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), the 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.

As the workers comp pharmacy sector has evolved over the past 12 years, so has this survey. While the survey remains focused on pharmacy benefit management (PBM) capabilities and program results; cost drivers and cost trends; and opinions, perceptions, and attitudes about pharmacy management in workers compensation, we have added and deleted questions over time. Special attention is paid to emerging issues, management approaches, vendors, problems and solutions, along with the evaluation of those solutions.

Interviews were conducted in the spring of 2015, with data on pharmacy spending and other metrics derived from respondents’ 2014 results.

BACKGROUND
Workers comp pharmacy spending is between $5–$7 billion. After much analysis, we have come to the conclusion that it is not possible to precisely calculate workers compensation drug spending. There are several reasons for this.
Pharmacy is one component of total workers compensation medical expenses, which were approximately $33 billion in 2014.\(^1\)\(^2\) Other considerations include:

- Different estimates are based on data from different states, and the various estimates use differing methodologies.
- In contrast, general anecdotal information from payers indicates drug costs account for 11% to 16% of medical spending, or around $4–5 billion.
- The basis for determining what products or billing codes are included, as drug spending varies among and between payers and jurisdictions.
- Drugs are dispensed in a variety of settings and by a variety of providers; therefore, some drug costs may be included in other charge categories. For example, the use of specialty drugs may be billed under home healthcare/durable medical equipment services, while long-term care and hospital-dispensed medications typically are counted as facility expenses.
- Physician-dispensed drugs may or may not be counted towards drug spending, as they can be billed on standard medical billing forms with the cost “rolled-up” under physician costs for reporting purposes.

**RESPONDENTS**

Respondents were decision-makers, clinical personnel, and operations staff in state funds, carriers, self-insured employers, and third party administrators (TPAs) with drug expenses ranging from $1.3 million to $167 million. The 21 respondents’ drug costs totaled $849 million.

Here are the findings.

**INFLATION/TREND IN DRUG COSTS**

Let’s begin with one caveat—there was more variability in cost trend across all respondents than we have seen in any previous survey; so we advise readers to review this entire section before drawing any conclusions.

Across all 21 respondents’ total drug spending, drug cost inflation increased to 6.4% over the previous year, reversing a trend that had seen flat or negative increases for the previous four years.

However, when removing one outlier, the average of all respondents’ trend remained negative, at –1.0%, compared to 2013’s –2.9%.

Considering the total change in spending, this marks only the second significant “increase in the rate of decrease” over the last 12 years; in 2009 we saw an increase of 9.4%. And, while the average of all respondents’ trend remained negative, the 1.9 point increase over the previous year was one of just three such increases we’ve documented since we first began looking at this metric.

To validate and better understand this result, we looked at individual respondent’s trend rates. While the overall trend was up, only 7 of the 21 respondents experienced increases in their drug spending. Of the entities experiencing increases, there was a significant range in inflation and little consistency between payers.

Over the first 10 years the survey was conducted, the pharmacy cost inflation rate decreased by over 21 percentage points. Over the last year, the inflation rate has increased by 10.2%. Clearly this bears additional discussion.

The workers compensation PBM industry came into its own just over a dozen years ago. Originally delivering value through lower prices, most PBMs implemented clinical management programs as the decade went on.

The single hiccup, 2009, was primarily driven by one-time events such as the rebranding of OxyContin, a move that led to a dramatic price increase for one of the top workers comp drugs in terms of dollars spent. Other factors such as economic issues and


\(^2\) Trended forward using NCCI medical inflation rates (4.0%) from NCCI’s “State of the Workers Compensation Line,” May 2015.
patent loss helped reduce costs in other years. Excluding those macro-factors, the workers comp PBM industry, due in no small part to its increasing focus on clinical management, tighter integration, and electronic connectivity with payers, delivered improved results each year.

THE SIZE OF THE “PROBLEM”
One survey question was “Where do prescription drug costs rank compared to other medical cost issues at your organization?” On a scale of 1 to 5, with 3 being “drug costs are equally as important as other medical cost issues,” drug costs were rated a 4, consistent with the prior four-year average of 3.9. Individual responses to qualitative questions on the survey also indicated continued concern with drug costs.

Moreover, respondents are concerned (4) that drug costs will be more of a problem in the next 12 months than they are today. This is somewhat higher than their views last year, when the average was 3.7.

From reviewing all survey responses and paying particular attention to new cost management programs and results thereof, it appears that while payers worry about 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 working with other stakeholders to address prescribing patterns, implementation of evidence-based guidelines, regulatory authority, access to and usage of better and more complete data (not just on pharmacy, but other medical cost data), and more communication of the right information among these stakeholders.

I suggest this is prima facie evidence of the growing level of understanding among payers of the multidimensional 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 improve outcomes associated with drugs without the cooperation of the 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.

Narcotics, Addiction Risk, and the Industry’s Continued Concern
Throughout the survey, respondents mentioned narcotics, opioids, addiction, specific drugs, dependency, and related terms, even when responding to other questions.

The introduction of new drugs and reformulated drugs, including so-called “abuse deterrent” opioids and Zohydro, the recently approved pure hydrocodone drug, were mentioned by several payers in response to different questions. There appears to be some concern about the FDA’s apparent willingness to increase the availability of opioids, coupled with a deep concern that these abuse-deterrent drugs would be “solved” by people looking to abuse opioids.

This year, respondents judged opioids to be an extremely significant problem, giving it an average of 4.75 (up slightly from last year’s 4.6). Notably, all respondents rated this a 4 or 5, a clear indicator 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

<table>
<thead>
<tr>
<th>Table 1</th>
<th>What clinical programs are you currently using or considering? (Check all that apply)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Answer Options</td>
<td>Don’t use</td>
</tr>
<tr>
<td>High-risk claimant identification</td>
<td>1</td>
</tr>
<tr>
<td>Pharmacist review of specific claims</td>
<td>2</td>
</tr>
<tr>
<td>Prescriber outreach via letters</td>
<td>0</td>
</tr>
<tr>
<td>Peer review and outreach for high-risk claimants</td>
<td>1</td>
</tr>
<tr>
<td>Urine drug monitoring</td>
<td>6</td>
</tr>
<tr>
<td>Data mining/predictive analytics</td>
<td>1</td>
</tr>
<tr>
<td>Opioid alerts</td>
<td>1</td>
</tr>
<tr>
<td>Generic conversion</td>
<td>0</td>
</tr>
<tr>
<td>Other (please specify)</td>
<td>0</td>
</tr>
</tbody>
</table>

Answered question | 17
Skiped question | 0
they were “very concerned” (4.5, compared to last year’s 4.3). We asked what programs they were using to address opioids; responses are listed in Table 1.

**Physician Dispensing**

The concern over physician dispensing continues to grow, driven by payers’ own experiences and research results from the California Workers Compensation Institute (CWCI), Johns Hopkins University and Accident Fund Holdings, Inc., the National Council on Compensation Insurance (NCCI), and the Workers Compensation Research Institute (WCRI), which quantify the significant cost added to the system by physician dispensing.

NCCI data indicates physician dispensing accounted for 12% of drugs dispensed in study states in 2013. Other recent research published by WCRI indicates physicians now account for almost half of prescription dollars in Pennsylvania, over half in California, and over two-fifths in Illinois, Maryland, and Florida.

It has been reported that physician dispensing also drastically and artificially inflates the cost of workers compensation pharmacy costs, and that physician-dispensed prescriptions typically cost 3 to 10 times the amount of the same prescription filled by a retail pharmacy.

More 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 additional concerns with physician-dispensed drugs. Physician dispensing may unnecessarily create a health and/or safety risk for the injured worker receiving these prescriptions. In addition to their non-occupational health physicians, injured workers 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 their peers or all of the other drugs the injured worker is taking. Nor do they usually know the patient’s entire medical history.

National payers and those operating in jurisdictions without strong controls on physician dispensing are quite concerned about physician dispensing/repackaging. Excluding respondents working primarily or exclusively in states with severe limits on physician dispensing (Massachusetts, Montana, New York, Ohio, Texas, and Washington), concerns about physician dispensing remain high with a rating of 4.0, a considerable increase over 2014’s and 2013’s 3.6, and 2012’s 3.9. Six respondents rated their concern about physician dispensing a 5 (extremely concerned) and four rated it a 4 (very concerned).

**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.

For the second consecutive year, compounds are by far the leading concern. Thirteen of 20 respondents cited compounds when asked to identify “any emerging or new issues in workers compensation pharmacy that are particularly concerning.” Two years ago we said, “compounding has been quite the problem in California and a few other states, it has yet to make much of an impression in most of the country.”

Drug prices were high on the radar for five respondents, while opioids remained a concern for seven (although technically opioid usage is not a “new or emerging” issue).

**HOW RESPONDENTS ARE CONTROLLING DRUG COSTS**

All respondents except five had implemented significant changes to their pharmacy clinical management programs over the last year. If anything, the industry strengthened its efforts to address drug issues last year.

The three top cost drivers—opioids, compounds, and physician dispensing—were the subjects of most respondents’ 2014 pharmacy management initiatives, with opioids by far the most common. Respondents noted several approaches to controlling costs, with a more diverse range of solutions and more specificity in solutions than we’ve previously seen.

The majority of respondents implemented programs, upgraded approaches, hired staff, or altered drug utilization review processes pertaining to opioids. This shows how seriously these respondents take the issue.

---

As we’ve noted for the last two years, payers continue to innovate at a rapid pace, pushing their PBMs and internal clinical departments to analyze, intervene, and take timely action. In the past, programs tended to be relatively “soft,” involving letters to physicians and patient education, but now more payers are addressing claimant usage of opioids more assertively. Payers are contracting with third-party vendors, hiring staff, and in some cases, creating departments specifically to identify and deal with doctors who exhibit potentially problematic prescribing patterns. They also are requiring that physicians “test for drug abuse” and comply with urine drug monitoring guidelines.

When it comes to measuring the impact of these initiatives, many payers use both internal data and their PBM’s data to assess performance. Continuing a pattern we saw emerge last year, almost all respondents had a ready response to the question “How are you measuring the programs’ impact?” Assessing changes on a per-claimant basis, examining individual claim files, and tracking opioid medications are commonplace. So are measuring the duration of opioid usage, the percentage of claims with physician-dispensed drugs, the results of urine drug screens, and benchmarking against past years’ and industrywide data (where available).

**GENERICS**

According to NCCI’s 2015 report, “The Impact of Workers Compensation Drug Fee Schedules,” generic drugs accounted for 78% of all transactions in 2013, but only 44% of costs. Recall that NCCI does not include data from every state, but does capture almost all data from the states from which it collects data.

For our purposes, “generic fill” is that percentage of ALL scripts that are filled with generics. As often is the case, 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 increased two points, to 83.3 percentage points in 2014, continuing the increase we saw last year when the generic fill rate jumped from 2012’s 75.7% to 81.2%.

This improvement was driven largely by an increase in “generic efficiency”; respondents’ generic efficiency rate increased to 97.1%, replacing the previous highest percentage, 2009’s 95.7%.

This improvement suggests payers and pharmacy benefit managers (PBMs) have been able to move almost all claimants formerly taking multi-source brand drugs to the equivalent generic.

**Retail Network Penetration**

Network penetration increased to 89.0%, up 7/10ths of a percentage point from 2013. Since 2008, penetration has increased by 13 points, up from 76%. The increase could be partially attributable to a slightly different mix of respondents this year. Regardless, it is clear that the joint efforts of payers and PBMs, coupled with PBMs expanding their networks to nontraditional dispensers, have helped push network penetration to an all-time high.

**Mail Order**

Mail-order penetration has been up and down over the last seven years. Continuing the trend of improving statistics, 2014’s average was 4.65%, a third of a point lower than 2013’s result. This may have been influenced by the slight change in respondent mix; however, some of the respondents unable to participate this year had very low mail-order penetration. It is puzzling indeed why some payers continue to ignore the many benefits associated with mail order.

**Drug Testing**

This was the fourth year we asked respondents if they were using a urine drug-testing (UDT) program. Four years ago, half of all respondents utilized a UDT program to monitor claimant compliance. This year, three-quarters of respondents have implemented or will implement a drug-testing program.
While most have a formal program in place with one or more contracted providers, several payers are a bit more ad hoc, identifying specific claimants who meet preset criteria for drug testing. As states adopt guidelines addressing opioids, we can expect more payers will have to comply by demonstrating their programs are consistent with those guidelines.

Compound Medications
New to the survey this year was a question pertaining to the number of prescriptions for compounds the respondent had processed in 2014. In total, respondents paid for over 63,000 compounds. In comments, many indicated that both the price of the average compound and the volume of compounds had increased dramatically quarter over quarter. We will try to quantify that growth in next year’s survey.

Notably, compounds figured prominently in responses to the survey’s final question, “What is the single biggest problem in workers comp pharmacy today?” Several respondents named compounds as that “single biggest problem,” an opinion that appears to be somewhat counter to the actual cost and utilization of compounds.

HOW ABOUT THOSE PBM’S?
Respondents are pretty happy with their incumbent PBMs. Asked to rate their current PBM’s customer service, the average response was 4.1 (very satisfied). Of note, this reflects continued satisfaction with PBMs, as last year’s rating was identical.

The penultimate survey question asked respondents to name the one thing their incumbent PBM could be doing better; but many respondents named two or more “one things.” Similar to prior years, responses were decidedly mixed. Five made comments that can generally be labeled under “customer service”: words used were “responsiveness,” “should be more proactive, more aggressive,” and “more innovative.”

Four commented that their PBM was already doing everything. “They’ve really stepped up,” and “Don’t know anything any other PBM is doing that they aren’t doing,” were representative comments.

Five respondents are looking for more data mining, predictive analytics, and better reporting—specifically more useful, easier-to-access, more real-time reports that “quantify cost savings for clinical purposes.” Three focused on compound solutions, including ingredient-level pricing.

CONCLUSIONS
The 10% growth in costs over the last two years is troubling indeed, as is the explosive growth of compounds, an unproven and potentially unsafe “alternative” to traditional medications. Add to this mix the continued and seemingly intractable problem of long-term use of opioids and the seemingly unstoppable expansion of profiteering physician-dispensing firms, and it is not hard to understand why respondents continue to lose more sleep over pharmacy issues than other medical cost issues.

Pharmacy management in workers comp has evolved dramatically over the 12 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, and data and reporting, we’ve witnessed 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 deep understanding of the long-term implications of poorly managed drug regimens, plus the susceptibility of workers comp pharmacy to bad actors, makes it a “soft target” indeed.

Finally, as the respondents noted, we’d 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 workers comp, driving up costs, prolonging disability, and killing claimants.

Joseph Paduda, principal of Health Strategy Associates, is a nationally recognized expert in medical management in group health and workers compensation. He is the president of CompPharma, LLC, a consortium of workers compensation pharmacy benefit managers. Mr. Paduda is also the prolific author of the ManagedCareMatters.com weblog and founder of HealthWonkReview.com, a collaborative blog on healthcare policy.