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Pain Management

Getting A Grip On Rising WC Drug Costs

Brand-names over generics, big-time marketing programs boost insurer expenses

BY JOSEPH PADUDA

Ask most anyone in workers' compensation claims or managed care what aspect of medical expense is the most problematic, and they are likely to start ranting about prescription drugs.

They'll mention headaches brought on by third-party billers, demand for brand-name drugs created by direct-to-consumer advertising, dynamic pricing levels driven by "average wholesale price," and overuse and off-label use of narcotics and opiates. And that's before they get really wound up.

Like it or not—and no one much likes it—we are at the early stages of prescription drug management in workers' comp. Until recently, drug costs were not a significant contributor to overall medical expense in workers' comp as they accounted for less than 6 percent as recently as 10 years ago. Now, drugs account for well over 12 percent of workers' comp medical expense.

That number gets even more frightening when one considers that as of 2002, overall workers' comp medical expenses have been growing by 12 percent per year. In fact, as of 2003, drug costs were accelerating at an annual rate of 17.8 percent.

These numbers have forced workers' comp payers to focus significant resources on understanding, and beginning to manage, the use of prescription drugs in treating occupational injuries and illnesses. Some of the early movers are making significant progress, while most are only just getting started with basic management efforts. Regardless of their status, all are facing the same set of challenges.

Unfortunately, most payers have yet to recognize and effectively address key factors driving drug costs, and almost no one has acknowledged that one class of drugs (the COX-2 inhibitors) may well lead to significant liability for the industry.

PAYING THE PRICE

Payers would be well-served to pay very little attention to per-unit pricing. It is not that price is not a significant driver—rather that per-unit price is both nebulous due to the Average Wholesale Price standard and an artifact of other factors that should be addressed directly.

AWP is analogous to, but even more vague than, reasonable and customary pricing in health care. AWP is the price that drug manufacturers say their customers paid for specific drugs, before accounting for discounts, rebates, and other accounting, marketing and pricing gimmicks.

Updated on a monthly basis, AWP is the basis for the 28 states that have fee schedules for drugs. Thus, AWP—and, by extension, the Workers' Compensation Fee Schedule—is a moving target, merely reflecting a per-unit cost, not representing the "real" cost of the drug, and is therefore a highly questionable basis for assessing price.

Unfortunately, as bad as it is, AWP is the only basis that exists for pricing analysis.

USE IT OR LOSE IT

Utilization is the quantity of drugs paid for by the payer for a claimant. It is distinct from frequency, which refers to the number of claims for which drugs are paid, as well as the number of prescriptions per claim. While there is no solid public data on drug utilization or frequency in workers' comp, there is quite a bit of information on type.

Seventy-two percent of scripts are for drugs that are clearly related to musculoskeletal injuries—the most common type of workers' comp claim. The surprising statistic is that the third most common drug group is anti-depressants—perhaps equally surprising is that the ninth most frequently prescribed drug is Ambien (a sleep aid), accounting for over 2 percent of all prescription drug expenditures.

While it is understandable that an occasional claimant may need occasional help getting to sleep or dealing with injury-induced anxiety or depression, it is much harder to understand why the industry chooses to spend several hundred million dollars a year on anti-depressants.

KEEP IT GENERIC

Generics are chemically identical to brand drugs whose patent has expired. As a rule of thumb, increasing the percentage of generics dispensed by one point decreases total prescription costs by one point. Generally speaking, the industry has done a good job of substituting generics where possible, as generics were prescribed in 86 percent of the cases where they were an alternative in 2002.

According to the National Council on Compensation Insurance in Boca Raton, Fla., 53 percent of workers' comp prescription costs were for drugs that did not have a generic equivalent.

However, that statistic is misleading, as some drugs are prescribed that, although there is no specific generic version, there are other drugs that provide the same benefit. To understand why, we'll examine the impact of one of the drug industry's more successful marketing campaigns—COX-2s.

It will likely come as no surprise that two of the top three drugs for workers' comp are the COX-2 inhibitors Celebrex and Vioxx, which together accounted for 13.2 percent of all workers' comp prescription dollars in the study period. Although a market and profit success, due in part to the huge marketing effort behind them (Merck alone spent $161 million to market Vioxx in a single year), there are two problems with these drugs.

First, a well-documented study in the Jan. 24 "Archives of Internal Medicine" indicates that only 2 percent of patients receiving COX-2s—intended for patients at "high risk" for gastrointestinal side effects—should have taken COX-2 inhibitors. While COX-2s would clearly provide a needed benefit for these high-risk patients, the vast majority of those taking COX-2s would have done just as well with other, much cheaper, generics such as ibuprofen.

The implication is striking. If prescribing physicians had prescribed these drugs appropriately—that is, for patients at risk of gastrointestinal problems—payers would have saved well over $250 million.

While the waste of hundreds of millions of dollars is horrific enough, that may be the proverbial tip of the iceberg. Recent studies have identified an increased risk of cardiovascular problems for some patients taking COX-2s.

It is highly likely that some workers' comp claimants treated with these drugs will develop cardiovascular problems and will look to the comp insurer to remedy their problem. While lawyers will undoubtedly help assess responsibility, at the end of the day, industry costs will go nowhere but up.

TACKLING THE PROBLEM

Our research indicates that there has been a marked increase in the level of understanding among payers regarding prescription drug management. While many workers' comp payers are in the early stages, others are making significant progress and delivering strong results, using tools such as advanced formulary management, physician peer review and data-driven retrospective drug utilization review.

Regardless of where a payer might be on the learning curve, the greater the level of understanding, the more power they will have to control drug costs.

Joseph Paduda, a principal of Health Strategy Associates, is an independent consultant focused in the managed care and workers' compensation markets. He may be reached at 203-314-2632, or jpaduda@healthstrategyassoc.com.