

CWCI RESEARCH SPOTLIGHT REPORT...

The Percentage of California Workers' Compensation Prescriptions Falling Outside the Medi-Cal Fee Schedule Database

Background: Between 1996 and 2000, the total amount paid for prescription drugs dispensed to injured workers in California increased from \$114 million to \$212 million per year, making prescription drugs one of the fastest growing medical cost components in California workers' compensation¹. In 2002, state lawmakers responded by enacting the first of several reforms designed to modify the delivery of pharmacy benefits in workers' compensation and to rein in prescription drug costs. Within the next two years, the state had adopted reforms that included the following mandates:

- Create a pharmacy fee schedule by July 1, 2003
- Channel injured employees to contracted pharmacy networks
- Require pharmacies to substitute generic drugs for brand drugs unless the physician specified in writing that no substitution should be made
- Cap maximum reimbursement for pharmacy services and drugs at 100 percent of the Medi-Cal allowance
- Establish maximum fees for drugs not covered by Medi-Cal – with fees not to exceed the Medi-Cal fees for comparable drugs

Effective January 1, 2004, the state Division of Workers' Compensation adopted a revised Pharmacy Fee Schedule that set maximum reasonable allowances for pharmacy services and drugs at the Medi-Cal rates, which in 2004 were at least 10 percent below the average wholesale price (AWP). For drugs or pharmaceutical services not covered by Medi-Cal (e.g. repackaged drugs dispensed from a physician's office), however, maximum reasonable fees were still governed by the Official Medical Fee Schedule (OMFS) that was in effect in 2003, which at 140 percent and 110 percent of the AWP for generic and brand name drugs plus a dispensing fee, were significantly higher than the Medi-Cal allowances.

Subsequent regulatory action by the Division of Workers' Compensation addressed the repackaged drug pricing issue in 2007, though even with the enactment of this revision and the 2004 reforms, recent data from the Workers' Compensation Insurance Rating Bureau as well as anecdotal data from claims administrators, suggests that California workers' compensation pharmaceutical costs are again on the rise.² This has led to some speculation that basing the OMFS pharmacy fee schedule on the Medi-Cal fee schedule may be inadequate to control pharmacy costs because a large percentage of the medications prescribed to injured workers are not in the Medi-Cal database.

¹ Commission on Health and Safety and Workers' Compensation, Fact Sheet Number 2, Workers' Compensation Medical Care in California: Costs, August 2003

² California Workers' Compensation Institute, Changes in Pharmaceutical Utilization and Reimbursement in the California Workers' Compensation System, September 2009

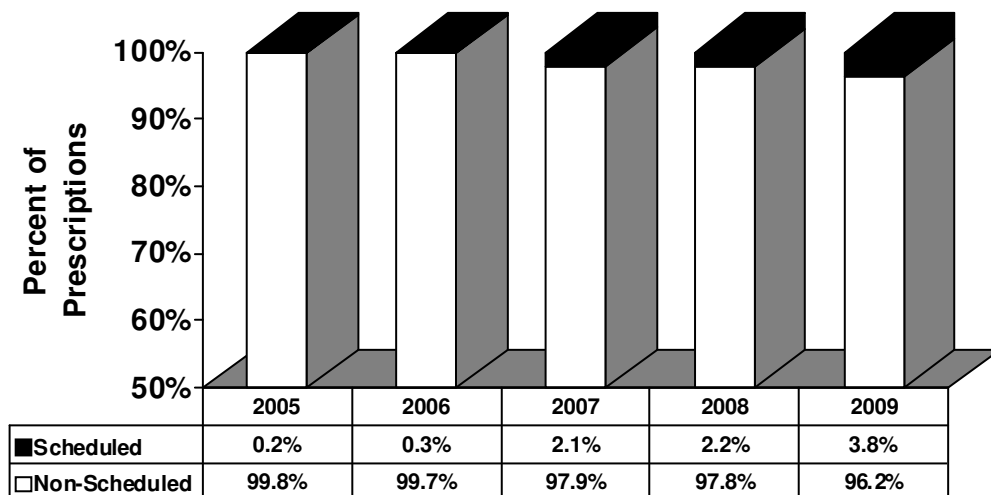
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Results: To test this hypothesis, the Institute used its Industry Claims Information System database to compile workers' compensation prescription data from a sample of 466,056 California work injury claims from AY 2000 through June of AY 2009. The sample included a total of 4,571,950 prescriptions that were filled between 2005 and 2009, with reimbursements totaling \$384,249,126. Using the National Drug Codes (NDCs) from the prescription billing data, the medications were categorized into two groups: those that are included in the Medi-Cal fee schedule database (scheduled drugs) and those that are not (unscheduled drugs). The results show that over the five-year span of the study, the vast majority (62.4 percent) of drugs prescribed to injured workers in California were listed in the Medi-Cal fee schedule database. There was, however, one major exception: repackaged drugs.

Table 1 shows that the percentage of repackaged drugs dispensed to injured workers that are found in the Medi-Cal Fee Schedule database ranged from 0.2 percent in 2005 to 3.8 percent in 2009. Overall, of the more than 1,597,471 repackaged drug prescriptions filled by California injured workers over the five-year span of the study, less than 1 percent involved medications listed in the Medi-Cal fee schedule database.³

Table 1: Percent of Repackaged Drugs in the Medi-Cal Fee Schedule Database



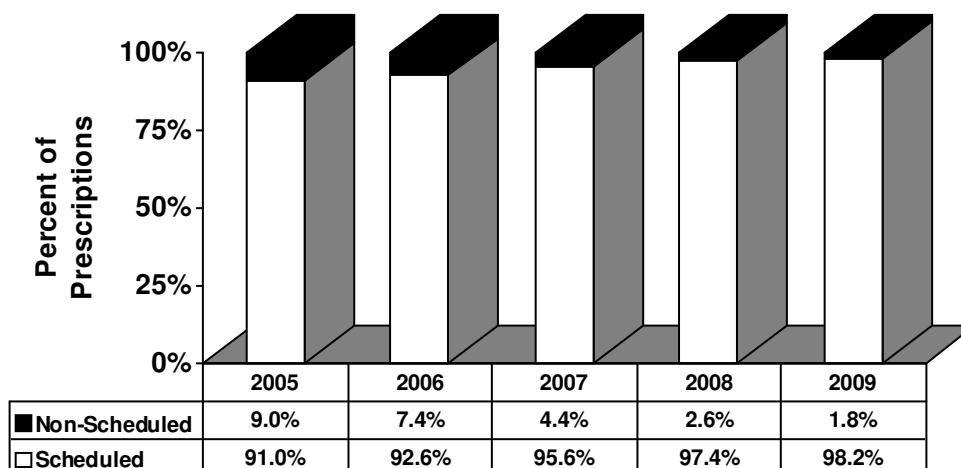
³ The few drugs that are both repackaged and included in the Medi-Cal fee schedule database are listed as “injectables.”

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Conversely, almost all of the non-repackaged drugs dispensed to injured workers in California were in the Medi-Cal fee schedule database. Table 2 shows that of the 2,974,479 non-repackaged drug prescriptions filled by injured workers from 2005 through 2009, 95.6 percent were in the Medi-Cal schedule database; with the percentage ranging from 91 percent in 2005 to 98.2 percent in 2009. Notably, the largest portion of non-repackaged drugs that were not in the Medi-Cal schedule database prior to 2007 were “pain gels.” From 2007 through 2009, the largest proportion of non-repackaged drugs that were not in the Medi-Cal schedule database were “convenience packs,” which are pre-packaged kits containing medical foods and prescription drugs, the use of which surged in early 2007,⁴ after the state adopted regulations intended to eliminate differential pricing for repackaged drugs in workers' compensation.

Table 2: Percent of Non-Repackaged Drugs Listed in the Medi-Cal Fee Schedule



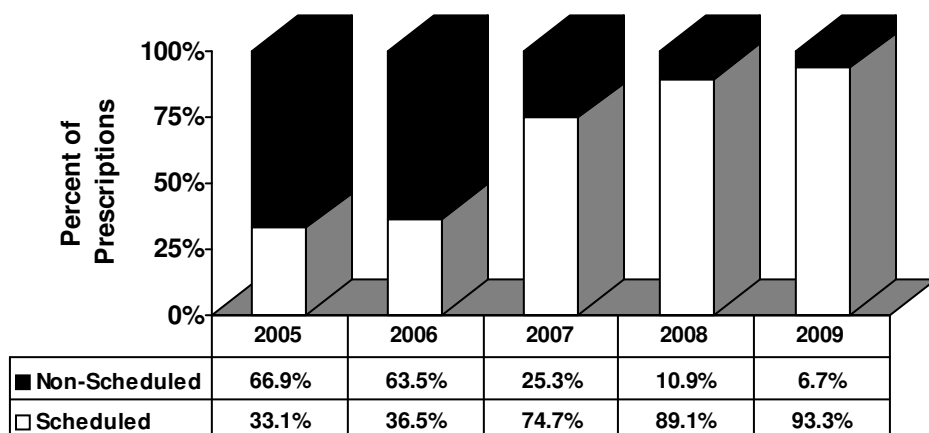
⁴ California Workers' Compensation Institute, The Cost and Utilization of Compound Drugs, Convenience Packs and Medical Foods in California Workers' Compensation, August 2010

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From 2004, when the revised pharmacy fee schedule was adopted, until the elimination of differential pricing for repackaged drugs in 2007, the use of repackaged drugs in California workers' compensation grew sharply, climbing to more than half of all medications dispensed to injured workers in 2006. The growth in the use of repackaged drugs is also evident in Table 3, which shows the percentage of all California workers' compensation prescription medications (non-repackaged + repackaged drugs) filled between 2005 and 2009 that were listed in the Medi-Cal fee schedule database.

Table 3: Percent of California WC Prescriptions in the Medi-Cal Fee Schedule Database



These aggregated data show that non-scheduled drugs accounted for roughly two-thirds of all California workers' compensation prescriptions in 2005 and 2006 -- just prior to the elimination of differential pricing for repackaged drugs. After the state amended the regulations to close the repackaged drug loophole, the concurrence of workers' compensation prescription drugs to the Medi-Cal fee schedule began to increase dramatically, more than doubling to 74.7 percent in 2007, then climbing to 93.3 percent of the prescriptions filled in 2009.

Conclusion:

The results of this study challenge the notion that the increases in California workers' compensation prescription drug reimbursements since 2005 have been fueled by the growing use of medications that are not in the Medi-Cal fee schedule database. The data show that the use of Medi-Cal scheduled drugs to treat injured workers has grown steadily since 2005, while non-scheduled drugs have declined from two out of three workers' compensation prescriptions in 2005 to less than 7 percent of the medications dispensed in 2009. This suggests that the recent increase in overall prescription drug costs in California workers' compensation is due to other factors, which could include changes in the mix of workers' compensation medications (with greater reliance on more expensive drugs and the emergence of compound drugs, co-packs, and medical foods); increases in the average number of prescriptions per claim; increases in the Average Wholesale Prices used to calculate reimbursements; and PBM contract rates and payments that exceed the pharmacy fee schedule allowances.