

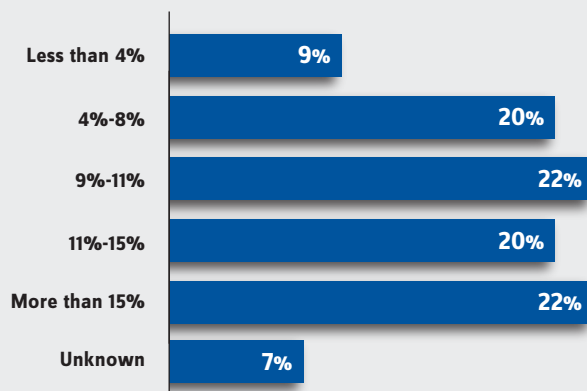
## Pharmacy Management Report

Pharmacy costs continue to drive a larger percentage of workers' compensation costs. Pharmaceutical price increases, increase in narcotics, prescribing patterns, and an increase in physician dispensing are all contributors. A recent NCCI study reported that 19% of total workers' compensation claims costs are for pharmacy claims. As part of an ongoing effort to understand the issues affecting pharmacy programs, CorVel surveyed claims professionals about their pharmacy management programs and the following is a summary of the findings. This report also contains comparisons from a complInsights report published in November 2009.

### Pharmacy Costs

As noted above, NCCI reported that pharmacy accounts for 19% of total workers' compensation claims costs. They measure pharmacy spend over the life of claim, therefore annual costs will be actually lower with an average of 8-12% of total medical spend. This survey began by asking the respondents for the estimated transactional percentage of pharmacy costs as compared to the total workers' compensation medical spend.

**2011 Pharmacy Costs  
as a Percentage of Total Medical**

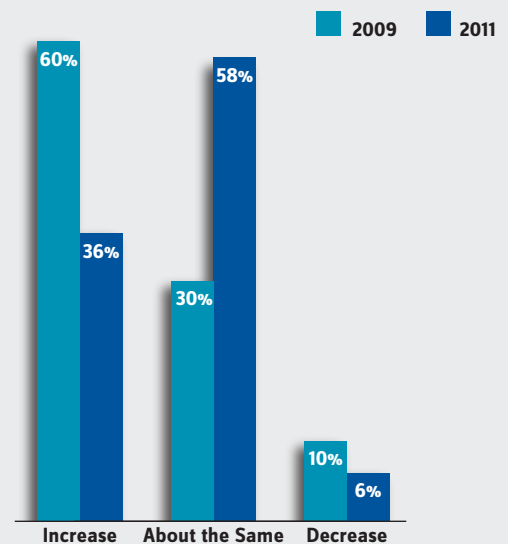


### Pharmacy Program Cost Changes

The next question asked if overall pharmacy costs were expected to change in 2012. Of the respondents, 36% said they expect an increase and only 6% indicated they expected a decrease. Written comments about cost contributors included: "Continued increase in narcotics." and "Failure of state legislation to manage pharmacy."

The following chart is a 2009 to 2011 comparison.

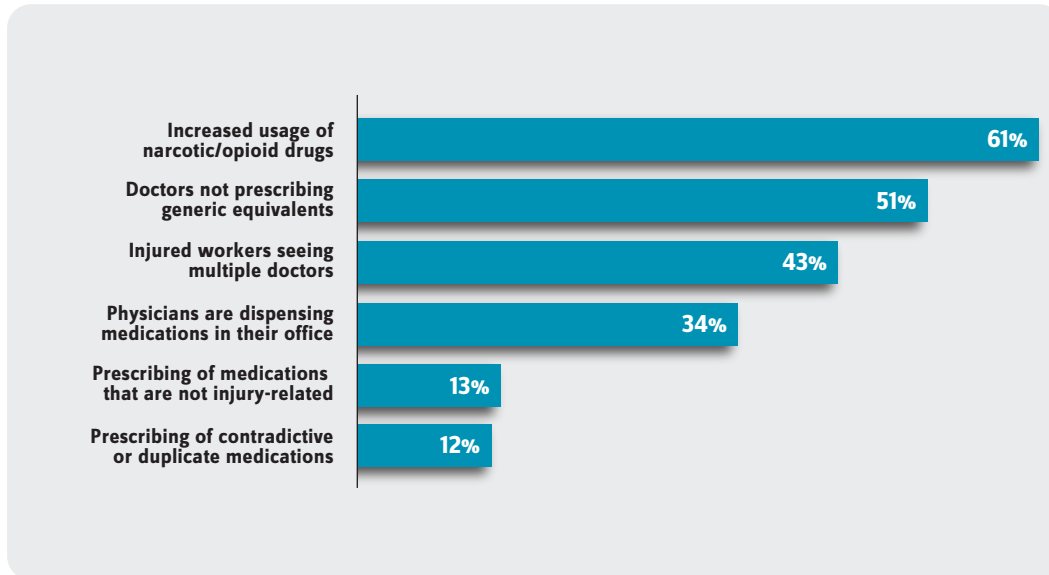
**Pharmacy Cost Changes**



## Annual Pharmacy Costs

To gain insight into the causes of high pharmacy costs, the respondents were asked to select from a list of contributing factors. An overwhelming 61% said their costs were due to an increase in narcotic/opioid drugs, followed by 51% indicating that doctors are not prescribing generic equivalents.

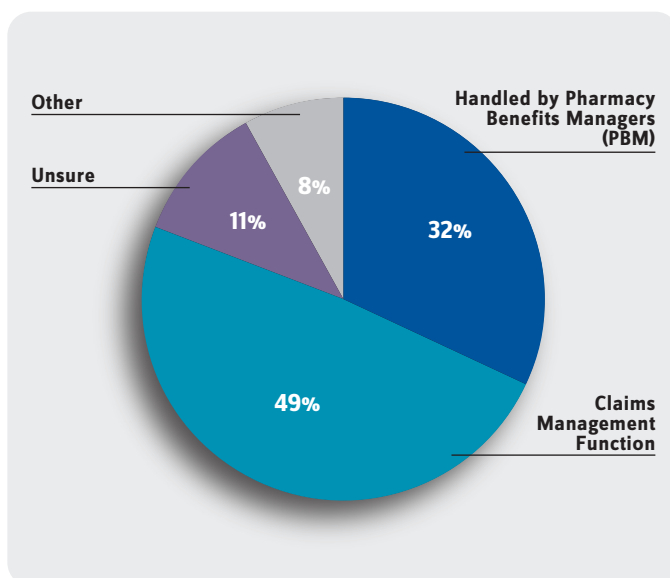
### Pharmacy Cost Contributors



## Narcotic Management

NCCI reports that narcotics comprise 25% of pharmacy costs. To gain perspective on this growing epidemic, the respondents were asked how they manage these prescriptions. The following results show 49% responded that this is a function of claims management. With narcotics estimated at over \$1.4 billion per year, this is a tremendous savings opportunity for the 11% who are unsure how these prescriptions are managed.

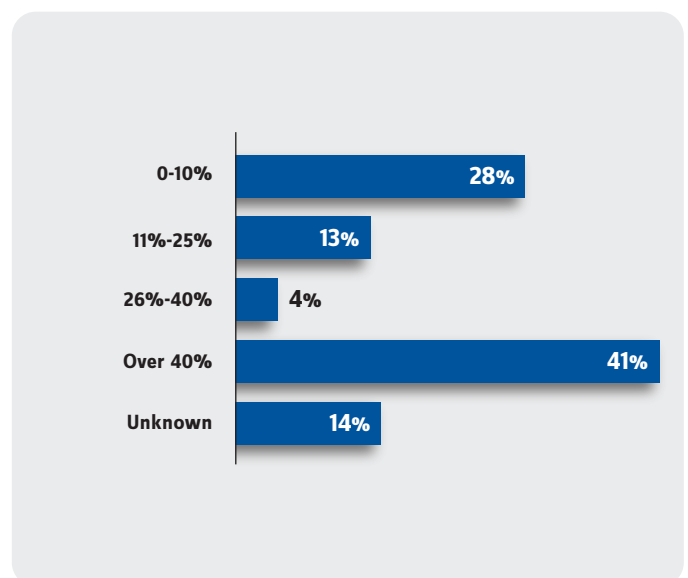
### Narcotic Management



## Physician Dispensing

With increased focus on understanding factors contributing to pharmacy costs, the respondents were asked to indicate what percentage of their total pharmacy costs were from physicians dispensing. The largest response indicated that over 40% of prescriptions were dispensed from doctors. This has a dramatic impact on costs as mark-ups can be up to 1,000% more than retail pharmacies.

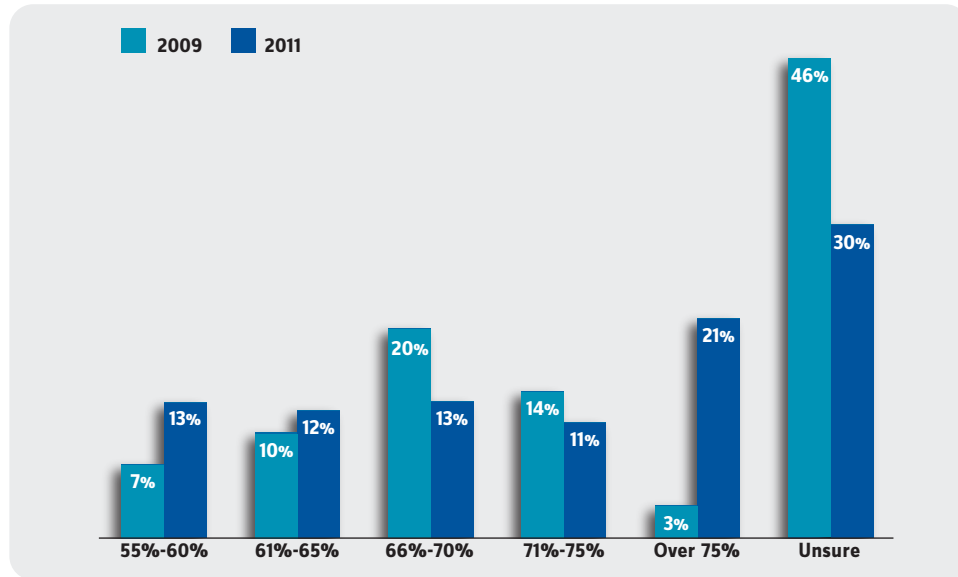
### Physician Dispensing



## Generic Medications

Next respondents were asked for the estimated percentage of generic prescriptions. The responses were fairly evenly distributed between the percentage groups. Similar to the 2009 results, the largest percentage (30%) reported that they did not know their generic ratio. This raises obvious issues related to incomplete pharmacy data to accurately review savings potential with effective brand to generic management.

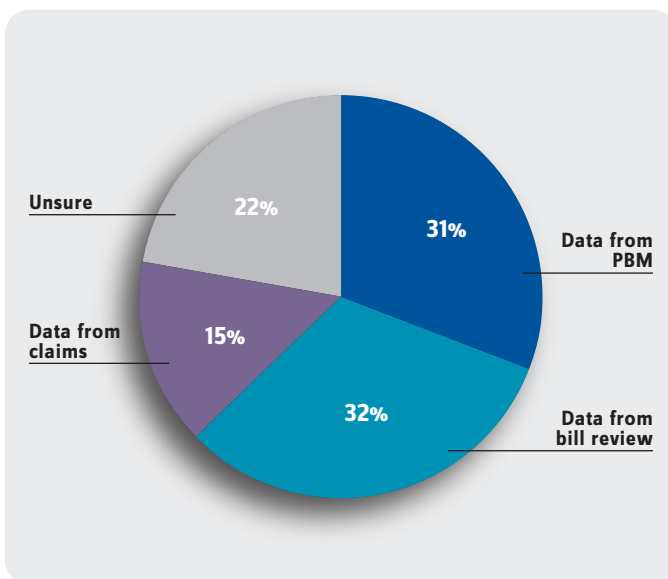
### Percentage of Generic Medication Usage



## Out of Network Management

Approximately 40% of all pharmacy bills are managed retrospectively, meaning after they have already been paid by the injured worker, pharmacy, or employer. To gain better insight of how respondents are managing all pharmacy costs, or even if they have full visibility of all pharmacy bills, we asked how out of network bills are managed. A troubling 22% responded they are unsure and therefore do not necessarily have complete visibility into pharmacy exposure.

### Out of Network Pharmacy Management



## Conclusion

Over the past several years, there has been an increased focus on the management of medication as pharmacy costs now account for approximately 19% (Source: NCCI) of total workers' compensation medical costs. The primary cost drivers continue to be pricing (the impact of Average Wholesale Pricing), utilization and drug usage trends. Effective internal cost saving measures and use of PBM partnerships can help mitigate rising costs through optimization of network penetration, increased generic utilization and improved mail order pharmacy use.

CorVel brings a unique solution to pharmacy management through our integrated platform of bill review, PPO and PBM. The very nature of our core business ensures CorVel captures 100% of clients' pharmacy transactions in a timely and actionable manner. We have industry leading experience in pharmacy management and offer a comprehensive program for physician medication reviews. Please visit [www.corvel.com](http://www.corvel.com) to learn more, or contact your CorVel representative for additional information.

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