Prescription Drug Management in Workers' Compensation

The Eighth Annual Survey Report
(2010 data)

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Introduction

This is the eighth year that this survey has been conducted. For the first six years this was done by Health Strategy Associates, LLC, a consulting firm owned by Joseph Paduda. 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.

For eight years HSA (and now CompPharma) has surveyed executives and senior management at workers' compensation payers about prescription drug management. The survey is focused on 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 cost drivers, management approaches, vendors, problems and solutions. Both quantitative and qualitative measures are used 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 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.

Yvonne Guibert conducted the survey this year; we are indebted to Yvonne for her diligent and careful work. Finally, we also want to express our thanks to the workers' compensation professionals at the 20 payers who took up to 45 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.

Interviews were conducted in the fall of 2011, with data on spend and other metrics derived from respondents' 2010 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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Premise

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

Background

Pharmacy management does not occur in a vacuum. Outside factors profoundly affect pharmacy in workers' compensation, factors that include societal issues (e.g., the explosive growth in opioid abuse.) Other factors are 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 $30 billion in 2010 (source NASI 2009 WC Report, 8/2010, trended forward using NCCI medical inflation rates from NCCI AIS SOL, 5/2011). Drug costs were approximately 19% of total work comp medical expenses or $5.4 billion (source NCCI, Workers' Compensation Prescription Drug Study, 2011 Update). Other research organizations peg drug expense at between 15% -17% of total medical spend. It is important to understand that it is currently impossible to precisely calculate drug spend in workers' compensation.

- The different estimates are based on data from different states.
- The basis for determining what products or billing codes are included as drug spend varies among and between payers and jurisdictions.
- Drugs are dispensed in a variety of settings and by a variety of providers, therefore some drug costs may be included in other charge categories.

Pharmacy costs are also impacted by the number of comp injuries and their severity. Here, there is good and bad news. Occupational injury rates, which had been on a steady decline of about 3-5% per year since 1994, dropped precipitously in 2009 as the recession hit hard (US Department of Labor, Bureau of Labor Statistics, Workplace Injuries and Illnesses in 2009). However, data from NCCI's State of the Line Presentation (May 2011) indicated frequency increased significantly in 2010, during the waning days of the financial recession. Moreover, the "severity" or medical cost of claims has been steadily increasing, especially for claims that involve time away from work. In fact, medical costs today comprise approximately 60% of claims expense, a dramatic increase over prior years.

Respondents

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Respondents were decision makers and operations staff in carriers and TPAs with 2010 drug expenses ranging from $1.7 million to $176 million. Respondents' total Rx expenditure amounted to $664 million, or 12.3% of total estimated workers' compensation drug spend.

Findings

Inflation/trend in drug costs

The overall trend rate was a negative 0.9%. The average inflation rate for each respondent also negative at -1.8%. This is the first time in the eight years the study has been conducted that we have seen a negative trend rate.

The size of the "problem"

Despite the decrease in overall 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 1 through 5 scale with 3 being "drug costs are equally as important as other medical cost issues," drug costs were rated a 3.8, or "somewhat more important than other medical cost issues." In a result (4.0) almost identical to last year's findings (3.8), respondents indicated their senior management is paying attention to drug costs, and drug costs are projected to become more important over the next 12 months (4.0) compared to 4.2 last year.

Cost drivers

Respondents noted three primary factors driving drug costs, or perhaps more accurately stated inappropriate drug usage in workers' compensation. The three are: narcotic utilization, excessive utilization of drugs, and physician dispensing. (This report also discusses price, as that is an important component of the drug cost equation.)

Respondents judged opioids to be a very significant problem, giving it an average of 4.8. This is the highest score for any survey question in the history of the survey; a clear indicator of the level of the industry's anxiety over a problem it has yet to fully understand much less address.

But there's no doubt they are fully aware of the potential for addiction inherent in overuse of opioids. This was the first year we asked respondents to tell us their level of concern about the potential for addiction/dependency among claimants taking opioids; the level of concern averaged 4.4, or "very significant."

We asked respondents to tell us which emerging issues were most concerning, and more than half noted opioids and/or narcotics. Responses to the final question of the survey are telling as well. When asked "What is the biggest single problem related to pharmacy benefit management in workers' compensation?" a quarter of respondents specifically mentioned opioids and narcotics.

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There was not just a general concern about opioids, but rather a keen awareness of the myriad potential negative effects of opioid overuse. When asked "For claimants who are taking opioids or other narcotics, how much of a concern is dependency or addiction?" responses averaged a 4.4, between "very" and "extremely" concerned. Notably, **60% of respondents scored this a 5, indicating they were extremely concerned about dependency or addiction for claimants taking opioids**.

Respondents' understanding of the underlying forces impacting utilization has deepened considerably over the last few years. Respondents' answers to the question "What do you believe must be done to control prescription drug costs in workers' compensation?" were generally thoughtful, specific, and reflected lessons learned from long experience and considerable effort.

There has been significant variability in drug price trends over the last few years; prices have oscillated between sharp increases followed by a year of little to no increase in per-script pricing. Despite respondents' oft-repeated concerns about utilization, clinical management, customer service, and ease-of-use, price-per-script, or more accurately, discounts (below fee schedule or U&C) remain quite important in the selection of PBMs. Different respondents noted they got better pricing from a new PBM contract and renegotiated pricing with their current PBM.

Price is important when selecting a PBM, when asked to rate the importance of price, responses averaged 3.4, or between "important" and "very important."

<u>Repackaging/physician dispensing</u>
For the third year, we asked respondents for their views on physician dispensing and drug repackaging. This issue received a good deal of press in 2009 and 2010, as reports from WCRI and NCCI highlighted the increased costs from, and prevalence of, physician dispensing.

Respondents considered this to be a significant problem (3.0); however several respondents operate primarily in areas where regulations and/or other factors greatly mitigate the impact of physician dispensing. The five ratings of "1" skewed the overall result significantly downward. For those concerned about physician dispensing/repackaging, two rated it 5, an extremely significant problem, while six gave physician dispensing/repackaging a 4, denoting a very significant problem. Clearly, national payers, and those operating in jurisdictions without strong controls on physician dispensing are quite concerned about physician dispensing/repackaging.

Geography continues to be a dominant factor in this issue. In 2009, drug repackaging and physician dispensing of drugs was a major issue for payers with significant business in the southeast and California. While California has addressed the issue, there appears to have been a big increase in physician dispensing in Florida, Georgia and several other southeastern states in 2010 that has again raised respondents' concerns over the practice.

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Physician dispensing and drug repackaging was also mentioned in response to the question about cost drivers, with a quarter of respondents specifying dispensing as a key cost driver.

When asked for their perspective on physician dispensing/repackaging, respondents were almost universally negative. Almost all (including those operating in areas with restrictions on pricing) saw it as a growing concern. Most view physician dispensing as little more than a way for physicians to make money with questionable benefits for patients, and fraught with risks due to greater risk of adverse drug interaction. Unlike last year, there were no positive comments or citation of theoretical benefits of the practice such as increased compliance and added convenience for the claimant.

Clearly respondents are much more sensitive to this issue than in the past. This concern extends past the obvious cost issue; half of respondents voiced concerns about their inability to effectively manage clinical issues due to physician dispensing.

<u>Third party billers</u>
Third party billers (TPBs) still frustrate payers, but respondents don't perceive them to be as much of a problem this year as in the past.

How respondents are controlling drug costs

- 16 respondents had implemented significant changes to their programs in 2010, three hadn't made any changes, and one had only altered policy to disallow reimbursement of physician-dispensed medications. Whereas last year most respondents had put in place new or revamped existing programs to better utilize the data they were getting from their PBMs, this year there was more emphasis on strengthening clinical programs at a more granular level, with more focus on specific areas of concern. Notably many responses noted newly implemented programs or steps designed to address opioid use.

The biggest problem in work comp pharmacy management
We'd be remiss if we didn't note that several respondents stated utilization and the failure of payers to focus on the volume and type of drugs flowing through the system, remains the biggest issue. However, the top vote getter was opioids and the increased use of narcotics.

Physician dispensing was a close second, with several respondents specifically citing the downstream impact on utilization review and clinical management efforts.

Conclusions
In the eight years we've been conducting the survey, we haven't seen as much change in the market as we encountered in 2010. Respondents are keyed in on opioids; frustrated with the cost, clinical problems and management issues inherent in physician dispensing; working diligently to develop programs – with and without their PBMs – to address

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multiple individual issues; monitoring and measuring the impact of these initiatives; and all this despite experiencing lower drug costs year after year.

This is remarkable.

There are undoubtedly structural issues that significantly affected pharmacy spend, specifically the decline in frequency in 2010. However, with a substantial portion of pharmacy dollars spent on older lost-time claims, pharmacy is less affected by changes in frequency than many other cost areas. There's something else occurring here, and my sense is the increased focus on prescription drug costs, in large part driven by more and better research by CWCI, NCCI and WCRI, has raised senior management's awareness of, and willingness to allocate resources to, pharmacy cost drivers.

Lest we declare victory prematurely, let us not forget the frequency decline that provided payers with a welcome tailwind turned into an increase in 2010. Frequency may well tick up for a few quarters, making those investments in pharmacy management even more vital to the health of the workers' compensation industry.

Finally, we'd be remiss if we didn't acknowledge the significant impact of external factors on work comp pharmacy, chief among them the nation's growing addiction to prescription pain medications. This is a societal issue, but one that is having a deep and damaging impact on comp, driving up costs, prolonging disability, and killing claimants. If the industry does not meet this challenge head-on, acknowledge and develop effective programs to prevent, identify, and treat abuse, misuse, addiction and dependency, we will almost certainly see higher pharmacy costs and higher work comp premiums as well.

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