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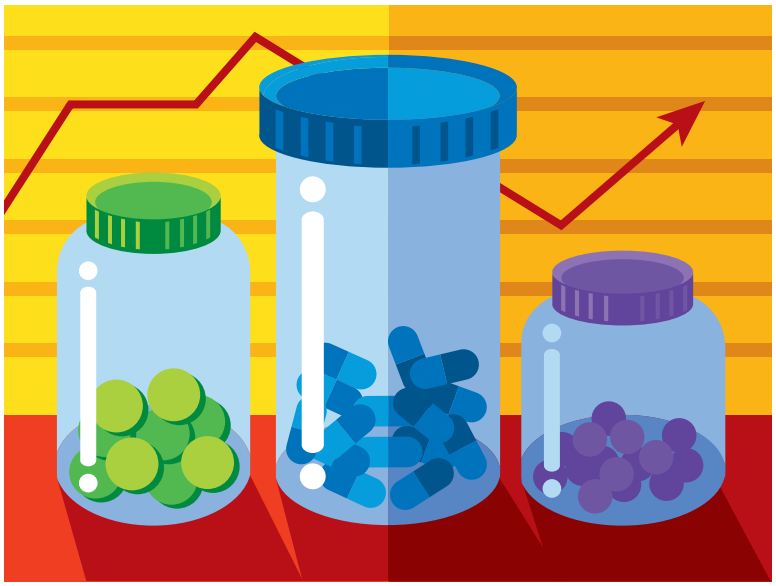

Prescription Drug Management in Workers' Compensation

The Eleventh Annual Survey Report (2013 data)

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Introduction

This is the eleventh year that this survey has been conducted. For the first six years Health Strategy Associates, LLC, a consulting firm owned by Joseph Paduda, was responsible for the survey. Paduda is also the president of CompPharma LLC, a workers' compensation pharmacy advocacy and education firm, and the responsibility for the survey was transferred to CompPharma in 2009.

The survey is focused on pharmacy benefit manager (PBM) capabilities and program results, cost drivers and cost trends, opinions, perceptions and attitudes about pharmacy management in workers' compensation. Special attention is paid to emerging issues, management approaches, vendors, problems and solutions, along with the evaluation of those solutions.

We used both quantitative and qualitative measures in the survey with the questionnaire structured in such a way as to "triangulate" on specific issues and confirm opinions and perspectives, thereby providing readers with confidence in the survey's findings. The quantitative questions use a 1-5 rating scale, with 1 on the low end (e.g., worse or less important) and 5 at the high end (best or most important). Note – not all respondents answered all questions and some respondents provided multiple answers to other questions, thus response rates/numbers will not always correlate with the total number of payers.

Once again, Yvonne Guibert conducted the survey itself; we are indebted to Yvonne for her diligent and careful work. We also want to express our thanks to the workers' compensation professionals who carefully and thoughtfully responded to the survey. Their willing participation is deeply appreciated. All responses are confidential, and care has been taken to "sanitize" responses to protect the anonymity of the respondents.

Interviews were conducted in the summer of 2014, with data on pharmacy spend and other metrics derived from respondents' 2013 results.

Editorial note – Readers should not confuse "price" with "cost." In this report, "cost" is defined as total drug expenses for a payer. Price is a contributor to cost, as is utilization, or the number and type of drugs dispensed. Think of cost as Cost = Price x Utilization.

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Key Takeaway

Pharmacy management does not occur in a vacuum. Outside factors profoundly affect pharmacy in workers' compensation including societal issues, such as the explosive growth in opioid abuse and misuse along with new laws and changes to existing laws and regulations. Overall medical trend, practice-pattern evolution, the flow of drugs into the system, the timing of patent expiration, pharmaceutical marketing practices, and the international pharmaceutical industry also influence pharmacy in workers' compensation.

Regardless of the impact of influences specific to workers' compensation, such as fee schedules and claim frequency; better programs, properly implemented deliver lower loss costs, which will translate to lower combined ratios and higher profits for work comp insurers/ lower work comp costs for self-insured employers and better care for injured workers.

Background

Workers' comp pharmacy spend totals between $4.5 and $6 billion. Pharmacy is a component of workers' compensation medical expenses, which was approximately $31.7 billion in 2013 (Sources: National Academy of Social Insurance REPORT: Workers' Compensation: Benefits, Coverage and Costs, 2012, published August 2014,[1] trended forward using National Council on Compensation Insurance (NCCI) medical inflation rates from NCCI Annual Issues Symposium State of the Line, 5/2014[2]).

Respondents

Respondents were decision makers, clinical personnel, and operations staff in state funds, carriers, self-insured employers, and third-party administrators (TPAs) with drug expenses ranging from $1.7 million to $172 million. The 25 respondents' drug costs totaled $950 million.

Findings

Inflation/trend in drug costs

For the second consecutive year, respondents' drug costs declined in real terms, both for the average across all respondents (-3.8%) and the average of each respondent (-2.9%). Notably, the only significant "increase in the rate of decrease" over the last eleven years was an increase of 9.4 points in 2009.

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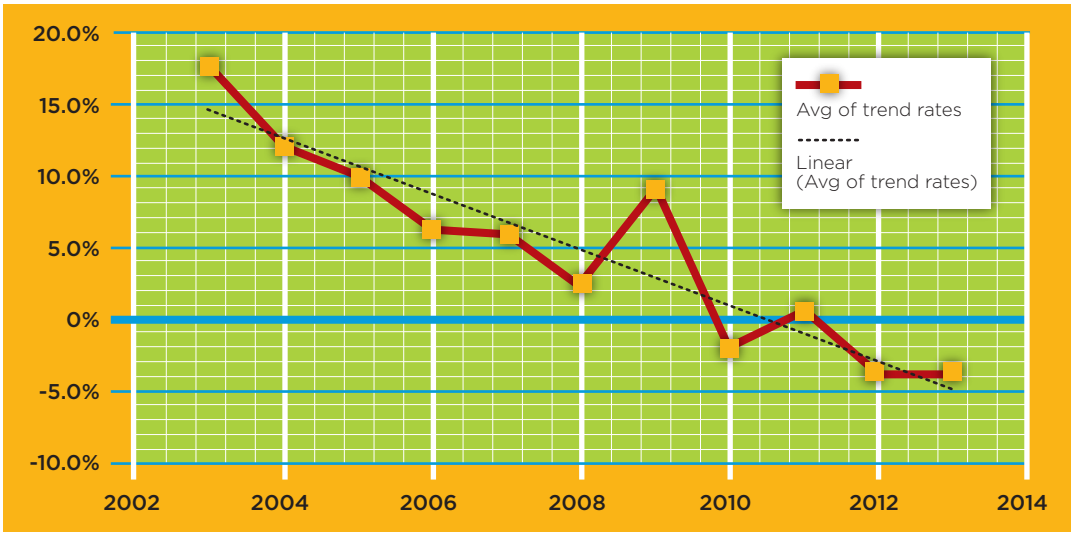
To validate and better understand this result we looked at each individual respondent's trend rate. Only eight of the 25 respondents experienced increases in their drug spend, with most in the low single digits.

Drug cost inflation trend



Over the last decade, the pharmacy cost inflation rate has dropped by over 21 points. Clearly this bears additional discussion.

The workers' compensation PBM industry came into its own just over a dozen years ago. While PBMs such as PMSI had long been active in the space; until drug costs exploded, pharmacy management was not widespread. Originally delivering value through lower prices, most PBMs implemented clinical management programs as the decade went on. These clinical management programs continued to become more sophisticated and more effective over time. Better script capture programs and more effective payer-PBM working relationships led to decreases in utilization. Coupled with declines in new branded drugs, a large number of popular drugs going off-patent, and effective generic conversion programs, PBMs and payers have been remarkably successful in not just managing, but actually reducing, total pharmacy costs.

The size of the "problem"

Despite relatively flat drug costs, respondents continue to be significantly concerned about the issue. In response to the question "How big a problem are drug costs?" on a scale of 1 through 5 with 3 being "drug costs are equally as important as other medical cost issues,"

drug costs were rated a 4.1, a slight increase over the prior three-year average of 3.8+/-. This indicates that respondents believe drug costs are "more important than other medical cost issues" and are more concerned than they have been in recent years. Individual responses to qualitative questions on the survey also indicated continued concern with drug costs.

Moreover, respondents are concerned (3.7) that drug costs will be more of a problem in the next 12-24 months than they are today. Notably, this is somewhat less than last year, when the average was 4.0.

From reviewing all survey responses and paying particular attention to cost management programs and results thereof, it appears that while payers worry about opioids, physician dispensing, compounds, and other factors, they believe their organizations – and their PBMs – will be able to mitigate the impact of these drivers.

Cost drivers

To better understand payers' opinions on drivers, we asked several qualitative questions to tease out respondents' fears and concerns. The most general was: What do you believe must be done to control prescription drug costs in workers' compensation?

Almost half of all respondents (12) mentioned programs, legislation, regulation, or combinations of all three to address the prescribing, dispensing, and use of opioids or narcotics (these are essentially the same). Four noted compound control, with legislative or regulatory solutions mentioned by three of the four. Four respondents noted physician dispensing controls, again via legislation or regulation to address the ability of physicians to dispense and the financial incentives inherent therein.

A common theme running through most responses was the desire for more assertive regulatory and legislative action to assist payers in their efforts to address key issues. There appears to be a belief that a payer alone – without the legal backup or support provided by regulations and/or legislation – will not be able to effectively address certain concerns. Several respondents specifically noted regulatory action regarding the use of strong utilization review coupled with evidence-based guidelines and tight formularies. Payers say that many jurisdictions have not kept pace with medical developments, the explosion in the use of opioids, or the creativity of repackagers and physicians seeking to maximize profits at the expense of taxpayers and employers.

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Narcotics, addiction risk and the industry's continued concern

One of the advantages of conducting a survey over several years is the insight it provides into market evolution. During the past three years long-term opioid use has become the single biggest concern identified by respondents. While program managers and work comp executives have long known about the relatively high usage of narcotics in work comp, the depth and breadth of understanding of the issue continues to increase. Throughout the survey, respondents mentioned narcotics, opioids, addiction, specific drugs, dependency, and related terms, even when answering other questions.

For the fourth year we asked respondents to score their concern about opioids in work comp; results were within 2/10ths of a point across the four years. This year **respondents judged opioids to be a very significant problem, giving it an average of 4.6 (down slightly from last year's 4.8). Notably, all but one respondent rated this a 4 or 5,** a clear indicator of the level of the industry's anxiety over a problem it is beginning to fully understand and address.

High among respondents' concerns was the risk of addiction or dependency for claimants taking opioids; respondents said they were "very concerned" (4.3). We asked what programs they were using to address opioids; responses are below. Most respondents have a full range of programs in place today. The only program that hasn't been (almost) universally adopted is pharmacist review of specific flagged claims. I would expect this to change, as this type of review is more cost effective than a physician review and is commonly provided by PBMs at no or little additional cost.

Physician dispensing

Physician dispensing accounted for over 35% of drug costs in 2013.

The concern over physician dispensing has grown over the last few years, driven by payers' own experiences and research from the California Workers' Compensation Institute (CWCI), Johns Hopkins University and Accident Fund Holdings, Inc., NCCI, and the Workers' Compensation Research Institute (WCRI) quantifying the significant cost added to the system by physician dispensing.

The latest[3] NCCI data indicates physician dispensing accounted for 28% of drug costs in 2009, fully five points more than the previous year. More recent research published by WCRI indicates physicians now account for almost half of prescription dollars in Pennsylvania,[4] over half in California, and over two-fifths in Illinois, Maryland, and Florida.[5] Physician dispensing also drastically and artificially inflates the cost of workers' compensation

pharmacy costs. Physician-dispensed prescriptions typically cost three to ten times the amount of the same prescription filled by a retail pharmacy.

More recent studies (Johns Hopkins University/Accident Fund; CWCI) point to longer claim duration, more claimants prescribed opioids for longer periods, higher overall medical costs, higher indemnity expense, and poorer outcomes associated with claims with physician-dispensed drugs compared to similar claims without physician-dispensed drugs.

In addition to poorer claim outcomes, there are several additional concerns with physician-dispensed drugs. Physician dispensing unnecessarily creates a health and safety risk for the injured worker receiving these prescriptions. In addition to their non-occupational health physicians, injured workers often see multiple physicians for their work-related injuries, each of whom may prescribe multiple medications. Each of these independent doctors often does not know the prescribing patterns of his/her peers or all of the other drugs the injured worker is taking. Nor do they usually know the patient's entire medical history. Since state regulations and fee schedules drive reimbursement, geography continues to be a dominant factor. In 2009, drug repackaging/physician dispensing of drugs was a major issue for payers with significant business in the southeast and California. While California, several southeastern states, Connecticut and Arizona have addressed the issue via reimbursement regulations, there appears to have been a significant increase in physician dispensing in Pennsylvania, Michigan, and North Carolina over the last few years.

National payers and those operating in jurisdictions without strong controls on physician dispensing are quite concerned about physician dispensing/repackaging. Excluding respondents working primarily or exclusively in states with severe limits on physician dispensing (Massachusetts, Montana, New York, Ohio, Texas, and Washington), concerns about physician dispensing remain high with a rating of 3.8. This is higher than 2013's 3.6 and essentially equal to 2012's (3.9).

In earlier surveys we asked respondents for perspectives on physician dispensing/repackaging, and their consistent, universally negative responses made further surveying on this issue pointless. Instead, we asked respondents operating in states where dispensing exists to articulate specific concerns regarding physician dispensing of repackaged drugs.

Respondents identified the following as concerns:

- Patient safety; physician-dispensed drugs do not go through the Drug Utilization Review (DUR) process. (all but one respondent)
- Potential duplicate therapy. (all but two)
- Higher cost due to repackaged drugs being priced higher than the same medications at retail stores. (all)
- Unnecessary medications or medications not related to claimant workers' comp injury. (all but one)
- Extended disability duration. (all but two)
- Higher overall medical cost. (all)

Clearly respondents continue to be highly sensitive to the negative consequences of physician dispensing with concerns extending beyond the obvious cost issue into patient safety.

New and emerging issues

This year, compounds are by far the leading concern; 16 of 25 respondents named compounds when asked to identify "any emerging or new issues in comp pharmacy that are particularly concerning." Last year we said, "...compounding has been quite the problem in California and a few other states, it has yet to make much of an impression in most of the country. Payers would be well-advised to carefully monitor compound usage and ensure their PBMs are on top of the issue as well."

It is clear that payers are now quite aware of the compounding issue, and their emerging solutions for it are discussed in the cost-control section below.

How respondents are controlling drug costs

All respondents save one had implemented significant changes to their pharmacy clinical management programs over the last year. If anything, the industry strengthened its efforts to address drug issues last year.

The three top cost drivers – opioids, compounds, and physician dispensing – were the subjects of most respondents' 2013 pharmacy management initiatives. (Note — respondents' adoption of opioid-specific program has been described above.) Respondents noted several approaches to controlling cost, with a more diverse range of solutions and more specificity in solutions than we've previously seen.

Twelve of the 25 responses included specific references to opioid control initiatives, by far the most common response. Three respondents noted compound management and another three mentioned physician dispensing control efforts.

Generics

For our purposes, "generic fill" is that percentage of ALL scripts that are filled with generics. As often is the case, different payers use somewhat different definitions and formulas, and therefore these numbers may not be entirely consistent. With that caveat, across all respondents the generic fill rate increased 4.5 percentage points from 2012's 75.7% to 81.2%.

Retail network penetration

Network penetration has bumped up slightly to 88.3%, a 1.3% increase over the plateau that had stayed consistent since 2010. Since 2008, penetration has increased by eleven points from 76%. (Note – the workers' compensation PBM industry consortium, CompPharma, LLC has developed standardized definitions and metrics for the industry, with the aim of enabling PBMs and payers to compare results across programs. The data dictionary, known as CompPharmaPedia, is available at http://compppharma.com/glossary.html).

Drug testing

This was the third year we asked respondents if they were using a urine drug testing (UDT) program. Three years ago half of all respondents utilized a UDT program to monitor claimant compliance.

This year all but four of the 25 respondents either offer a program or will do so this year, and three who don't have a "program" are advocating, supporting, or monitoring testing.

How about those PBMs?

Respondents are pretty happy with their incumbent PBMs. Asked to rate their current PBMs' customer service, the average response was 4.1 ("very satisfied"). Of note, this reflects continued satisfaction with PBMs; in 2010 the average score was an identical 4.1.

The penultimate survey question asked respondents was what their incumbent PBM could be doing better. Similar to prior years, responses were decidedly mixed. One-fifth said there was nothing else their PBM could be doing, while several said their PBM had

"stagnated" and was not being proactive or innovating enough. Another common complaint pertained to reporting, with respondents seeking more dashboard-type, interactive reporting with more flexibility and fewer – or no – paper reports.

There were relatively few complaints about lack of clinical management expertise, poor performance, or shoddy customer service.

The biggest problem in worker's compensation pharmacy management

We ask this question each year, and tracking responses over time has helped us identify trends and note the evolution of the industry over the last 11 years. While there are typically changes from year to year, there is usually some consistency as well; for the fourth year the top vote-getter (with 9 responses) was the use of opioids and the increased use of narcotics.

Conclusions

Pharmacy management in workers' comp has evolved dramatically over the 11 years we've been conducting the survey. From a focus on the price of the pill and the size of the retail pharmacy network in 2003 to today's concern about opioids, physician dispensing and clinical management, we've witnessed a remarkable increase in sophistication and understanding. Yet, it is evident that despite all the attention paid to and resources focused on this issue, payers' level of concern about pharmacy management remains quite high.

Despite the dramatic increase in physician dispensing and concerns about its implications for patient safety, opioids remain the number one concern to payers. This demonstrates just how serious, difficult and complex the opioid issue is. Physician prescribing patterns, addiction and dependence, chronic pain management, and misuse, abuse and diversion are all part of the opioid problem.

With drug costs declining year over year, one could be forgiven for thinking payers believe they have drugs under control. Yet payers' evident level of concern, their active and ongoing efforts to improve results, the pressure on PBMs to deliver better penetration and lower costs, and payers' interest in new programs such as UDT are clear evidence that few believe pharmacy is "under control."

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Finally, as the respondents cited above noted, we'd be remiss if we didn't acknowledge the significant impact of external factors on workers' compensation pharmacy. Chief among these is the nation's growing addiction to prescription pain medications. This is a societal issue, but one that has a deep and damaging impact on comp, driving up costs, prolonging disability and killing claimants.

Footnotes

1 National Academy of Social Insurance, REPORT: Workers' Compensation: Benefits, Coverage, and Costs, 2012. http://www.nasi.org/research/2014/report-workers-compensation-benefits-coverage-costs-2012

2 National Council on Compensation Insurance Annual Symposium State of the Line, May 2014 https://www.ncci.com/nccimain/IndustryInformation/NCCIVideos/Pages/SOTLPresentation-2014.aspx

3 National Council on Compensation Insurance Annual Symposium State of the Line, May 2014 https://www.ncci.com/nccimain/IndustryInformation/NCCIVideos/Pages/SOTLPresentation-2014.aspx

4 Physician Dispensing in Pennsylvania, 2nd Edition. Dongchun Wang, Te-Chun Liu, and Vennela Thumula. September 2014. http://www.wcrinet.org/result/phys_disp_pa2_result.html

5 The Prevalence and Costs of Physician-Dispensed Drugs. Dongchun Wang, Te-Chun Liu, and Vennela Thumula. September 2013. http://www.wcrinet.org/result/phys_disp_multistate_result.html

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CompPharma is a consortium of workers' compensation pharmacy benefit managers (PBMs) that identifies and prioritizes industry-wide problems, and then develops and delivers solutions. CompPharma's member PBMs are:

Catamaran
Express Scripts
HealthCare Solutions (Cypress Care, Modern Medical & ScripNet)
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