

COMPCONTROL[®]

The Official KMIT Member Newsletter

Why Drug Costs Keep Rising; How They Affect Work Comp

The National Council on Compensation Insurance (NCCI) manages the nation's largest database of workers compensation insurance information. The group analyzes trends, prepares rate recommendations to state department's of insurance, assists in pricing proposed legislation, and provides a variety of data products to maintain a healthy workers compensation system. This is the group that helps the Kansas Insurance Department establish the class code rates each fall, and also develops your city's experience modifier. The following article is a summary of a recent study that they conducted regarding the use of prescription drugs in the workers compensation industry. Should you have any questions regarding this article, please feel free to contact Bret Glendening, KMIT Agent and Compliance Officer at: bglendening@lkm.org or 785/354-9565.

NCCICOMPLETEPRESCRIPTIONDRUGSTUDY: UTILIZATIONISAMAJORFACTOR

In recent years, the costs for pharmaceuticals rose more rapidly than any other type of medical cost. In 2001, the cost of prescription drugs rose an alarming 15.7% over 2000. Nationally, spending on prescription drugs comprises roughly 10% of total spending on health care, and total drug spending may reach \$200 billion this year. Based on the Centers for Medicare and Medicaid Services prediction that drug expenditure growth rates will be maintained, it can be expected that **prescription drugs will comprise nearly 15% of total national health care spending by the year 2011.**

Medications play an important role in health care. For example, they can replace expensive surgeries or other invasive procedures. However, increasing prices, increased utilization, and the availability of newer, higher-priced drugs have contributed to the concerns over rising costs.

NCCI examined the cost and use of prescription drugs in WC in order to answer:

1. What share of WC medical costs are from prescription drugs and how has that share changed over time?
2. What factors affect the cost of prescription drugs?
3. What types of prescription drugs are being used and what are their relative costs?
4. Do strategies used by commercial health plans offer savings opportunities for WC claims?

This study utilized samples of medical bill data from WC claims and compared them to group health (GH) claims data for the year 2001. Key findings include:

1. Prescription drug share of medical costs by accident year in WC grew from 6.5% in 1997 to 9.6% in 2001.
2. Utilization has a greater impact on WC drug costs than price.
3. WC pays roughly 125% of the Average Wholesale Price of prescription drugs; Group Health (GH) pays only 72%.
A percentage difference of 74%.
4. When generic equivalents are available, they are prescribed 79% of the time. This means that 21% of prescriptions are written for the name brand drug WHEN A GENERIC IS AVAILABLE. However, when considering all

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CompControl is a publication of the League of Kansas Municipalities and the Kansas Municipal Insurance Trust for the purposes of educating and informing cities about loss control methods and risk management. If you have any questions concerning KMIT workers' compensation or risk management that you would like to see answered in this newsletter, please direct those inquiries to:

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Letter from the Pool Administrator

Dear KMIT Members and Others,

Finally some rain and cooler temps...I'm ready! Past ready, actually.

Well, it's about time for the **KMIT Annual Meeting**, which, this year for the first time, will be an afternoon reception format (free snacks and drinks). The meeting will start at 4 on Monday (the 13th) of the LKM Annual Conference, in Topeka. Hope you all can make it.

As is the norm each year, about **half of all the Trustee positions are up for election** (six of 11 this year), and will be voted upon at the meeting. Nomination Committee Chair Willis Heck will be presenting a recommended "slate" of nominees. All KMIT elected terms are always two years. (Trustees are term-limited to three elected terms by the KMIT By-Laws.)

In this issue, Bret Glendening describes the **prescription drug calamity**, which certainly has a MAJOR impact on work comp rates. Bret shares some beneficial information on this very important issue.

Bret, who serves as my fellow agent as well as the KMIT Compliance Officer, is currently very busy reviewing the renewal information being submitted by our members. By the time you read this, the **deadline for submittal of renewals** will have passed, but, if yours is not yet in, PLEASE send it back as soon as humanly possible. Those renewals quite often require lots of follow-up work/clarification, and are often very time-consuming at the analysis end of the process, so it's important to get them back on a timely basis. The renewal submission/review is the first step in the quote process for the next year's premium (2004 quote). Later in the fall, after the Kansas Insurance Department releases the 2004 class code rates, staff, along with our IMA consultants, will spend several days working out the pricing for the '04 quotes, which **SHOULD be out to you around December 1**. Contact Bret at bglendening@lkm.org or 785-354-9565 with any questions about your renewal.

Lastly, if you didn't already know, our Wendy Flowers is, once again, a new mom (for the third time). Zane Flowers was born on August 7. Wendy returned to work part-time last week; she can be reached at wflowers@lkm.org or 785-354-9565.

See you in Topeka.

Don Osenbaugh

Pool Administrator

KMIT TRUSTEES ELECT TO WAIVE TERRORISM COVERAGE FOR 2004 POLICY YEAR

At the August meeting of the Kansas Municipal Insurance Trust Board of Trustees, the issue of charging for terrorism coverage was discussed. As you are probably aware, in November of 2002, the U.S. Congress passed, and the President signed into law, the Terrorism Risk Insurance Act of 2002. In Kansas, the allowable charge for every \$100 dollars of payroll was \$.02. This charge is subject to the carrier's Loss Cost Multiplier (KMIT's is 1.46), which equates to \$.03 for every \$100 of payroll for members of KMIT. Towards the end of 2002, you received a letter stating that we were waiving this surcharge.

The purpose of this note is to inform you that the Board of Trustees has elected to waive the surcharge for terrorism for 2004 as well. Any losses caused by certified acts of terrorism would be partially reimbursed by the U.S. Government under a formula established by federal law. Under this formula, the United States pays 90% of covered terrorism losses exceeding the statutorily established deductible paid by the insurance company providing the coverage. Again, the portion of your annual premium for the 2004 policy year that is attributable to coverage for certified acts of terrorism is **WAIVED**.

“Safe Cities” as of August 29, 2003

If you would like assistance returning an injured employee to work, or need ideas for modified duty, please contact Victoria Vanderhoof, 1-877-502-9897 or victoria.vanderhoof@imacorp.com.



Abilene	Council Grove	Hesston	Montezuma	Sedan
Allen	Cullison	Hiawatha	Mound City	Sedgwick
Altamont	De Soto	Hill City	Neodesha	Spearsville
Andale	Douglass	Hillsboro	Oberlin	Spring Hill
Andover	Edgerton	Holcomb	Ogden	Stafford
Baldwin City	Elkhart	Hoxie	Olpe	Stockton
Basehor	Esbon	Jetmore	Osage City	Tescott
Bel Aire	Eudora	Johnson City	Oskaloosa	Tipton
Beverly	Ford	Kingman	Oswego	Tonganoxie
Bird City	Fort Scott	Kinsley	Ozawkie	Treece
Brewster	Fowler	Lenora	Park City	Turon
Caldwell	Frankfort	Lincoln Center	Peabody	Ulysses
Centralia	Galena	LKM	Princeton	WaKeeney
Chautauqua	Glasco	Lucas	Ransom	Wakefield
Cheney	Glen Elder	McFarland	Roeland Park	Walton
Cherryvale	Grainfield	Medicine Lodge	Rose Hill	Wamego
Concordia	Greeley	Melvem	Russell	Wellington
Conway Springs	Grenola	Moline	Satanta	Wellsville

(Why Drug Costs Keep Rising, continued from page 1)

WC prescriptions - those drugs with (44%) AND without (56%) generic equivalents - this 21% is diluted to 8% of the TOTAL WRITTEN PRESCRIPTION COST.

5. Painkillers represent 55% of the cost of prescriptions in WC.

Utilization, contrary to what most might believe, **has a greater impact on the cost of prescriptions to the WC system than does the price of prescriptions.** Utilization, in this study, includes movements towards new, more powerful drugs, and an increase in the number of prescriptions being written. Contributing factors to the increase in utilization include:

1. Greater availability and dependence on medications for treatments, which can be good for the system, given the alternatives.
2. Aggressive marketing - major pharmaceutical manufacturers spend more than twice as much on marketing and administration than on research and development.
3. The aging workforce, which requires greater support from prescription drugs.
4. Increased access through insurance coverage.

Expenditures on drug promotions reached nearly \$19.1 billion in 2001 (by comparison, companies spent \$12 million in 1989). In addition to the costs of detailing (face-to-face meetings with doctors) and sampling, there was increased spending on direct-to-consumer advertising (Celebrex, Vioxx, to name a few). With all these upward pressures on price and utilization, it can often seem like protecting yourself against these market forces is impossible. You are probably asking yourself:

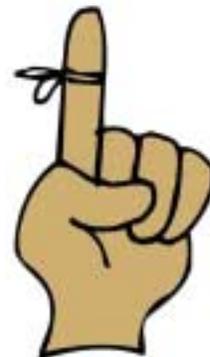
What can (or is) being done to minimize these rising costs on the WC system?

First of all, KMIT works with Precept/CorVel to help us identify provider charges that exceed the scheduled fee for the treatment. Included in this fee schedule is a drug fee schedule that limits the cost of the drug to the Average Wholesale Price, plus \$6.00. Kansas is one of approximately 23 states that have scheduled fees for pharmaceuticals.

Secondly, controlling utilization of non-necessary drugs is crucial to a well-rounded claims management system. Among other things, as an employer, you have the right to direct medical treatment of your injured employee. Victoria Vanderhoof is KMIT's dedicated claims representative from IMA. She is vital to monitoring claims expenses, but to do that she **MUST** know what is going on with claims from your city. She has stopped many expensive and unnecessary treatments before they have occurred, saving our cities countless dollars. **Keeping Victoria informed is key to her continued success.**

KMIT and its staff are dedicated to providing you with affordable WC coverage. This has always been our goal, and will continue to be our goal well into the future. Throughout this article, there are numerous and alarming statistics. Your membership in KMIT will continue to provide you with the best possible insulation from these concerns through our second-to-none service. Should you have a question or concern about anything in this article, please feel free to give KMIT a call, at 785/354-9565. We will be happy to answer your questions and address your concerns.

Just a reminder KMIT renewal applications were due on September 26th. If your city has questions regarding the renewal application, please contact bglendening@lkm.org.



Claims

2003 Frequency and Cost Analysis - Top 5 1/1/03 through 8/29/03

<u>By Job Classification</u>	<u>Frequency</u>	<u>Claims Cost</u>
Police Officers & Drivers	102	\$ 91,700
Municipal	72	147,427
Firefighters & Drivers	45	102,547
Park	43	48,429
Waterworks	33	66,799

<u>By Accident Type</u>	<u>Frequency</u>	<u>Claims Cost</u>
Strain or injury by lifting, pushing, carrying, etc.	97	\$ 238,025
Fall or slip injury	64	160,075
Miscellaneous cause	61	20,200
Occupational Hazards	46	65,718
Struck or injured by falling object, hand tool, etc.	45	72,577

<u>By Body Part</u>	<u>Frequency</u>	<u>Claims Cost</u>
Low Back Area	59	\$ 145,706
Knee	34	153,849
Finger(s)	29	28,814
Lower Arm	25	4,264
Hand	24	35,713

Note - The above figures are based on claims as of August 29, 2003. Amounts listed for claim costs are amounts incurred to date.

Your Pool In Action

We encourage you to make copies of
this newsletter and distribute to all
city employees.

Member Notes



KMIT Calendar

October

- 13 KMIT Annual Meeting,
Topeka
- 13 KMIT Board of
Trustees Meeting,
Topeka

December

- 12 KMIT Board of
Trustees Meeting,
Great Bend

Revenues & Expenses August 31, 2003

Combined Assets

Cash In Bank	2,185,926
Premiums Outstanding	
Investments	<u>1,590,535</u>
Total Assets	3,776,461

Combined Liabilities & Equity

Claims and Accrued Expenses Outstanding	1,816,777
Reserved for Losses	607,364
Incurred But Not Reported (IBNR)	<u>747,162</u>
Total Liabilities	<u>3,171,303</u>
KMIT Statutory Fund Balance	<u>605,158</u>
Total Liabilities and Equity	3,776,461

Kansas Municipal Insurance Trust

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