Prescription Drug Management in Workers' Compensation

The Ninth Annual Survey Report
(2011 Data)

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Introduction

This is the ninth 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 nine years HSA (and now CompPharma) has surveyed executives and senior management at workers' compensation payers about prescription drug management. Historically, the survey was focused on PBM capabilities and program results, cost drivers and trends, opinions, perceptions and attitudes about pharmacy management in workers' compensation. Special attention was paid to cost drivers, management approaches, vendors, problems and solutions.

This year, we shortened the survey instrument rather significantly to reduce the time required of respondents. However, we continued to use 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 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 again 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 who carefully and thoughtfully respond 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 fall of 2012 and the data on spend and other metrics were derived from respondents' 2011 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.

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 2010 WC Report, 8/2012, trended forward using NCCI medical inflation rates from NCCI AIS SOL, 5/2012).

Of note, we are altering our projection of total drug costs in workers' compensation this year. Historically we have used NCCI's estimates as the basis for our calculations; their data indicates drug costs are approximately 19% of total workers' comp medical expenses, or $5.4 billion (source NCCI, Workers' Compensation Prescription Drug Study, 2011 Update). Other research organizations estimate drug expense is between 15% - 17% of total medical spend. Based on these sources and other data points available to us, including client-specific data and PBM data, our best estimate indicates total drug spend is likely in the 12 to 14 percent of total medical spend, or approximately $4 billion.

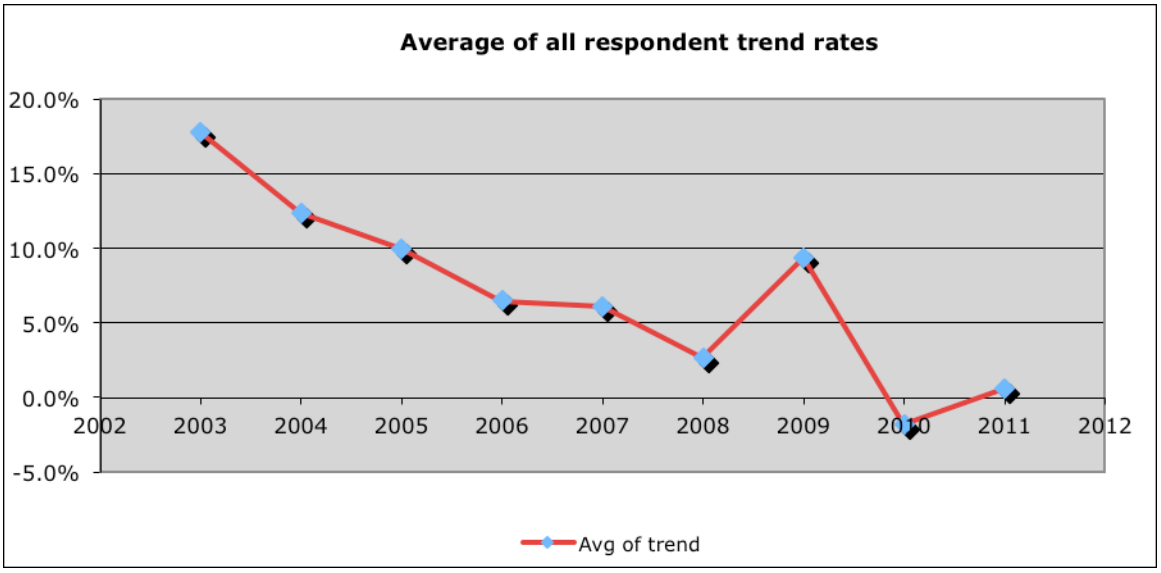
Findings

Inflation/trend in drug costs

We report trend rates two different ways. This year the overall trend rate (total drug costs from all respondents divided by those respondents' prior year drug costs) was a negative 0.7%. The average inflation rate for each respondent was also positive at 0.6%, a 2.4 point swing from last year's -1.8%. This is the second time and the second consecutive year we have seen a negative trend rate.

In addition, this occurs after 2009's increase of 9.4 points. That jump marked the first increase in the inflation rate in six years.

To validate and better understand this rather surprising result, we looked at each individual respondent's trend rate. Eight of the 18 respondents experienced declines in their drug spend, most in the low single digits.



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 1 through 5 scale with 3 being "drug costs are equally as important as other medical cost issues," drug costs were rated a 4.1, or "more important than other medical cost issues." This was three-tenths of a point higher than last year's results (3.8).

Moreover, respondents are concerned (4.2) that drug costs will be more of a problem in the next 12-24 months than they are today.

Cost drivers
Narcotics, addiction risk and the industry's deepening concern
One of the advantages of conducting a survey over several years is the insight it provides into market evolution. Over the last two years we have seen a growing concern about the long-term implications of opioid use among claimants. This trend continued even though program managers and work comp executives have long known about the relatively high use of narcotics in work comp. Throughout the survey, respondents mentioned narcotics, opioids, addiction, dependency, and related terms, even when responding to other questions.

For the second year we asked respondents to score their concerns about opioids in work comp. And consistent with results from last year, **respondents judged opioids to be a very significant problem, giving it an average of 4.8, identical to responses in the 2011 survey. This is the highest score for any survey question in the history of the survey**, and a clear indicator of the level of the industry's anxiety over a problem it has yet to fully understand, much less address.

Payers have gotten the message: narcotics are highly problematic for workers' comp claimants, employers and insurers.

Physician dispensing
The concern over physician dispensing has grown over the last few years, driven by payers' own experience and the research from NCCI and WCRI quantifying the dramatic increase in the percentage of drug dollars going to pay for physician-dispensed medications.

The latest NCCI data indicates physician dispensing accounted for 28% of drug costs in 2009, fully five points more than in the previous year. In all likelihood, physician dispensing accounted for over 35% of drug costs in 2011.

There are several concerns with physician-dispensed drugs. Physician dispensing unnecessarily creates a health and safety risk for the injured worker receiving these prescriptions. Injured workers often see multiple physicians for their work-related injuries, in addition to their group health doctors, who may each prescribe multiple medications. Each of these independent doctors usually 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.

Unnecessary physician dispensing drastically and artificially inflates the cost of workers' compensation pharmacy costs. Physician-dispensed prescriptions typically cost three or four times the amount of the same prescription filled by a retail pharmacy.

Respondents considered this to be a much more significant problem this year (3.9) than last (3.0).

While in earlier surveys we asked respondents for their perspective on physician dispensing/repackaging, their almost universally negative responses made further surveying on this issue pointless. Instead this year, we asked respondents to identify their specific concerns regarding physician dispensing of repackaged drugs. When asked to indicate which of the following were concerns, all respondents except one identified each of these as issues:

- Patient safety; physician-dispensed drugs do not go through the Drug Utilization Review process
- Potential duplicate therapy
- Higher cost due to repackaged drugs priced above the same medications at retail stores
- Unnecessary medications or medications not related to claimant's injury
- Extended disability duration
- Higher overall medical cost

Clearly respondents are much more sensitive to this issue than in the past and their concerns extend past the obvious cost issue into patient safety.

How respondents are controlling drug costs

We asked respondents what pharmacy cost-containment programs they had initiated over the last year, how they were being measured, how they were progressing, and what programs might be on the agenda for this year. Notably, all respondents except one had implemented significant changes to their programs in 2011.

In 2010, many responses noted newly implemented programs or steps designed to address opioid use. In 2011, implementing and upgrading those programs was – by far – the most common change to respondents' pharmacy management programs. Although respondents had improved reporting, streamlined electronic processes and addressed the removal of Walgreens' from their PBM's retail network (since added back), over half had done extensive work to address opioid/narcotic prescribing, utilization and monitoring.

Drug testing

With the recent increase in the use of urine drug testing/monitoring (UDT), we asked respondents if they were using a UDT program. Half of all respondents utilized a "urine drug-testing program to monitor claimant compliance." Among those who did not answer in the affirmative were payers that operated in states where they could not require UDT, although they did encourage or recommend testing whenever possible. Others did not have "formal" programs but did reimburse for UDT and were in the process of setting up a program, or were discussing a program with their PBM. There is a clear indication that this tool is growing in popularity.

The biggest problem in work comp pharmacy management

We ask this question each year, and tracking responses over time has helped us identify trends and monitor the evolution of the industry over the last eight years. While there are typically changes from year to year, there is usually some consistency as well. 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.

With that said, for the second year the top vote-getter as the biggest problem was the use of 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

Pharmacy management in workers' comp has evolved dramatically over the nine 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. With that said, it is evident that despite all the attention paid to and resources focused on this issue, payers' level of concern about pharmacy management continues to remain quite high.

That the dramatic increase in physician dispensing and payers' concern about implications for patient safety, disability duration and claims cost aren't the utmost concern to payers is evidence of the seriousness of the opioid issue. Payers are beginning to grasp just how difficult and complex this issue is; physician prescribing patterns, addiction and dependence, chronic pain management, and abuse, misuse and diversion are all closely related to the use of opioids.

It can be difficult to remember that drug costs are relatively flat. With inflation running less than two percent, one could be forgiven for thinking payers believe they have drugs under control. Yet payers' evident level of concern, the 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."