Prescription Drug Management In Workers' Compensation
The Second Annual Survey Report

March 17, 2005

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Introduction

Health Strategy Associates (HSA) conducted an in-depth telephone survey of 24 decision markers of workers' compensation payer organizations [carriers and third-party administrators (TPAs)] between January and February 2005. The goal was to assess decision makers' opinions of prescription drug cost management in workers' compensation. Topics covered the scope of the problem, key product/service attributes, cost and inflation trends along with perceptions regarding solutions and vendors.

Respondents represented a wide range of payers with annual prescription drug spends ranging from $772,000 to $156 million. Together, the carriers participating in the survey represented 35% of all private-payer workers' compensation insurance in the United States. Four of the top six workers' compensation payers were surveyed: CNA Insurance, Liberty Mutual, AIG and the Travelers. Smaller carriers, such as EMC and Selective, were also included, along with TPAs and the North Dakota Workers' Compensation Fund. Total estimated drug costs provided by the respondents amounted to $645 million, which is approximately 18% of the total annual workers' compensation drug spend. Respondents were assured of the confidentiality of their identity and received a detailed copy of the final report.

The 2005 survey was made possible by the support of Tmesys/PMSI, one of the leading Pharmacy Benefit Management (PBM) firms in the industry. Tmesys/PMSI's role was limited to funding the survey and providing input on several questions. No editorial, analytical or review functions were performed by the sponsor.

Key Findings

Awareness: Total workers' compensation prescription drug costs were approximately $3.5 billion in 2004. The overall trend was 12% from 2003 to 2004. Awareness of the problem grew significantly over the past year. Drug costs were rated as more significant than other medical costs (3.8 on a scale of 1 to 5). When asked if drug cost had the attention of senior management, 92% answered in the affirmative, compared to 81% in 2003-2004. With pharmacy costs increasing at an annual average of 12%, respondents indicated pharmacy cost control will become significantly more important than other medical cost issues over the next 12 and 24 months (4.0 on scale of 1 to 5).

Perceptions of Cost Drivers: Respondents offered wide-ranging responses regarding factors driving their drug spend; no single issue elicited more than eight mentions. The most frequently mentioned cost driver was the treating physician. Excerpts of comments:

- "The root of the problem is the physicians; they are treating more (claimants) with drugs than they used to."

- Access to a “peer review” vendor that really understand workers’ compensation and scripts to be able to talk with a treating physician
- The need to contact the treating physician to address:
    - Multi-script writing
    - Script writing patterns
    - Changing their behavior regarding prescriptions
- Prescribing patterns and practices
- “MDs are very generous with meds; we need to work with them to wean injured workers off drugs”

Cost and utilization controls were the next most frequently cited concerns. In many cases they were linked to each other. For example:

- “Not only costs, but utilization
- “Cost utilization first, enforce relatedness requirements”
- “State Fee Schedule does not have an impact on overall costs”

Cost Control Tools: When asked about tools and levers to control costs, most respondents cited PBMs as the leading tool for reducing prescription costs. In order of frequency of response, the levers cited were:

- PBMs
- DUR
- Reporting
- Workers’ compensation formulary
- The treating physician
- Education and communication

Note there are distinctions between *drug cost drivers* and the *tools and levers* to control the expenditure. While the treating physician was most frequently cited as “controlling” or “driving” the drug *spend*, PBMs were considered to be the payers’ primary lever for controlling drug *costs*.

Calculating Savings: Compared to the previous year there was a significant increase in the level of sophistication regarding “savings” among the respondents,. There was much more skepticism about specific aspects of DUR (six respondents provided unsolicited negative statements.) In addition, six respondents have developed their own assessments and methodologies using metrics, such as cost per pill, overall changes in utilization, total prescription dollars over the claims population, and cost per claimant.

When asked “how your organization calculates savings for prescription drugs,” 17 of the 24 respondents measure savings as the difference between Fee Schedule (FS) and the paid amount. This was somewhat higher than last year’s results. Five participants measure savings as the difference between Average Wholesale Price (AWP) and paid. This may indicate either a lack of understanding of, or considerable familiarity with, the link between FS and AWP. (All states with prescription fee schedules use AWP as the schedule’s basis.)

Card v. Cardless: A question concerning card programs was added this year. More respondents use cardless than card programs (52% versus 33%, with three using both). Respondents tended to favor cardless programs for smaller employers and card programs for larger employers.

Paper Bill Routing: This was another new area of interest and respondents were split evenly between sending paper bills to their PBM and routing them to their bill review function.

Technology Enhancements: One question asked about the organization's three top technology enhancements. The sophistication of answers varied, from payers wrestling with paper bills at one end of the spectrum to payers seeking real-time eligibility data interaction and real-time script authorization from clinical staff at the other. Statistically, the three top needs were:

- Electronic eligibility feeds (11)
  - Electronic notice of first script
  - Ability to turn on and off cards electronically
- Reporting (8)
  - Ad hoc
  - DUR specific
  - Capture paper bill, all bill data
  - Employer specific
  - Real-time
  - State
  - Red flags
- Electronic communications links with adjusters (7)
  - Between pharmacists and adjusters
  - Streamline all communications, automate as much as possible e.g. claims notification
  - Enable injury-specific management, formularies, etc.

First Fill: The capture of the initial prescription ("first fill) was considered important because it obtains a discount, ensures early entry into the DUR process and reduces administrative expenses via electronic bill submission. Rating the importance of first fill, respondents' average score was 4.0 (1 to 5 scale). When asked to describe the best way to capture first fill, most respondents (15) talked about some form of card, employer letter or other method of informing the pharmacy at point of service of the member's link to the PBM. Twelve mentioned some kind of first-fill program or electronic link among the payer, PBM and pharmacy to provide eligibility data. Most focused on employer education and notifying the injured worker at the time of injury. Interest in first fill seems to be abating, if only mildly, and is viewed as less of a problem that it was last year.

Retail Pharmacy Networks: All respondents wanted a large network; 18 rated this as a 5, five rated it a 4, and only 1 rated it as a 3. Respondents clearly preferred to have as many pharmacy chains as possible. When asked, "What is a reasonable network penetration rate?" answers averaged 81%, which was above the average (claimed) penetration rate of 76%. Compared to last year, more respondents had ready access to precise network penetration rates and more were able to report penetration across all scripts. Twenty-two of the 24 respondents claimed to try to direct injured workers to network pharmacies. There is clearly more effort being expended to direct to network pharmacies than last year and this increased effort may have contributed to the five-point rise in penetration rates.

Mail/Home Delivery: When asked if their pharmacy mail/home delivery penetration rates were equal to about 2%, seven said their penetration was higher, 12 claimed to be about even, three were lower and one did not know. Notably, the previous year, three did not know this statistic.

Third-Party Billers: The strong consensus is that Third Party Billers (TPBs) are a problem. Twenty-one of the 24 respondents voiced this opinion; two considered TPBs to be both the problem and the solution. Respondents noted that TPBs reduced savings, interfered with payer control over pharmacy costs, and created administrative hassles, including data capture and quality issues. Several added that TPBs hampered DUR programs. Two were concerned about potential fiduciary liability if TPBs failed to pass payments on to the appropriate payer. Seven respondents felt that it was the PBM's job to address TPBs; seven used network direction, employer education, channeling and other techniques to get claimants to participating pharmacies.

Biggest Single Complaint: This question, asked at the end of the survey, elicited a wide variety of responses. While respondents were not shy about their answers, there was not much consistency across the survey group. The responses were as follows:

- TPBs (5)
- Paying for unrelated scripts (3)
- Pricing (in general, California FS change, AWP) (3)
- PBMs not managing the problems early or often enough (2)
- Non-compliance of contracted pharmacies (2)
    - Could reflect on PBMs…
- Others
    - EDI interfaces are problematic
    - Need to streamline first fill process
    - Billing processes
    - "Artificial savings"
    - Over-utilization
    - MD prescribing patterns
    - Dispense as written (DAW)
    - Lag time in determining eligibility

What Makes a Successful Vendor?

Payers expect a lot from their PBMs today, and will reward those PBMs that deliver on those expectations. In comparing this year's results to those from 2003, it is clear **that the level of sophistication among buyers has increased substantially,** and they are no longer interested in programs that a year ago would have been satisfactory.

Responsiveness, workers' compensation expertise and innovation are requirements for success in meeting the market's needs.

Ten of the respondents specifically mentioned workers' compensation expertise in response to this question, while others referred to jurisdictional expertise, understanding the payer's type of business (large versus small employers), a strategic perspective, understanding the claims process, and knowing drug cost drivers intimately. The importance of workers' compensation expertise cannot be overstated; respondents have clearly been frustrated in their dealings with PBMs that did not understand workers compensation, and are highly unlikely to do business with PBMs that cannot thoroughly demonstrate a high level of expertise and experience.

Innovation is highly sought after. The market has rather quickly gained a lot of experience in managing workers' compensation drugs and has recognized that "standard" discounts, generic customer and staff education efforts, DUR, and communications processes are, by and large, ineffective. **Payers are willing to forgo deep discounts** if their PBMs are effectively focusing on the core issue of utilization; work closely with the payer to effectively implement their programs, and are demonstrably committed to continuous innovation. And, payers that have implemented innovative programs have returned excellent results, with trend rates substantially under the industry average.

That is not to say that payers will not push hard for discounts, but rather the importance of discounts diminishes in direct proportion to the payer's level of comfort with and faith in the PBM's ability to address the core issues.

Summary

The bar has been raised. Pharmacy costs are highly visible; there are dedicated staff, programs, IT connections and training programs in place at most major payers to address prescription costs. These efforts will trickle down to smaller players, requiring that all sales and account management efforts reflect this rapid evolution.

The results of this survey indicate a significant awareness of the importance of prescription drug costs in workers' compensation, a focus on PBMs as the primary solution, but a lack of distinction among the PBMs themselves. Clearly, the workers' compensation industry is looking for solutions that emphasize customer service, utilization control, seamless processes and assistance in working with and educating payer staff and their customers.

There is also a rapidly growing recognition that the treating physician is central to addressing this issue. This recognition has grown dramatically over the last year and although there is not consensus on how to address the issue, there is no mistaking the level of interest in doing so.

Given the respondents' belief that the problem will only grow over the next 12-24 months, it is likely payers will accelerate their interest in finding new answers to the fastest growing component of their medical expenses

Sponsored by Tmesys/PMSI, this survey was produced by Health Strategy Associates. For more information, contact:

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