

# State Auditor's Office

## Department of Labor & Industries Prescription Drugs Performance Audit

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**Larisa Benson, Director of Performance Audit**  
**Chris Cortines, Principal Auditor**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR

# Today's Presentation

- L&I's prescription drug program
- Audit objectives
- Audit results
- Recommendations

# Background: L&I Prescription Drug Program

- When a worker is injured on the job in Washington, he or she is eligible to receive financial help and medical care – including prescription drugs – from L&I's Workers' Compensation program.
- Benefits are funded through employer and worker premiums.
- In 2009, L&I processed more than 400,000 prescription drug claims at a cost of nearly \$29 million.

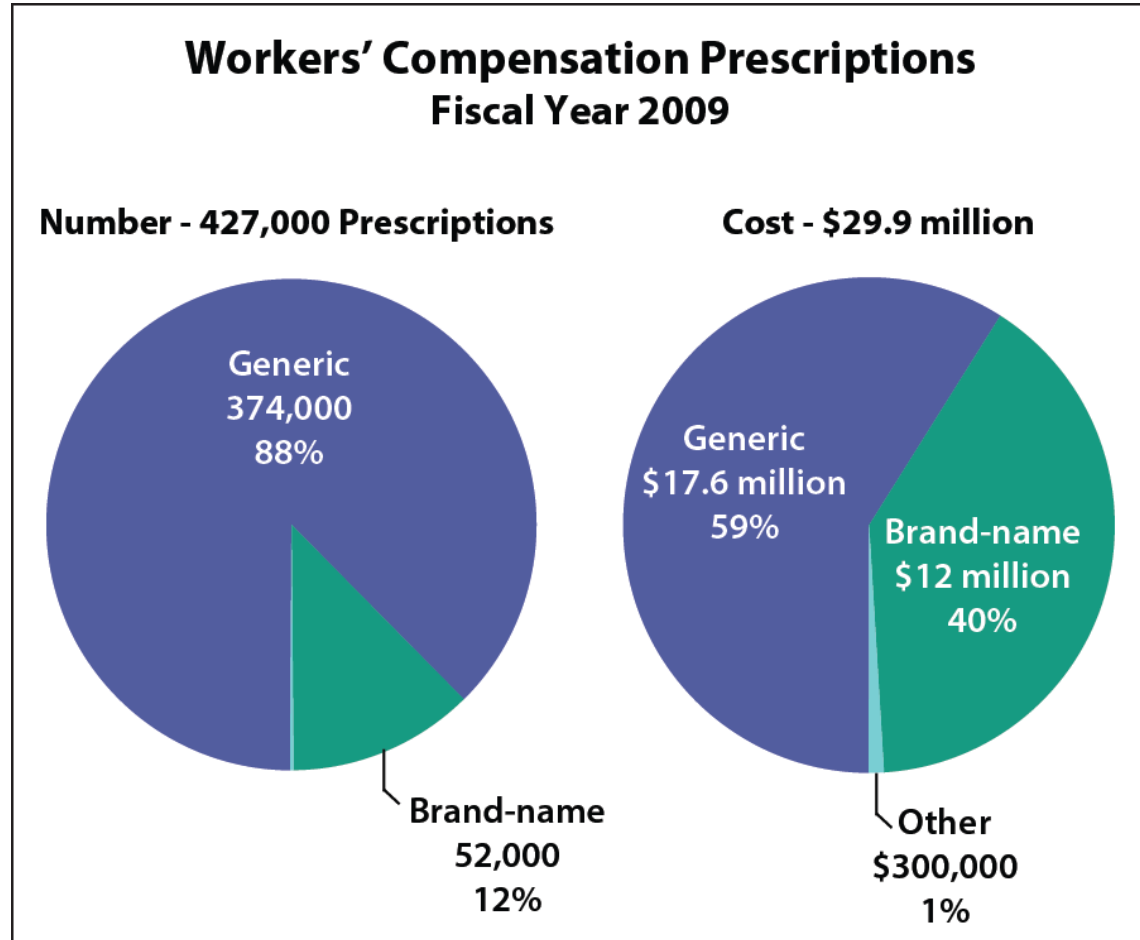
# L&I Prescription Drug Program

## L&I Pharmacy Claims and Payments Fiscal Year 2009

Fiscal Year	Payments to Pharmacies for Prescriptions (\$ in millions)	Claims with Payments to Pharmacies	Average Cost Per Claim	Number of Prescriptions	Average Cost Per Prescription
2004	\$27.7	53,700	\$515	430,700	\$64
2005	\$26.9	54,700	\$493	424,100	\$64
2006	\$26.1	54,100	\$483	417,900	\$63
2007	\$26.9	53,300	\$505	414,600	\$65
2008	\$28.0	54,900	\$511	407,900	\$69
2009	\$28.6	57,800	\$495	404,700	\$71

# L&I Prescription Drug Program

- By law, L&I is directed to emphasize the use of generic drugs and to follow other proven cost-containment strategies.
- Generics represent 88 percent of the total number of prescriptions, but just 59 percent of the total cost.
- Brand-name drugs represent 12 percent of the total number of prescriptions, but 40 percent of the total cost.



# Audit Objectives

- **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?

# Audit Results: Leading Practices

**L&I uses most leading practices for controlling prescription drug costs.**

- Washington state and L&I use the Preferred Drug List (PDL), which emphasizes generic drugs and effectively holds down costs.
- L&I's generic use rate compares favorably with other state health programs and other states' workers' compensation programs.

<b>Generic Drug Use Rates</b>	
<b>Program</b>	<b>Generic Use Rate</b>
<b>Washington state public health care programs</b>	
L&I – workers' compensation	88%
HCA – state employees	78%
DSHS – Medicaid clients	73%
<b>Other states' workers' compensation programs</b>	
Oregon	80%
Ohio	74%
North Dakota	73%
Florida	54%

# Leading Practices

## **L&I also controls costs and limits drug quantities by:**

- Requiring prior authorization for pharmacists to dispense drugs that are not on the PDL.
- Excluding the use of certain drugs and clearly communicating which drugs are not covered.
- Requiring pharmacists (not physicians) to fill prescriptions at pre-established prices.
- Negotiating rebates from drug manufacturers.
- Paying higher dispensing fees for generic drugs (\$4.50) than for brand name drugs (\$3).
- Limiting prescriptions to the amount needed for 30 days.
- Using point-of-sale data to monitor prescription practices.

# L&I Paid More Than Necessary in the Past

**L&I could have saved significant amounts if it had regularly updated its prescription drug prices.**

- The Department's average prices in 2009 were much higher than those paid by the Health Care Authority or by DSHS.
- L&I had not updated its pricing structure for 14 years before the audit.
- L&I could have saved up to \$8 million in 2009 and a similar amount in 2010 if it had paid the same rates as HCA.
- The Department reduced its rates for fiscal year 2011 but could save an additional \$2.3 million per year if it further reduced its rates to those paid by HCA.

# Additional Opportunities to Cut Costs

## **L&I and the Legislature could further reduce costs and increase the use of generics.**

- Increasing the use of pill-splitting when doctors deem it safe could save \$117,000 per year.
- Permitting pension claimants to use mail-order pharmacies could save \$113,000 per year.
- L&I could recover additional rebates by verifying the work of its private benefits manager.
- Generic use would increase if lawmakers removed from state law the “carve-out” and “dispense-as-written” provisions that prohibit pharmacists from dispensing generics in certain cases. Case-by-case exceptions should be permitted.

# Recommendations

## **L&I should update reimbursement rates each year**

- L&I should have a goal of matching HCA rates.

## **Lawmakers should increase the use of generics**

- The Legislature should modify the “carve-out” and “dispense-as-written” provisions in state law to promote greater use of generics.

## **L&I should use other leading practices to hold down costs**

- Encourage pill-splitting when physicians deem it safe.
- Allow pension claimants to use mail-order pharmacies to buy 90-day quantities.
- Verify it is receiving all of the rebates it has negotiated with drug-makers.

# Potential Savings

<b>Excess Costs in 2009-10 and Future Savings Opportunities</b>			
<b>Cost-reduction strategy</b>	<b>Could have saved in 2009</b>	<b>Could have saved in 2010</b>	<b>Estimated future annual savings</b>
Reduce reimbursement rates to level previously considered by L&I or set by the Health Care Authority.	\$7.1 million to \$8 million	\$6.6 million to \$7.5 million	\$1.5 million to \$2.3 million
Use mail-order pharmacies for L&I claimants who are on permanent disability.	\$107,000	\$107,000	\$107,000
Encourage pill-splitting when physicians think it is safe.	\$117,000	\$117,000	\$117,000
Restrict “dispense-as-written” and “carve-out” prescriptions for brand-name drugs when equivalent generics are available.	\$146,000	\$146,000	\$146,000
Prevent pharmacists from dispensing brand-name drugs if physician has prescribed generics.	\$31,000	\$31,000	N/A
<b>Total</b>	<b>\$7.5 million to \$8.5 million</b>	<b>\$7 million to \$8 million</b>	<b>\$1.8 million to \$2.6 million</b>

# State Auditor's Office Contacts

**Brian Sonntag, CGFM**  
**State Auditor**  
**(360) 902-0360**  
**[Brian.Sonntag@sao.wa.gov](mailto:Brian.Sonntag@sao.wa.gov)**

**Larisa Benson,**  
**Director of Performance Audit**  
**(360) 725-9720**  
**[Larisa.Benson@sao.wa.gov](mailto:Larisa.Benson@sao.wa.gov)**

**Chris Cortines,**  
**Principal Auditor**  
**(360) 628-7752**  
**[Christopher.Cortines@sao.wa.gov](mailto:Christopher.Cortines@sao.wa.gov)**