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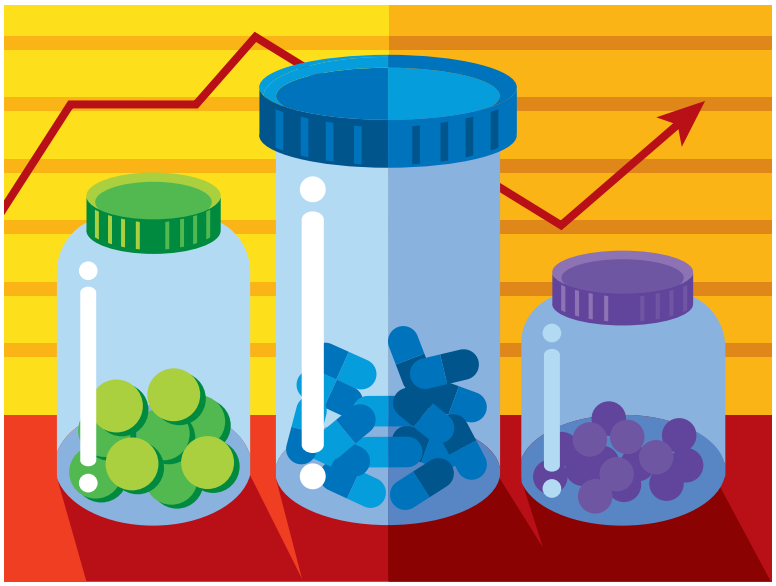

# Prescription Drug Management in Workers' Compensation

## The Sixteenth Annual Survey Report (2018 data)

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# Top Takeaways

After compiling data from 31 respondents, we've identified five top takeaways from this year's survey:

1. Overall drug spending dropped 10.1%, driven in large part by price reductions due to renegotiated contracts or changing Pharmacy Benefit Managers (PBMs) and the impact of the California fee schedule.
2. Another key factor was a 19% reduction in opioid spend.
3. Respondents are keenly interested in transparency in pricing; 83% (5 out of 6) respondents identified this as the top problem in workers' comp pharmacy and the thing they wished their current PBM would change.
4. Ratings by current customers and other respondents indicate myMatrixx is "best-in-class" while Optum has by far the largest market share among respondents.
5. Respondents have made more progress curbing initial opioid usage versus long-term usage.

# Introduction

Total workers' comp pharmacy spend in 2018 was between $2.9 and $3.5 billion, with a "best guess" estimate of $3.2 billion. We recognize that figure is significantly lower than other estimates, however extensive analysis supports that total.

After much research and study, it is clear it is not possible to precisely calculate workers' compensation drug spend. There are several reasons for this.

Pharmacy is a component of workers' compensation medical expense, which we estimate to have totaled approximately $31.5 billion in 2018.

According to the National Academy of Social Insurance REPORT:  Workers' Compensation: Benefits, Coverage and Costs, published October 2018, total medical expense in 2016 was $31,121,529,000,[1] down very slightly from 2015. In previous reports we trended this forward using medical inflation rates from the National Council of Compensation Insurance (NCCI) Annual Issues Symposium State of the Line report.

However, analysis of historical NCCI inflation rates and the changes in total medical spend from NASI indicates NCCI's medical inflation rate appears to be higher than the all-state, all-payer totals documented by NASI. (NCCI data does not include all states and all payers.)

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Note that page 29 of NASI's report indicates a four-year negative inflation rate for workers' compensation medical spend of -0.5%. NASI includes data from all states, insurers, state funds, federal and other special populations, a broader payer group than NCCI uses.

If we assume workers' comp medical costs increased slightly over the last two years, total workers' comp medical spend in 2018 was around $31.5 billion. Estimating that drugs account for about 10-12% of medical spend provides the $3.15-$3.8 billion range.

Other considerations affecting pharmacy spend estimates include:

- Different estimates are based on data from different states, and the various estimates use differing methodologies. The methodology used by NCCI is based on an analysis of projected spend for claims occurring in Accident Years using data from NCCI-reporting states. As such, the NCCI estimate is based on the anticipated total spend over the entire life of the claims incurred in a specific year, and not on drug spend in that calendar year.
- In contrast, anecdotal information from payers indicates drug costs account for 9-12% of medical spend (there are some outliers with spend below 5%.)
- The basis for determining what products or billing codes are included in drug spend varies among payers and jurisdictions. Different payers have different processes and coding logic for prescription bills on paper and/or patient-paid bills that are reimbursed.
- 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. For example, specialty drugs may be billed under home health care/durable medical equipment services, while long-term care and hospital-dispensed medications typically are counted as facility expenses. It is highly unlikely all payers surveyed use the same methodology when calculating drug costs.
- Depending on the payer, some or all physician-dispensed drugs may or may not be counted towards drug spend, as they can be billed on standard medical billing forms with the cost "rolled-up" under physician costs for reporting purposes.

I'd like to acknowledge the major contributions to this study made by Jay Stith and Helen Patterson. Jay handled all of the data aggregation and analysis, and provided insights that only a brilliant analyst could see. I am indebted to Jay for his diligence and ability to interpret data in ways I could not. Helen Patterson handled scheduling, edited and proofed the report, and coordinated all production. Simply, Helen is the persistent, positive professional most responsible for this getting done.

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# Respondents

Respondents were decision makers, clinical personnel, and operations staff in state funds, carriers, self-insured employers, and third-party administrators (TPAs) with annual drug expenses ranging from $400,000 to over $200 million. The 31 respondents' 2018 drug costs totaled $737 million or about 23% of total workers' compensation drug spend.

# Findings

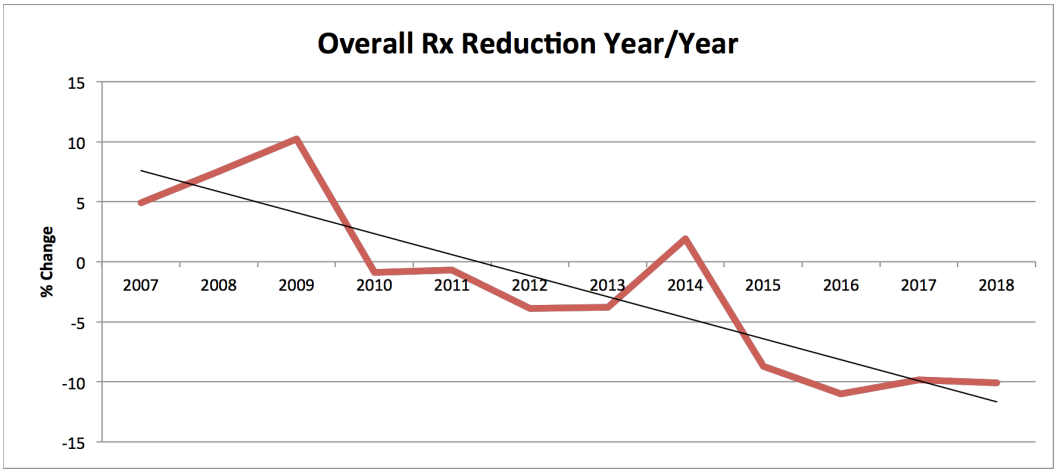
Over the last 10 years, workers' compensation prescription drug costs have decreased by approximately $1.3 billion. In large part this has been driven by a dramatic decline in opioid usage, particularly for new claimants.

We wish 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 2019, with data on pharmacy spend and other metrics derived from respondents' 2018 results.

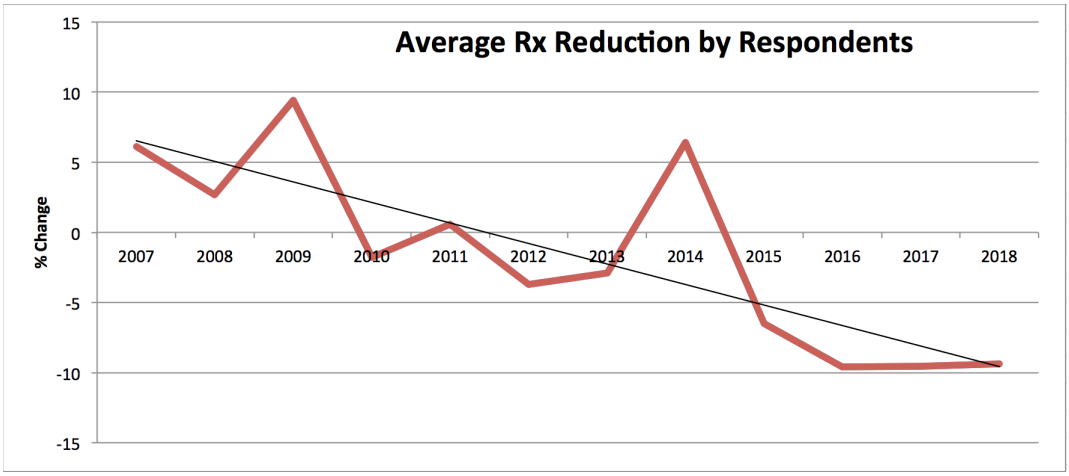
## Overall reduction in spending

The structural decline in drug costs we've been seeing for the last nine years continued in 2018 as workers' compensation pharmacy costs decreased 10.1% across all 31 payers surveyed. This follows last year's 9.8% decline.



While the double-digit drop is quite significant, it is important to note that there was wide variation among the respondents with decreases ranging from over 25% to 1.1%; two respondents had increases however both are in unique situations. Six respondents reported declines greater than 14%.

Averaging each respondent's trend results in a decrease of 9.4%, essentially identical to last year's 9.5%. This indicates larger payers saw somewhat larger declines in drug spend than their smaller counterparts.




Survey results over the last nine years indicate drug costs dropped in seven of those nine years; in total we estimate drug spend today is roughly 60% what it was a decade ago.

## How important is drug management?

In response to the question "Where does prescription drug management rank compared to other medical cost areas at your organization?" drug costs were rated as a 3.7, (just below "significantly more important;" 3 being "drug costs are equally as important as other medical cost issues).

## Drivers

Respondents that had the largest percentage decline in spend attributed that drop to renegotiating pricing with their current PBM, changing PBMs, and/or the ongoing impact of the change to the California work comp pharmacy fee schedule. Other factors mentioned were fewer claims (8 respondents) and improved clinical management (4).

Another key contributor was the continuation of significant year-over-year reductions in opioid spend.

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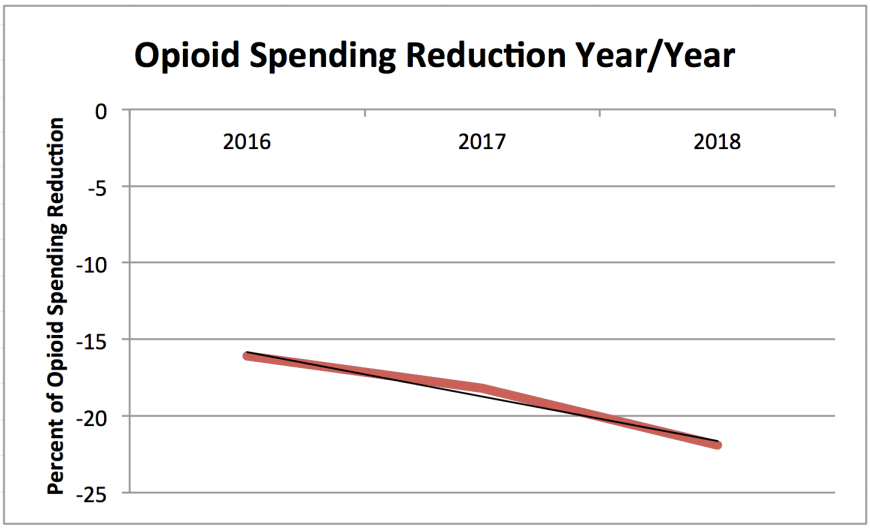
# Opioids

## Spend reduction

In total, respondents cut spend on opioids by 21.9% year-over-year, a continued improvement over last year's 18.2% reduction. (The average reduction across all respondents was 19%.)




In contrast, IQVIA reported total US retail-filled prescriptions for opioid analgesics fell 17.1% last year, and by 43% since opioid dispensing peaked in 2011[2].

While spend (the metric used in this study) is not precisely equivalent to the volume of retail prescriptions (IQVIA's metric), the fact is that workers' compensation payers have been far more successful in reducing opioid usage than the nation as a whole. This may well be due to rampant overprescribing for workers' compensation patients in the past; possibly workers' compensation had a lot further to go. It is certainly a result of the workers' compensation industry's early recognition of the disastrous implications of opioid over-prescribing.

## Opioid management — initial prescriptions and chronic usage

There are two general strategies for addressing opioids: 1) ensuring the initial script is medically necessary, not duplicative, and consistent with patient safety and 2) the much knottier issue of long-term opioid usage. While opioids do appear to help a few patients with chronic pain, research clearly indicates there are far less dangerous options that work for most patients. Thus, prescribers and payers alike have been working to reduce the

number of patients prescribed opioids for long periods of time, and the dosage for those patients who remain on opioids.

Respondents rated opioid-related issues 10% more important than overall prescription drug spending (4.3 vs. 3.7).

A slight majority (56%) of respondents believed they had made more progress curbing initial opioid usage than curtailing chronic opioid use. Four thought the gap was rather large, while five saw equal progress in both areas. The average for initial progress was 2.9 (significant) versus 2.5 (between modest and significant) for progress on chronic usage.

## Respondents' concerns

Historically opioids, compounds, and physician dispensing were identified as the "biggest problems in workers' compensation pharmacy today." That changed this year, as 13 respondents named transparency (three times more than any other single issue) as their biggest concern, and four mentioned pricing. This didn't come completely out of the blue, as transparency and pricing were cited by a handful of respondents in last year's survey.

Responding to the question "What is the one thing your incumbent PBM is not doing that you wish it would?" Ten respondents mentioned transparency (twice as much as any other answer), followed by five noting various customer service concerns and two more naming pricing.

We dove deeper into the topic, asking several questions about pricing, transparency, and rebates.

When asked "What are your views on PBM pricing methodologies?" The vast majority of respondents' views were negative. Fourteen cited complexity, and the same number complained about AWP. Six broadly named a need for greater transparency and four more comments had other negative connotations. In contrast, three had positive views, and another three were neutral or had no opinion.

A follow-up question probed respondents' views on transparency. Eighteen wanted more transparency because a lack of visibility made them uncomfortable with the "fairness" of pricing while nine others were also positive about the need for transparency. Four said it wasn't important to them.

When asked if their PBM provided information about rebates only three respondents were receiving rebate payments from their PBM. However, several more stated that their PBM had factored rebates into their brand drug discount.

We concluded with a general question intended to assess respondents' appetite for transparent pricing, asking if they would be "interested in pricing that separated drug costs from value-added services such as clinical management." Using an admittedly unscientific sliding scale of 1-100 to assess interest based on my interpretation of their comments, the average was a 76.

# Data points

We have collected several data points for the 16 years the survey has been conducted.

Generic fill rate: 86% - this is consistent with 2018 survey and remains a high point.

Generic efficiency: 97.5% – almost two points higher than the ten-year average of 95.7 and identical to last year's figure.

Network penetration based on spend: 91%

Home delivery: 6.1%, barely above the ten-year average of 5.7. Home delivery has been declining over the last decade, despite the significant opportunity for additional cost reduction it offers.

# PBM ratings

We provide ratings of PBMs two ways: the respondent's overall impression of each PBM and how each payer rated its PBM's customer service. Both are on a 1–5 scale, with 5 being the top, or most favorable score.

## Overall rating

This rating asked each respondent to score each PBM from 1-5, with 1 equaling "I wouldn't want to work with them" to 5 being "highly regarded" and 3 being neutral. We also assigned a score of 0 for a PBM that a respondent was unable to provide a rating.

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Ratings, not counting "0" scores, were as follows:

| Vendor | Grade |
|---|---|
| myMatrixx | 4.1 |
| HealtheSystems | 3.7 |
| Mitchell | 3.4 |
| Optum | 3.3 |
| Coventry First Script | 3.1 |
| CorVel | 2.2 |
| Average | 3.33 |

We also asked, "What is the one thing your PBM is not doing that you wish it would?" This elicited 10 specific mentions of transparency with an additional two respondents citing pricing issues. Five respondents made comments related to customer service matters.

## Conclusions

Sixteen years into this, there are two central takeaways.

Patients covered by workers' compensation have benefited greatly from the dramatic reduction in opioid spend – as have employers and taxpayers. There's no question deaths have been avoided, addiction and diversion risk drastically reduced, and injury recovery hastened. The decline in opioid usage has been instrumental in reducing medical costs and disability duration, saving premium dollars for employers and reducing the tax burden on us all.

PBMs have been instrumental in reducing unnecessary drug use. As a result, the current PBM business model is not sustainable. Simply put, PBMs are the victim of their own success. As drug spend decreases, PBMs have fewer dollars to invest in clinical management, analytics, and patient outreach. Payers, regulators, and PBMs must evolve their relationships, change their expectations, and collaborate to ensure the gains made over the last decade don't disappear.

There is much work still to be done to reduce chronic opioid usage. We also know there are new challenges over the horizon. We must remain vigilant to ensure patients, employers, and taxpayers benefit from the right medications, and are protected from bad actors, sloppy regulations, and forces outside our control.

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## End Notes

[1] National Academy of Social Insurance' REPORT: Workers' Compensation: Benefits, Coverage and Costs, published October 2018. https://www.nasi.org/research/2018/report-workers%E2%80%99-compensation-benefits-costs-coverage-%E2%80%93-2016

[2] IQVIA, p. 5 https://www.iqvia.com/-/media/iqvia/pdfs/institute-reports/medicine-use-and-spending-in-the-us---a-review-of-2018-outlook-to-2023.pdf?_=1564876379921)

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