Workers' Comp

# The Heart of the Challenge: The Role of Direction of Care in Managing Workers' Compensation Costs

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At the core of the drug pricing challenges in workers' compensation is the concept of "direction of care." This refers to the ability of employers or payers to direct injured employees to a specific network of health care providers, including pharmacies.

In a “direction of care” model, the employer or workers' compensation insurer maintains the exclusive right to tell the injured employee which doctor or other provider they must use for their care. In the case of pharmacy, the injured employee can usually choose any pharmacy within the designated network. This contrasts with an "employee choice" model, where the injured employee has the freedom to select their own providers or pharmacies.

Allowing direction of care could be a key solution to managing these challenges. Without direction of care, regulators are left in a constant game of "whack-a-mole," trying to close loopholes as soon as they emerge. Empowering the marketplace through contracting offers a more sustainable solution.

### The Benefits of Direction of Care

The benefits of a direction of care approach are twofold. First, it allows payers to negotiate contracted rates with a network of high-quality, cost-effective providers. This gives them the leverage to keep prices fair and weed out bad actors trying to take advantage of the system.

Secondly, by funneling injured employees to this curated network, payers can ensure patients receive care from the best available providers, rather than potentially lower-quality options. Payers can also take advantage of clinical controls that make sure the medication provided aligns with treatment guidelines and best practices. This can lead to better outcomes and lower long-term costs.

The reality is there's not a huge difference in pharmacy care from one provider to the next. Allowing direction of care doesn't mean workers are getting inferior care—it just means we can negotiate fair prices and weed out the bad actors trying to take advantage of the system.

**Resistance to Direction of Care**

The debate surrounding care models in the workers' compensation pharmacy system centers around balancing the goal of cost containment with preserving injured employees' access, choice and quality of care. This is a concern shared by all industry stakeholders. The New York AB 1219A/S 1974A bill is one example that illustrates this ongoing debate. If enacted, this bill would undermine the direction of care by enabling out-of-state pharmacies to charge exorbitant prices, which would be detrimental to local New York pharmacies.

Allowing direction of care takes a lot of pressure off the regulators. The marketplace could do the contracting, and competition within that network would help drive down prices. Employers could select a broad network that encompasses 90% or more of local pharmacies, ensuring injured employees have ample access to care.

**The Rising Costs of Dermatological Agents**

According to a recent Workers' Compensation Research Institute (WCRI) flash report, dermatological agents (i.e., medications for skin conditions) are being prescribed more frequently in workers' compensation cases. This report looked across 28 states through Q1 of 2023 and found dermatological agents accounted for 22% of total prescription payments in the workers' comp system. The National Council on Compensation Insurance (NCCI) reports that the costs per workers' comp claim for topical medications (which would include many dermatological agents) grew by an extraordinary 96% from 2012 to 2023.

**Embracing Direction of Care as a Solution**

Overcoming this resistance is crucial, as direction of care has proven effective in other health care settings, from commercial health plans to Medicare. As the workers' comp industry continues to grapple with rising drug costs, embracing direction of care could be a game-changing solution to pharmaceutical pricing challenges.

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