

Progressive Medical, Inc.
Contributed Article: Risk & Insurance Magazine

Do \$4 Generics Fit into the World of Workers' Compensation?

Wal-Mart and other retailers began launching their \$4 generic programs in 2006 to assist in reducing patients' healthcare costs. Originally developed as a marketing tool to bring customers into their stores, these low-cost generic and savings-card programs have benefited group health insurers through consumer awareness, which has increased the request for prescriptions to be filled with generics versus more expensive brand name drugs.

Offers similar to \$4 generics programs, such as free antibiotics, have also been successful for group health. But does offering this type of discount program apply to workers' compensation? We will attempt to answer this question by taking a closer look at how \$4 generic programs work. We'll also provide insights on alternative ways for containing workers' compensation medication expenses.

Discount Generic Programs and Group Health

Gone are the days when the only place you could fill a prescription was the neighborhood drug store. Today, it seems that pharmacies are everywhere—from national pharmacy chains to new in-store pharmacies at supermarkets and discount stores. According to the National Association of Chain Drug Stores, in 2007 in the United States there were more than 56,000 pharmacies in chain drug stores, supermarkets, mass merchants and independently-owned drug stores, as compared to just over 51,000 in 1997.

With the rise in competition, pharmacies' marketing strategies have included offering discounted prescription drugs, such as \$4 generics, to get consumers to switch pharmacies. With the average brand-name, group health prescription fill costing \$120 (Source: Kaiser Foundation) and the number of uninsured Americans in the tens of millions, it's no wonder that consumer response to these programs has been favorable. Since Wal-Mart launched its \$4 generic program in 2006, it has seen an increase in pharmacy customers, gaining 2 percent of another competitive pharmacy chain's market share (Source: Prosper Study).

With medication expenses comprising 19 percent of the medical costs of a claim, the benefits of these pharmacy chain programs may appeal to workers' compensation insurers (Source: NCCI 2008). However, prior to offering discount generics programs similar to \$4 generics, workers' compensation insurers should consider the following factors, including the benefits of working with a pharmacy benefit manager specializing in workers' compensation.

Medication Types

Discount generic drug programs through national pharmacy chains are effective for their specific list of generic drugs. However, most medications included in workers' compensation formularies are not eligible to receive discounts typically offered through \$4 generic programs or similar offers. In fact, data from Progressive Medical shows that the drugs on Wal-Mart's \$4 drug plan account for less than 6 percent of workers' compensation drug spending.

In addition, dosages and duration of therapy are sometimes atypical in workers' compensation. Most discount programs offered by national retailers fill a smaller dosage, such as a limited 30-day supply, with less than 30-days worth of medication. In workers' compensation claims, where the prescription of a pain reliever (e.g. naproxen) may be for a longer day's supply or a higher dosage or strength, many of the discounts would be invalid.

Fee Schedules

A workers' compensation fee schedule is used to help control medical expenses. These schedules are determined at the state level and determine the maximum amount a pharmacy or provider should be reimbursed for a typical expense. Therefore, a pharmacy would typically not apply the \$4 generic discount to the majority of workers' compensation prescriptions that it processes, unless it is part of their usual, customary and reasonable (UCR) rates or standard pricing. Some programs require savings card enrollment, program fees, or an application. For example, the two largest drug chains extend their discount clubs to individual consumers who apply and pay an annual fee.

In a review of thousands of prescription claims from a Progressive Medical internal audit, less than 0.5 percent of medications filled for workers' compensation are processed at discounted pricing, such as the \$4 generics program.

Utilization Issues

Utilization management works differently for workers' compensation insurers. Group health insurers may use formularies built for large membership groups to contain utilization through programs such as tiered co-pays, home delivery and prior authorizations. These help in limiting dosages and requiring a doctor's permission prior to obtaining a refill.

Duration and complexity of therapy, as well as the need to follow rules and guidelines established by settlements and state regulations, require more defined workers' compensation utilization programs. Discounted generic programs offered by national pharmacy retailers represent potential utilization management issues for workers' compensation. For example, if an injured party fills a prescription for naproxen for \$4 at its local discount store, they would have to pay out of pocket. The injured party would then have to keep all of their receipts and request reimbursement for their medications. This means that if the consumer does not turn in their receipt, then the ability to manage utilization becomes more difficult.

Using this process will cause workers' compensation insurers to examine utilization retrospectively, as opposed to prospective and concurrent reviews possible through a pharmacy benefit manager. The administrative cost associated with reimbursing a \$4 prescription, for example, will often amount to twice the cost of the prescription itself after recording and reimbursement.

Alternative Cost Containment Solutions

There are several alternative options for workers' compensation insurers seeking to reduce pharmacy expenses. These include generic substitution discussions with physicians and claimants, utilizing mail order program opportunities, and contracting with pharmacies.

Another key cost containment solution is a comprehensive drug utilization review program. Overutilization, misuse and expensive formulary medications can amount to thousands in unnecessary drug costs for workers' compensation payers. A recent Progressive Medical study involving a control group of claims found that 90 percent of claims had at least one utilization issue. A review of these claims can amount to savings of tens of thousands of dollars per claim, with the average suggested annual savings approaching \$6,000.

A program that includes prospective, concurrent and retrospective review of drug utilization along with clinical pharmacist and physician intervention reviews can be very effective. These reviews not only flag incidents of fraud, misuse and abuse, but also ensure that injured parties are not receiving duplicate therapy or potentially harmful medications. Optimizing therapy can improve cost containment objectives, as noted in the previous study.

Also consider that a pharmacy benefit manager can assist with cost containment due to their ability to offer discounts from the average wholesale price (AWP) and fee schedules through a national network of pharmacies. These coordinated programs and pricing allow for cost savings on generic and brand medications that are not included in discounted pharmacy programs, such as the \$4 generic program. Pharmacy benefit managers also offer mail order programs, reporting capabilities and clinical utilization review programs.

Conclusion

If you are considering managing pharmacy outside of a pharmacy benefit management program using a \$4 generics or similar discount program, consider the following checklist.

1. What are the fee schedules and regulations associated with your claims?
2. Examine local pharmacies offering \$4 generic programs to determine if the workers' compensation formulary used by your organization coincides with the pharmacy's discounted medication list in your service area.
3. Consider the length of the claims for the organization and the average cost over the lifecycle of the claim.
4. For the drugs prescribed for claims, are the majority of medications typical in their dosage, type and utilization?
5. Do the benefits of a \$4 generic program add up to a greater cost savings than the organization's existing cost containment strategy? What benefits may be missing?
6. Talk to your pharmacy benefit manager to determine the best, customized plan to meet your cost containment objectives.

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