



Overall Drug Trends in Workers' Compensation

Artemis Emslie

VP of Pharmacy Product Development



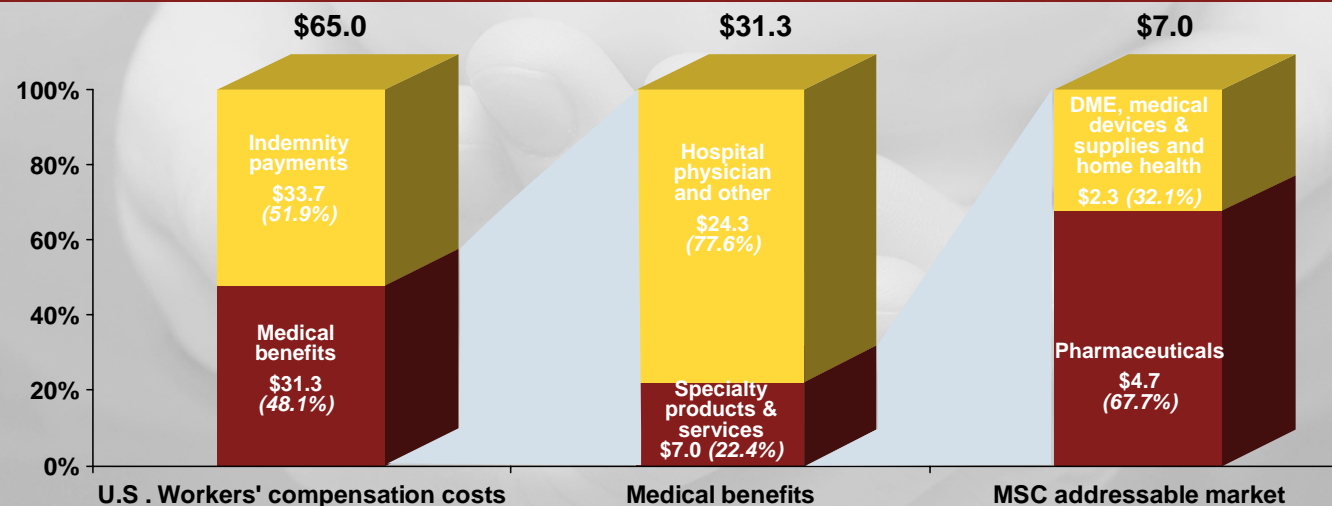
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Workers compensation PBM industry overview



- PBM's addressable market approximates \$5 billion and is growing 9-10% annually
- Pharmacy costs are the fastest growing component of workers' compensation medical costs
- Fundamental differences from group health PBM require specific expertise in workers' compensation and create barriers to entry
- The most effective workers' compensation PBMs offer customized drug formularies, proprietary IT and tailored customer services to drive in-network penetration

U.S. Workers' compensation costs by category, 2007E (\$ in billions)



Source: Centers for Medicare and Medicaid Services, National Academy of Social Insurance, National Council on Compensation Insurance and management estimates



The Need For Change



“Utilization has a greater impact on Workers’ Compensation drug costs than price does”

2003 NCCI Rx Expenditure Study

“Any successes achieved from efforts to control costs through price reduction alone will be diluted or eliminated if utilization is not effectively controlled”

2004 NCCI Rx Expenditure Study

“When a generic is available, the generic is dispensed 79% of the time”

2006 NCCI Rx Expenditure Study

“Changes in utilization are the most significant driving force behind changes in total WC prescription drug cost”

2007 NCCI Rx Expenditure Study



Drivers of escalating drug costs...



- * Increased numbers of prescriptions per claim
- * Increased treatment with drugs (may avoid more costly therapies)
- * Increasing wholesale medication costs
- * Newer, more expensive drugs
- * Off label use
- * Continued growth of senior demographic as a percentage of the workforce
- * Increasing severity of workplace injuries
- * Long tail of drug coverage in workers' compensation driven by entitlement mandate and nature of typical worker injuries
- * Direct-to-consumer advertising (the "Purple Pill" phenomenon)



Direct To Consumer Advertising



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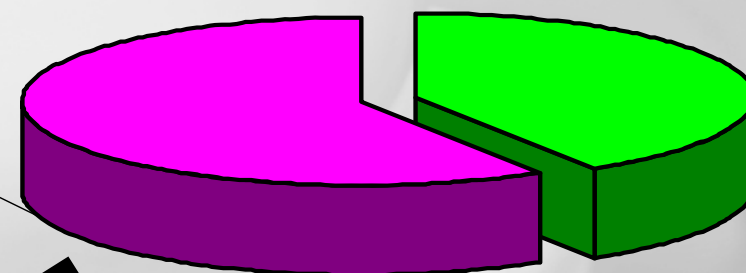
Brand Rx Requests and Prescribing Behavior



Did the patient ask you *to prescribe* a specific brand name drug? (N = 359)

Yes
59%

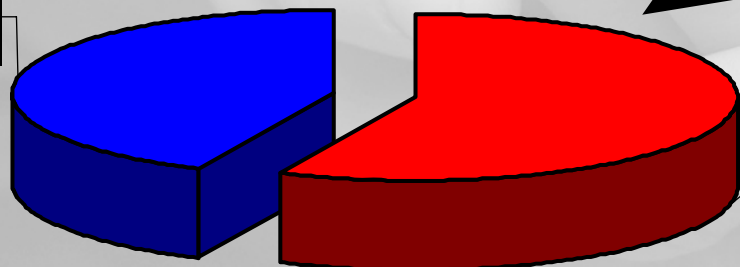
No
41%



No
43%

Yes
57%

Did you prescribe the brand name drug the patient asked for? (N = 211)

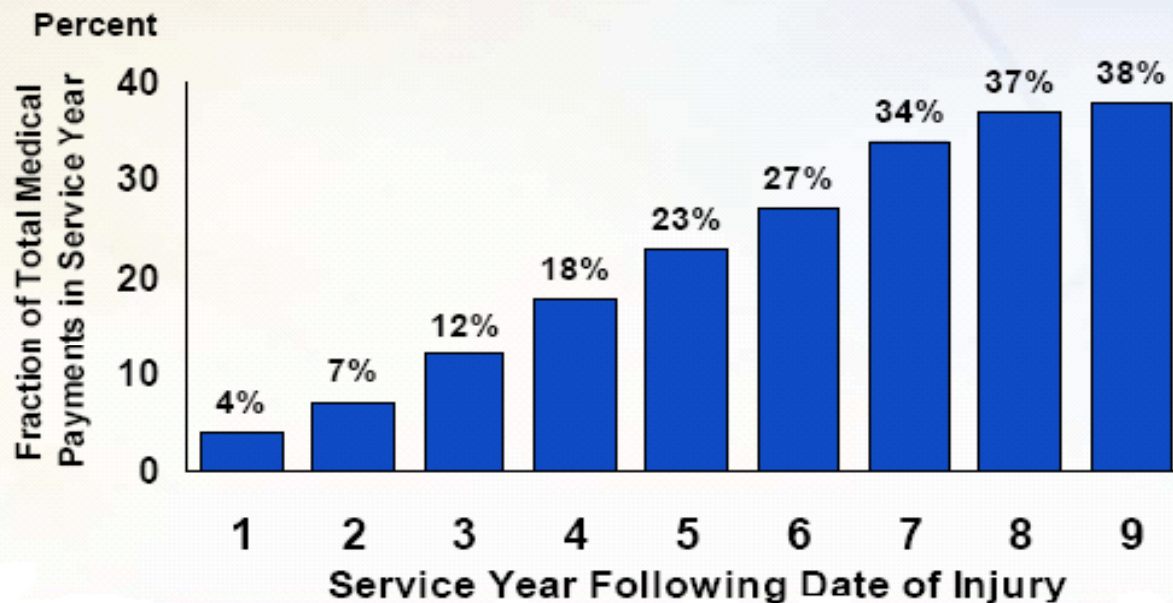


Drug Spend and Age of Claim



Drug Share Rises With Age of Claim

Payments for Drugs as a Proportion of Total WC Medical Payments



Key Events



- * **Cox II's pulled from market**
 - **Vioxx (9/04) and Bextra (4/05) removed, Celebrex remains**
 - **No DTC (mandated by the FDA)**
- * **Medicare Modernization Act**
- * **Fee Schedule- CA & NY**
- * **Generic trends**
 - **Drugs with total U.S. sales of \$30 billion could lose patent protection over the next 3 years, opening a large potential market for lower-cost generics**
 - **Average cost increase for generics was 1% vs 6% for Brands**
 - **Overall generic dispensing increase by 15% in 2006**
- * **Rx to Over the Counter (OTC)**



Generic Facts

- * A generic drug is the same as a brand-name drug in:
 - **Dosage,**
 - **Safety,**
 - **Strength,**
 - **Quality,**
 - **The way it works,**
 - **The amount of time it takes to work,**
 - **The way it is taken and the way it should be used.**

Not all medications have generic equivalents because when new drugs are first made they have drug patents. Most drug patents are protected for 20 years. The patent protects the company that made the drug first. The patent doesn't allow anyone else to make and sell the drug. When the patent expires, other drug companies can start selling the generic version of the drug.



2008 Drug information update



Generic OxyContin®

As a result of patent settlements with the Purdue Frederick Company, the makers of brand name OxyContin®, both Teva and Impax Pharmaceuticals are no longer able to sell their generic versions of OxyContin®, as of January 29, 2008. These were the last two companies that were still able to sell oxycodone ER, the generic version of OxyContin®, under an agreement with Purdue.

In addition Purdue has increase the cost of the drug over 25% year to date. New **Strength(s) Available:** 10mg, **15mg***, 20mg, **30mg***, 40mg, **60mg*** and 80mg

Fentanyl Patch Recall

Effective February 12, 2008 brand name Duragesic® 25mcg/hr patches sold by PriCara (manufactured by ALZA Corporation,an affiliate of PriCara) and generic fentanyl 25mcg/hr patches sold by Sandoz Inc. (also made by ALZA) are being voluntarily recalled as a precaution from wholesalers and pharmacies

Additional information can be found at www.DURAGESIC.com

On March 3, 2008 this recall to include all lots of fentanyl transdermal systems sold in the United States by Actavis South Atlantic LLC





Pharmacy Benefit Managers



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Drug Pricing Terms



- * AWP- Average Wholesale Price-** “Suggested list price, listed in Red Book, First DataBank or Medispan.” Most buyers negotiate a discount and there is no requirement that AWP reflect the price of any actual sale of drugs by a manufacturer, nor is it defined in law or regulation.
- * MAC- Maximum Allowable Cost-** Maximum per unit pricing on a list of drugs; Used in reimbursement for drugs on the list, regardless of acquisition cost. May be used as a marketing tool by health plans.
- * Retail or Usual and Customary (U&C) Price-** The retail pharmacy’s selling price to individual customers. Includes the cost of the drug and the markup. “Cash price.”



Components of a PBM

- **Process Rx claim information at the point of sale and applies plan design rules and drug utilization edits**
- **Provide access to a pharmacy network for medication discounts**
- **Performs concurrent drug utilization reviews**
- **Formulary management functions**
- **Customer service**
- **Develop and maintain eligibility data**
- **Reporting / Billing**
- **Clinical programs**



Comparison of group health and workers' compensation PBM



	Group health	Workers' compensation
Benefits	<ul style="list-style-type: none"> Only medications on formulary are covered Co-pays and deductibles Ability to direct care 	<ul style="list-style-type: none"> 100% of medical expenses, including all medications related to the injury or condition, are covered Can not direct care
Payors	<ul style="list-style-type: none"> MCOs/HMOs Medicare Medicaid TPAs Self-insured employers 	<ul style="list-style-type: none"> Workers' compensation insurance carriers TPAs State insurance funds / municipalities Self-insured employers
Eligibility	<ul style="list-style-type: none"> Defined during open enrollment Benefits cease when employee is terminated 	<ul style="list-style-type: none"> Begins when claim deemed compensable Claimant typically receives first prescription before claim accepted as compensable Benefits cease when claim is settled
Network incentive	<ul style="list-style-type: none"> Prescription card must be presented for medication to be covered If prescription card is not presented, claimant is required to pay out of pocket 	<ul style="list-style-type: none"> Claimant does not pay out of pocket If claimant does not present card, prescription is routed "out-of-network," usually through third-party billers
Reimbursement	<ul style="list-style-type: none"> Low reimbursement provided in pharmacy contracts due to large volume 	<ul style="list-style-type: none"> Higher pharmacy reimbursement associated with higher maximum reimbursement rates set by individual states



Drivers of cost savings in workers' compensation PBM



In-network penetration

- Brings prescriptions into network so that drug costs can be managed effectively
- Reduces cost impact of third-party billers

Competitive pricing

- Negotiated discounts to state fee schedules

Injury-specific formularies

- Allows payors to determine drug eligibility more accurately, ensuring reimbursement is limited to prescriptions related to the compensable workplace injury

Generic substitution

- Offers significant cost savings over branded drugs
- Generally measured as generic efficiency – percentage of prescriptions filled with a generic drug when a generic option is available

Mail-order delivery

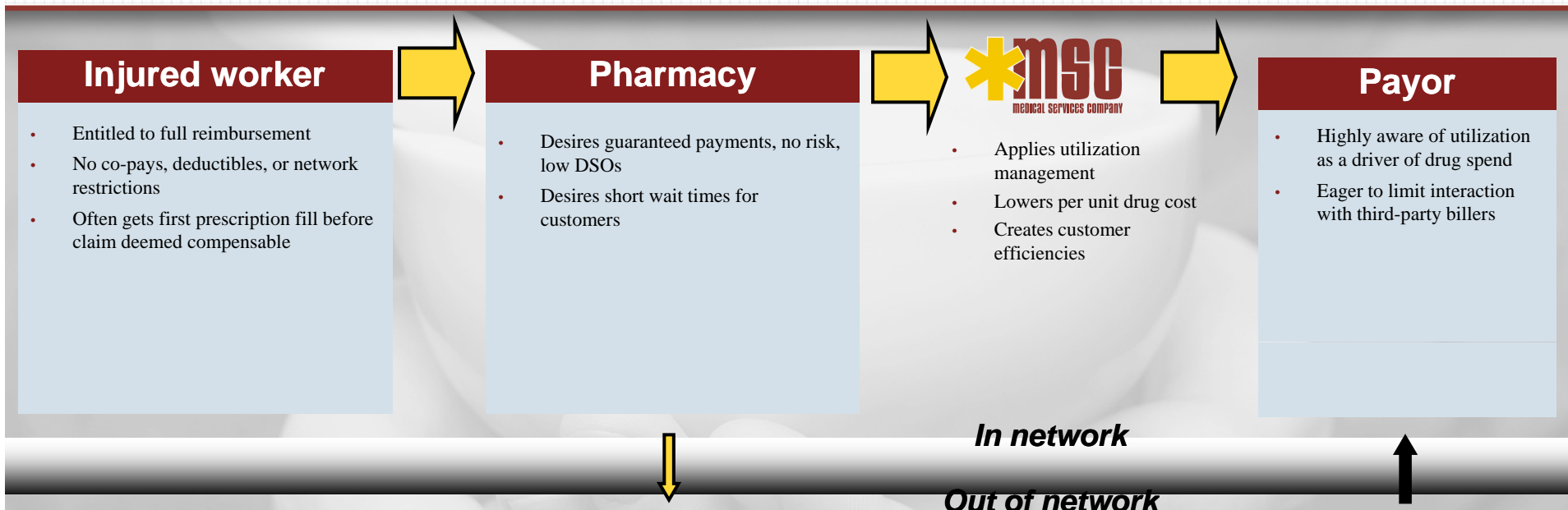
- Generates higher savings than prescriptions filled via the retail channel

Clinical programs / Decision support tools

- Generates specific recommendations for managing the highest-cost medical cases
- Requires clinical expertise in workers' compensation



Prescription reimbursement workflow



Injured worker

- Entitled to full reimbursement
- No co-pays, deductibles, or network restrictions
- Often gets first prescription fill before claim deemed compensable

Pharmacy

- Desires guaranteed payments, no risk, low DSOs
- Desires short wait times for customers

***MSC**
MEDICAL SERVICES COMPANY

- Applies utilization management
- Lowers per unit drug cost
- Creates customer efficiencies

Payor

- Highly aware of utilization as a driver of drug spend
- Eager to limit interaction with third-party billers

Third-party billers, direct, etc.

- Out-of-network fills routed primarily through third-party billers - essentially factoring businesses that pay cash to pharmacies for virtually any prescription purported by the claimant to be compensable under workers' compensation and accept risk of reimbursement from payor
- Few managed care concepts applied; high utilization
- If prescription is found to be compensable under a workers' compensation claim, payors are charged the full price allowable under the applicable state fee schedule

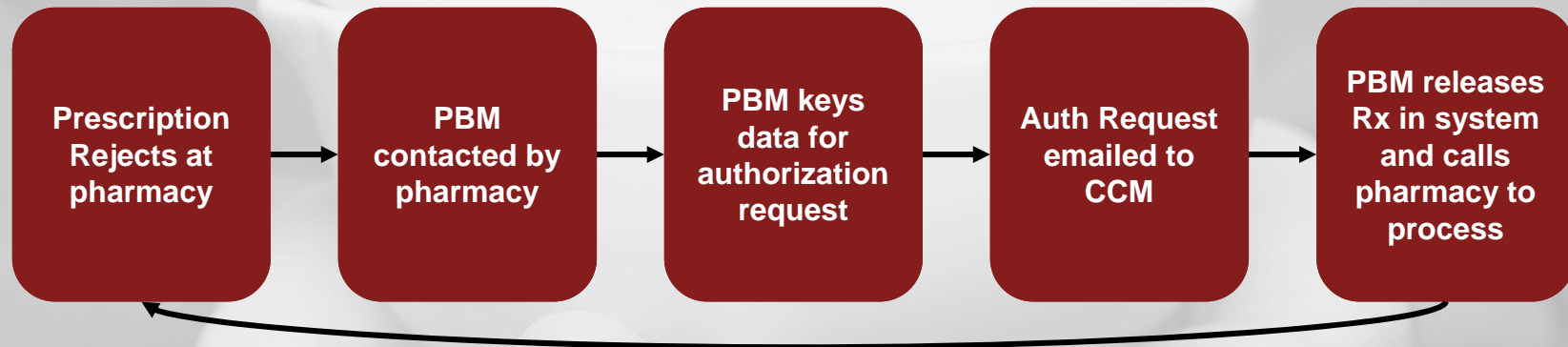
PBMs must efficiently execute a workers' compensation-specific business model to limit the cost impact of out-of-network fills

Prior Authorization Technology - Workflow



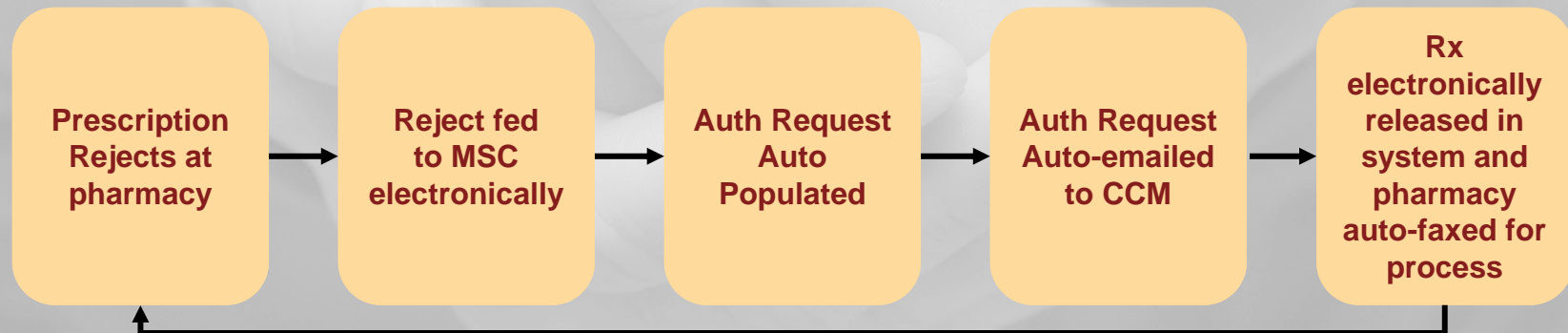
Traditional Model

2 phone calls + 2 manual steps



Auto-Authorization Model

0 phone calls + 0 manual steps



PBM Clinical Services



* **Formulary development & management**

- The right list of drugs for a given occupational injury

* **Point-of-sale DUR edits to stop inappropriate prescriptions**

- Quantity, days supply, cost, step therapy or inappropriate drug combinations

* **Drug information services**

- Email or phone consult resource for nurses, claims staff and other members of healthcare team

* **Retrospective DUR services**

- Individual patient file review with pharmacist's expert opinion on therapy

1994 study by Kralewski estimated that for every \$1 spent on DUR process, \$2-3 were saved in prescription costs....



Workers' Comp. Formulary



* To be effective, a formulary should be:

- Closed vs. open (injury specific)
- Evidence-based with solid literature support
- Continually updated
- Flexible to meet client needs
- Promotes clinically sound, cost-effective pharmaceutical care



Standard vs. Injury-specific



- * A **standard** work comp formulary is designed to provide treatment for the worker's compensation patient *population*, as opposed to the non-occupational injury patient population (i.e., group health insurance patients).
- * An **injury-specific** formulary is designed to treat the individual workers' comp *patient*, rather than the entire population of injured workers.



MSC Injury-Specific Formulary System (Perform)



Neck Formulary

Neck Strain Caps
Pain In The Neck Cream
Rubber Neck Cream
Brace Yourself Tabs



Lung Formulary

Breathe It In-Haler
Cough Caps
Lung Pills
Wheezing Wonder Drug

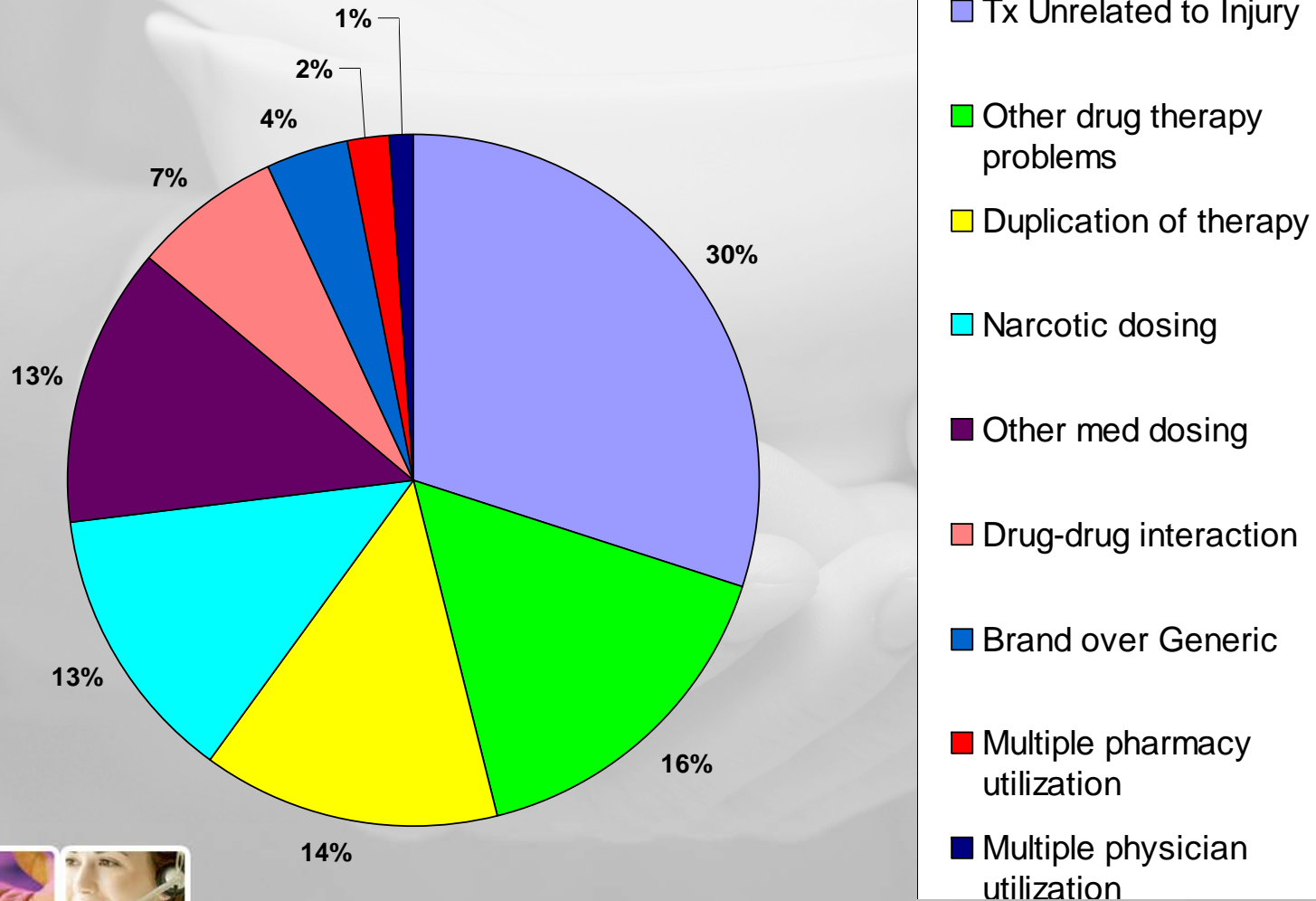


Needle Formulary

A Point-Ment Ointment
Stabbing Pain Pills
Stop Virus Tab



Retrospective DUR trends



BWC - Ohio



- * **179 million total drug spend**
- * **Group Health PBM model**
- * **20% of the medications dispensed were questionable**
- * **8-15% of the medications dispensed conflicted with injury**
- * **7-10% of the brand name drugs had generics available**
- * **9% had no evident relationship with injury**

* Published in Risk Management July 05'



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Physician Outreach Examples



- * Established DUR triggers**
- * Targeted educational pieces sent on behalf of specific claimant**
- * May include requirement to document medical necessity**
- * Target drugs or drug classes and include literature support and treatment algorithms**
 - Actiq
 - Sedative hypnotics
 - Skeletal Muscle Relaxants



Drugs on the Radar Screen

- * **Sedative-Hypnotics**
- * **Skeletal Muscle Relaxants**
- * **Compounded medications**
- * **OxyContin and other narcotics**
- * **Actiq**
- * **Cox-II's**



2006 Overall Trend Summary

- * **\$13 billion brand name medication are now available generic**
- * **New drug introductions – record low**
 - More than 75% of prescriptions in 2007 were filled with drugs introduced in 1994 or earlier
- * **Ingredient cost increase 5.4% - lowest level this decade**
 - 59% due to increase cost of the medication
 - 38% due to the increase utilization
 - 3% due to introduction of a new medication
- * **Hypnotic (sleep agents) – 14% growth**
 - Ambien CR, Lunesta and Rozerem
- * **Anticonvulsant – 8% growth**
- * **Narcotic – 8.3% growth**
 - Oxycontin, Duragesic and Actiq



Narcotic Analgesics



* Overall decline in Rx cost Due to Generics of 7%

* Generics have an 88% market share

- OxyContin 40 mg ~ \$450/month
- Duragesic 50mcg/hr ~ \$308/month fentanyl 50mcg/hr ~ \$264/month
- Actiq 600 mcg ~\$1600/month (#60)
- Lorcet 10/650 ~\$150/month hydrocodone/APAP ~ \$47

* New Generic releases

- Actiq (oral transmucosal fentanyl lozenge)
- Duragesic 12mcg/hr (fentanyl transdermal patch)
- Ultracet (tramadol/apap)
- Ultram (tramadol)

* New Brand releases

- Fentora (fentanyl buccal tablets)
- Opana, Opana ER (oxymorphone tablets)



NSAIDs / Cox-2's



* Overall decrease in total cost by 10%

* See increasing use of traditional NSAIDs (naproxen, etc)

- Celebrex 100 mg ~\$127/Rx
- Mobic 7.5 mg ~ \$ 106/Rx
- Motrin 600mg ~\$25/Rx ibuprofen 600mg ~14/Rx
- Naprosyn 375mg ~\$94/Rx naproxen 275mg ~\$58/Rx

* New Generic releases

- Mobic (meloxicam)

* New Medications

- Flector® Patch (diclofenac epolamine topical patch) became available in the United States January 23, 2008



Antidepressants

*** Overall decrease in total Rx cost by 10%**

*** Generics utilization increased**

- Zoloft 50mg ~ \$91/Rx
- Effexor 50mg ~ \$131/Rx
- Paxil 40 mg ~ \$109/Rx

paroxetine 40mg ~ \$89/Rx

*** New Generic releases**

- Paxil CR off patent May 06'
- Zoloft (sertraline)
- Welbutrin XL (budeprion XL)

*** New Medication**

- Luvox CR



Questions?

