

***As seen in the April 2007 edition of...***

# **Healthcare Savings Chronicle**

*brought to you by Coalition America, Inc.*

**The Leader in Medical Claim Savings**

## **WORKERS' COMPENSATION PHARMACY VENDOR CONTRACTS**

*Craig S. Stern, RPh, PharmD, MBA, President  
Pro Pharma Pharmaceutical Consultants, Inc.*

How do you save money when the pharmacy expense is unlimited? How do you improve quality when almost anything can be prescribed? How do you ensure compliance with state requirements? Expanded vendor offerings are providing an opportunity to ensure that all of these questions are addressed.

Traditionally the Workers' Compensation (WC) industry has had little experience with pharmacy benefit managers (PBMs), pharmacy benefit administrators (PBAs), pharmacy third party administrators (TPAs) -- collectively referred to as "vendors" -- when compared to the variety of offerings available to group health insurers and providers. The traditional WC vendors have focused predominantly on the cost component with variable point-of-sale electronic claim administration capabilities. They offered experience with the nuances of WC claims administration in different jurisdictions, but variable drug utilization review and clinical pharmacy oversight. Yet, the industry is changing with the introduction of mainstream PBMs and PBAs that offer services similar to the portfolio of services offered to group health insurers.

### **What make a WC contract different from a group health contract?**

The existence of different rules of coverage and payment of claims within each of the States' jurisdictions adds a level of complexity to the administration of WC claims that is not common in group health.

To lower the cost of prescription drugs pharmacy vendors (i.e., PBMs, TPAs) have traditionally offered a discounted network of pharmacies. The pharmacy vendor acts as a "middle man" to adjudicate prescriptions, ensure that the prescriptions are paid only for eligible injured workers, and that pharmacy prescriptions are within the scope of the injury. A constant concern has been, and continues to be, "first fills" for prescriptions before eligibility is verified, the adjudication of prescriptions dispensed by physicians, and prescriptions re-priced and aggregated for payment by third party payors.

Mainstream PBMs and PBAs are expanding the service offering through enrollment cards, online claim administration, prospective drug utilization review, formularies when applicable, screening for prescriptions within the scope of the injury, enhanced reporting, etc. The result is that WC is becoming a commodity offering that is a subspecialty of the mainstream vendors. The following discussion offers an inventory of offerings that should be used when choosing vendors and their experience with WC.

## **PBM vs. PBA**

Pharmacy benefit managers (PBMs) offer prescription adjudication, knowledge of prescription administration in various jurisdictions, enrollment cards, quality oversight of prescriptions through drug utilization review (DUR) and clinical edits, and further cost control through cost-effective formularies. In addition, they offer the ability to screen all prescriptions against the applicable diagnoses of each injured worker. Rebates are offered as cost offsets. These services are common and generally undifferentiated across the industry.

In contrast, pharmacy benefit administrators, focus on prescription administration. Most offer a discounted a pharmacy network, formularies, DUR edits that can be applied at the time of prescription adjudication, enrollment cards, and screening of prescriptions to ensure that they are within the scope of the injured workers' diagnoses. They emphasize "transparency" in adjudicating prescriptions such that the payor knows the actual cost of the prescription from the pharmacy, and actual rebates earned and collected.

Aside from transparency issues, the payor will have to decide how much support they require – the PBM provides all services, while a PBA may require more of the payor's time and input. Both will require the payor to continue usual oversight functions, such as accounts payable review of invoices, quarterly (or more frequent) review of progress, and final judgments on prior authorizations. **The key question for the payor is whether the additional services offered by the PBM provide sufficient value to their organization to be worth the additional cost premium over the PBA expense.**

## **Key Questions for Vendors**

When reviewing request for proposals (RFPs), contracts, or even evaluating current services, the following issues should be considered as part of contract negotiations:

### Knowledge of Workers Compensation:

- Experience with WC
- Experience with adjudicating claims in various jurisdictions
- Compliance with Sarbanes Oxley disclosures.

### Pricing Questions

- Pricing language regarding "lesser of", and the impact of AWP discounts, MAC, State fee schedules, and usual and customary pricing
- Management of third party prescriptions

### Claim Administration Questions

- Management of physician dispensed prescriptions
- Management of customized formularies when allowed
- Management of prescriptions to ensure that they are within the scope of the injury

### Service Portfolio, Delivery, and Guarantees

- Management of eligibility

- Prescription administration policies and procedures that comply with claim management
- Service and performance guarantees must be provided
- Audit policies consistent with the WC carrier and Sarbanes Oxley requirements

WC now has the opportunity to look more closely at quality issues and have greater clinical edit oversight with the expansion of vendor offerings for WC in the prescription payment arena, than ever before. With greater offerings come choice, vendor price competition, and expansion of offerings. It is crucial however, that the pharmacy expense is viewed as one component within the context of the entire claim review. This can only help WC to improve over time.

**For more information, please contact:**

Craig S. Stern, RPh, PharmD, MBA  
President  
Pro Pharma Pharmaceutical Consultants, Inc.  
PO Box 280130  
Northridge, CA 91328-0130  
818.701.5438  
[craig.stern@propharmaconsultants.com](mailto:craig.stern@propharmaconsultants.com)  
[www.propharmaconsultants.com](http://www.propharmaconsultants.com)