Prescription Drug Management in Workers' Compensation

The Sixth Annual Survey Report
Fall 2009

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Introduction

This is the sixth year that Health Strategy Associates, LLC has surveyed executives and senior management at workers' compensation payers about prescription drug management. Again, it is focused on opinions, perceptions and attitudes about pharmacy management in workers' comp, with special attention paid to cost drivers, management approaches, vendors, problems, and trends. Both quantitative and qualitative measures were used in the survey, and the questionnaire was structured in such a way as to "triangulate" on specific issues and to confirm opinions and perspectives, thereby providing readers with confidence in the survey's findings. The quantitative questions used 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, thus response rates/numbers will not always correlate with the total number of payers.

This is the fourth year that Cypress Care, Inc. and its successor organization, Healthcare Solutions, Inc., have sponsored the Survey. We are indebted to Cypress Care/Healthcare Solutions for their continued support. As in past years, the sponsor's role was limited to financial support; they played no role in constructing the questionnaire or developing this report and received no respondent-specific data or information.

Finally, we also want to express our thanks to the workers' comp professionals at the 18 payers who took up to forty-five minutes to carefully and thoughtfully respond to the survey. This year their workload was increased, as respondents also had to track down more data, and in some cases, identify other experts in their organization to participate in the telephonic interview. 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.

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.

Premise

Regardless of the impact of outside influences such as fee schedules, new drugs on the market, or claim frequency, better programs will deliver lower loss costs, which translate to lower combined ratios and higher profits for work comp insurers/lower work comp costs for self-insureds.

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Background

Pharmacy management does not occur in a vacuum. Outside factors profoundly affect pharmacy in workers' comp, factors that include overall medical trend, practice pattern evolution, the flow of drugs into the system and timing of patent expiration, pharmaceutical marketing practices, federal and state laws and regulations, and the international pharmaceutical industry.

Closer to home, pharmacy is a component of workers' compensation medical expenses, which totaled approximately $28.8 billion in 2008 (source NASI 2007 WC Report, 8/2008, trended forward using NCCI medical inflation rates from NCCI AIS SOL, 5/2009). In comparison, workers comp drug costs were about 14.5% of workers' comp medical expenses ($4.2 billion) (source NCCI, 2007 Rx study). Pharmacy costs are also impacted by the number of comp injuries and their severity. Here, there is good and bad news. Injury rates are on a steady decline of about 3-5% per year, but the "severity" or medical cost of claims is increasing significantly, especially for claims that involve time away from work. In fact, medical costs comprise almost 60% of claims expense, a dramatic increase over prior years.

Respondents

Respondents were decision makers and operations staff in carriers, and TPAs, with 2008 drug expenses ranging from $1.2 million to $148 million. Respondents' total Rx expenditure amounted to $810 million, or 19.3% of total estimated workers' compensation drug spend.

Findings

Inflation/trend in drug costs

This is the second year we are reporting trend rates two different ways. In the initial surveys, we calculated the inflation rate based on the average of all respondents' rates of inflation. However, this biases the trend rate towards the experience of the smaller payers, as their figures are given the same weight as their larger competitors'. Beginning with the 2008 Survey, we report two inflation figures – one that is consistent with the prior methodology and another based on the change in the total expenditure from one year to the next.

Using the "new" methodology (total drug costs from all respondents divided by those respondents' prior year drug costs), the inflation rate was 7.5%. With the original methodology, for the fourth year in a row, respondents reported their pharmacy inflation rate was less than the prior year's trend, as the "decrease in the rate of increase" in 2008 improved to 2.7% from the prior year's 6.1%.

The different statistics have different implications. The overall inflation rate is definitely increasing -- this after several years of moderation in the rate of inflation. The cost increase for drugs is 1.5 points higher than NCCI's predictions for medical inflation (note

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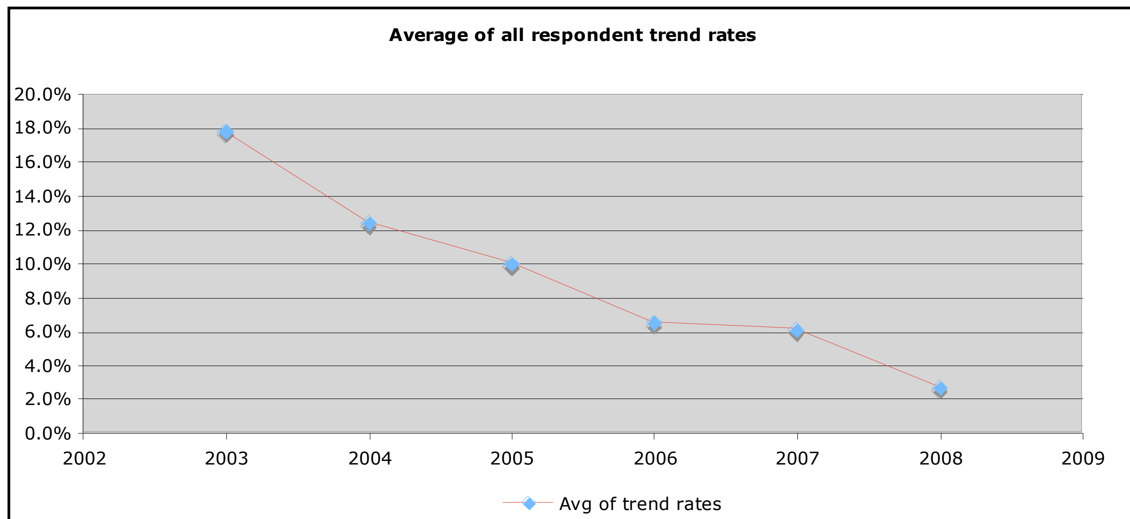
that NCCI does not cover all states; NY and CA are two states not considered in their figures). This increase is occurring despite continued decreases in claims frequency. There appears to be something systemic driving the industry's drug costs higher; this is discussed in more detail below.

In contrast, many respondents saw significant decreases in their drug costs with four reporting drops of 9% or more. It is important to note that this is based on respondents' total drug costs year-over-year; while the injury rate declined, and both medical expenses, and drug prices went up, these payers' drug costs continued to moderate significantly. By way of comparison, in 2006 the inflation rate was 6.5%, 2005 drug costs increased 10% over the prior year, with rates going up 12% in 2004 and 18% in 2003.



Looking at individual respondent data, prescription cost changes ranged from a decrease of 14.3% to increase of 45%. Similar to past years, the lowest increase occurred at "sophisticated payers," defined as those with detailed knowledge of their company's drug costs, a deep understanding of industry processes and issues, and operating advanced drug management programs and initiatives. Continuing a trend we spotted last year, many of the smaller payers (defined arbitrarily as those with less than $10 million in spend) enjoyed results ranging from a decrease of >14% to increases in the mid-single digits.

The size of the "problem"

How big a problem are drug costs? On the 1 through 5 scale, with 3 being "drug costs are as important as other medical cost issues," drug costs were viewed as "slightly more significant than other medical cost issues" (3.8). This was just slightly higher than last year's study. Of note, only one respondent indicated drug costs were less important than other medical cost issues (2.5), while three said they were much more important.

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Workers' compensation drug cost drivers

Utilization
The list of factors that respondents believe are driving drug costs is long and varied, a summary their views includes: the predominance of single-source brands, use of COX 2s instead of ibuprofen, per-unit price increases, the lack of effective prescription drug management, OxyContin rebranding, lack of step therapy/going from a generic to the top drug early on in the case.

The most significant "driver" remains utilization – the number of scripts and the type of scripts dispensed. Continuing a trend from the last three reports, many respondents had a deeper understanding of the underlying forces impacting utilization

Price
Across the board, 2008 was a year of higher prices for prescription drugs, continuing a wildly cyclical up-and-down swing in drug pricing; drug prices increased 4.2% in 2008 (AARP, Rx Watchdog report 9/09). Moreover, prices for the most common branded drugs went up almost 9%.

When asked the question "do low fee schedules and/or discounts below FS reduce your total drug costs?" about one-fifth of respondents replied in the affirmative, half said no, and the remaining 30% believe price is a short- term, or partial solution. This continues the gradual shift over the last three years to more awareness that per-script price is not as significant in the cost equation as once believed.

Repackaging/physician dispensing
Drug repackaging and physician dispensing of drugs is a major issue for payers with significant business in the southeast and California. While this problem was limited to California in the past, there appears to have been a big increase in physician dispensing in Florida and several other southeastern states.

Third party billers
TPBs still frustrate payers. All but one respondent said they were a problem. There has been some decrease in payers' willingness to consider TPBs as "part of the solution." Payers' "flexibility" diminishes rapidly when asked to consider TPBs as potential partners to help manage drug costs. Third Party Solutions, now known as Stone River, garnered a rating of 1.1 (0.1 lower than TPS' 2008 rating). Again consistent with their responses from the last two years, many respondents refused outright to consider working with Stone River.

How respondents are controlling drug costs
For the third year we asked respondents what programs they had initiated over the last year, how they were being measured and how they were progressing, and what programs might be on the agenda for this year.

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Past years' investments in data mining and analysis appear to be paying off, as many respondents talked about programs that were at least in part based on information gleaned from these efforts.

For 2009, respondents in general had fewer new programs on the schedule, with most fine-tuning their processes and reports and beginning to evaluate results. Among those with significant development efforts planned for this year, adoption of injury-specific formularies topped the list as most common, with other respondents focused on using their drug data to assess physicians in their networks and monitor pain management programs.

Last year we noted that step therapy seemed to be the hot topic among early adopters. That prediction was borne out in this year's survey, as responses to various questions led to my conclusion that more than half of the respondents had implemented some form of step therapy program.

Back in the present, we asked what payers are doing today to control costs. Respondents are employing multiple tools, techniques and approaches to manage the number of scripts and the type of scripts dispensed to claimants. Utilization control merits special mention. Again, when asked what needed to be done to manage costs, most respondents mentioned some way to control utilization.

Generics

Last year we took a deeper look at generic fill and generic efficiency, requesting respondents provide statistics on these metrics. Across all respondents the generic fill rate was down slightly from 2008 while the generic efficiency rate was significantly higher than last year.

PBMs - perceptions and functions

Similar to the last three years, all respondents were using PBMs. Most payers are working more closely with their PBMs on a variety of fronts, including data sharing, medical management, UR, and third party biller strategies. Historically payers have looked to PBMs to comprehensively manage their drug spend, and while this is generally true, more and more payers seem to recognize that pharmacy is not on an island, but rather is part of the entire medical and disability management process and thus must be considered in that light.

Network penetration

Compared to 2008, network penetration has increased markedly. (Note – the workers' compensation PBM industry consortium CompPharma, LLC is working to standardize definitions and metrics used in the industry, with the aim of enabling PBMs and payers to compare results across programs)

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First fill capture
Capturing the initial script was considered to be very important – rated a 4.2. Respondents noted that when the initial script is captured within the network, the payer gets the discount, TPB involvement is dramatically reduced and clinical management/DUR processes start promptly.

Conclusions

Payers who have committed the resources, expertise and systems support necessary to thoroughly understand their drug spend and the relationship between medications, medical costs and claims costs continue to make significant progress, defined as lower drug costs. Those payers committed to doing what they can, and not lamenting what they can't, are seeing the best results. The key to this success is simple - understanding and managing utilization. Successful payers have partnered with their PBMs, and continue to drive their PBMs hard to develop better cost savings reports, more effective data capture, stronger clinical programs, and better communication with adjusters. Significant opportunities exist to improve first fill capture rates, clinical intervention programs, and mail order penetration.

Third party billers remain a problem, and few payers are willing to partner with these firms. Physician dispensing/repackaging is becoming more problematic in certain jurisdictions and payers would do well to monitor it carefully.

We predicted last year that we would see a continued split, a growing gap in results between those payers with effective programs and those without. This survey proves we were right.

Finally, expect that differential to increase in future years, as the aggressive payers continue to outdistance their more complacent competitors. Regardless of the impact of outside influences such as fee schedules, new drugs on the market, or claim frequency, better programs will deliver lower loss costs, which translate to lower combined ratios and higher profits for work comp insurers/lower work comp costs for self-insureds.

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