

Physician Dispensing

An Overview of the Practice in Workers' Compensation

April 2014

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In recent years, the trend of physician dispensing has exploded in the workers' compensation industry, with some states reaching as high as 50% of all prescriptions filled by dispensing physicians.¹ Defined as the practice of doctors dispensing prescription drugs from their offices directly to the patient, physician dispensing bypasses the pharmacy and any other Pharmacy Benefit Manager (PBM) clinical oversight. Plus, the process of repackaging allows the dispenser to set the price. In some states, prices per pill have been as much as 300% more for a physician-dispensed medication versus the same filled at a retail pharmacy.²

From the surface, the practice is seemingly benign: The doctor examines the patient, writes a prescription, and has the ability to fill the prescription on the spot. The injured worker can begin therapy immediately, and without having to travel to the pharmacy. Everyone's happy...or so it seems. First of all, is this the only doctor this injured worker is seeing? What other medications is he taking? What is his medical history? Did the patient remember the names and dosages of all other medications he's taking?

The dispensing doctor may not be aware of other medication the patient is taking, or his medical history outside of the workers' compensation industry, including drug abuse, especially if he's not the patient's regular physician. The pharmacy and PBM play a vital "checks and balances" role in the care of the injured worker. They are able to see all prescriptions filled for the injured worker, and advise if there are drug-to-drug interactions. And, if an injured worker is filling prescriptions from multiple prescribers for controlled substances – a major sign of misuse and abuse – this can be addressed immediately.

Growth of the Practice

Physician dispensing is most often practiced in the workers' compensation industry and other property and casualty lines and rarely used for Group Health or Medicare/Medicaid patients. After a change in FDA regulations in 1982, the practice began to escalate in workers' compensation, growing dramatically between 2008 and 2011. The current trend first appeared in California as physicians, partnering with companies that directly market repackaging dispensing systems, found a secondary stream of income to fill gaps formed by other system reimbursement cuts in the commercial and government markets.

What is concerning is the rapid growth and prevalence of the practice across the nation. The National Council on Compensation Insurance (NCCI) reports that the number of prescriptions per claim dispensed by a physician has increased 14% from 2003 to 2011.³ Similarly, the Workers Compensation Research Institute (WCRI) also reviewed trends of physician dispensing in a 2013 publication and reported increases in percentage of all prescriptions dispensed by physicians in 16 of 20 of the states studied from 2008 to 2012. Connecticut for one, showed a nine percentage point increase in percentage of physician-dispensed prescriptions from 2008 to 2012.⁴

An 800 mg tablet of Ibuprofen dispensed by a physician in Pennsylvania was nearly 200% more than that dispensed by a pharmacy.

Cost Differential

Since the financial responsibility for an injured worker's care falls to the payer and not the patient, how the bill is paid is not the concern of the injured worker. He may not think twice about it. To the injured worker, the fact that he received his medication from the physician and not the pharmacy only means he didn't have to go to another place. But the payer is rightfully concerned, as physician-dispensed medications have been shown to be as much as 300% more than the same medication dispensed at a retail pharmacy.

How it works: In physician dispensing, the manufacturer sells a drug in bulk at a discount to a repackaging company that repackages the medication into non-standard sizes or dosages. As soon as it is repackaged, it is no longer tied to the manufacturer's National Drug Code (NDC) or average wholesale price (AWP). The repackaging company is required to set a new NDC and therefore, a new AWP. When distributed in a retail pharmacy, the same drug is tied to the original manufacturer's AWP. The repackaging company sells the medication to the physician to be dispensed to the injured worker during the office visit. After dispensing, the physician usually "sells" the receivable to a physician-dispensing billing company that invoices the payer. The new and usually higher AWP is typically outside the control of state fee schedules, ultimately resulting in higher reimbursement by the payer. Profit is generated at every step in this process and the cost of the drug increases. WCRI reported in a recent study that an 800 mg tablet of Ibuprofen dispensed by a physician in Pennsylvania was nearly 200% more than that dispensed by a pharmacy.⁵

Example 30-ct Carisoprodol 350 mg

Dispensed at a Pharmacy:

- Manufacturer sets AWP: \$16.99
- Manufacturer sells to Pharmacy in bulk, likely at a lower cost than to repackagers
- Pharmacy dispenses to injured worker
- PBM adjudication

▶ Payer responsibility: **\$11.03**

Dispensed by a Physician

- Manufacturer sets AWP: \$16.99
- Manufacturer sells to Repackager in bulk: \$1.67
- Repackager creates new NDC, sets AWP: \$133.60
- Repackager sells to physicians: \$12.16
- Physician dispenses medication, "sells" invoice to physician dispensing billing company: \$106.95
- Physician dispensing billing company invoices Payer: \$138.69

▶ Payer responsibility: **\$138.69**

Why the Disparity in Costs

Many factors can contribute to the cost differences between pharmacies and physician-dispensed drugs:

- ▶ **Lack of Formularies:** Physician dispensing bypasses formulary edits, which help ensure use of generics or less expensive, therapeutically equivalent medication.
- ▶ **Lack of Negotiated Rates:** Pharmacies can be part of a PBM's network, which allows them to lower costs by negotiating rates. In contrast, physicians do not have leverage to negotiate with repackagers who set the price.
- ▶ **Drugs Prescribed Based on Profit Margin:** WCRI found that physicians who dispense in their offices may prescribe certain medications based less on clinical indications and more on the profitability of the drug.⁶ Physician dispensers are more likely to dispense a medication if they have it on-hand than a non-dispensing physician.
- ▶ **Lack of Clarity on Regulations:** Physician dispensing is not regulated on a federal level and is up to each state to determine rules for the practice. However, doing so has been somewhat of trial and error. For example, in June 2011, Illinois passed House Bill 1698, which adopted a fee schedule rate for prescriptions dispensed outside of a licensed pharmacy however, it failed to specify that the reimbursement should be calculated using the NDC and AWP of the original/underlying manufacturer. This lack of clarification allowed physician dispensers and repackagers to continue to inflate the price based on a newly created NDC/AWP. As such, Vicodin® increased from 87¢ per pill in 2007/2008 to \$1.44 in 2010/2011.⁷ In comparison, the retail price for Vicodin dispensed through a pharmacy is only 53¢. This was clarified in rule making in November 2012 which determined that the AWP used to determine maximum reimbursement *"shall be the AWP of the underlying drug product, as identified by its NDC from the original labeler."*

The Debate

While the practice continues to gain momentum—and considerable attention—within the workers' compensation industry, the debate over the value of physician dispensing also continues to heat up. Both sides of the issue have reasons that physician dispensing is either better or worse for the injured worker and payer. Here's a summary of the general position of both proponents and opponents of physician dispensing:

The major difference in the debate is that there is an abundance of research supporting the argument against physician dispensing and a dramatic lack of evidence promoting the practice of physician dispensing. One of the most alarming facts is that physician dispensing is nonexistent in group health or under Medicare or Medicaid. These programs either prohibit or costly patient co-pays and deductibles inhibit a physician's ability to pass on these far-higher costs to patients. In contrast, workers' compensation payers are responsible for the medical care of their workers injured on the job – no co-pays or deductibles. The focus is on reducing injuries and providing fast, effective medical care should an injury occur. Yet despite this focus, costs are still rising. Prescription drug costs are 20 percent of medical costs. And physician dispensed medication account for more than a quarter of workers' compensation drug-related expenses to the tune of \$1.7 billion per year.

Issue	Proponents	Opponents
Access	Helps those who can't get to a pharmacy to receive medication	Research shows the average distance injured workers have to travel to their pharmacy of choice is less than 3.5 miles. ⁸
Convenience	Allows patient to leave the doctor's office with the prescribed medication	Refills require another doctor visit, typically only during business hours on the weekday, which is more limiting than getting refills at a 24/7 retail pharmacy.
Response	Patient can begin medication therapy immediately, while still at the physician's office.	If the medication should be taken with food or at a particular day time, it may not be best to begin the medication while at the doctor's office.
Patient Communication	Patients can talk to the doctor about the medication in the office	Pharmacists are trained five to seven years on the composition, effects, proper dosages, and interactions of drugs whereas physicians receive only one year of training in pharmacology. Therefore, they are aptly trained to advise patients on how and when to take their medications, spot potentially harmful drug interactions, and double-check questionable prescriptions. ⁹
Adherence to Treatment	If therapy begins in the physician's office and subsequent refills require a doctor's visit, the belief is that it will be adhered to.	An injured worker could go to several other doctors, taking prescriptions home with them each day.
Costs	Actually save costs because therapy is more closely watched by physician.	WCRI: Price per pill paid to physicians was as much as 300% higher than that paid to pharmacies. CWCI: in California, claims with at least one physician-dispensed prescription increased the cost per claim by \$482 per prescription. ¹¹
Safety	Physician has oversight of the injury-related therapy	Injured workers may be seeing a doctor specific to their injury, and not their regular doctor. It is up to the injured worker to inform the treating doctor of any other medications they are taking, past medical history, and current comorbidities. Without the oversight of the pharmacy and/or PBM, injured workers are at-risk of drug-to-drug and drug-to-disease interactions and over-utilization of medication.
Clinical Outcomes	Physician oversight promotes better clinical outcomes.	CWCI research shows that average paid total disability days (for all claims) were 9% higher on claims that had physician-dispensed medications than claims that did not. ¹²
Accuracy	Pharmacies can make mistakes when filling prescriptions	PBM and pharmacy oversight helps eliminate multiple prescribers, over-utilization of same or similar medications, and reduce risk of interactions with other pre-existing conditions, comorbidities, and medical treatments.

What Can Be Done to Control the Practice?

In jurisdictions with ineffective legislative or regulatory controls, Helios has improved clinical outcomes by developing Specialty Networks. Contractual arrangements are negotiated with occupational medicine clinics, physician-dispensing billing companies, and individual physician practices.

Transactions processed through these Specialty Networks are then subject to appropriate clinical oversight that would otherwise be lost when these entities invoice payers directly.

Through Specialty Network arrangements, we are able to lower costs for transactions, apply program and formulary controls, create administrative savings by reducing paper bills, provide full visibility into the injured worker's medication history and improve the clinical efficacy of treatment, thus creating the best outcomes for injured workers.

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About Helios:

Helios, the new name for Progressive Medical and PMSI, is bringing the focus of workers' compensation and auto no-fault pharmacy benefit management, ancillary services, and Settlement Solutions back to where it belongs – the injured party. Along with this new name comes a passion and intensity on delivering value beyond just the transactional savings for which we excel. To learn how our creative and innovative tools, expertise, and industry leadership can help your business shine, visit www.HeliosComp.com. © 2014 Helios™ All Rights Reserved.

