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FEATURE STORY

Drug Costs in Workers' Compensation

Good News, but Only for Some Payers

By Joseph Paduda

The good news is that drug cost inflation in workers' compensation has moderated considerably in recent years.

The bad news is that this moderation is not industry-wide, but rather favors those payers who have worked long and hard to rein in drug costs. The reward has been considerable: the best performers – those who focused on managing utilization – actually saw their drug costs decline over the past year.

For five consecutive years, Health Strategy Associates, LLC has conducted an annual survey of executives and senior management at workers' compensation payers on prescription drug management. During that time, we have seen pharmacy costs grow even faster than medical expenses, and they now account for 14.5 percent of workers' compensation medical expenses (more than \$4 billion).

The survey draws responses from decision-makers and operations staff at carriers, TPAs, large employers, and managed-care firms. With 2007 drug expenses ranging from \$1 million to \$147 million, respondents' total prescription expenditure amounted to \$777 million, or 18.5 percent of total estimated workers' compensation drug spending.

Increases Slow Down

The new data shows that total drug costs increased 4.9 percent from 2006 to 2007. For the fourth year in a row, respondents reported their pharmacy inflation rate was less than the prior year's trend. By way of comparison, in 2006 the inflation rate was 6.5 percent; in

2005, drug costs increased 10 percent over the prior year; rates rose 12 percent in 2004 and increased 18 percent in 2003.

Similar to last year, the lowest increase occurred at sophisticated payers, defined as those with detailed knowledge of their company's drug costs, a deep understanding of industry processes and issues, and operating advanced drug management programs and initiatives. Somewhat different from last year, many of the smaller payers (defined arbitrarily as those with less than \$10 million in spending) enjoyed results ranging from a decrease of >10 percent to increases in the mid-single digits.

There was little difference between larger and smaller payers' inflation rates. This is a marked difference from the 2007 report, which indicated larger payers experienced lower inflation. (The survey attempted to control for declines in claim volume by addressing cost per claim.)

For those payers experiencing higher costs, inflation was attributed to:

- ▶ Higher utilization.
- ▶ Higher cost medications and higher priced drugs.
- ▶ Physician prescribing patterns.
- ▶ More claimants getting more drugs.

There were significant industry-wide drug price increases after implementation of Medicare's Part D program in January of 2006. In 2007, national figures — across all pharmaceutical payers, not just workers' compensation — indicate drug price increases were almost negligible at one percent (Source: U.S. Department of Labor September 2007 report), led by

decreases in prices for generic drugs. While the workers' compensation drug "formulary" is not directly comparable to the broader pharmaceutical industry, clearly drug price inflation has moderated considerably.

The reality of the market provides an interesting contrast to respondents' views of pricing. It also illustrates the 'disconnectedness' of some payers, and the tendency of many in the workers' compensation world to ignore or at best pay scant attention to external forces and factors.

New News and Changes

This year's survey took a deeper look at generic fill and generic efficiency. For our purposes, "generic fill" is that percentage of scripts that are filled with generics. "Generic efficiency" is estimated by calculating the percentage of the total number of scripts that could be filled with generics that actually were filled with generics. I would note that different payers use somewhat different definitions and formulas, and therefore these numbers may not be entirely consistent. With that caveat, across all respondents, the generic fill rate was 71.7 percent. The generic efficiency rate averaged 90.6 percent.

One of the advantages of conducting a survey over several years is the insight it provides into market evolution. This year's study marked a key change: the focus on utilization — address-

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ing the volume and types of drugs used by claimants — is now almost universal, with almost all respondents voicing concern over or discussing programs to address utilization

Price is less of an issue this year. Respondents, when asked to rate (1-5) the factors that one might consider when selecting a Pharmacy Benefit Administrator (PBM), rated discounts a 3.7, somewhat less than last year's 4.0. The payer community is notoriously price sensitive, with substantial anecdotal evidence indicating price is an important, if not key, issue in vendor selection. Therefore, respondents' rating of price as not too important should be viewed skeptically.

There is a greater emphasis on using home delivery/mail order, with respondents averaging 4.8 percent of scripts delivered via this method, an increase of a full percentage point over last year.

Last year, payers were more demanding of their PBMs than ever before, and the pressure continues to ratchet up. Increasingly, payers are asking their PBMs to provide insights and new information about trends in workers' compensation prescriptions, to take the lead in dealing with third-party billers, and to provide more clinical drug management services.

WC Drug-Cost Drivers

Survey respondents cited a long list of factors as directly affecting a payer's total drug costs:

- ▶ States without fee schedules.
- ▶ Per-unit price increases.
- ▶ Volume of scripts per visit compared to past trends.
- ▶ Compound medications.
- ▶ Lack of real resolution on repackaging issues in California.
- ▶ Societal implications not necessarily specific to workers' compensation.
- ▶ Advertising in specific and pharmaceutical companies in general.

- ▶ Use of medications to deal with chronic pain and the closely related desire on part of patients to want to feel their best right away.

The most significant cost driver remains utilization: the sheer number of scripts and the type of scripts dispensed. Continuing a trend from the last two surveys, many respondents had a deeper understanding of the underlying forces impacting utilization.

Controlling Drug Costs

Respondents are employing multiple tools, techniques, and approaches to manage the number of scripts and the type of scripts dispensed to claimants. Comments from respondents include:

"Closely monitor utilization and challenge docs who use high cost drugs and drugs off-label. We truly monitor provider utilization and challenge them."

"Formularies, both injury-specific and claimant-specific."

"Looking at and tracking what drugs [claimants] are using, implementing some step therapy, and so forth. Not relying on states to do that, but relying on controls they are implementing."

"Certain meds appropriate for certain conditions; looking at clinical approaches to refine their approach to manage costs."

Utilization control merits special mention. Again, when asked what needed to be done to manage costs, most respondents mentioned some method to control utilization. For 2008 and beyond, step therapy seems to be the hot topic among early adopters. "Step therapy" is the practice of beginning drug therapy for a medical condition with the most cost-effective and safest drug therapy and progressing to other more costly or risky therapy, only if necessary. The aims are to control costs and minimize risks. This also is called "step protocol." Those payers setting a more deliberate pace will tend to work

on adding analytical capabilities and refining formularies (as some of their faster-moving competitors did last year).

The message here is simple, even if the situation is anything but. To control costs, payers must control drugs, and to control drugs requires considerable understanding, thought, communication, and effort.

How About Those PBMs?

In what might some describe as a wake-up call for workers' compensation PBMs, no PBM was rated higher than a 3.2 on a scale of 1-5 (with 5 being excellent). On the positive side, none was rated lower than a 2.3. Notably, the third-party billers were both rated below the lowest PBM.

Clearly there is a significant opportunity for PBMs to differentiate in this market. No PBM is so far behind, and none are so far ahead, as to make it difficult, or even expensive, for one to break away from the pack.

This leads to perhaps the most interesting data, at least from the point of view of those PBMs seeking to differentiate. One of the key questions was a rather simple one: "What makes a vendor successful in managing drug costs?" Respondents noted the need for PBMs to demonstrate effective communication, clinical management expertise, and a proactive approach. Payers want their PBMs to come to them with solutions to problems, perhaps even before the payer has identified that the problem exists.

Conclusions

For payers committed to attacking drug costs, the rewards are obvious — significant cost reductions. For those payers unable, unwilling, or just unaware, the costs are also obvious — higher costs and more claimants on more expensive drugs that likely contribute to longer disability. Prescription drug management has proven itself an effective tool in reducing loss costs, but only if the payer is actively and assertively involved. ▲

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