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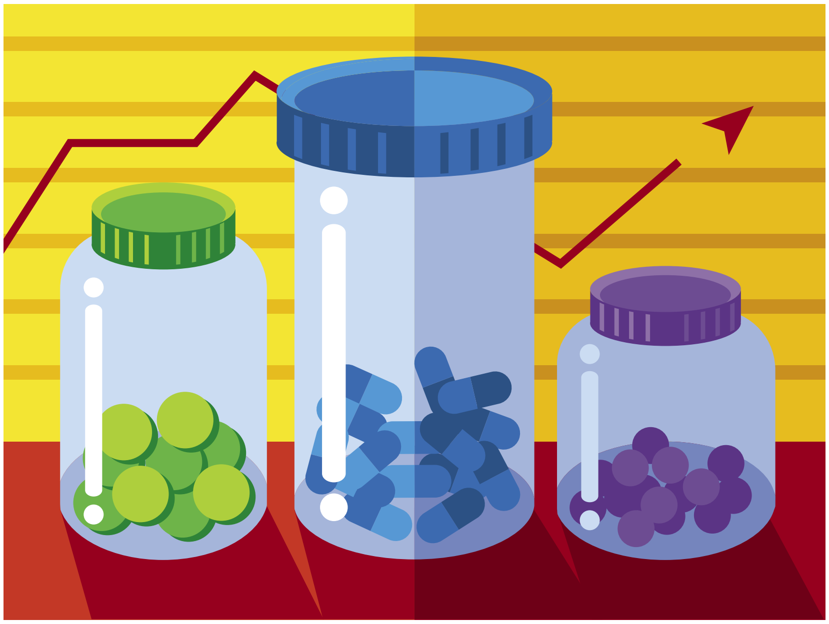

Prescription Drug Management in Workers' Compensation

The Nineteenth Annual Survey Report (2023 data)

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Introduction

This industry report examines recent spending and clinical management trends in pharmacy within the workers' compensation industry. Respondents provided insights based on their 2023 drug spend and pharmacy programs.

This is the 19th survey; it was not produced in 2020 due to the pandemic. Pharmacy data from 2019, when available, was combined with 2020 data in the 17th survey.

Top Takeaways

1. The overall perception of the PBM industry remains largely unchanged from last year. Last year, respondents gave PBMs a score of 3.26 (out of 5) and this year that number rose marginally to 3.28.
2. myMatrixx retains the top spot in this year's survey after earning an average score of 4 (out of 5).
3. For the 2nd straight year, respondents reported an increase in drug spend. There was a 4% increase in drug spend overall and a 3% average increase per respondent. While some of this was driven by more claims, that was not the sole driver.
4. Despite the rise in drug spend we observed a record-low score for pharmacy importance. At 3.05 (out of 5), this year breaks last year's record-lowest score. During the last five straight surveys, pharmacy importance has decreased.
5. While overall pharmacy spend increased, opioid spend continued to decrease although at a slower rate than in previous years. Opioid spending decreased by 8.7% overall and at an average of 7.85% per respondent. These figures are significantly lower than in prior years where the decrease was in the double digits.
6. Similar to pharmacy importance, opioid importance is at near-record lows. This year's score of 3.11 is slightly higher than last year's 3 but still much lower than the long-term average.
7. The percentage of overall drug spend on opioids has reached an all-time low for this survey. Just 9.1% of overall drug spend was on opioids; down from a figure that was stuck in the low teens for several years.
8. Physician dispensing is back as a major issue, this time a polarizing issue, as it is either a huge problem or not a problem at all for payers.
9. Customer service is still critical to a successful payer/PBM partnership. It was ranked as the most important PBM attribute and was highly correlated to vendor grades.

10. The need for more transparency is at an inflection point. A vast majority of payers want more transparency from their PBM to assess pricing and performance but some payers have become so frustrated they are starting to become disengaged.

Pharmacy in Workers' Compensation – The Big Picture

Total workers' comp pharmacy spend in 2023 was between $2.85 and $3.1 billion, with a best guess estimate of $3 billion. This was a small increase from 2022. We recognize that the figure is significantly lower than other estimates, but extensive analysis supports it.

Over the last 20 years workers' compensation prescription drug costs have decreased by approximately $2 billion or 40%.

Several factors contributed to this decline:

- Massive decrease in opioid utilization and impact on co-prescribing;
- ignificant reduction in California's pharmacy fee schedule;
- Very significant reduction in the use of branded medications/replacement with generics;
- Industry-wide adoption of PBMs;
- A very competitive PBM market; and a
- The consolidated PBM industry provides greater buying power.

Notably, this is the first year in recent memory that we have seen an increase in overall spend, albeit a very small one. No doubt COVID affected spend in 2020 and 2021 thus we cannot confidently attribute changes to other factors. That said, wherever we identified interesting correlations or counter-intuitive findings we highlighted them.

Respondents

We wish to express our gratitude 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 2024 using 2022 and 2023 data on pharmacy spend and other metrics.

Respondents were decision makers, clinical personnel, and operations staff in state funds, carriers, self-insured employers, guarantee funds, and third-party administrators (TPAs).

Respondents included:
California Joint Powers Insurance Authority
Cincinnati Insurance Company
City and County of San Francisco, California
City of Los Angeles
County of Los Angeles
EMC Insurance
Kentucky Employers' Mutual Insurance
Large national insurance company
PMA/Old Republic
Publix
Selective Insurance
SFM Mutual Insurance Co.
Sentry Insurance
State Compensation Insurance Fund (California)
State of Montana
State of North Carolina
TriStar Insurance
The Hanover Insurance Group
Washington Department of Labor and Industries
Wyoming Department of Workforce Services / Workers' Compensation

All respondents have participated in least one previous survey.

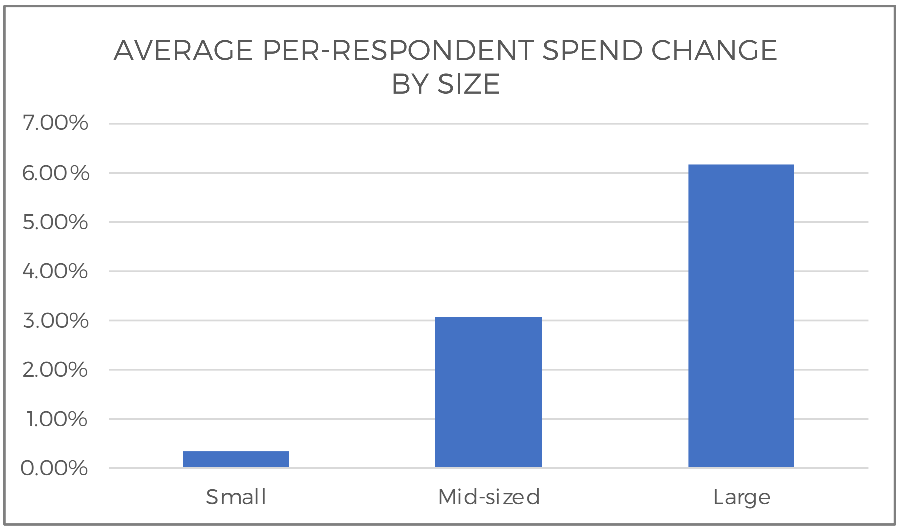
Financial Results

The overall financial results delivered a big surprise this year. Respondents reported an average increase in drug spend of 3% and a weighted increase of 4%.[1] Last year's survey marked the first rise in drug spend in about a decade, with an increase of just under 1% (0.82%). In last year's survey, 33% of respondents saw an increase in spend, a stark contrast to the combined three respondents who had reported an increase in the two prior surveys. However, the 33% mark was dwarfed by this year's 53.6% of respondents reporting an increase in spend.

Two factors largely drove the increase in spend for nearly 54% of respondents who reported an increase. The first factor was simply more claims; 50% of the spend-increase group cited an increase in claims. The second catalyst was a noticeable increase in specialty and brand-name drug costs.

Among the 46% of respondents who reported a drop in drug spend, 56% noted improved or strong clinical management as the chief reason for the result. Notably, only a few respondents noted a decrease in claim volume.

The size of the respondents played a significant role in their financial outcomes. Large payers experienced an overall spend increase of 5.63%. Mid-sized payers saw an increase of 2.3%. Small payers reported a decrease of 3.02%.[1]



On an average per-respondent basis, large payers saw their average spend increase by 6.16%, mid-sized payers saw an increase of 3.08%, and small payers experienced a minimal increase of 0.36%. Increases in pharmacy spend were reported by 80% of large payers surveyed compared to 43% of mid-sized payers and 50% of small payers.

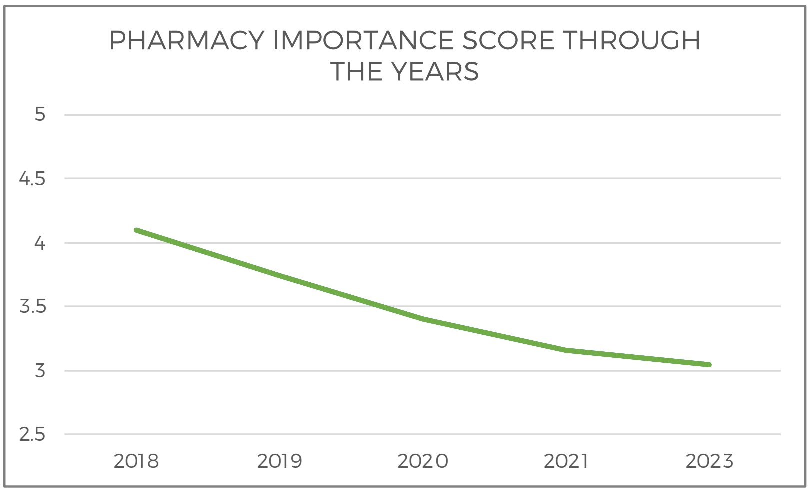
It is possible that the smaller payers are catching up to larger payers' adoption of strong clinical programs and better pricing while larger payers, having squeezed down their PBMs' prices and effectively implemented a variety of clinical programs, are now facing growing usage of specialty medications and in some notable instances higher costs due to physician dispensing.

[1] Average increase factors the percent change for each respondent then calculates the average and 2023 and then calculates the change in spending.

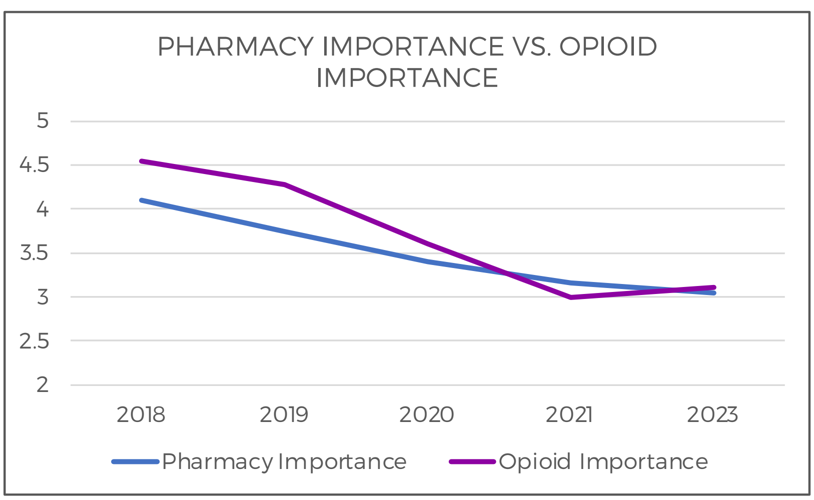
Industry Thoughts About PBMs

Pharmacy Importance

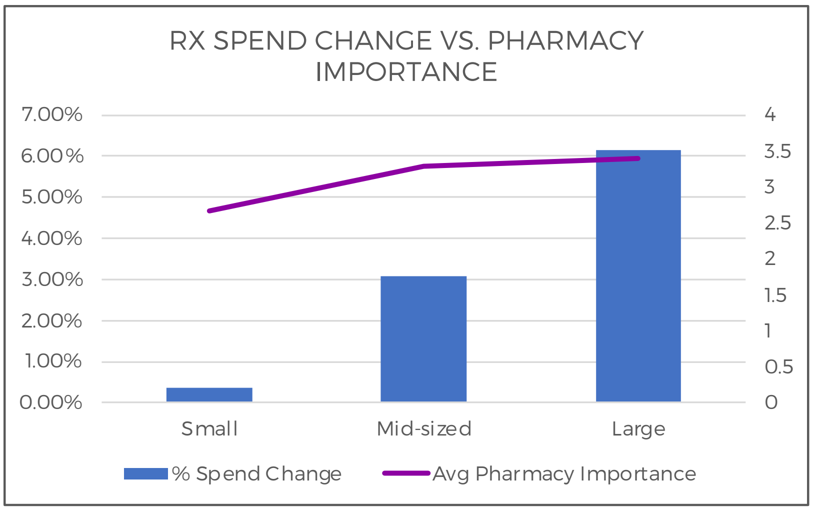
The average score for the importance of prescription drug issues is 3.05, the lowest ever recorded and breaking last year's low of 3.16. This marks the fifth consecutive year of progressively lower scores.



A possible catalyst for the drop in importance of pharmacy matters compared to other medical management issues could be the success workers' compensation payers have had in reducing unnecessary use of opioids and associated drugs (erectile dysfunction, stool softeners, etc.). As the next chart shows, both pharmacy and opioid importance scores have dropped precipitously since 2018 and are now quite close in actual scores.



An analysis based on the size of the respondent shows a logical correlation between the drug spend changes reported and the level of importance of pharmacy. The smaller payers, the ones who showed much smaller levels of spend increases are about 15% less concerned with pharmacy than the large payers who reported high spend increases.



PBM Pricing Methodologies

Few respondents had a firm preference for a particular PBM pricing scheme, but many respondents voiced serious frustration concerning the entire concept of pricing methodologies. Without prompting, more than 50% of respondents explicitly mentioned the need for additional transparency, with one-third of respondents voicing frustration to the point of being discouraged about the entire PBM industry.

Some quotes from respondents:

> "Very grey and lots of unknown back-end processes."
>
> "Complicated and not transparent."
>
> "Hideous."

Roughly a quarter of respondents said that they did not have a preference for pricing methodology because they did not believe it would make a difference. "They [PBMs] all have a number to hit and will find a way to hit it," said one respondent who voiced the broader thought that PBMs will just manipulate the results to turn a profit no matter what pricing methodology a payer uses.

Transparency

The trend from the last couple of years continued this year: the push for transparency is growing and is nearly in full bloom. Two years ago, just 52% of respondents voiced an interest in more transparency from PBMs. Last year that number increased to 67%; this year it went up again to just shy of 90% - all but two respondents said it is needed.

The call for increased levels of transparency popped up in several different places throughout the survey. It was often listed as the single biggest problem facing the PBM industry in addition to being consistently mentioned in the pricing methodology preferences section.

Obstacles to Changing PBMs

Overwhelmingly respondents voiced just how difficult they believe it is to change PBMs. Between the obvious IT lift required to the lengthy RFP experience, respondents agreed it was a hard process. One of the most frequently mentioned barriers to vendor change is the difficulty of obtaining internal "buy-in" and getting staff to learn new processes.

Some quotes from respondents:

> "Operational – integrated in many ways which have created tons of efficiencies."
>
> "Implementation, training staff on new system. People's reluctance to change."

Although not expressed by respondents, perhaps the largest hurdle in potentially changing PBMs is the fear of screwing up. Payer employees responsible for running the RFP or the implementation process are often hesitant to make a change because they believe if something goes wrong or the new PBM doesn't end up performing at the promised level they will be blamed or perhaps even lose their jobs.

In addition, there is likely little pressure on payers to make a change since pharmacy is far less of a concern than it was just a few years ago.

Looking Ahead

AI

A vast majority of respondents accept the possibility that there could be a role for AI in pharmacy at some point. How soon and the degree to which that role could impact pharmacy is up for debate.

Payers need to see proof that the AI tool is accurate before they will even consider implementing AI. (Note they may not be aware that this is happening today/has already happened.) Many payers have been burned before by tools that were a little too new and ended up creating customer services issues and expensive problems after a few months of use.

From a conceptual level, respondents seem to take two different approaches to AI deployment. One group sees it as taking care of mundane tasks that front-line staff currently handle to free them up for more complex issues. The other group takes the opposite approach and sees the benefit of AI in tackling complex cases by leveraging trends and modeling.

Emerging Concerns and Biggest Issues in Workers' Compensation

Specialty and/or "TV drugs" (medications advertised on television) prescribing was the top concern among respondents (37%). Diabetes drugs were mentioned by 21% of respondents, physician dispensing (32%), and topicals (26%). Only two respondents didn't see concerns.

A common refrain was that most of the managers live in fear. If they don't see a concerning trend, they believe one is looming, or worse, it is already present and they haven't found it yet.

Interestingly, only one respondent mentioned opioids. This is truly remarkable given opioids huge impact on workers and payers just a few years ago. We encourage payer executives, PBMs, front-line payer staff and their managers to take a moment and reflect on the very positive results from their years-long efforts to reduce inappropriate use of opioids.

It is notable that smaller payers are disproportionally worried about physician dispensing, mid-size payers a little bit, but no mentions of it from any larger payers.

A few quotes from respondents on their biggest problem outside of transparency:

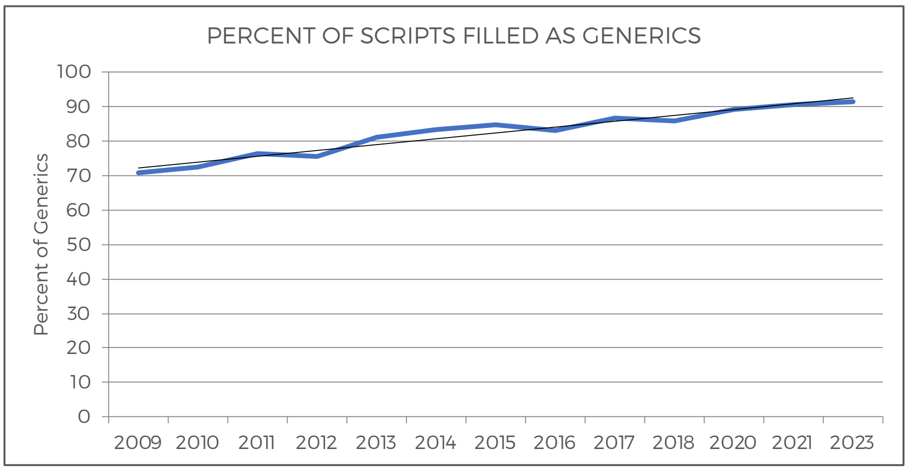
> "High dollars on TV meds."
>
> "Increased topical use."
>
> "Always another problem popping up once you fix one."

The Nitty Gritty Aspects of PBMs

Generic Fill Rate

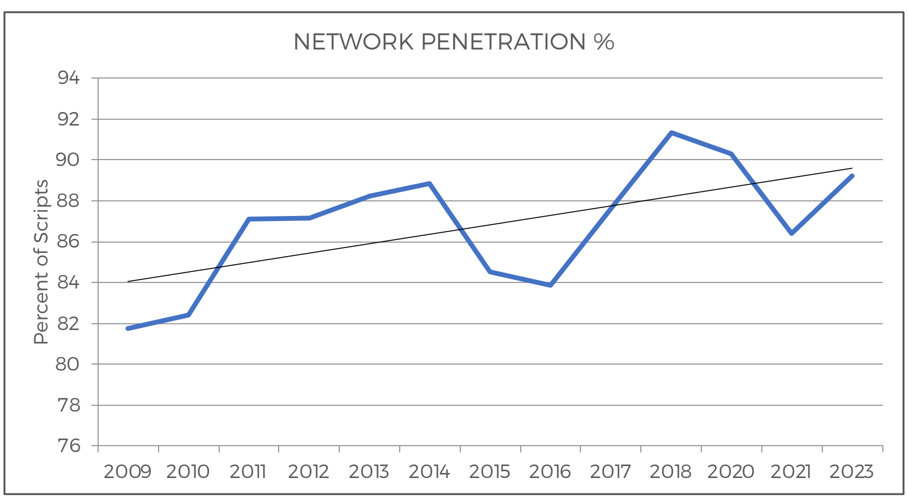
The generic fill rate reached a robust 91.54%, marking a significant improvement:

- This rate is over 5 percentage points higher than the previous year's rate of 86.3%.



Network Penetration

The overall average network penetration remained below 90% for the second year in a row despite peaking over 90% in two consecutive surveys. This year's 89.23% figure is 3 percentage points higher than last year and is closer to the overall trendline of the past 15 years. Interesting to note the increased concern with physician dispensing is likely to have led to this drop in network usage.



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PBM Attributes

Resoundingly – and to no surprise whatsoever – the top attribute that makes for an excellent PBM is great customer service with a 4.79 out of 5. Only four respondents even gave this attribute a 4; all others scored it a 5.

Interestingly, as the organization's size increases, the emphasis on customer service decreases. Small payers all scored customer service as a 5, while mid-sized payers' average grade was 4.7 and large payers averaged 4.6.

Physician Dispensing

Physician dispensing continues to be a polarizing issue. The overall score doesn't jump out at you at just 2.79 but that hides individual payers' strong views.

The real takeaway is in the lack of middle-of-the-road grades by respondents. Only 16% of respondents scored physician dispensing as neutral (3); 42% were at a 1 or 2 (little impact), and another 42% with at a 4 or 5 (high impact).

The polarization cuts through all sizes of payers with small, mid-sized and large payers all having some respondents who considered physician dispensing as a pain point and virtually an equal number calling it a non-issue.

Alternative Pain Management

Eighty-four percent of respondents are generally supportive of alternative pain management options. Areas of particular interest were technology ideas like AppliedVR's RelieVRx and several behavioral health programs.

While there is significant interest in exploring these options, most respondents mentioned that substantial due diligence was required before implementing any of them.

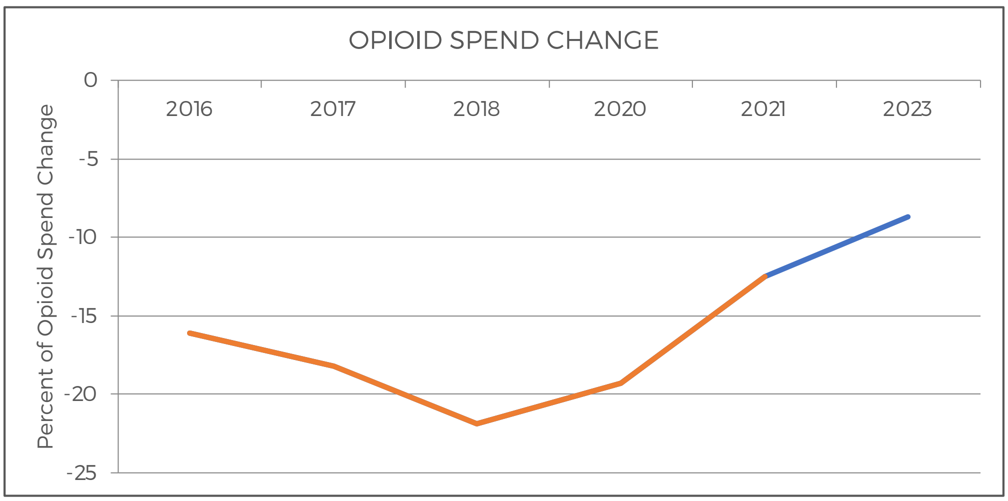
Two other aspects that factor into respondents' thought processes when evaluating alternative pain management options are the fact that patients are individuals, and there is not just one solution to everyone's pain problem. Secondly, the patient needs to be motivated and open to alternative pain management therapy otherwise it is likely a waste of time and resources.

A few quotes illustrating the stances of respondents include:

> "No silver bullet."
>
> "Needs to be evidenced-based."
>
> "Open to anything that improves quality of life."
>
> "Can be helpful to a lot of patients."
>
> "Should be tried if clinically appropriate and authorized treating physician feels there will be no harm to overall condition or ability to work. Start by authorizing for a few visits. Then, if alternative therapy works, keep authorizing…if it stops working, stop authorizing."

Opioids

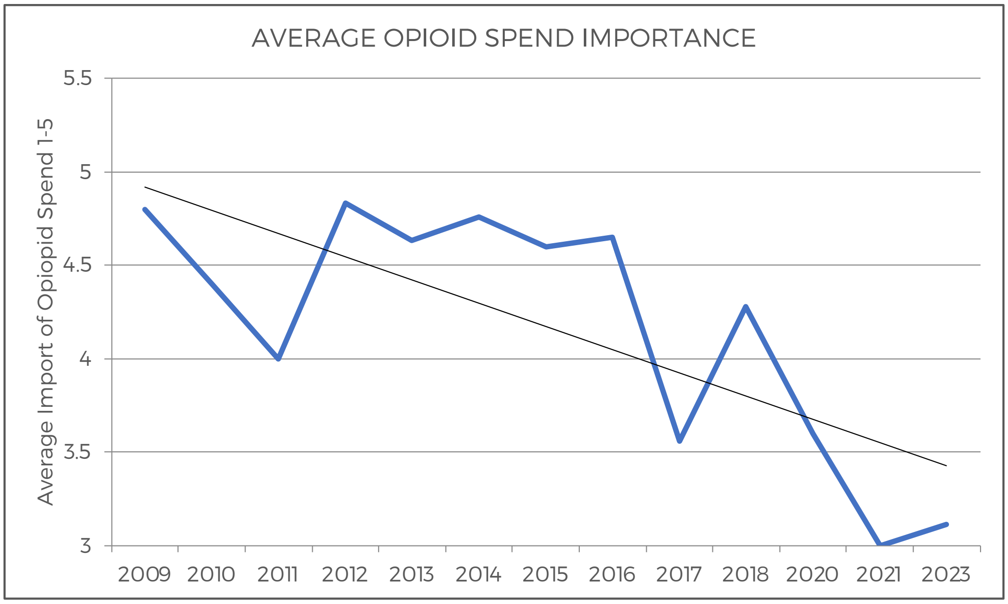
In this year's survey, opioid spending per respondent decreased by an average of 7.85%, with the overall raw total decreasing by 8.7%. These figures represent a significant slowdown in the rate of opioid spend reductions compared to previous years. Last year, the average respondent saw a decrease of 22.41%, following reductions of 14.82% and 29.74% in the preceding years. This year's 8.7% decrease in overall raw spend marks the first time in several years that the reduction is less than 10%, contrasting with the 12.5% decrease last year and the 14.8% and 12.3% decreases in prior years.



While the slowdown in the amount of spend decrease is not ideal, it is important to remember that as opioid programs mature the rate of decrease will slow because more impactful and arguably easier-to-implement policies have already been in place.

Opioid spending accounted for 9.1% of the overall raw drug spend and 13.2% on average per respondent. Both figures are lower than last year and represent the lowest percentages in many years.

In the latest survey, opioids were rated slightly above average in importance by the overall respondent pool, with an average score of 3.11. This represents a slight increase from last year when the average was exactly 3.



Interestingly, whether respondents reported an overall increase or decrease in drug spend year-over-year had little impact on their concern about opioids. However, it did correlate significantly with their performance in reducing opioid spending. Respondents in the top half of opioid spend reductions had an average concern score of 2.67, compared to 3.5 for those whose reductions were smaller or who had increased opioid spending.

Conversely, respondents who had a higher percentage of their overall drug spend on opioids showed less concern about the issue. Those in the top third for low opioid spend as a percentage of total drug spend were the most concerned, with an average score of 3.5, compared to 3 for the middle group and 2.6 for those with the highest percentage of spend on opioids.

Respondents reported less success in dealing with legacy claimants than in previous years, with an average score of 3.11, mirroring their overall concern with opioids. This is a noticeable decline from previous years, where the scores were 3.5 last year and 3.7 the year before. It is even lower than the record low of 3.28 in 2019.

Respondents who were top performers in reducing opioid spend reported less progress with legacy claimants, scoring an average of 2.89, compared to 3.33 for those with lower reductions or increases in opioid spend. This could suggest that top performers are more critical or that they are still addressing less-resistant patients, making it easier to report large reductions.

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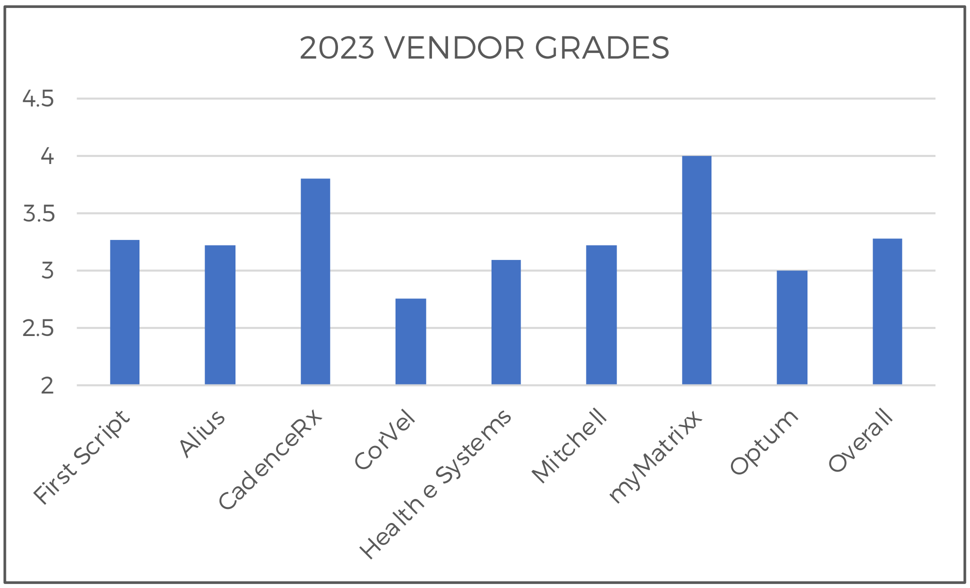
How About Those Vendors?

Vendor Grades

The overall score for all PBMs was 3.28. This is virtually identical to last year's score of 3.26 and the rolling average of 3.25 over the past four surveys.

From a vendor-specific perspective, myMatrixx retains the crown among all respondents for the fourth straight year with an average grade of 4. This score puts myMatrixx about 15% higher than average.



In second place was CadenceRx who scored a 3.8, a strong score that makes it the PBM sporting the largest increase from last year's survey (3.25 to 3.8).

Rival Optum scored a full point lower at an average of 3. Numerous respondents noted the possible sale of Optum as dragging down their grade for the PBM.

When looking at how vendors have performed over the past few years, myMatrixx is lower compared to last year as well as 2019 but it is right at its rolling average of 4.01 in the four-survey sample. myMatrixx was also the only vendor to earn a score in the 4s.

CorVel still lags the field of PBMs with an average score of just 2.76.

Healthesystems has seen the largest drop since 2019 at roughly an 11% decline but it remains above 3 for an average score.

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VENDOR/YEAR	2019	2020	2021	2023	ROLLING AVG.	DELTA 19 VS 23
First Script	3.11	2.75	3.06	3.27	3.05	+.16
Alius		3.33	3.33	3.22	3.29	-.11*
CadenceRx		3.3	3.25	3.8	3.45	+.5*
CorVel	2.19	2.3	2.38	2.76	2.41	+.57
Healthesystems	3.68	3.2	3.41	3.09	3.35	-.59
Mitchell	3.42	3.2	3	3.22	3.21	-.2
myMatrixx	4.13	3.7	4.21	4	4.01	-.13
Optum	3.32	3.2	3.29	3	3.2	-.32
Overall	3.33	3.12	3.26	3.28	3.25	-.05

Understandably, respondents tend to rate their current PBM higher than others. myMatrixx had the most clients as respondents so that does positively impact its score. However, when removing customers from a PBM's score, myMatrixx is still the top-rated PBM with a score of 3.82.

VENDOR	OVERALL	W/O CLIENTS	DELTA	CLIENTS ONLY
First Script	3.27	3.11	-.16	4
Alius	3.22	3.22	0	-
CadenceRx	3.8	3.8	0	-
CorVel	2.76	2.6	-.16	4
Healthesystems	3.09	3.09	0	-
Mitchell	3.22	3.22	-.05	4
myMatrixx	4	3.82	-.18	4.25
Optum	3	2.5	-.5	4.2
Overall	3.28	3.17	-.11	4.09

CadenceRx did not have any clients in this respondent pool (we reached out to CadenceRx clients but they were unable/unwilling to respond) so its original score of 3.8 is unchanged and very similar to myMatrixx at the top.

Optum experienced the largest drop, down 10% to 2.5. This put Optum last, just behind CorVel at 2.6. Given Optum's typically strong performance, it is likely that rumors of its potential sale are dragging down the score.

The good news for Optum is that its current clients still like it quite a bit. With clients, Optum scores 4.2 putting it right behind myMatrixx' for most-liked by its clients.

All PBMs scored well among their clients with an average of 4.09 but it is important to remember that many respondents said they are always keeping an eye on the PBM market to ensure they have the best PBM for their business. While a client might be generally happy no vendor can afford to be complacent.

Customer Service

Customer service grades appear rather correlated to overall grades for PBMs. Seventy percent of respondents gave the same grade for their PBM overall and their customer service level.

This year's average grade for customer service was 4.28 – noticeably higher than the prior three surveys and only the second time the overall average comes above 4. The previous years were 3.95 (2019), 3.9 (2020), and 4.05 (2021).

This further supports the scores seen in the PBM attributes section where customer service sat alone in the top tier for the most important PBM attribute and the consensus from a majority of the prior surveys conducted on PBMs as well as other medical management areas.

Given the importance of customer service and how broad a topic it can be, respondents were specifically asked to define what high-quality customer service looked like. A vast majority of respondents conceptualize high-quality customer service as having a quick response time first and foremost. The next layer to that is having friendly and knowledgeable people there to assist customers. Aspects of high-quality customer service on the periphery that greatly improve the attribute include: being proactive, acting as a partner to help address roadblocks collaboratively, and being attentive to client needs.

Conclusion

Last year was the first time in many years that overall drug spend increased albeit by a very modest 0.82%. This year's increase of 4% overall dwarfed last year's incremental change. Nearly 54% of respondents reported an increase in spend. Half of that 54% noted higher claim counts but the rise of high-cost specialty drugs impacted many payers' bottom lines.

myMatrixx continues its streak of being the top PBM in our survey. This is the fourth consecutive survey where it has come out on top. That said, CadenceRx posted a very strong performance ranking only a bit behind myMatrixx. CorVel made a small improvement but not enough to move them from the lowest rank. Conversely, Optum seems to be hurt by rumors of a potential sale. Numerous respondents mentioned this while grading Optum lower than normal. It seems to be largely hurting its brand with potential clients. Optum's clients score it in the vicinity of myMatrixx but Optum falls to last among non-clients.

While new technology plays a part in customer service, old-school responsiveness, communication, and follow-through still dominate how people define high-quality customer service. Most vendors provide decent customer service, but humans tend to remember one or two bad interactions before they remember one hundred fine interactions. PBMs cannot afford to become complacent. Several respondents said they were quite happy with their current PBM but at the same time, they keep an eye on the market to make sure they have the best-in-class options.

The progress the workers' compensation industry has made in combatting opioids cannot be overstated. Just 10 years ago (not even that long for some organizations), opioids and opioid spend was out of control and payers were scrambling to get a handle on this problem. Today, opioid spending continues to drop, under one in 10 dollars spent in pharmacy are on opioids, and while payers still look at opioids many have moved on to other problem areas like high-cost "TV drugs."

Two other areas payers are turning their attention to are physician dispensing and PBM transparency. As was noted above, not all respondents are feeling the pain of physician dispensing but those who are, REALLY ARE. On transparency, 90% of respondents talked about getting more transparency and the move to a fully transparent model is afoot. PBMs need to find a way to give payers at least a feeling of more transparency or they risk more people becoming disengaged with pharmacy.

Looking ahead, AI will be an interesting element to the workers' comp PBM landscape. Respondents generally agree AI will have a role, but they seem to have different use cases in mind and even different visions of AI's role. Use cases range from basic customer service items like chatbots to free up call center agents for more complex issues all the way to employing AI to find drug trends and potentially harmful interactions faster. While exact deployment will most likely vary from organization to organization, there will certainly be a lot of pressure on PBMs to prove their AI tool's accuracy and reliability before adoption takes place.