# ANALYSIS OF MONTANA DRUG FORMULARY IMPLEMENTATION
# EFFECTIVE APRIL 1, 2019

**NCCI estimates that the implementation of rules which mandate the use of the Official Disability Guidelines Workers' Compensation Drug Formulary Appendix A (the ODG formulary) will result in a cost impact of -1.2% on overall workers compensation system costs in Montana. The ODG formulary will apply to claims arising on or after April 1, 2019. For claims arising before April 1, 2019, the ODG formulary will apply to prescriptions written on or after April 1, 2020.**

## Background and Summary of Changes

The ODG formulary is a detailed list of prescription drugs that are frequently used in the treatment of injured workers. Within this list, there is a status indicator that identifies whether or not each drug requires prior authorization. Drugs with a status indicator of "N" (N-drugs) require prior authorization by the employer or workers compensation insurer, while drugs with a status indicator of "Y" (Y-drugs[1]) do not require prior authorization.

Montana Senate Bill (SB) 312, effective July 1, 2017, authorizes the Department of Labor and Industry to adopt a drug formulary. The Department has selected the ODG formulary for use in Montana. Reimbursements for N-drugs will require prior authorization for claims arising on or after April 1, 2019. Prior authorization will not be required until April 1, 2020 for claims arising before April 1, 2019. In addition, Department rules specify that prior authorization will also be required for any prescription drugs not listed on the formulary (NA-drugs).

## Actuarial Analysis

To evaluate the cost impact of the ODG formulary implementation, NCCI identified drugs dispensed for workers compensation claims in Montana classified by the formulary as N-drugs or NA-drugs (i.e. drugs not listed on the formulary). Based on adjusted[2] MDC data for Service Year 2017, N-drugs represent 26.3% of all Montana drug payments, while NA-drugs represent 12.2% of all Montana drug payments.

There are several factors that affect the cost impact of implementing a formulary including:

- The degree to which Y-drugs or other non-drug treatments would be substituted for N-drugs
- The degree of elimination of N-drugs
- The degree of authorization of N-drugs

To estimate a cost impact of the implementation on N-drugs, NCCI relied on several observed statistics resulting from the implementation of the ODG formulary in Texas, which was implemented on September 1, 2011 for new claims (and applied to legacy claims as of September 1, 2013).

- NCCI estimates a 92% decrease in N-drug average cost per claim for Accident Year (AY) 2014 relative to AY 2010 at 12-month maturity in Texas.

[1] In this analysis, drugs whose status may vary based on intended use are assumed to be treated as Y-drugs.
[2] An adjustment was made to reflect the impacts on medical costs from provisions of House Bill 334. Refer to the Data and Adjustments section for details.


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- Texas experience shows that the average N-Drug cost per claim in Service Year 2013 is 51% lower than the average for Service Year 2010. By Service Year 2014, this savings had increased to 75%.
- The Texas Department of Insurance has calculated a 78% reduction in the total N-drug costs from Fiscal-Accident Year 2011 (ending August 30, 2011) to Fiscal-Accident Year 2012[3].

As an alternative estimate, NCCI also compared the average cost per script by reimbursement status ("Y" and "N") for Service Year 2017 for Montana. The average cost per script for Y-drugs ($107.34) was 44.5% of the average cost per script for N-drugs ($241.38) (= $107.34/$241.38). This relativity implies a -55.5% impact (= 44.5% – 100%) on N-drug costs, assuming substitution of each N-drug script for a Y-drug script at the average Y-drug cost per script.

Taking into consideration the range of these possible estimates NCCI has selected a -60.0% impact on N-drug costs in Montana due to the implementation of the ODG formulary. This -60.0% impact on N-drug costs is multiplied by the expected N-drug share of drug payments (26.3%) in Service Year 2017 to arrive at an impact of -15.8% (= -60.0% x 26.3%) on drug payments in Montana.

Per Department of Labor and Industry rules, a drug that is not on the ODG formulary (i.e., NA-drugs) also would require prior authorization. This treatment differs from rules in other states which have implemented the ODG formulary in that NA-drugs typically would not require prior authorization. Based on the NA-drugs observed, as well as qualitative feedback from Montana stakeholders regarding the applicability of the ODG formulary, NCCI expects that the degree of substitution, elimination, and authorization will differ between N-drugs and NA-drugs for several reasons:

- NA-drugs may be relatively new to the market, with no alternative Y-drugs currently available for substitution
- NA-drugs may be rarely used in a workers compensation context, which may impact the degree substitution
- Insurers may have less familiarity with NA-drugs than more commonly used N-drugs, and may thus grant prior authorization at different rates than more common N-drugs

The cost impact of the ODG formulary may differ substantially between N-drugs and NA-drugs. While NCCI expects the implementation of the ODG formulary to decrease costs associated with NA-drugs since pre-authorization may be a barrier to ongoing prescriptions, the magnitude of this decrease cannot be quantified. Any cost impact of the ODG formulary implementation on NA-drugs will be reflected in the analysis of future claims experience contained in subsequent NCCI loss cost filings in Montana. Therefore, the impacts observed due to the ODG formulary, which are discussed above, are applicable to N-drugs only.

The -15.8% impact on drug payments is then multiplied by the adjusted percentage of medical costs attributed to drug payments (10.8%) in Montana to arrive at an impact on medical costs of -1.7%. The impact on medical costs is then multiplied by the percentage of benefit costs attributed to medical

[3] *Impact of the Texas Pharmacy Closed Formulary*, Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, July 2016.



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benefits (69.0%) in Montana to arrive at an impact of -1.2% on overall Montana workers compensation costs.

## Summary of Impacts

The impact on N-drugs from the ODG formulary implementation in Montana, effective April 1, 2019, is summarized in the following table. Any cost impact on NA-drugs of the ODG formulary implementation cannot be reasonably quantified and will be reflected in the analysis of future claims experience contained in subsequent NCCI loss cost filings in Montana.

| | (A) | (B) | (C) = (A) x (B) | (D) | (E) = (C) × (D) |
|---|---|---|---|---|---|
| **Type of Service** | **Impact on Type of Service** | **Share of Medical Costs** | **Impact on Medical Costs** | **Medical Costs as a Share of Overall Costs** | **Impact on Overall Costs** |
| Drugs | -15.8% | 10.8% | -1.7% | 69.0% | -1.2% |

## Data and Adjustments

In this analysis, NCCI relies primarily on the following three data sources. In some components of the analysis NCCI may rely on other data sources, which are referenced where applicable.

- Detailed medical data underlying the calculations in this analysis are based on NCCI's Medical Data Call (MDC) for Montana for Service Year 2017.
- Texas medical data (Texas Department of Insurance) for Service Years 2010-2014.
- The share of benefit costs attributed to medical benefits, based on NCCI's Financial Call data for Montana from Policy Years 2013 to 2015, projected to April 1, 2019.

Data from the MDC is transactional and reported on a Service Year basis. Hence, the detailed medical data used in this analysis includes transactions associated with all Montana claims still receiving medical services, regardless of the year in which the injury occurred. Montana House Bill (HB) 334 implemented several changes to medical benefits, including termination of medical benefits 60 months after the date of injury in certain circumstances. However, some of these changes were applicable only to accidents occurring on or after July 1, 2011. Hence, MDC transactions for injuries occurring prior to this date may not be representative of future medical service patterns. Note that this issue is largely confined to prescription drug costs since prescription drug costs are disproportionately concentrated in the later years of a claim's lifecycle[4].

To account for the effects of HB 334, NCCI applied an adjustment factor to all MDC payments in Service Year 2017 associated with injuries occurring before July 1, 2011. The NCCI filed and approved impact due to the provisions of HB 334 reflected an estimated overall impact on medical benefit costs of -27.8%. Hence, for this analysis, NCCI has multiplied all payments associated with pre-HB 334 injuries by an adjustment (on-level) factor of 0.722 (= 1 – 27.8%).

[4] See for example Exhibit 1 of Lipton, Barry and Colón, David "Workers Compensation and Prescription Drugs: 2016 Update" National Council on Compensation Insurance, Inc., September 2016, available at https://www.ncci.com/Articles/Documents/II_ResearchBrief_WC_Prescription_Drugs.pdf



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