

NCCI Workers' Compensation Prescription Drug Study- 2004 Update

Summary prepared by WCD July 2006

Key Findings of the 2004 Update

- Payment patterns show continued growth in WC Rx share of total medical costs.
- Drug price increases had a slightly greater impact on WC drug costs than utilization increases for 2002 over 2001. However, researchers say that utilization is the more important driver of medical costs.
- Twenty-eight states have prescription drug fee schedules and all use AWP (Average Wholesale Price) as a mechanism for reimbursement.
- Pharmacy benefit managers (PBMs) look promising as a cost-containment strategy; however, additional factors need to be assessed.

Current Cost-Containment Methods

Prescription drug fee schedules – 28 states have some type of WC prescription drug reimbursement schedule. Key components of these schedules include:

- Use of AWP for reimbursement (most include a dispensing fee)
- Eleven states differentiate between generic and brand reimbursement
- Nine states reimburse up to a level above the AWP, 11 states reimburse up to AWP, and eight states reimburse up to a level that is below AWP.

California revised its schedule to the Medi-Cal schedule, AWP – 10 percent + \$3.55 Dispensing Fee (DF) or MAC (maximum allowable cost) + \$3.55 DF, or usual and customary. There is concern among pharmacies about the effect of this schedule on access to care for injured workers. To mitigate this, the California Workers' Compensation Insurance Rating Bureau's study (2003) recommended modifying the program either by phasing it in more slowly or providing some protection for the independent pharmacies (they have less ability than chains to shift losses and negotiate rates). Furthermore, the study suggests that other cost-containment policies, together with the negotiating power of PBMs, should achieve cost containment without disrupting access for workers' compensation patients.

Pharmacy Cost Increase Factors

- The use of PBMs as a singular cost-containment measure is not sufficient to contain costs. Utilization and rising drug costs dictate the need to assess and address other issues such as:
 - While generic substitution has increased, higher-priced new drugs continue to dilute the impact of generic drugs on overall costs.
 - Use of mail-order services hinders the pharmacist's ability to assess appropriate (as well as cost-effective) drug selection.
 - Because rebates are typically for new, brand-name drugs, PBMs may not be giving the necessary attention to lower-cost generics.