



**Third Annual Survey**  
**Prescription Drug Management**  
**in Workers' Compensation**

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## **Prescription Drug Management in Workers' Compensation**

### ***Introduction***

During February and March 2006, Health Strategy Associates (HSA) completed an in-depth survey of 22 decision makers at workers' compensation payer organizations regarding their perceptions, opinions, and attitudes about prescription drug cost management. This is the third consecutive year HSA has conducted the survey.

It should be noted that this survey and report are based on individual's responses to a quantitative and qualitative survey. The other publicly available research in this area has been performed by NCCI, and utilizes claims data to assess costs and trends. NCCI's excellent report can be found at [www.ncci.com](http://www.ncci.com).

All respondents were assured of the confidentiality of their identity and received a copy of the final report. I want to acknowledge the sponsor of this year's survey, Cypress Care. The survey was made possible by the support of Cypress Care, one of the leading firms in this industry. It should be noted that the survey sponsor's role was limited to funding the survey and providing input on several of the survey questions. No editorial, analytical, or review functions were performed by the sponsor.

### ***Objective***

The objective of the survey was to assess the decision makers' opinions of prescription drug cost management in workers' compensation. Topics included the scope of the problem, key product/service attributes, cost and inflation trends, and perceptions regarding vendors, solutions, Third Party Billers (TPB), and the Pharmacy Benefit Management (PBM) industry.

A secondary objective of this survey was to identify trends and changes from the previous surveys. This report is not a detailed review of the workers' compensation prescription drug management industry; instead, it provides insights into the opinions and perspectives of key individuals in positions of authority in the target market.

### ***Respondent profile***

#### **Organizations**

Respondents represent a wide range of payers, with annual prescription drug spends ranging from \$872,000 to \$156 million. Total estimated drug costs provided by the respondents amounted to \$645 million; approximately 18% of the annual total workers' compensation drug spend. Together, the carriers participating in the survey represent over 40% of all private-payer workers' compensation insurance in the United States.



## Survey Report

### *Awareness of the Problem*

**The workers comp industry is quite aware of and concerned about drug costs.** In fact, 27% of respondents indicated that prescription drug costs were “much more” significant than other medical cost issues. Overall, drug costs were rated as more significant than other medical costs (3.7 on scale of 1- 5). When asked if drug costs had senior management attention, 86% answered in the affirmative. On average, executives were “quite” concerned about drug costs, with an average rating of 3.7, slightly higher than last year’s 3.4 (scale of 1-5).

### *Pharmacy Cost Drivers*

The majority of respondents pointed to utilization as the primary driver of drug costs, while about a quarter mentioned unit price (or the equivalent). Those who mentioned utilization pointed to various factors such as more frequent use of expensive drugs and an increase in usage of narcotics, and opioids, such as Actiq. Compared to last year, the responses represent a significant increase in the depth of understanding of cost drivers, with respondents able to be much more specific about key issues. In addition to utilization and related factors, **respondents were quick to cite the treating physician as a key factor** in increasing drug costs. Repackagers were mentioned by several respondents as a significant driver, either as a “stand-alone” comment or reflecting frustration with the treating physician (as noted above). Third party billers, discussed below, also were named as a contributor to increased drug expense.

### Who’s responsible?

By a significant margin, respondents believe the treating physician is most responsible for drug costs. At a rank of 4.5 (on scale of 1-5 with 5 indicating “most responsible”), physicians are deemed to be much more influential than PBMs (3.8), payers’ internal staff (3.4), other managed care entities such as telephonic case management and/or provider networks (2.9) or the policyholder (2.1).

### Utilization

In the context of this report, utilization control refers to efforts to address the volume, type, strength, duration, and/or mix of medications prescribed. With that in mind, utilization was mentioned directly and indirectly, with respondents citing various issues and techniques to control the volume and type of drugs dispensed. Characteristic of the responses was one person’s statement that “we need to get to the heart of over utilization.”

### Low fee schedules and/or discounted drugs

Respondents were asked if they believed low fee schedules and/or discounts below FS/Usual and Customary helped reduce drug costs. Ten (10) respondents believe they can have some positive impact. Eight (8), said either “no” or “not really,” and a number qualified their positive, negative, or ambivalent responses by noting that price was but



one aspect of drug costs. Several respondents noted that the low fee schedule in California has likely driven costs up by making the business unviable for PBMs and dramatically increasing physician dispensing.

## **Vendor Capabilities**

### Retrospective Review

68% of respondents are performing some form of retrospective review of drugs.. In 2004, of the respondents who did NOT have retro review (half of all respondents), most were planning on it, considering looking it, would like to do it, or were in the process of implementing such a program. These plans are coming to fruition.

### Formulary

The highest-ranked capability desired (4.3) was a workers' compensation-specific formulary. My sense is that a workers' compensation-specific formulary is a “given.”

### Savings Reports

Cost savings reporting capabilities were the second highest rated skill set at 4.1. However, there is general dissatisfaction with reporting capabilities.

### Independent Research and Analysis

Access to independent research and analysis has moved up in importance from last year's 3.6 to a 3.9, placing it in the middle of the desired skill sets. This may be due to the market's sense that there is a lot more to pharmacy management and cost drivers than once thought.

### Network Ownership and Specialization

Consistent with the past two surveys, **respondents favored owned pharmacy networks (3.6)**. Respondents cited several concerns with rented networks, including lack of responsiveness due to additional layers of communication (payer – PBM – Network – pharmacy), lack of workers' compensation-specific contracts (leading to increased third party biller activity), higher costs due to middlemen, and potential data quality and communication issues.

## **Savings**

The understanding of “savings” in pharmacy management is evolving rapidly from a focus on per-script discounts below FS to a more comprehensive perspective. Consistent with 2004, the more sophisticated the buyer, the more they tend to view AWP and FS as suspicious or not quite telling the whole story. This year's increase in the number of entities calculating year-over-year differences in cost per claim indicates that respondents recognize that the so-called soft savings derived from DUR programs may actually be real, and can be measured with some confidence by looking at overall program results. This is strong evidence that some payers are interested in evaluating savings on more than just a discount-below-fee schedule basis.

## **Drug Repackaging and Physician Dispensing**

Drug repackaging occurs when wholesalers fill bottles with odd counts of pills, thereby creating a “new” prescription. Because these new prescriptions do not have codes that correspond to fee schedules, the reimbursement falls outside the fee schedule (as it appears to in California), thus must be paid at a rate substantially higher than the script would otherwise warrant. The California Workers Compensation Institute estimates that over half of drug costs in that state are from repackaged drugs, which are often marked up 100% - 1000% over comparable scripts.

The respondents offered no consistent approach to this issue. A couple of respondents were obviously quite conversant with the various potential means of addressing repackaging. Some expressed interest in simply developing an appropriate price per pill and basing the reimbursement off that metric; however there may be legal issues with that approach, as the California law is fairly clear that drugs not on the Medi-Cal fee schedule are to be reimbursed at the pre-reform rate.

## ***Network Issues***

### **Network Size**

Essentially all respondents wanted a large network, as there were no ratings below 4 and only five rated it a 4 for an average of 4.7. In workers’ compensation pharmacy management, bigger networks are clearly considered better networks.

### **Mail/Home Delivery Programs**

When asked if their mail penetration rates were equal to about 2%, three stated their penetration was higher (compared to seven last year). Seven claimed to be about even (twelve last year), and four were lower, while five did not know. From a cost reduction perspective, this is disappointing, as most PBM programs do provide additional payer discounts for prescriptions through the mail. Other potential benefits include increased compliance, reduced third party biller activity, and less hassle for the injured worker.

### ***Third Party Billers***

When asked if TPBs are part of the problem, solution or are neutral to PBM cost management, the **strong consensus among respondents was Third Party Billers (TPB) are a problem.** Nineteen of 22 respondents declared them a problem with two saying they were neutral.

2005 appeared to mark the beginning of a transition in the market’s approach to third party billers, as several nascent strategies were mentioned, ranging from settling lawsuits (apparently in the interest of just making the problem go away) to fighting each and every bill on a claim level in each state’s workers comp litigation system. One respondent with significant exposure to TPBs noted that the outcome of the ScripNet – WorkingRx legal battle had strengthened the payers’ position.



### **“Biggest Single Complaint”**

A wide variety of responses were given when respondents were asked their single biggest complaint about prescription drug management in workers comp. Interestingly, while respondents were not shy about their answers, there was not much consistency across the survey group. Comments included areas such as:

- the lack of transparency on the part of PBMs, TPBs, and pharmaceutical manufacturing firms
- poor technology, hampering communications and reporting
- physicians dispensing habits - “using Actiq is like trying to kill a gnat with a sledgehammer.”

### ***What Makes a Successful Vendor?***

The market wants intelligent, alert, aware PBMs as partners. A thorough understanding of the workers comp business, the claims process, cost drivers in the pharmacy industry, and technology is required. Price has been, and remains, an important consideration, as several of the respondents specifically noted price as a key to being a successful vendor.

Different payers look for different skills and strengths from their PBMs, but, as the market evolves, it continues to place more and more emphasis on utilization, and more specifically the clinical aspects of pharmacy utilization management.

Payers expect a lot from their PBMs today, and will reward those that deliver on those expectations. It is clear **that the level of sophistication among buyers has continued to increase**, and they are pushing PBMs to be more assertive, more forward thinking, and more intelligent in their approaches to managing drug costs and working with payers

### ***Summary***

The market is evolving rapidly. Pharmacy costs are highly visible, especially among executives and at larger payers. Now there is dedicated staff, programs, IT connections and training programs in place at most major payers to address prescription costs. These efforts will trickle down to smaller players, requiring that all PBM sales and account management efforts reflect this rapid evolution.

The results of this survey indicate there is a significant awareness of the importance of prescription drug costs in workers’ compensation, a growing sophistication on the part of respondents in understanding cost drivers and the PBM’s role in addressing those drivers, and the beginning of differentiation among the PBMs.

Overall, PBMs are not placed in high esteem. They are perceived to be reactive, lacking in originality and innovation, and tending to over-promise and under-deliver.

**There is also a continued recognition that the treating physician is central to addressing this issue. This recognition has grown dramatically over the last two years and although there is not consensus on how to address the issue, there is no mistaking the level of interest in doing so.**



Given the respondents' belief that the problem will only grow over the next 12-24 months, it is likely payers will accelerate their interest in finding new answers to the fastest growing component of their medical expenses.

