



Tennessee Law-Only Filing Proposed to be Effective August 28, 2016

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Overview of Tennessee Law-Only Filing

- Filing reflects the impact of TN Rule 0800-02-25
 - Closed drug formulary
 - Effective August 28, 2016 for new prescriptions
 - Effective February 28, 2017 for refill prescriptions
 - Medical treatment guidelines
- Estimated impact of the drug formulary is a decrease of 2.7% to overall system costs
 - Impact of medical treatment guidelines has the potential to reduce overall workers compensation costs
- Proposed effective date of the change in voluntary loss costs and assigned risk rates is August 28, 2016

What is a Closed Drug Formulary?

- A closed drug formulary is a list of drugs with an associated reimbursement status
- For example, Official Disability Guidelines (ODG) from the Work Loss Data Institute:

Status	Description
Y	Pre-authorized for use
N	Needs authorization or not allowed
*	Both Y and N are possible depending on intended purpose

- A drug formulary does not determine the amount of reimbursement for each drug (drug fee schedule)

Note: A drug that is not on the ODG list has unknown status, or N/A



Estimating the Impact of the Tennessee Closed Drug Formulary

- Direct considerations
 - Degree of elimination of N-drugs
 - Substitution effect of N-drugs for Y-drugs
- Other considerations that cannot be quantified
 - Treating physician
 - Alternate medical services
 - Frequency of authorization of N-drugs
 - Limitations on the use of compounds

Analysis of N-Drug Cost Decrease

- Several estimates were considered in the analysis
 - NCCI estimated a -56% impact on Tennessee N-drug average cost assuming a 100% substitution by Y-drugs at the average cost per script of Y-drugs
 - Relativity of average Y-drug cost (\$106) to average N-drug cost (\$241) is 0.44
 - The Texas Department of Insurance* estimated an 83% decrease in total N-drug costs from Fiscal-Accident Year 2011 to Fiscal-Accident Year 2012
 - NCCI estimated the difference in Texas N-drug average cost per claim based on data from Texas Department of Insurance
 - -92% difference for Accident Year 2014 relative to Accident Year 2010 at first report
 - -75% difference for Service Year 2014 relative to Service Year 2010

* *Impact of the Texas Pharmacy Closed Formulary, A Preliminary Report Based on 12-month Injuries with 24-month Services and Legacy Status*, Texas Department of Insurance, Workers' Compensation Research and Evaluation Group

Summary of Impact

- Based on the observed statistics NCCI estimates a 75% reduction in N-drug costs in Tennessee
- The overall impact is calculated as follows:

	Description	Value
(1)	Impact on N-drugs costs	-75.0%
(2)	N-drug share of prescription drug payments	27.8%
(3)	Impact on prescription drug payments [(1) x (2)]	-20.9%
(4)	Percent of medical costs attributed to prescription drug payments	18.0%
(5)	Impact on medical costs [(3) x (4)]	-3.8%
(6)	Percentage of benefit costs attributed to medical benefits	70.9%
(7)	Impact on Tennessee overall workers compensation costs [(5) x (6)]	-2.7%



Questions?

