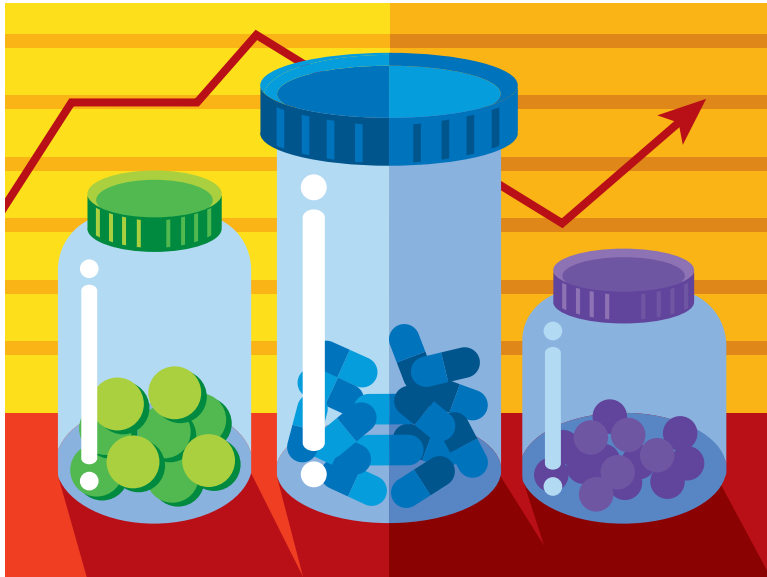




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Prescription Drug Management in Workers' Compensation

The Thirteenth Annual Survey Report
(2015 data)

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Introduction

Prescription drugs have become a key factor in workers' compensation. Accounting for one of every six medical dollars, pharmacy's impact on disability duration, return to work and claim settlement outweighs the benefit's dollar expense. Each year pharmacy is the subject of much research on the part of such august organizations as the California Workers' Compensation Institute (CWCI), National Council on Compensation Insurance (NCCI), the Workers' Compensation Research Institute (WCRI), and others. The purpose of this survey is to add depth to our understanding of the issue, supplementing statistical and systemic research by adding the perspectives and data of insurers, third-party administrators (TPAs), and self-insured employers.

Interviews were conducted in the summer of 2016, with data on pharmacy spend and other metrics derived from respondents' 2015 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 $\text{Cost} = \text{Price} \times \text{Utilization}$.

Summary of Results

After a one-year bump up in inflation, work comp drug costs declined again, this time by 8.7%. The 30 payers representing state funds, insurers, TPAs, and self-insured employers surveyed saw a decline in spend, which they attributed to tighter clinical management, better integration with their PBMs on a variety of services, and specific efforts to reduce initial opioid scripts and decrease the level of morphine equivalents across as many patients as medically appropriate.

Over the last four years, drug costs for payers surveyed by CompPharma have dropped by 11%. This year, seven respondents' drug costs dropped by 17 points or more. Claim volume changes were only involved for a handful of payers. Respondents attributed the steep decline to more active and assertive clinical management, especially focused on opioids and other potentially problematic drugs.

Compounds were named as the emerging issue of most concern to payers, while opioids remained the "biggest problem" in workers' comp pharmacy management.



The consolidation among PBMs was a topic of this year's survey. Respondents' views ranged from positive (potentially better pricing, more clinical capabilities, more robust operations and reporting) to somewhat concerned due to fewer competitors fighting for business and a possible reduction in PBM flexibility due to consolidation of merged operations.

External Factors

Pharmacy management does not occur in a vacuum. Outside factors profoundly affecting pharmacy in workers' compensation include societal issues, such as the explosive growth in opioid abuse and misuse, along with new laws and changes to existing laws and regulations. Overall medical trend, practice-pattern evolution, the flow of drugs into the system, the timing of patent expiration, pharmaceutical marketing practices, and the international pharmaceutical industry also influence pharmacy in workers' compensation.

Regardless of the impact of influences specific to workers' compensation, such as fee schedules and claim frequency, better programs—properly implemented—deliver lower loss costs, which will translate to lower combined ratios and higher profits for work comp insurers/lower work comp costs for self-insured employers and better care for workers' compensation patients.

Background

Total workers' comp annual pharmacy spend is approximately \$5.5 billion. After much analysis, we have come to the conclusion that 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 was approximately \$33 billion in 2015 (Sources: National Academy of Social Insurance REPORT: Workers' Compensation: Benefits, Coverage and Costs, 2013, published August 2015¹, trended forward using NCCI medical inflation rates (2015 - (1.0%) 2014 - +4.0%) from NCCI Annual Issues Symposium State of the Line, 5/2016, 5/2015²).

Respondents

Respondents were decision makers, clinical personnel, and operations staff in state funds, carriers, self-insured employers, and TPAs with drug expenses ranging from \$1.2 million to



\$200 million. The 30 respondents' 2015 drug costs totaled \$1,259,288,586, approximately 23% of total workers' compensation drug spend.

Findings

Notes:

- We continue 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 use 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).
- Not all respondents answered all questions and some respondents provided multiple answers to other questions, thus response rates/numbers will not always correlate with the total number of survey participants.

Inflation/trend in drug costs

Total drug costs dropped by 8.7% year over year, and costs are down 11% over the last six years. Clearly, the work done by PBMs and payers to attack what was once the fastest-growing component of workers' compensation medical expenses has paid off.

Averaging each respondent's trend results in a decrease of 6.5%, indicating that larger payers saw greater drops in drug spend. Many of the 30 respondents enjoyed double-digit decreases in drug spend, with seven seeing drops of more than 17% year-over-year.

Across all respondents' total drug spend, the decrease of 8.7% resumed what had been a four-year trend of flat or declining spend. (That trend was interrupted in 2014 with a 6.4% increase over 2013's results.) Considering the total change in spend, the 8.7% decrease marks a resumption in the long-running trend of declining inflation rates, and more recently, declining cost itself as inflation turned negative.

To validate and better understand this result we looked at individual respondent's trend rates.

Only five respondents had increases:

- One attributed that increase to more complete capture of drug spend via its PBM
- Two noted increasing premium volume and associated higher claim counts



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- One attributed the entire increase to one patient being prescribed Hepatitis C medication Harvoni®
- One saw a very minor increase and tied it to AWP increases

With a handful of exceptions, decreases were NOT attributed to a drop in claim count; only four of the 30 respondents (13%) tied their lower drug costs to smaller initial claim count, although several did note that a decrease in older claims was a significant contributor.

In contrast, 12 respondents (40%) credited clinical programs as the primary reason costs declined. Other factors noted were:

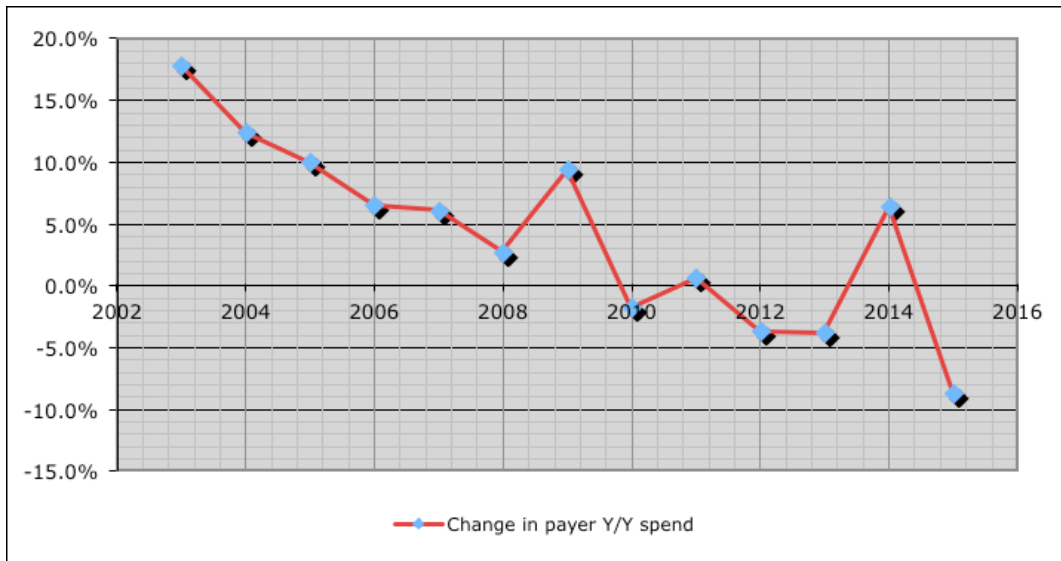
- Reduced utilization (fewer scripts per patient)
- Pricing decreases
- Assertive claim closure and settlement programs specifically addressing older claims
- Aggressive efforts to address opioids, other Scheduled drugs, and compounds
- Shifting drug authorization from adjusters to clinically trained staff
- Changes in claim mix

The cost reduction is broad-based, continues a five-year-long trend, and indicates payers and PBMs have made great strides in addressing overutilization of prescription medications.

PBMs have been very successful at reducing their revenues. PBMs' clinical programs in particular have dramatically reduced the use of opioids and other very expensive drugs, many of which are used for months if not years.



Drug cost inflation trend



Over the 13 years the survey has been conducted, the pharmacy cost inflation rate decreased by 26.5 points. Clearly this bears additional discussion.

The workers' compensation pharmacy benefit management (PBM) industry came into its own over a dozen years ago. While PBMs such as PMSI (now part of OptumRx) had long been active in the space, until drug costs exploded, many—if not most payers—did not utilize PBMs. Those that used PBMs used them on a file-by-file basis. With the dramatic increases in drug costs in the early part of the last decade, payers hurried to contract with PBMs and integrate them into their service offerings.

Originally delivering value through lower prices, most PBMs implemented basic drug management programs — tightening drug formularies, promoting generic drugs, preventing early refills, and strengthening prior authorization processes over the years. These clinical management programs continued to become more sophisticated and more effective over time. Along with better script capture programs and more effective payer-PBM working relationships, clinical management programs led to decreases in utilization. Combined with a decline in the number of new branded drugs, a large number of popular drugs going off patent, and extremely effective generic conversion programs, PBMs and payers were remarkably successful in not just managing, but actually reducing total pharmacy costs over the last few years.



The size of the “problem”

In response to the question “Where do prescription drug costs rank compared to other medical cost issues at your organization?” on a scale of 1 through 5 with 3 being “drug costs are equally as important as other medical cost issues,” drug costs were rated a 3.7, slightly lower than the rolling five-year average of 3.9+/- . Individual responses to qualitative questions on the survey also indicated continued concern with drug costs.

Respondents are concerned (3.5) that drug costs will be more of a problem in the next 12 months than they are today. This is somewhat lower than their views last year (4.0) and below the average over the last five years.

From reviewing all survey responses and paying particular attention to new cost management programs and results thereof, it appears that while payers worry about the lack of regulatory authority to address problematic prescribing and prescribers, opioids, physician dispensing, compounds, and other factors, they believe their firms — and their PBMs — will be able to mitigate the impact of these drivers.

Cost drivers

The survey’s final question asks respondents to identify the single biggest problem in workers’ compensation pharmacy. This year the answers were diverse indeed. Prescriber behavior and variations thereof garnered a quarter of the responses; opioids were named by four respondents and compounds by three. If anything the most insightful answers involved the need to work with other stakeholders to address prescribing patterns, implement evidence-based guidelines and influence regulatory authority. Respondents would also like to receive more complete data (not just on pharmacy, but other medical cost data) and have better communication of the right information among stakeholders.

I’d suggest this is prima facie evidence of the growing level of understanding among payers of the multi-dimensional aspects of medical care and pharmacy’s role in medical care. No single entity — PBM, payer, patient, prescriber, regulator — can make a material impact or can improve outcomes associated with drugs without the cooperation of these other entities. Too often they are at cross-purposes, and often for the wrong reasons. Clearly some payers are recognizing this fact. While that is positive indeed, stakeholders’ cooperation is going to be essential to enable true change.



Opioids

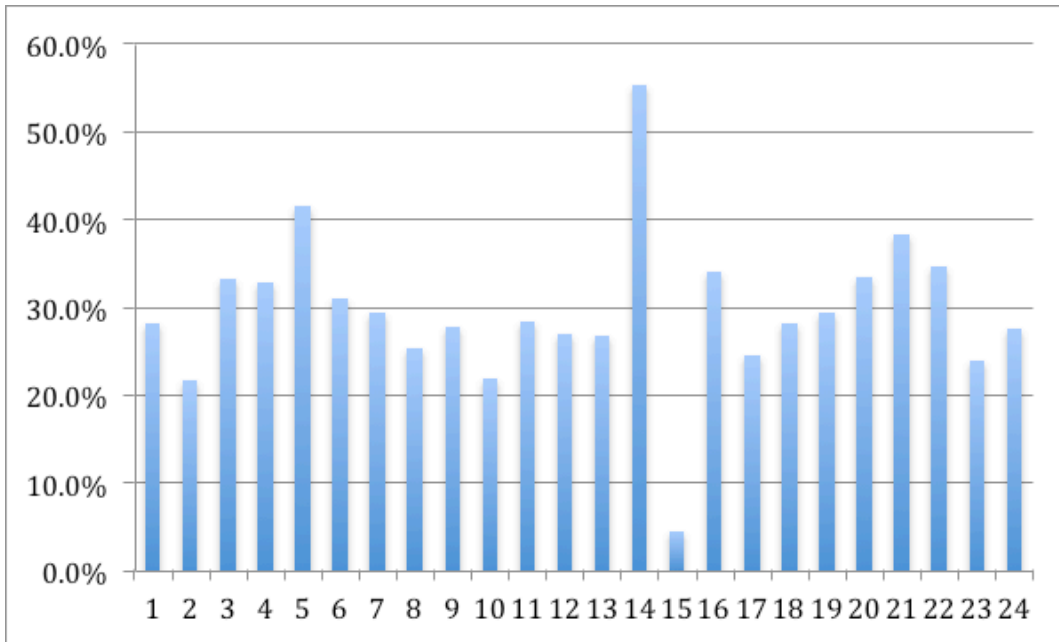
Workers' compensation payers spent \$1.54 billion on opioids in 2015, which was 13% of total U.S. opioid spend³. In contrast, in total work comp medical spend was less than 1.25% of U.S. spend.

Workers' comp, a benefit system in which there is almost no cancer, the condition for which opioids were intended, spent 10 times more of its dollars for opioids than did other payers — private insurance, Medicare, Medicaid.

This single statistic shows why opioids have been and continue to be of primary importance to everyone in the workers' comp system.

This year all but six of the respondents reported their total opioid spend. Opioids accounted for 28% of their total pharmacy spend, a figure that is consistent with other national data (NCCI — 29%, Express Scripts 2015 Workers' Compensation Drug Trend Report — 28%).

Opioid spend as a percentage of total drug spend



Lest any readers take comfort in their “averageness,” recall that industry consensus holds we spend far too much on opioids, thus maintaining the status quo is far from acceptable performance. While spend continues to be far too high, the progress being made by most respondents does give hope that we are starting to gain some small measure of control.



For the fifth year we asked respondents to score their concern about opioids in work comp; results have been markedly consistent over that period with ratings right around 4.7, an extremely significant problem. This year's respondents gave it an average of 4.75 (up slightly from last year's 4.6). Notably, only one respondent rated its concern less than a 4 or 5, a clear indicator of the level of the industry's anxiety over a problem that it was somewhat slow to fully grasp.

High among respondents' concerns was the risk of addiction or dependency for claimants taking opioids; respondents said they were "extremely concerned" (4.7, compared to last year's 4.5 and 2014's 4.3). The consistently high and steadily increasing level of concern is a strong indicator of the industry's awareness of the impact of addiction.

We asked what clinical programs respondents were using to address opioids; all but two cited opioid alerts, almost always in conjunction with other tools including:

- High-risk claimant identification
- Peer review and outreach for high risk claimants
- Pharmacist review of specific claims that meet defined criteria
- Data mining and predictive analytics

Physician dispensing

For the first time, the level of concern over physician dispensing was rated a 3.2 (concerned). With that said, six respondents, primarily national TPAs and insurers, rated their concern with physician dispensing a 5 (extremely concerned) and five gave it a 4 (very concerned). Research conducted by CWCI, Johns Hopkins University and Accident Fund Holdings, Inc., NCCI, and WCRI quantify the significant cost added to the system by physician dispensing and presented compelling evidence that the practice delivers no benefits to patients.

Physician dispensing also drastically and artificially inflates overall workers' compensation pharmacy costs. Physician-dispensed prescriptions typically cost three to ten times the amount of the same prescription filled by a retail pharmacy. Recent studies (Johns Hopkins University/Accident Fund and CWCI) point to longer claim duration, more claimants prescribed opioids for longer periods, higher overall medical costs, higher indemnity expense, and poorer outcomes associated with claims with physician-dispensed drugs compared to similar claims without physician-dispensed drugs.



In addition to poorer claim outcomes, there are several additional concerns with physician-dispensed drugs. Physician dispensing unnecessarily creates a health and safety risk for the workers' compensation patients receiving these prescriptions. In addition to their non-occupational health physicians, workers' compensation patients often see multiple physicians for their work-related injuries, each of whom may prescribe multiple medications. These independent doctors often do not know the prescribing patterns of his/her peers or all of the other drugs the workers' compensation patient is taking. Nor do they usually know the patient's entire medical history.

New and emerging issues

In addition to discovering respondents' insights into long-established problems such as physician dispensing, narcotics and utilization, the survey seeks to tease out issues that are just beginning to gain awareness. This is precisely how physician dispensing was identified in 2005 and opioids two years before that.

Compounds lead the list, with 40% of respondents naming compounds as the "emerging issue in comp pharmacy most concerning to you." Given the relatively low number and cost of compounds (discussed elsewhere in this report), this is a bit surprising. It appears that the "morphing" of compounds into compound kits and other variations seemingly intended to circumvent existing control mechanisms is the primary concern. Experienced payers know only too well that profiteers are adept indeed at figuring out where the chinks in the protective "armor" are and quickly learning how to exploit those chinks.

Among those respondents who focused on new issues, emerging "copycat" or re-formulated drugs such as Duexis® (ibuprofen and an antacid) was noted by three; generic price inflation by three, new state formularies by two, specialty drugs by three, and medical marijuana by two (although neither cited it as a "problem," rather as something they are monitoring).

The net — respondents are more concerned with business models predicated on taking advantage of workers' comp to generate profits than they are with drug prices, new drugs, or medical marijuana.

How about those PBMs?

The workers' compensation PBM industry has gone through a period of consolidation. Over the last several years, the number of PBMs with significant market share has dropped in half. This probably comes as no surprise to anyone familiar with the trends in maturing industries. To that end, we asked respondents the following:



The workers' comp PBM industry has gone through a lot of consolidation of late. What is your perspective on this consolidation?

The general feel one gets from the responses is one of acceptance. There is some concern over lack of competition breeding complacency on the part of the big PBMs balanced by respondents' impression they will get better pricing, more robust product and service capabilities, better reporting, and overall more capabilities.

PBM Performance

Respondents are generally pleased with their incumbent PBMs. Asked to rate their current PBMs' customer service, the average response was 3.4, between "satisfied" and "very satisfied."

It is important for readers to understand the context of this result. Unlike almost any other business model, worker's comp PBMs are judged by their success in reducing their own revenues. And by this measure, PBMs have been remarkably successful.

Consider that there is currently a three-year trend of declining drug spend AND opioid spend in the single largest workers' compensation market — California.

Consider also that this is the fifth time in 13 years that payer drug spend has been either flat or actually decreased. This year the decrease was quite significant: 8.7 %. One out of eleven dollars PBMs took in during 2014 disappeared in 2015.

A PBM's business model is based on its ability to win new business to compensate for excellent performance in managing current clients' drug programs, a model that has significantly benefited patients and payers alike.

In reality, some payers have yet to take full advantage of the services PBMs can provide. For example, several payers still have not integrated their paper bill processes into their PBM data flow. This impairs clinical management efforts, makes it harder to capture those scripts in-network for faster, much-less-cumbersome adjudication, reduces the hassle factor for the patient and claims adjuster, and results in higher per-script costs. Paper bill solutions have been in existence longer than CompPharma (more than a decade); payers not yet taking advantage of this service would be well served to do so. And, as one respondent noted "they have a lot more services we haven't used yet."



One issue cited by several respondents was related to the industry consolidation discussed earlier. A handful of respondents indicated concern with their PBM's consolidation of several predecessor PBMs into a single unit and issues related to incomplete adoption of their "Service Level Agreements." SLAs are the customer-specific operating agreements which detail the whats, whens, hows, and wheres — data flows, time frames, communications standards and processes, response channels and the like.

Another request that had several mentions was more specificity around opioid prescriptions, especially for MED (morphine-equivalent dosage) levels exceeding a certain limit and a transition to long-acting opioids.

The biggest problem in worker's compensation pharmacy management

We ask this question each year, and tracking responses over time has helped us identify trends and track the industry's evolution over the last 13 years. This year opioids, addiction, and other challenges addressing and dealing with the fallout from opioids were the leading concern with nine mentions. It would be misleading to conclude the other 21 respondents viewed other problems as more significant, as other respondents noted over-prescribing, polypharmacy, a lack of ability on the part of the payer to influence or alter physician behavior — all directly related to opioids and opioid management efforts.

This year we also found increasing levels of frustration with the diverse regulatory environment many respondents deal with every day. The state-specific rules regarding drugs require payers to develop, implement, manage and monitor different workflows, clinical management rules, documentation, and timeframes, a reality that adds complexity and cost while, according to several respondents, harming patient care. A few representative quotes are below.

- [There are] 50 states and 50 set of rules, it is very difficult to handle all that, pharmacy is more black and white than medical, [it is] stupid to have rules that differ so much across states despite consensus on medical opinion. If we can take out variance [we] would be much more effective
- We are limited in our ability to do much — based on regulations in states — we are doing all we can or should do to manage drugs but can't impact drug use as well as we should — physician dispensing is all state driven. [We] have a program that could help if regs would allow it.
- Dealing with jurisdictional nuances, can't just plug and play a solution across all juris, has to be customized.



Conclusions

Workers' comp drug costs are on the decline. Clinical management programs, streamlined operations and script capture efforts, prescriber intervention and specific targeting of patients at high risk are making a difference for patients and payers alike.

There has been far too much hyperbolic reporting in the general media about problems in the workers' comp systems. Lost in the fascination with the latest insurer "transgression" or patient access issue is the simple fact that PBMs and payers have made remarkable progress reducing the use of unnecessary, expensive, often dangerous, and highly problematic medications. Opioid spend is down, compound usage is being controlled, and employers' and taxpayers' costs are declining.

Notably, this is being driven in large part by PBMs, the very same entities that are losing revenues by delivering these programs. With the highly visible and often distorted reporting by entities such as ProPublica, one could be forgiven for thinking workers' comp pharmacy is a mess.

It is not. While far from perfect, and needing significant changes in terms of utilization review processes, clinical guideline enforcement, and direction of care, patient care is improving and the damage done by overprescribing of opioids is being addressed.

That said, payers are far from complacent. The continued and seemingly intractable problem of long-term use of opioids, the jungle of state regulations and rules dealing with workers' comp pharmacy, and the very real challenges facing adjusters due to high claims loads and training and IT deficits, make it easy to understand why respondents continue to lose more sleep over pharmacy than other medical cost issues.

Pharmacy management in workers' comp has evolved dramatically over the 13 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, compound drugs, physician dispensing, data and reporting, there has been a remarkable increase in sophistication and understanding.

Yet, despite all the attention and resources dedicated to this issue, payers' levels of concern about pharmacy management remain quite high. Perhaps it is more accurate to say "because" of all the attention paid to the issue, payers' levels of concern are quite high. The hard-won insight into the myriad issues inherent in pharmacy management, coupled with a



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deep understanding of the long-term implications of poorly-managed drug regimens plus the susceptibility of work comp pharmacy to bad actors makes it a “soft target” indeed.

Finally, as the respondents noted, we would be remiss if we didn’t acknowledge the significant impact of external factors on workers’ compensation pharmacy, chief among them the nation’s growing addiction to prescription pain medications. This is a societal issue, but one that has a deep and damaging impact on comp, driving up costs, prolonging disability and killing claimants.

CompPharma is a consortium of workers’ compensation pharmacy benefit managers (PBMS) that identifies industry-wide problems and develops and delivers solutions.

CompPharma’s member PBMs are:

Coventry Workers’ Comp Services/First Script

Express Scripts

Mitchell Pharmacy Solutions

myMatrixx

OptumRx



Endnotes

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