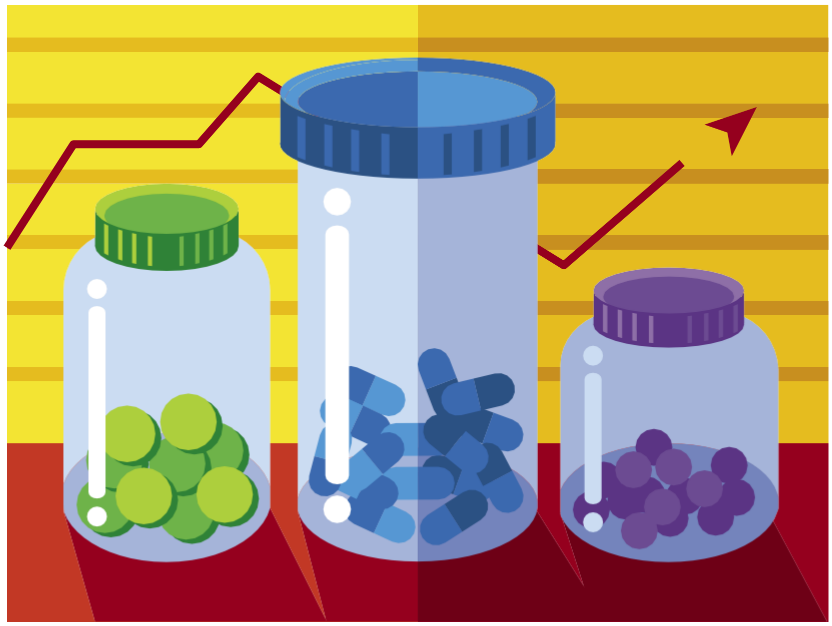

Prescription Drug Management in Workers' Compensation

The Eighteenth Annual Survey Report (2021 data)

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Introduction

This industry report examines recent spending and clinical management trends in pharmacy within the workers' compensation industry. Respondents provided insights based on their 2021 drug spend and pharmacy programs.

This is the 18th survey; it was not produced in 2020 due to the pandemic. Pharmacy data from 2019, when available, was combined with 2020 data in the 17th survey. For the first six years Health Strategy Associates, LLC, my consulting firm, conducted the survey. Responsibility for the survey was transferred to CompPharma, LLC, a workers' compensation pharmacy research and consulting firm, in 2009.

I'd like to acknowledge the major contributions to this study made by Jay Stith and Helen Patterson. Jay handled all the data aggregation and analysis and provided insights that only a brilliant analyst could see. I am indebted to Jay for his diligence and ability to interpret data in ways I could not. Helen Patterson handled scheduling, edited and proofed the report, and coordinated all production.

Top Takeaways

1. Total drug spend in workers' comp was likely around $2.9 billion in 2021.
2. The multi-year decline in drug spend seems to have flattened out; across all 31 respondents spend ticked up 0.82%.
3. Opioid spend continued to drop, with 2021 figures showing a 12.5% drop over the previous year. Opioids represented 13.4% of all respondents' pharmacy, the lowest figure in the two-decade history of this survey.
4. Legacy opioid patients continue to be a challenge for many payers; most have adopted a "we'll do whatever might help" approach to these patients.
5. Physician dispensing is once again rearing its ugly head with respondents rating it the single biggest problem in workers' compensation pharmacy after a multi-year hiatus from that august position.
6. Payers continue to highly value PBM customer service; myMatrixx continues to lead the industry in that key category.

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Pharmacy In Workers' Compensation – The Big Picture

Total workers' comp pharmacy spend in 2021 was between $2.75 and $3 billion, with a best guess estimate of $2.9 billion. We recognize that figure is significantly lower than other estimates, but extensive analysis supports it.

After much research and study, it is clear that it is impossible to precisely calculate workers' compensation drug spend for several reasons:

Total medical spend across all workers' comp payers was approximately $27.7 billion in 2020, according to the National Academy of Social Insurance (NASI) REPORT: Workers' Compensation: Benefits, Coverage and Costs[1], published November 2022.

In previous reports we estimated total medical spend for the study year by trending this forward, incorporating medical inflation rates from the National Council of Compensation Insurance NCCI Annual Issues Symposium State of the Line[2] report. However, given the dramatic reduction in spend from 2019 to 2020 and the lack of any useful industry-wide medical cost data for 2021 at the time of this writing, we cannot estimate the percentage of medical spend attributable to pharmacy.

Other considerations affecting pharmacy spend estimates include:

- Different estimates are based on data from different states, and the various estimates use differing methodologies. The methodology used by NCCI is based on an analysis of projected spend for claims occurring in Accident Years using data from NCCI-reporting states. As such, the NCCI estimate is based on the anticipated total spend over the entire life of the claims incurred in a specific year, and not on drug spend in that calendar year.
- In contrast, anecdotal information from payers indicates drug costs account for 8-11% of medical spend (there are some outliers with spend below 5%).
- The basis for determining which products or billing codes are included in drug spend varies among payers and jurisdictions. Different payers have different processes and coding logic for prescription bills on paper and/or patient-paid bills that are reimbursed.
- 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, specialty drugs may be billed under home health care/durable medical equipment services, while long-term care and

hospital-dispensed medications typically are counted as facility expenses. It is highly unlikely all payers surveyed use the same methodology when calculating drug costs.

- Depending on the payer, some or all physician-dispensed drugs may or may not be counted towards drug spend, as they can be billed on standard medical billing forms with the cost "rolled up" under physician costs for reporting purposes.

Over the last 20 years, workers' compensation prescription drug costs have decreased by approximately $2 billion or 40%.

Several factors contributed to this decline:

- Massive decrease in opioid utilization and impact on co-prescribing;
- Significant reduction in California's pharmacy fee schedule;
- Very significant reduction in the use of branded medications (replacement with generics);
- Industry-wide adoption of PBMs;
- A very competitive PBM market; and a
- Consolidated PBM industry providing greater buying power.

Notably, this is the first year in recent memory that we have seen an increase in overall spend, albeit a very small one. No doubt COVID affected spend in 2020 and 2021 thus we cannot confidently attribute changes to other factors. That said, wherever we identified interesting correlations or counter-intuitive findings we highlighted them.

Respondents

We wish to express our gratitude to the workers' compensation professionals who carefully and thoughtfully responded to the survey. Their willing participation is deeply appreciated. All responses are confidential, and care has been taken to "sanitize" responses to protect the anonymity of the respondents.

Interviews were conducted in the late fall and winter of 2022 using 2021 data on pharmacy spend and other metrics.

Respondents were decision makers, clinical personnel, and operations staff in state funds, carriers, self-insured employers, guarantee funds, and third-party administrators (TPAs). Their drug expenses ranged from $121,000 to over $125 million. Respondents' 2021 drug costs totaled $491 million or about 17.2% of total workers' compensation drug spend.

Findings

With the COVID caveat, it appears the decline in pharmacy spend may have flattened out.

For the first time in years, there was an overall increase in total spend (+0.82%) across all respondents, and the smallest average decrease per respondent since 2014 at just a 2.03% reduction. Interestingly, nearly one-third of respondents reported an increase in overall spend compared to just three respondents over the last two surveys combined.

Despite the overall increase in total spend and lackluster results in average spend decrease per respondent, opioid reductions were impressive. Overall opioid spend dropped 12.5% and the average reduction per respondent was 22.41%.

We saw a surprising result from the largest payers. Three of the five largest payers reported an increase in overall pharmacy spend. There are two interesting data points that appear related to changes in total drug spend.

- The average network penetration for respondents showing spend reduction year over year was 90.09%, whereas those showing spend increases had a lower average of 78.25%.
- Those respondents who rated physician dispensing a 3, 4, or 5 (5 being a very significant problem) saw an average overall spend increase of 4.3%, whereas those rating physician dispensing a 0, 1, or 2 saw an average overall spend decrease of 10.6%.

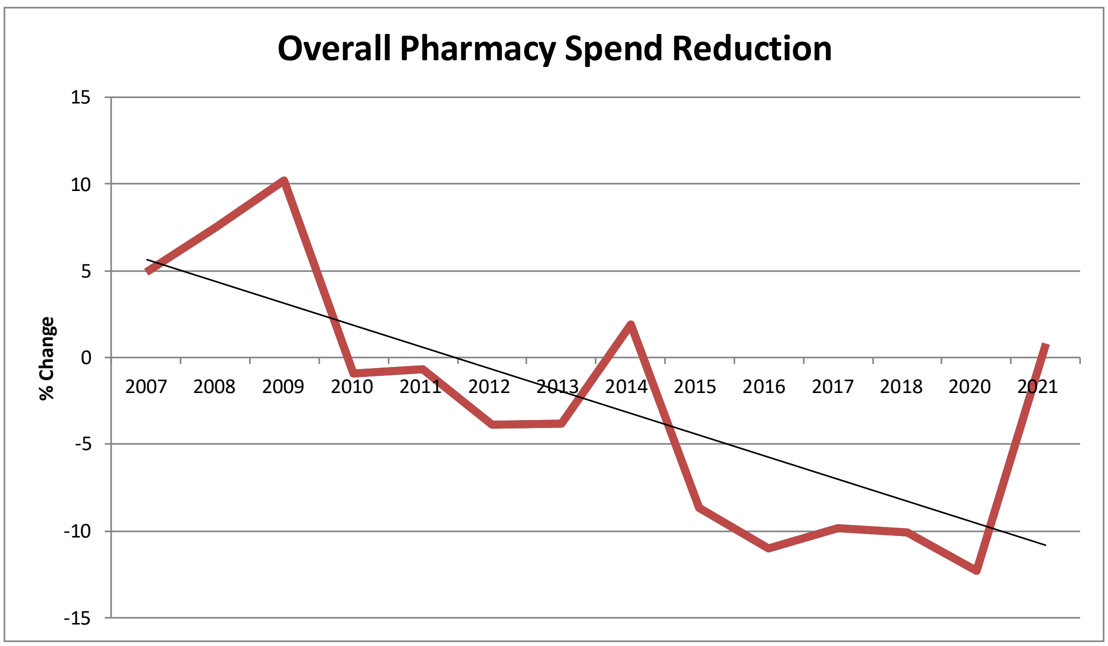
Furthermore, concern over average pharmacy spend continued to decline. Four years ago, respondents rated the importance of average pharmacy spend as 4.1; this year it was just 3.16.

myMatrixx continues to dominate overall PBM scoring with a grade of 4.21—clearing the next closest PBM by more than 15%. Customer service is consistently rated as the most critical attribute for an excellent PBM.

Last—and by no means least—physician dispensing is again rearing its ugly, misshapen, grotesque, and wholly repugnant head. Payers that saw an increase in spend were much more concerned about physician dispensing than their more-fortunate competitors.

Overall pharmacy spend

Total pharmacy spend across all respondents showed a slight overall increase in year-over-year spend, with 10 of 31 respondents reporting an increase. The number of respondents reporting an increase was much higher than in the two previous years. Just one 2019 respondent and two in the 2020/21 survey reported an increase. The sole respondent in 2019 and half of the 2020/21 respondents who reported an increase in spend were tiny payers (<$1 million).



There were two other interesting findings. Of the respondents who reported an increase in spend, half cited COVID-19 impacts as the primary cause.

In last year's survey, the respondents in total reported a 12.3% decrease in spend. This year's survey respondents in total reported an increase of 0.82%. This is the first time since 2014 that total spend across all respondents increased.

Half of the 10 respondents who reported a COVID impact saw a spending increase; of the entire respondent population one-third experienced a spend increase. The entire respondent population saw an average spend reduction of 2.03% per respondent while the COVID-impacted group saw an average increase of 11.41% per respondent. In overall summed terms (whole group added together), the COVID-impacted group saw an increase of 15.24% versus just a 0.82% increase for the entire respondent population.

The findings of this study showed that respondents who rated physician dispensing as a 3, 4, or 5 (a problem, a significant problem, a very significant problem respectively) saw an average overall spend increase of 4.28%, while those who rated physician dispensing a 0, 1, or 2 saw an average overall spend decrease of 10.57%. Our extensive historical experience with physician dispensing and all credible research indicates physician dispensing is a significant cost driver, not just for pharmacy but overall medical expense and total claim cost. This most recent finding reinforces that fact.

Additionally, the same correlation was observed with opioid spend, though the differences were less dramatic—further details can be found in the opioid section of the report.

How Rx drug issues rank in importance

The data indicates workers' comp payers remain concerned about pharmacy, but their level of concern has moderated somewhat. This may well be driven by increasing concern regarding facility costs combined with significantly lower drug spend and the dramatic reduction in opioid prescriptions. On the question "Where do prescription drug issues rank compared to other medical care issues at your organization?" respondents' average score of 3.2 (drug concerns being slightly higher than other medical care issues). This was the lowest recorded since 2009.

Respondents who reported an increase in spend in 2021 from 2020 had rated the importance of pharmacy at 3.4, slightly higher than the entire population at 3.2. This same group anticipated the importance of pharmacy would increase slightly

(3.4, just above "stay the same in importance") over the next year, slightly higher than the entire population's 3.2. These respondents also had below-average opioid reductions—8.73% versus 12.5% decrease overall.

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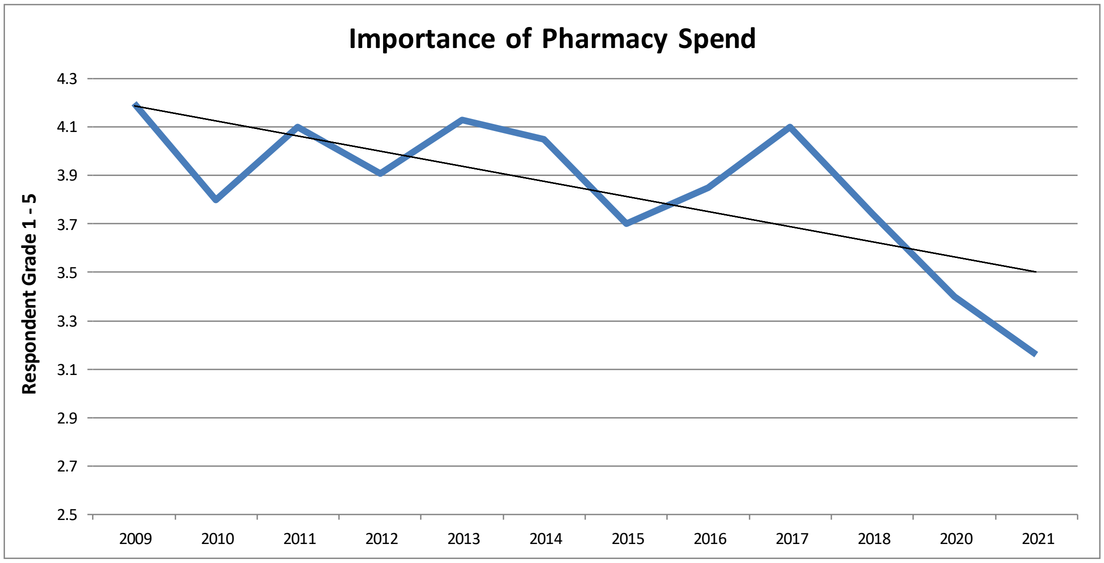


Three respondents noted a change of two levels. They rated the importance of pharmacy as a 5 (very important) in the 2020/21 survey and as a 3 this year. Two of them saw spend reductions of 28.4% and 13.2% (well above average), while the other respondent who indicated a significantly higher level of focus on pharmacy spend recorded a 1.6% increase in spend year over year.

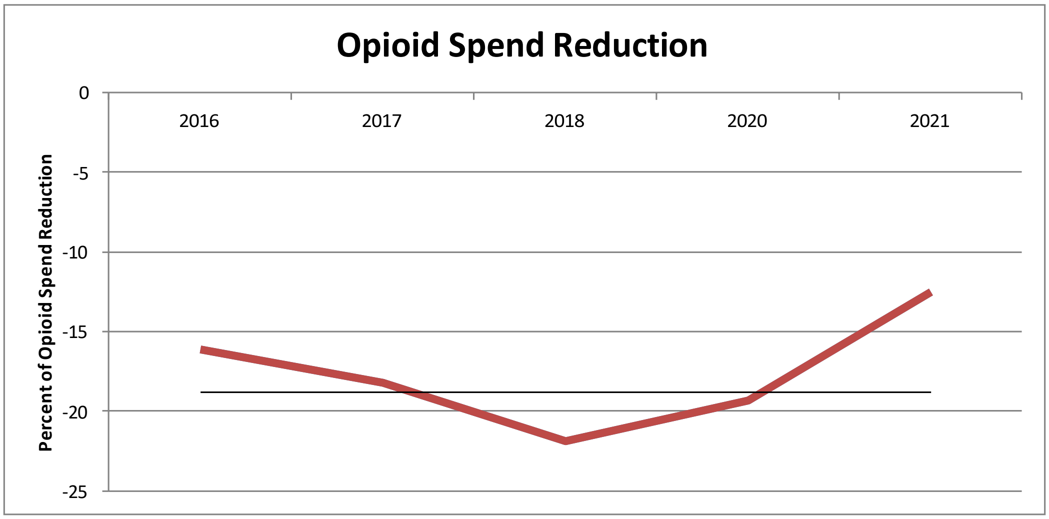
Overall, it seems as though pharmacy spending is on the decline, and that—with notable exceptions—payers are not expecting to place more importance on pharmacy spending in the next year.

Opioids

Opioid use remains a major issue in the United States, but concern over its importance has decreased slightly among payers. As we have reported in past surveys, the workers' comp industry led the way in addressing the opioid epidemic. Almost all payers have undertaken initiatives to reduce opioid spending. This industry report seeks to identify the trends and effects of these initiatives, as well as the differences in opioid spending between those with different views on pharmacy benefit management.

In this year's survey opioid spending was reduced by $8 million, 12.5% overall. This continues a trend of slowing opioid spend reductions as opioid spend was reduced 14.82% from 2019 to 2020 and a whopping 29.74% between 2017 and 2018.

In a sign that smaller payers are catching up to larger payers, the average opioid reduction per respondent was 22.41%. An interesting dynamic in comparing opioid spend to overall spend is that a double-digit reduction in opioid spend occurred in an environment that had an increase in overall spend (+0.82% vs. -12.5%).



Over the last three years very few respondents have seen an increase in opioid spend. This is a testament to the effectiveness of federal and state legislation and regulation, increased public awareness of potential dangers and adverse effects associated with opioids, PBMs' effectiveness, and payer focus on this critical issue. Just two out of 31 respondents reported an increase in opioid spend (one was on very light volume) versus last year, when just one out of 20 reported an increase. Even more encouraging, in 2019 this figure was zero out of 30 respondents.

In the 2022 survey, opioids were 13.4% of all respondents' pharmacy—down from 14.8% in the 2020/21 survey and 14.1% in the 2019 survey.

When comparing changes in opioid spending to overall drug-spend change, those who saw an overall pharmacy spend decrease reported a 29% decrease in opioid spending, while those who saw an increase in overall pharmacy spending only saw a 9% decrease in opioid spending.

Of note, there is a strong correlation between the level of concern over physician dispensing and opioid spend reductions. Respondents rating physician dispensing a 3, 4, or 5 (5 being a very significant problem) saw an average opioid spend decrease of 18% versus those rating physician dispensing a 0, 1, or 2, who saw a 29% average overall spend decrease.

We do not have data on physician dispensing of opioids and thus cannot state this is due to physicians dispensing opioids, nonetheless the correlation is striking.

Opioid spending changes and organizational perception of importance

Changes in opioid spending vary significantly with the level of importance an organization placed on opioids. The overall field of respondents was exactly neutral on the importance of opioids as the average score was 3 (important), down significantly from last year's survey when opioid importance scored a 3.6 and in the 2019 survey when the score was 4.28 (more than very important).

Those who graded opioid importance a 2 saw an average decrease of 22%; those who graded opioid importance a 3 saw an average decrease of 20%, and those who graded opioid importance as 4 saw an average decrease of 15%[3].

Clearly those payers that have had the most recent success reducing opioid spend are less concerned than those with lower levels of recent success. However, there may be another factor in play here, that being payers that more aggressively addressed opioids *before* other payers may well have had less over-use of opioids in 2021. These "early adopters" were quite concerned about opioids early on and their concern levels remain high.

In general, changes in opioid spending are largely influenced by the level of importance an organization placed and places on opioids, and more recently, the impact of the COVID-19 pandemic.

Legacy opioid patients

Payers' progress with helping legacy opioid patients reduce opioid usage fell back slightly from last year's score 3.7 to 3.5. Notably this still represents an improvement over 2019.

Success dealing with legacy opioid patients appears to have little impact on changes in opioid spending—those rating their performance as "very little" or "some" saw a 16% decrease. Those rating success as “modest” had a 30% decrease, and those rating their success as significant or very significant reported a 20% decrease.

Patient resistance

Patient resistance is the number one obstacle to curbing opioid use in legacy patients. However, physician resistance/intransigence/laziness and attorney representation—specifically attorneys who refuse to allow contact with patients or to offering alternatives to opioids to these patients—are tightly inter-related and likely contribute to patient resistance.

Alternatives to Rx drugs

On alternative (non-pharmaceutical) approaches to pain management, the respondents are overwhelmingly open to and interested in alternatives to typical prescription drug options. Several recurring themes were mentioned, such as that treatment is generally best early in the claim life and better for younger claimants, and that physical therapy (PT) and cognitive behavioral therapy (CBT) are good options. Several respondents also mentioned the potential of virtual reality (VR).

Physician dispensing

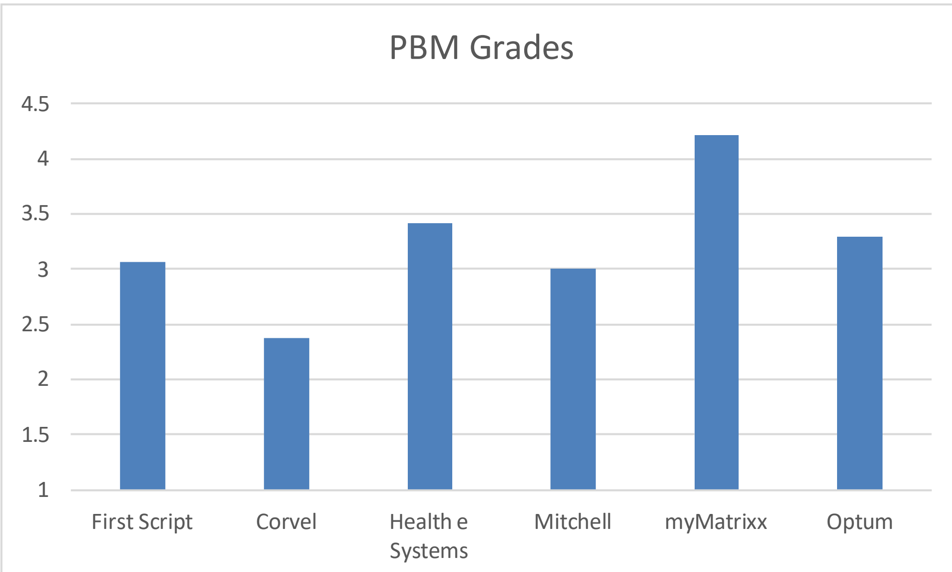
Respondents’ view on the problem of physician dispensing is 2.6 (between somewhat of a problem and a significant problem) consistent with the results of the previous two surveys (2.6 in 2019 and 2.625 in 2020/21).

PBM grades

As we have for the last two decades, we asked respondents to share their personal views on a long list of PBMs. Again, scoring was 1-5 with 1 being they would not want to work with a specific PBM, and 5 meaning the payer would highly recommend the PBM We also asked respondents to rate their PBM’s customer service on the 1–5 scale.

myMatrixx again led all other PBMs at 4.2 (slightly higher than “very good”), a full 8/10ths of a point above its nearest competitor. Similar to prior years, Corvel was the lowest rated PBM (note we did not include PBMs with two or fewer customers in this report).

Respondents also rated their PBMs’ customer service; the overall grade for customer service across PBMs is 4.05, a marginal increase from the two prior surveys where the overall average grade was 3.95 in 2019 and 3.9 in 2021. This indicates that despite the slight changes in overall average and customer service average, the correlation between the two remains strong.



On an individual vendor level, Optum customers responding to the survey have increased their customer service rating over the last three years. In 2019 Optum sported a 3.53 score, which rose to 3.77 in 2020/21 survey and now sits at 3.86.

myMatrixx, on the other hand, has maintained its leadership position. In 2019, myMatrixx scored 4.23, declined to 3.71 in 2020/21 before improving to 3.92 in this year's survey.

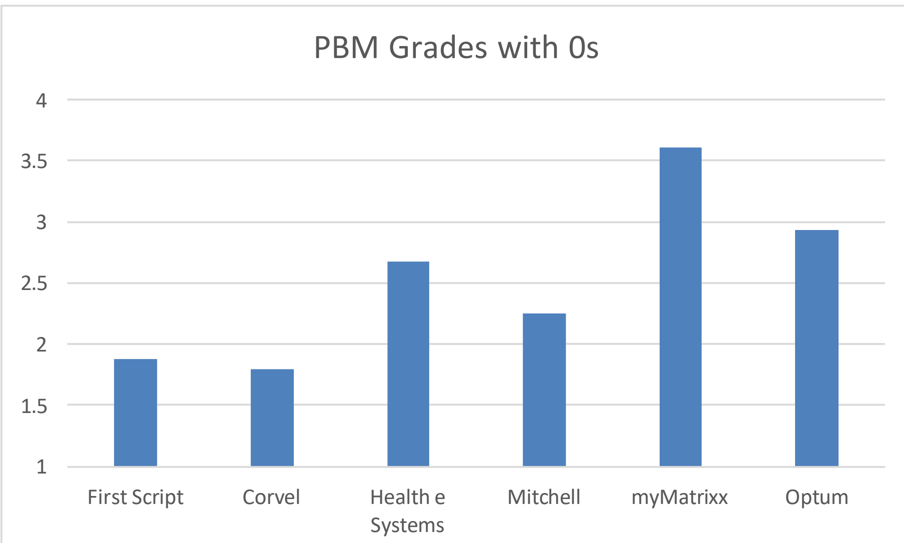
On a cautionary note, the mix of respondents changed slightly over the three years thus the changes do not reflect evolving views of a single customer group.

Overall grades by vendor for 2019, 2020/21, and 2022 are not included here due to sample size and year-over-year comparison challenges.

This methodology produced two different scores for each PBM, one only counting their rating among respondents who knew enough to rate them, and the other including the "0" scores.

It is clear that the landscape of PBMs has shifted significantly in the past few years.

This year's survey has revealed that of the PBMs surveyed, only two, Corvel and myMatrixx, have improved by more than a tenth of a point. Corvel, despite its quite modest gains in this year's survey, still significantly lags the rest of the field, as Corvel is the only PBM to fail to break a 3 in the survey scores. In contrast, myMatrixx has increased their score by 10%, making them the top scoring PBM by a wide margin.



Notably, Mitchell has been the largest loser since 2019 and was the only PBM to lose ground from 2020/21 to 2022. The other PBMs surveyed all gained ground against their 2020/21 grades.

The survey also reveals interesting insights when analyzing the spend of the payers who participated. Payers who experienced an increase in overall pharmacy spend had an average overall PBM grade of 2.87, compared to those who experienced a decrease, who graded the PBMs overall at 3.49.

PBM attributes

The push for transparency continues to increase, and the latest survey shows a large jump in those interested or needing more transparency, growing from 52% to 67%.

Notably, when looking at respondent sentiment around pricing methodologies, respondents are generally less than satisfied. On a scale of 1-5, respondents' views of current pricing methodologies received an average score of 2.1 (13 displeased and 16 neutral).

Clearly, customer service is the most critical aspect when it comes to ensuring customer satisfaction. Respondents were asked to rank the attributes that comprise an excellent PBM and customer service received six times more mentions; that is six times the grades than the best possible discount.

Overall, it appears that transparency and customer service are becoming increasingly important factors for customer satisfaction in the industry. However, respondents are generally displeased with the pricing methodologies currently available. Companies should be aware of these trends and adjust their strategies in order to remain competitive.

PBM audits

Using PBM audits to identify areas of improvement is a popular practice among healthcare organizations. It has been observed that 58% of respondents have audited their PBMs, which is a decrease from the 65% recorded last year. However, limited to occasional pricing checks using benchmarks that may well have been inadequate for the purpose. It appears that actual audits are relatively rare among workers' comp payers.

Overall, PBM audits and improvements are essential for healthcare organizations, as they allow organizations to ensure that they are receiving the best possible service from their PBMs. Although the grades given by those who have and have not audited their PBMs are similar, those who have audited are able to monitor their PBMs more closely and can address PBM performance and quickly identify gaps or issues.

Largest problem in workers' comp pharmacy management

The largest problem in workers' comp pharmacy management today is physician drug dispensing with roughly one-third of respondents specifically mentioning it as the single largest problem. Transparency was the second most mentioned issue with nearly a quarter of respondents specifying it.

Among respondents who saw a decrease in overall pharmacy spend year over year, transparency was the top issue with physician dispensing and patient education a close second and third, respectively.

Of respondents who saw an increase in overall pharmacy spend year over year, physician dispensing dominated the results—60% of respondents mentioned it as the single largest concern in workers' compensation pharmacy management.

Conclusions

Payers and PBMs have done a truly remarkable job reducing drug spend, driven in large part by eliminating unnecessary and potentially harmful opioids. Cost drivers including physician dispensing and legacy opioid use continue to plague the industry. However, it may well be their prominence is due more to the industry's success in reducing overall costs and opioid consumption, thereby making these issues "more" important.

Network penetration, generic fill rates, and other metrics continue to improve across almost all payers, indicating there remains opportunity to reduce employers' and taxpayers' costs and improve patient safety and clinical outcomes.

At risk of belaboring what has become blindingly obvious, customer service—broadly defined—has been, is now, and likely will long be the single most important attribute for a PBM.

Finally, despite the elimination of more than $2 billion in drug spend over the last two decades, payers universally acknowledge the critical importance of pharmacy management in returning injured workers to health and functionality.

End Notes

1. Workers' Compensation Benefits, Costs, and Coverage – National Academy of Social Insurance (nasi.org)

2. https://www.ncci.com/Articles/Pages/Insights-AIS2022-SOTL.aspx

3. The 1 and 5 grades were excluded from this statistic since a proper sample size could not be achieved. (Only one respondent chose 1 and only one chose 5.)

No outside funding was provided to support this survey.