brings workers to the table

BY LYDELL C. BRIDGEFORD

As benefits change, so will HR delivery. The 21st century workplace is witnessing rapid reforms and adjustments to benefits and compensation programs, thus forcing employers to reconsider how they administer benefits under those programs.

Watson Wyatt reports one in five employers intend to transform their HR delivery capabilities, heavily relying on Web-based technology administration.

"The fact that 20% of employers are planning to change their HR delivery is huge, since most companies do not look at how they are going to deliver and administer these benefits until renegotiating contracts with vendors," says Richard Hubbard, director of Watson Wyatt's U.S. technology and administration solutions practice.

The forces that are transforming employee compensation and benefits also are leading to changes in HR delivery, says **Richard Hubbard**, director of Watson Wyatt's U.S. technology and administration solutions practice.

Harnessing technology

The new attitude with delivery and technology not only stems from employers conducting more HR transactions via the Web, but also organizations seeing online platforms as a way to improve efficiency and increase transparency with benefits and compensation programs.

Employers hope that by aligning HR technology with delivery, they will provide workers with enough information to make appropriate decisions about benefits and become more engaged with compensations programs.

Consider, for example, 73% of employers say they either currently have health care portals in place or plan to have them within the next two years. On the compensation side, 27% of companies report that they make total compensation information available online to workers, while 38% say they plan to do the same within the next year.

"Compensation and benefits continue to become more complicated at most companies," says Hubbard. "With the variety of health plan choices and the number of changes in the pension arena, employees constantly hunger for more information. As a result, there's a growing demand to put data at employees' fingertips through Web-based tools."

Although 46% of employers indicate all benefit enrollment occurs online, transactions dealing with compensation, payroll, promotions, transfers and retirement still tend to be paper-based, Watson Wyatt finds. Fewer than one in five businesses claim that all transactions in those programs take place online.

Meanwhile, the research shows nearly 50% of employers say their main reason for taking a second look at HR delivery is to enhance internal processes, while 42% are motivated to improve overall HR services, and 38% cite employee satisfaction.

Nearly 50% of employers say their main reason for taking a second look at HR delivery is to enhance internal processes.

Hurdles in talent management

Furthermore, the survey reveals employers are less satisfied with HR delivery rooted in talent management than with retirement and health care benefits administration.

Twenty-one percent of employers are

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somewhat or very dissatisfied with the quality of talent management services offered, versus 10% in the health and welfare area and 6% in defined benefit plan administration, Watson Wyatt reports.

Hubbard says online solutions for talent management are relatively new, compared to Web-based technology aimed at health and retirement plans. The lack of technology with talent management may suggest why employers are unhappy in that arena.

"The market for those services are developing quickly as companies are beginning to recognize that talent management is an area where they could probably do better in bringing in the right software tools," he says.

Basically, talent management aligned with Web-based administration simply allows employers to streamline paper and homemade spreadsheets. With performance administration, it permits an employer to more efficiently distinguish high-performing workers from low-performing workers.

Moreover, workers and their managers have a central repository where they can review annual performance goals and the benchmarks to those goals. The technology supports the performance discussions, both at the beginning of the year, throughout the year and at the end of the year, in terms of evaluating the performance of employees.

In essence, online solutions allow employees to be engaged participants in the process, which benefits the employers.

Michigan-based Barton Malow, a construction management and general contracting firm, recently upgraded components of its human resource management systems with Web-based applications. The company, which employs 1,700 workers, wanted to harness new technology to improve its HR delivery, especially with performance management. The company was not a part of Watson Wyatt's survey.

"At the end of the day, we are a professional services-based firm that relies heavily upon the competencies, training and overall management of our most important asset— our employees," says Phil Go, chief information officer at Barton Malow.

Transition costs biggest hurdle to changing HR sourcing strategy

Transition cost	58%
Lack of business case	57%
Disruption in current service	54%
Risk	50%

Source: Watson Wyatt Worldwide

"It's not just about technology, but rather the value that the company gets from the technology."

Watson Wyatt finds that many organizations plan to add online solutions to their talent management programs, particularly with succession planning, where 33% of employers plan to adopt technology solutions in the next two years for such planning.

Hubbard notes, with improving and upgrading software, it is fairly easy to make promises, and some companies have had trouble on delivering on those promises.

An organization that simply acquires software tools for its HR delivery, but does not think through the communication aspects or administrative change aspects of the technology will find itself struggling with the implementation of the tools, he says.

Although the survey did not specifically examine the issue of data security, Hubbard notes, whether data is crossing country boarders or not, most companies review data security issues in great detail before deciding on an HR technology or an outsourcer.

"Many companies have data transmission requirements which specifically address encryption requirements. Companies generally have data security protocols that must be complied with," he explains. —*L.C.B.*

Public policies: Addressing pre-IPO executive compensation issues

BY ERIC TURZAK

For a private company executing an initial public offering, the process provides a unique opportunity to prepare for the public scrutiny of executive compensation issues post-IPO.

Shareholders, institutional investors and watchdog groups continue to question companies around issues such as compensation transparency, the role of cash and equity in pay, performance measures and award levels.

As such, companies need to address a number of areas:

- Developing and articulating a compensation philosophy.
- Reviewing total compensation levels.
- Designing or modifying annual incentive plans, including long-term incentives, either cash- or equity-based.
- Incorporating employment agreements or security arrangements.
- Reviewing other areas specific to a restructuring transaction.

Several of these components are described in greater detail:

Eric Turzak

Compensation philosophy

A company's compensation philosophy sets the framework for the executive compensation program and provides a link to the business strategy. Newly public companies should not rely on the compensation philosophy employed while a private entity, but should develop a plan in accordance with their new status.

The new plan should outline program objectives and provide an overview of what the compensation program intends to accomplish. Companies should define their competitors for attracting and retaining talent, as well as determine how they intend to position pay when compared to the competitive market, taking into consideration: industry, size, scope and strategic objectives of the organization.

In examining competitive transaction practices, it is crucial to note that determining competitive compensation practices for a specific transaction is more complicated than establishing competitive rates for ongoing compensation elements. Developing an understanding of why a similar company did something is as important as discovering what it did. Consider the nature of the transaction, historical compensation practices at that company and any planned future compensation practices

Newly public companies also should provide information about performance orientation, pay mix and incentive award leverage — defining the desired role of each compensation element (e.g., base salary, bonus and long-term incentives) and its sensitivity to the performance of the company, business unit or individual.

Competitive review of compensation

Following an IPO, along with a change in a company's ownership structure comes changes in executives' responsibilities. To account for changing responsibilities and roles, a company may

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