

IDEA IN BRIEF: LABOR & INDUSTRIES PRESCRIPTION DRUGS

State Government Performance Review

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**Washington
State Auditor
BRIAN SONNTAG, CGFM**
(360) 902-0360
Brian.Sonntag@sao.wa.gov

Director of
Performance Audit
Larisa Benson
(360) 725-9720
Larisa.Benson@sao.wa.gov

Assistant Director of
Performance Audit
Bruce Botka
(360) 725-9723
Bruce.Botka@sao.wa.gov

State Auditor's Office
P.O. Box 40022
Olympia, WA
98504-0022

On the web

www.sao.wa.gov

[www.twitter.com/
WASateAuditor](http://www.twitter.com/WASateAuditor)

What is it?

In 2009, Washington's Workers' Compensation Program spent nearly \$29 million to cover more than 400,000 prescriptions for injured workers.

Prescription drugs are part of the medical care and financial assistance available for these workers. They are paid from the state's Industrial Insurance Fund at the Department of Labor and Industries (L&I).

We audited prescription drug payments in fiscal year 2009, the most recent year for which complete data was available. We asked three questions:

- Does the L&I Workers' Compensation program pay a reasonable and appropriate amount for prescription drugs?
- If costs appear too high, what actions could contain costs without compromising quality care and what would be their likely effects?
- If costs appear reasonable, does the Department have additional opportunities to contain costs without compromising quality care? What would be the likely effects if these options were pursued?

State law requires L&I and other state agencies that purchase prescription drugs for clients, primarily the Health Care Authority and the Department of Social and Health Services, to use specific strategies to hold down costs. Health-care providers and researchers have identified effective tactics — which we described in this audit as "leading practices" — to accomplish those objectives.

What we found

L&I has adopted many leading practices to contain drug costs but could further reduce costs. We found:

- In 2009, generic drugs represented nearly 88 percent of all prescription drugs purchased. Brand-name drugs were provided for the other 12 percent, mostly when generic equivalents were not available. These percentages compare favorably with other states and other Washington state agencies.
- When we did the audit, L&I had not updated its reimbursement rates for 14 years and was paying more than other state agencies for the same drugs. If it had paid the same rates as the Health Care Authority, it would have saved \$7.1 million to \$8 million in 2009.
- L&I reduced its reimbursement rates for fiscal year 2011, which began last July, and now pays a more reasonable amount for prescriptions. But it could save up to \$2.3 million per year if it adopted the Health Care Authority's 2011 price structure.



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- The agency would save even more if it allowed permanently disabled workers to use mail-order pharmacies for long-term prescription refills and if it encouraged pill-splitting when doctors determine it is safe. Had those practices been used in 2009, mail-order pharmacies would have reduced L&I's costs by up to \$107,000 and pill-splitting by up to \$117,000.
- By state law, L&I may not use two other cost-saving practices. First, for certain classes of drugs, pharmacists may not dispense generic equivalents if doctors have prescribed a brand-name drug. Second, the law allows doctors to write "dispense-as-written" prescriptions that promote brand-name drugs and limit generic use. We estimate removing these two restrictions would save a combined total of at least \$146,000 per year based on 2009 spending patterns.

What we recommend

The Legislature and L&I should take several actions to contain prescription drug costs in the Workers' Compensation program.

Update reimbursement rates annually

- Starting in 2012, L&I should reduce what it pays for generic and brand-name drugs with a goal of matching the rates paid by the Health Care Authority. L&I should update its pricing annually using rates paid by other public and private prescription drug purchasers.

Increase the use of generics

- The Legislature should revise state law to permit physicians to prescribe brand-name drugs only when generic equivalents are not available, and should modify the "dispense-as-written" provision to allow pharmacists to substitute less expensive, equivalent generics when they are safe and available.

Use other leading practices to hold down costs

- L&I should allow low-cost mail-order pharmacies to provide 90-day prescriptions for permanently disabled workers who require ongoing prescriptions; encourage pill splitting when safe and economical; exercise contractual audit authority to verify that its private benefits manager is collecting and remitting all rebates owed annually and that its fees do not exceed the amounts allowed by contract.

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State Government Performance Review

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<http://www.sao.wa.gov/EN/Audits/SGPR/Pages/default.aspx>