

# California Workers' Compensation Institute

# BULLETIN

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A new Institute Report to the Industry documents the rising cost of pharmaceuticals in California workers' compensation and examines current efforts and potential avenues for controlling these costs, which have now climbed to more than \$200 million a year.

Recognizing that pharmaceutical fees have more than doubled since 1995, making them one of the fastest growing medical cost drivers in workers' compensation, state lawmakers earlier this year enacted provisions within AB 749 calling on the Division of Workers' Compensation to promulgate a pharmacy fee schedule by next July. In addition, the legislature authorized insurers, self-insurers and other payers to contract with pharmacies or pharmacy benefit managers (PBMs) to provide prescription drugs and supplies to injured workers. These contracts must follow standards developed by the state to reduce costs and assure reasonable pharmaceutical access.

The report summarizes a recent study by the Commission on Health and Safety and Workers' Compensation which found that California's current system for reimbursing workers' compensation pharmacy expenses is the most generous of five programs studied. Furthermore, CHSWC also noted that restructuring the current reimbursement to provide an average of the reimbursement rates under the four other systems could net cumulative savings of \$516 million by 2005.

The report also discusses results of an Institute survey of workers' compensation insurers' current pharmaceutical programs and practices, and examines the variety of services and functions provided by PBMs. These include cost-saving measures such as discounts for both generic and brand name drugs, automated drug processing (including prior authorization and adjudication), developing and managing pharmacy networks and drug formularies, offering pharmaceuticals by mail, and providing drug utilization review. Even with PBMs and current programs, however, the report documents that pharmaceutical costs in California workers' compensation system is substantially higher than in group health or federal workers' compensation programs, which may simply reflect the greater purchasing power of these much larger programs.

While enacting additional legislation that would bring California workers' compensation pharmacy payments in line with other payer groups may be a long-term option to help manage workers' compensation pharmacy costs, the authors note that politically that is unlikely until 2004 or later – after the effects of changes called for under AB 749 are evaluated. A second, more immediate option would be for insurers to develop a purchasing coalition to contract for improved PBM services and greater discounts. Though building such a coalition would require payers to overcome several obstacles, the report notes such purchasing coalitions have worked effectively in group health.

The Institute's Report to the Industry, Pharmaceutical Cost Management in California Workers' Compensation is available in the Research section of the Institute web site (<http://www.cwci.org/document.php?file=336.pdf>).

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