

Workers' Compensation Research Institute (WCRI)
2006 Report on the Cost and Use
of Pharmaceuticals in Workers' Compensation

Summary prepared by WCD July 2006

Prescription drug costs overview in WC (reported by 29 states)

- WC system pays higher prices for the same prescriptions; **74 percent higher** than in general health; an average of 125 percent of the AWP compared with 72 percent paid by general health.
- Prescription costs represent 7 percent to 12 percent of total WC medical costs.
- Most WC meds are used for managing pain or to counter the side effects of pain meds.
- Many of the most commonly prescribed meds in WC have no generic equivalents.
- WC laws have fewer cost-containment tools than in general health (no copayments, preferred drug list, or prior authorization requirement).

Pharmacy friction points

- Insurer coverage and/or billing information is often not readily available, particularly for first-time prescriptions.
- Pharmacies often do not know if they will be reimbursed, by whom, or for how much.
- Pharmacies spend additional staff time to collect payment including follow-up and negotiation.
- Pharmacies have incentives to bill payers directly, rather than going through PBMs, because of the possibility of higher reimbursement rates (e.g., fee schedule rates or the higher "cash prices").

Worker access

- Even when the pharmacy does not know if the patient is eligible, injured workers seldom have to pay upfront for prescriptions. Rather pharmacies, particularly large chains, tend to assume the risk. This is an important role pharmacies play in ensuring access to care.
- If fee schedules are set at the level of group health or government programs, it may increase the risk of reducing access for workers.

Fee schedules

- Twenty-nine states have some form of fee schedule.
- Twenty-eight states have generic mandates (unless no generic available or physician indicates brand).
- Nine states use copayments, however only when workers insist on brand when generic is available.
- Most fee schedules are based on AWP.

Pharmacy benefit managers (PBMs)

- PBM systems for processing approvals, billing, and payment are efficient and parallel group health insurance processes.
- PBMs obtain agreements from pharmacies for reimbursements that are below the state fee schedules and “cash prices” otherwise paid. The size of the discount depends on the relative bargaining power of the pharmacy and the PBM.

Physician-dispensed pharmaceuticals

- Advocates argue that the practice is more convenient for patients and leads to enhanced compliance with medication regimens.
- Also, it may better serve vulnerable populations who may have difficulty accessing retail pharmacies because of distance or language barriers.
- In California, physicians dispense nearly one-third of WC prescriptions and payments for these drugs are much higher than if dispensed by retail pharmacies.

Public policy opportunities

- Friction points make public policymaking about cost containment for WC pharmaceuticals more complex than in group health (i.e., can't use multi-tier copayments encouraging patients to use less costly meds or require prior authorization for most meds).
- If WC fee schedules are set at the lower level of group health, it may increase the risk of reducing access to care. It could result in a denial to fill prescriptions or a reduced willingness to assume risk of nonpayment (by pharmacy). As a result, more workers may pay upfront and seek reimbursement from WC payer.
- Public policies and the business processes of payers that help speed eligibility information to pharmacies (electronic point-of-service access) will reduce friction costs and allow public officials to lower fee schedules, and enable payers to negotiate larger discounts.
- Public policies that clarify the circumstances under which direct billing is permissible will reduce pharmacy costs for pharmacies and payers.
- Public policies that increase the use of PBMs by payers, workers, and pharmacies should reduce both friction and pharmacy costs.
- Examine public policies to ensure that reimbursement policies do not unintentionally create adverse incentives for higher-priced physician-dispensed meds.
- Review benchmarks other than AWP for pharmaceutical reimbursements.
- Consider non-WC plan design and cost-containment models:
 - Mandatory generic substitution
 - Prior authorization for certain meds
 - Use of PBMs in state comp programs
 - Copayments with formularies

Attachment: Retail Pharmacy Reimbursements by State

Retail Pharmacy Reimbursement by State
Summary prepared by WCD July 2006

	A	B	C	D
1	State	Brand	Brand Dispensing Fee	Generic
2	Alabama	AWP + 5% of AWP	\$ 7.01	AWP + 5% of AWP
3	Alaska	AWP + 20% of AWP	None	AWP + 25% of AWP
4	Arkansas	AWP	\$ 5.13	AWP
5	California	AWP + 10% of AWP	\$ 4.00	AWP + 40% of AWP
6	Colorado	AWP	\$ 6.00	AWP
7	Connecticut	AWP	\$ 5.00	AWP
8	Delaware	No pharmacy fee schedule		
9	Florida	Lesser of AWP or contractually agreed amount between provider and insurer	\$ 4.18	Lesser of AWP or contractually agreed amount between provider and insurer
10	Hawaii	AWP + 40% of AWP	None	AWP + 40% of AWP
11	Idaho	No pharmacy fee schedule		
12	Illinois	No pharmacy fee schedule		
13	Indiana	No pharmacy fee schedule		
14	Iowa	No pharmacy fee schedule		
15	Kansas	AWP - 10% of AWP	\$ 4.00	AWP - 10% of AWP
16	Kentucky	AWP	\$ 5.00	AWP of lowest-priced therapeutically equivalent drug the pharmacy has in stock at the time
17	Maine	No pharmacy fee schedule		
18	Maryland	No pharmacy fee schedule		
19	Massachusetts	Lesser of: WAC (Whoelsale Acquisition Cost) + 5% of WAC; usual and customary charge	\$ 3.00	Lesser of: FUL; 130% of the price of least costly therapeutic equivalent; WAC + 5% of WAC; or usual and customary charge
20	Michigan	AWP	\$ 4.00	AWP
21	Minnesota	AWP on date med dispensed	\$ 5.14	AWP on date med dispensed
22	Mississippi	AWP	\$ 5.00	AWP + 10% of AWP
23	Missouri	No pharmacy fee schedule		
24	Montana	AWP	\$ 5.50	AWP
25	Nebraska	No pharmacy fee schedule		
26	Nevada	The least of: AWP+DF; usual and customary pharmacy price; negotiated contractual amount	\$ 7.31	The least of: AWP+DF; usual and customary pharmacy price; negotiated contractual amount

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27	New Hampshire	No pharmacy fee schedule		
28	New Jersey	No pharmacy fee schedule		
29	New Mexico	AWP + 4% of AWP	\$ 6.50	AWP + 4% of AWP
30	New York	No pharmacy fee schedule		
31	North Carolina	No pharmacy fee schedule		
32	North Dakota (exc state fund)	AWP - 10% of AWP	\$ 4.00	Lesser of: MAC + 5% of MAC or AWP - 10% of AWP
33	Ohio (exc state fund)	Lesser of AWP - 9% of AWP or provider's usual and customary charge	\$ 3.50	Lesser of: AWP - 9% of AWP or FUL; SMAC; or usual and customary fee
34	Oklahoma	Lesser of: AWP - 10% or usual and customary fee	\$ 5.00	Lesser of: AWP - 10% or usual and customary fee
35	Oregon	AWP - 12% of AWP	\$ 8.70	AWP - 12% of AWP
36	Pennsylvania	AWP + 10% of AWP	None	AWP + 10% of AWP
37	Rhode Island	AWP + 20% of AWP	None	AWP + 20% of AWP
38	South Carolina	Lesser of: AWP; usual and customary charge; negotiated contract amount	\$ 5.00	Lesser of: AWP; usual and customary charge; negotiated contract amount
39	South Dakota	Usual and customary charge		Usual and customary charge
40	Tennessee	Lesser of: usual charge, negotiated contract amount; AWP	\$ 5.10	Lesser of: usual charge, noegiated contract amount; AWP
41	Texas	Lesser of: AWP + 9% of AWP; usual and customary charge; negotiated contract amount	\$ 4.00	Lesser of: AWP +25% of AWP; usual and customary charge; negotiated contract amount
42	Utah	No pharmacy fee schedule		
43	Vermont	Lesser of: AWP; charge for prescription drug	\$ 3.15	Lesser of: AWP; charge for prescription drug
44	Virginia	No pharmacy fee schedule		
45	Washington (exc state fund)	AWP - 10% of AWP	\$ 4.50	Lesser of: BLP (BaseLine Price) or AWP - 10% of AWP
46	Wisconsin	No pharmacy fee schedule		
47	Wyoming (exc state fund)	AWP	\$ 5.00	AWP

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3	Alaska	AWP + 20% of AWP	None	AWP + 25% of AWP	None
4	Arkansas	AWP	\$ 5.13	AWP	\$ 5.13
5	California	AWP + 10% of AWP	\$ 4.00	AWP + 40% of AWP	\$ 7.50
6	Colorado	AWP	\$ 6.00	AWP	\$ 6.00
7	Connecticut	AWP	\$ 5.00	AWP	\$ 8.00
8	Delaware	No pharmacy fee schedule			
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37	Rhode Island	AWP + 20% of AWP	None	AWP + 20% of AWP	None
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