

Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

PMI White Paper



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Introduction

Managing medication costs has become a key business issue for auto no-fault insurers, with approximately \$3.26 billion in medication expenses associated with auto accidents each year.¹

Challenges associated with managing medication costs include price inflation, paying for expensive brand medications, and filling non-compensable medications. On average, inappropriate utilization of prescription medications due to overspending costs auto no-fault an additional 10 to 15 percent.² Without proper management, these challenges can cause an overall rise in the cost of pharmacy expenses and a decrease in insured satisfaction.

Auto no-fault insurers can gain more control over medication costs by putting the proper processes into place. An effective way to do this is by working with a pharmacy benefit manager (PBM). A PBM offers programs and services that give auto no-fault insurers more insight into their company's total medication costs while streamlining pharmacy benefit processes.

This paper examines the role of a PBM in assisting auto no-fault insurers to address the challenges associated with managing medication costs. Key elements include:

- The challenges of rising medication costs
- Defining the services of a PBM
- Examining how an auto no-fault insurer works with a PBM
- The PBM solution
- Selecting a PBM and evaluating the value of a PBM relationship

Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

The Challenges of Rising Medication Costs

U.S. medical losses associated with auto accidents total \$32.6 billion annually with each critically injured survivor costing an average of \$1.1 million dollars.³ At the same time, medical costs for auto injuries are rising by as much as 30 percent annually in some states.⁴ Approximately \$3.26 billion, or 10 percent, of the medical losses associated with auto accidents are for medication expenses.⁵

Price Inflation

Price inflation is projected to increase medication costs from \$200.7 billion in 2005 to \$497.5 billion in 2016. This represents an estimated 148 percent increase in 11 years.⁶ The number of prescriptions purchased between 1994 and 2005 increased 71 percent, compared to a nine percent U.S. population growth.⁷

These statistics are attributed to a rise in prescriptions, changes in the mix of medications being used (from older, less expensive medications to newer, higher cost medications), and manufacturer price inflation for existing medications.⁸

Brand Medication Use

Brand medications can cost up to three times more than their generic counterparts.⁹ While 47 percent of prescriptions are filled with brand medications, they comprise 88 percent of the \$250 billion spent annually on prescriptions in the United States.¹⁰

All too often, brand medications are used in place of generics due to lack of education on the availability of new generics and a general misconception that brand medications are more effective than generics. Generic medications have the same components as brand medications including intended use, effects, risks, side effects, safety and strength. The only differences a generic has from its brand counterpart are flavor, color, shape and inactive ingredients. Thus, the active ingredients in generics remain the same as the brand name version.¹¹

Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

Inappropriate Utilization

On average, inappropriate utilization of prescription medications results in overspending and costs auto no-fault providers an additional 10 to 15 percent.¹² Overspending occurs when prescriptions are filled that are not related to an insured's injuries. For example, an insured refills a high blood pressure medication, birth control pills, diabetes supplies or anti-depressants and passes those costs on to the insurer. These unrelated or non-compensable medications cost the insurer hundreds of dollars each month and may result in court ordered coverage of unrelated medications.

Summary

Managing pharmacy costs has become increasingly challenging for auto no-fault insurers as costs increase, over-dispensing of brand medications continues and inappropriate utilization exists. The potential impact includes a reduction in an insurer's bottom line and increased administrative burdens on the claims professional. A PBM can help insurers manage pharmacy costs effectively and efficiently while maintaining insured satisfaction.

Defining the Services of a PBM

A PBM provides a variety of programs and services that assist the insurer in controlling medication costs while providing excellent service to the insured. Programs include offering network discounts, a national network of pharmacies, and other comprehensive programs such as mail order and drug utilization review to assist in the overall goal of cost containment.

Network Participation and Discounts

For an insurer to receive a discount on prescription medication, a PBM partner must have a vast national network of retail pharmacies that honor the discount. The network must include all major chains and be easily accessible to the insured. A PBM also contracts and negotiates volume discounts with national retail pharmacies and passes the discounts on to clients. PBM partners vary in their offerings since discounts are based on volume, program use and regulations set forth by the state.

Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

Program Penetration

A PBM must have a program that encompasses each phase of prescription fulfillment. Such phases include programs that capture initial prescriptions, ongoing prescription needs and long-term or catastrophic prescription requirements. In addition to these programs, a PBM should offer training at both the claims professional and the insured level to ensure that the program is used effectively. A PBM program that does not cover each of these phases of program management will lead to poor penetration or usage, which will decrease an insurer's savings and result in an insured paying out-of-pocket for prescription medications.

Mail Order Programs

A PBM's mail order program is extremely effective at providing extended care to insureds that require ongoing prescription medications. A PBM program defines criteria and processes to identify good candidates for conversion to mail order. Mail order programs work especially well for an insured that cannot leave the home or for those who will be taking multiple long-term medications. In addition, while the program not only offers convenience to the insured, it decreases the administrative burden carried by the claims professional, particularly since it is typical for an insured to receive a 90-day supply of medication.

Mail order programs represent a cost savings for the insurer because mail order programs are typically lower in price than a retail pharmacy for both brand and generic medications.¹³

Drug Utilization Review

Drug utilization review (DUR) includes formulary management, historical medication usage, physician intervention and a variety of other clinical factors to eliminate fulfillment of medications that are inappropriate.

A well-managed DUR program, coordinated by licensed pharmacists, is the most valuable benefit of a PBM. No matter the network discount on a prescription, savings are irrelevant if the medication should not have been dispensed at all. A quality DUR program can result in significant incremental

Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

savings—usually between 8 to 12 percent above the prescription cost savings.¹⁴

A PBM typically offers various levels of drug utilization review.

Prospective DUR: A prospective program allows all involved parties to plan for future outcomes with up-front information. If potential problems are found, the claims professional may withhold the approval of the claim. At this point, a formulary is established based on the injury date and type (see Formulary Management).

Concurrent DUR: Typically, a PBM offers a concurrent DUR program that occurs in real-time at the pharmacy. When an insured fills a prescription, the prescription is audited for appropriateness against a formulary as well as for duplication, multiple physicians, excessive dosage, drug-to-drug interactions and other items of this nature. Depending on the medication formulary, the pharmacist may also be required to seek authorization from the PBM or the claims professional.

Retrospective DUR: A retrospective program occurs after medications are filled using historical data. A PBM will work with the insurer and determine which key areas the insurer would like to review on a retrospective basis. Key areas often include appropriate medication use for compensable condition, drug-to-drug interactions, drug-to-disease interactions, duplication in therapy and high utilizing insured parties.

Formulary Management

Working with a PBM to establish the appropriate formulary is a key part of a successful DUR program. A PBM should ensure the formulary is specific to the injury. In auto no-fault insurance, it is important to address the nature of the injury when determining the classification of medication that is appropriate for treatment. Formularies should be based on three primary factors: body part, date of injury and injury type. Using an injury-based format allows the PBM to use published clinical guidelines to establish and assess what is appropriate and within the scope of treatment for the injury. This is vital in preventing fraud, abuse and misuse.

Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

Here is an example of how to use an injury-based formulary to prevent inappropriate medication fulfillment:

A patient with an acute head injury is allowed to fill a prescription medication typically prescribed for headache, seizures or pain. If the patient tried to fill a prescription for anti-depressants or muscle relaxants, the medications would not be dispensed because it is outside the formulary. However, if the insured's injury progressed into a chronic head injury, then anti-depressants or muscle relaxants may eventually be covered because the injury-based formulary would change.

Generic Substitution

A PBM should have a program in place that automatically converts medications from brand to generic (if a generic substitution is available). The program should occur concurrently or at the point of fulfillment at the pharmacy and should also occur retrospectively or historically as part of the drug utilization review (DUR) process.

Technology and Reporting

While a PBM program is not effortless on the part of the insurer and claims professional, it should be easy to use. An effective PBM program should not only reduce overall medication costs, but reduce the claims professional's administrative time. In addition, a wide range of reports and reporting options should be available to continually assess the program's value.

Summary

A PBM has various programs that work together to reduce medication costs for the insurer. These programs include offering a vast national network that offers volume discounts on medications. They should also encompass various processes to ensure that insureds are using the program and accessing available discounts, leading to good penetration. PBM programs should offer additional savings through mail order and by enforcing the use of generic medications when they are available.

Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

An injury-based formulary management program is key to the success of a DUR program. A well-managed DUR program will contain prospective, concurrent and retrospective utilization reviews and should be overseen by a licensed pharmacist. The program should be easy to use and demonstrate its value through detailed reports.

How PBMs Work with Auto No-Fault Insurance Providers

PBMS follow a specific process for determining, managing and analyzing prescription drug benefits for auto no-fault claims. This process typically entails:

1. The insured reports the loss.
2. A claim is entered into the insurance provider's system.
3. Eligibility information is sent to the PBM by the claims professional.
4. PBM mails a drug card to the insured.
5. Insured takes the drug card and prescription to the pharmacy.
6. Pharmacy adjudicates prescription and checks DUR edits.
 - The PBM is contacted to determine if prior authorization is required.
 - If the prescription passes all DUR edits, the pharmacy bills the PBM.
7. PBM pays the pharmacy and bills the insurance providers, which pays the PBM.
8. PBM provides ongoing reporting to the insurance provider.

The PBM Solution

By using a PBM, auto no-fault insurers can receive an average savings of up to 25 percent on their overall spending.¹⁵ While many auto no-fault insurance companies partner with a PBM to minimize the impact of rising drug costs, they also realize administrative and insured satisfaction benefits.

Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

Insured Satisfaction

Satisfying insureds is the highest priority of auto no-fault insurers. A PBM can help assist with this goal by:

- Reducing out-of-pocket expenses for the insured.
- Making it easier for the insured to get the medications they need through a vast national network.
- Offering a mail order program.

Some examples of the administrative benefits a PBM provides to the claims professional include:

- Less paperwork for medication invoices and reimbursement issues.
- Easily accessible prescription history for the insured.
- Reduction in the amount of inbound and outbound phone calls.
- Increased ability to detect utilization issues and potential problems.

Selecting a PBM

Selecting the right PBM can be a daunting task. Consider the following criteria when choosing a PBM:

- 1. Experience in Auto No-Fault.** There are many PBM vendors that lack experience in handling auto no-fault claims. As laws vary from state to state, a PBM that specializes in the auto no-fault insurance market understands the nuances and how they affect pharmacy benefits.
 - How many years has the PBM been working in the auto no-fault industry?
 - Can the PBM provide specific references, workflows and processes specific to the auto no-fault client?
 - Is there a dedicated team for auto no-fault?

Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

- How does the PBM stay current on issues in the auto no-fault industry?
- 2. Pharmacy Network.** Some PBMs lack a national network of retail pharmacies that support auto no-fault insurers. This is important because an insurer will not receive significant savings if an insured must fill a prescription out-of-network, when there is not a network pharmacy nearby, or when traveling or moving. A good PBM will offer a deeply discounted network that encompasses a large number of pharmacies.
- Is there a national pharmacy provider within the network?
 - Is there a list of pharmacy networks available that is easy to access and continually updated as new pharmacies are added to or deleted from the network?
 - How does the process work for recruiting pharmacies to the network?
 - Within the network, are there quality assurance programs in place to ensure retail pharmacies are meeting contractual obligations?
- 3. Drug Utilization Review.** It is critical to understand what the PBM vendor includes as part of its DUR process.
- Is the formulary created and managed by pharmacists?
 - Is the formulary injury-based or broad in nature?
 - Is there a concurrent or point-of-sale DUR program?
 - What specifically does the DUR program monitor?
 - What percent of claims are audited in the DUR program?
 - Are intervention, step therapy, prior authorization and pharmaceutical evaluation programs offered?
 - Can pharmacists be reached for questions?
 - Are prescribing physicians proactively contacted to request a “Letter of Necessity”?

Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

- Is the mail order program owned by the PBM or is it contracted out to a third party?
 - How are candidates selected for mail order conversion? Is the conversion proactive?
- 4. Ease of Use.** A long-term PBM partnership requires ease-of-use programs that assist the claims professional with daily job functions.
- Can the PBM customize its workflows to meet the insurance company's needs?
 - Does the program offer the claims professional a user-friendly, Internet claims management tool that is available 24 hours a day, 7 days per week and 365 days per year?
 - Does the PBM provide an account management team to offer guidance throughout the implementation process?
 - Does the implementation program include a conversion plan?
 - What is the approach to customer service? Are customer service representatives available 24 hours a day, 7 days per week and 365 days per year?
 - Are education and technical support provided for the program at no cost?
 - Is continuing education provided for claims professionals?
- 5. Technology.** The ability to integrate a PBM's technology with existing business applications is important. It is also essential for a PBM to offer flexible, customizable solutions that meet the company's specific requirements. Some key questions for consideration include:
- How does the technology integrate with existing business applications?

Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

- Can the technology be customized to meet specific business rules and challenges?
- On what technology platforms are the systems based? Are they web-based?
- Does the PBM have EDI capabilities?

6. Reporting. The ability to measure the impact of a PBM relationship is important.

- What types of reports are offered?
- What file formats of the reports are available?
- Are the reports “real time” or retrospective?
- Is cost savings analysis provided?
- How are notifications delivered for inappropriate utilization?
- How are notifications delivered for potentially fraudulent situations?
- Is clinical reporting offered?
- Can reports be customized?
- Is there a charge for ad-hoc reports?

Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

Evaluating the Value of a PBM Relationship

The following checklist can be used to evaluate the success of an existing PBM relationship. Has the PBM

- Decreased overall pharmacy costs?
- Demonstrated decreased pharmacy cost results through written reports?
- Provided a variety of programs to capture initial prescriptions all the way through long-term catastrophic prescriptions?
- Caught prescription errors at the point-of-sale and sent notifications?
- Caught therapeutic duplication medications at the point-of-sale and sent notifications?
- Alerted the company to potentially fraudulent activity?
- Completed customer satisfaction surveys to measure insured satisfaction levels?
- Has the PBM been a true partner and allowed the company to focus on other aspects of cost containment?
- Coordinated meetings on a quarterly basis to improve program management?
- Educated employees on the PBM program and use of tools to manage the program?

Summary

As medication costs continue to rise at a rapid rate, auto no-fault insurers are facing increasing challenges in containing medication expenses. By using an experienced PBM that offers a comprehensive range of programs, auto no-fault insurers can gain control of medication costs while maintaining, or even increasing, insured satisfaction.

Ultimately, it is important for a PBM to have experience in the auto no-fault industry, offer a vast national network, extensive clinical pharmaceutical experience in the DUR program, flexible and user-friendly technology and maintain strong reporting features. A PBM should be easy to work with, offer customized solutions and demonstrate its value to your organization through day-to-day activities and reporting.

Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

About PMI

PMI is a pharmacy benefit manager (PBM) that has provided pharmacy management solutions to the challenges that face insurers for more than 20 years.

The Total Pharmacy Management program offered by PMI:

- Was created by pharmacists with more than 20 years experience in developing cost containment pharmaceutical programs that meet the insurer's needs of reducing medication costs while maintaining the highest levels of insured satisfaction.
- Is easy to use and fully customizable to meet each client's needs. The program is managed by the claims professional through a unique Internet-based claims management tool, IFX (Information Exchange). IFX offers a wide range of real-time reporting capabilities.
- Offers a dynamic Drug Utilization Review (DUR) program that includes prospective, concurrent and retrospective reviews. All medication prescriptions are audited, discounts are applied and the insurer is notified of all inappropriate utilization.
- Has a vast national network of pharmacies that includes 98 percent of retail pharmacies nationwide.
- Uses multiple programs such as Instant Activation™, Retail Drug Card and Home Delivery for one of the best penetration rates in the industry, up to 80 percent for some EDI clients.
- Includes a proactive Home Delivery conversion program which converts appropriate candidates to PMI's wholly-owned Home Delivery pharmacy, Script-Wise.
- Has an account management team assigned to each client. The account management team leads the implementation and provides on-site training. This team also provides ongoing education for the claims professionals as long as the program is operable.
- Includes customization of injury-based formularies.

Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

About the Author

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Managing the Challenges of Increasing Medication Costs in Auto No-Fault Insurance

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