

White Paper

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Repackaging & Physician Dispensed Drugs in Workers' Compensation: Proven Strategies

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Repackaged drugs and physician dispensing continue to be significant challenges for the workers' compensation industry and are major contributors to the growing costs of prescription drug treatments. According to a WCRI study published in July 2012, over 50% of

drug and physician dispensed management program in 2008, which specifically targeted lowering the costs and utilization of these drug therapies. Since the highly successful program began, Healthsystems has saved clients over 80% off the repackaged drug billed amounts in certain states, and consistently averages a savings of over 60% nationally. In order to achieve this, Healthsystems developed a proprietary drug analytics and forensics tool that can identify the origination and cost for each repackaged drug and adjudicate it to the lowest allowable amount — in order to maximize the savings opportunities for each client.

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workers' compensation prescription drug costs in states such as Illinois and Florida resulted from physician-dispensed repackaged drugs, and the increases have been growing well over 10% per year.

5 Years of Innovation & Savings

In order to aggressively manage this complex area of pharmacy benefits, a multi-tiered, integrated strategy including innovative technology, clinical oversight and proactive state-level governmental outreach must be used. Healthsystems developed one of the first workers' compensation industry's repackaged

Advanced Processing Methodology

As an integrated component to the Healthsystems retail and mail order pharmacy program, this advanced prescription processing methodology is also an extension of the other protocols and tools Healthsystems uses for managing out of network scripts. All repackaged and physician dispensed prescriptions have the identical drug utilization review and clinical edits that are applied to prescriptions processed online via a retail pharmacy; ensuring the drugs are being reviewed for both treatment and cost

The Players Involved



Repackaging Companies

- Repackage Drugs
- Assign New NDC
- Inflate AWP



Physician Dispensing Organizations

- Inventory Ordering
- Dispensation
- Billing & Collections



Physicians

- Dispense Drugs
- Manage Therapy

appropriateness. As a result, many problematic prescriptions may be flagged for authorization approval and can ultimately be denied if they do not meet a payer's medication plan (formulary) or other drug review edits.

Since the inception of its program, Healthsystems has continued to enhance and add functionality to address legislative loopholes and any new workarounds employed by repackaged drug and physician dispensing companies. This proactive development strategy has cemented Healthsystems as the leader in cost containment of repackaged and physician dispensed drugs. Healthsystems also continues to be a major contributor to the various state-level legislative and rule making efforts which also includes publishing a series of industry reports, white papers and articles specific to this topic:

Risk & Insurance Magazine. Controlling Workers' Comp Drug Costs. Published 4/10/12
www.riskandinsurance.com/story.jsp?storyId=533346798

Risk & Insurance Magazine. Ready or Not, the Changes Keep Coming. Published 5/1/11
www.riskandinsurance.com/story.jsp?storyId=533336520

Risk & Insurance Magazine. Compounding Pharmacy Fraud. Published 12/1/09
www.riskandinsurance.com/story.jsp?storyId=295141721

Risk & Insurance Magazine. Compound and Repackaged Drugs in WC Present a Cost and Care Challenge for Payers, Patients. Published 9/30/09
www.riskandinsurance.com/story.jsp?storyId=263212421

Rx Informer journal. By the Numbers: A Detailed View Into Repackaged Drug & Physician Dispensing Activity. Fall 2012 issue. www.healthsystems.com/clinical-resources/rx-informer-archive.aspx

Rx Informer journal. The Impact of Drug Repackaging on Workers' Comp Costs. Fall 2012 issue.
www.healthsystems.com/clinical-resources/rx-informer-archive.aspx

Rx Informer journal. Physician Dispensing of Repackaged Medications: A Legislative Challenge. Fall 2011 issue.
www.healthsystems.com/clinical-resources/rx-informer-archive.aspx

Excessive costs incurred from physician dispensing are most frequently driven by markups and inflated rates applied to the repackaged drugs. In addition, physicians frequently use the services of physician dispensing organizations that specialize in managing for-profit, in-office drug dispensing programs. These turn-key services provide doctors with tools such as on demand ordering to repackaged drug inventory, dispensation, and billing and collections for the dispensed drugs. Costs associated with the physician dispensing programs are added to the already inflated drug prices created by the repackaged drug company/manufacturer. Typically, as part of the process, repackaging companies assign new National Drug Codes (NDC) to the repackaged drugs and inflate the corresponding AWP values compared to the underlying (original) drug. In some instances, these new rates have been inflated by as much as 800%.

Healthsystems has published numerous reports, white papers and industry articles on repackaged and physician dispensed drugs.

Others Accommodate the Process. We Prevent It

For most payers, bills for physician dispensed drugs frequently follow the same adjudication or bill review path as a typical medical bill -- since they are submitted on a physician bill or from a contracted third party. As a result, this process removes the opportunity for payers to apply the necessary drug review edits as well as the appropriate state fee schedule rules. Other less successful solutions solely attempt to address physician dispensing by developing an alignment with either the repackaging companies or the physician groups. The benefits tend to be limited since the savings are based on a contracted rate off the highly inflated AWP values for these drugs. In addition, this less favorable approach continues to support this practice and allows these scripts to be processed outside of the normal point of sale environment, removing all the prospective application of drug review edits..

The Healthsystems repackaged drug and physician dispensed management program focuses on prevention and cost reduction as opposed to accommodation. This approach applies the most aggressive price adjudication strategies available by each state. Several states, such as California, Arizona, Colorado, Georgia, and others have implemented rules that adjudicate repackaged drugs using logic such as:

- The AWP value of the underlying NDC
- The AWP value of Lowest Cost Therapeutic Equivalent
- The AWP value of the most common NDC

In any of these cases, the Healthsystems adjudication methodology applies both the appropriate reimbursement amount to each drug while also incorporating the same drug utilization review and formulary edits that are used for point of sale transactions.

Top Repackaged Drugs

Drug Name
Hydrocodone-Acetaminophen
Meloxicam
Tramadol HCL
Gabapentin
Oxycodone-Acetaminophen
Carisoprodol
Cyclobenzaprine HCL
Ibuprofen
Zolpidem Tartrate
Omeprazole
Naproxen
Tizanidine HCL
OxyContin
Lyrica
Lidoderm
Celebrex
Cymbalta
Oxycodone HCL
Methocarbamol
Ranitidine HCL

From the Healthsystems study "By the Numbers: A Detailed View Into Repackaged Drug and Physician Dispensing Activity." *Rx Informer* journal. Fall issue pgs. 27-30.

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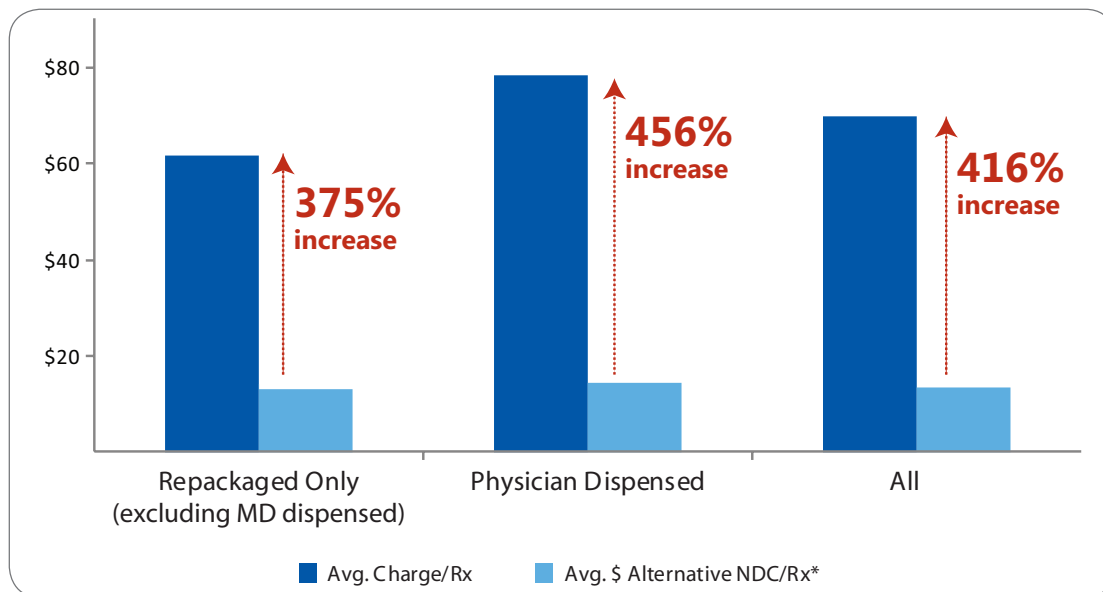
More Results

Since inception, the results of this program have been very positive. When considering all states, the average savings is over 60% from the original billed amount. However, in certain states, the savings have exceeded 80% of billed amounts. Similar results have also been achieved when monitoring one of the most predominant physician dispensing organization companies where savings have reached almost 90% of billed amounts.

A Closer Analysis

The following chart analyzes the frequently prescribed drug Hydrocodone-Acetaminophen. The data presented illustrates the significant pricing discrepancies between the cost of a repackaged drug and the incremental impact when physician dispensing is involved. In addition, the analysis further identifies how much the prices are inflated compared to the originally manufactured drug.

Hydrocodone/APAP TAB 5-500MG



From the Healthsystems study "By the Numbers: A Detailed View Into Repackaged Drug and Physician Dispensing Activity," *Rx Informer* journal. Fall issue pgs. 27-30.

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A Case Review – Examining the Impact of Repacks

Between 2010-2011, nearly 63% of the total cost of prescription drugs dispensed in workers' comp cases in Illinois were dispensed through a physician. The state saw the most rapid increase in physician-dispensed drugs – from 26 percent to 43 percent between 2007 and 2011, according to the July 2012 Workers' Compensation Research Institute (WCRI) study.

A growing number of states have seen a rise in physician-dispensed drugs, a challenge that has been rapidly increasing in frequency over the last decade. The usual source of their drugs is typically from repackaging companies. According to a 2011 NCCI study, nationally, prescription drug costs account for 19% of all medical costs, with repackaged drugs topping the list of cost drivers in some states.¹

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Repackaging is the practice of buying large quantities of prescription drugs from manufacturers and then repackaging them into smaller quantities and reselling them, usually for a profit. As part of the repackaging process, drugs are assigned a new National Drug Code (NDC) and often this includes creating an increased Average Wholesale Price (AWP) compared to the original drug price. The drugs are then dispensed and resold by the physician to their patients in the office. A growing industry supporting the repackaging process includes many companies that provide in-office physician dispensing programs. These programs are marketed to physicians as revenue generating tools which target workers' compensation treatments and include guaranteed billing and reimbursement

terms to the physician where the program provider bears the financial risk for the drugs dispensed.

The cost to workers' comp payers can equate to drugs being billed at anywhere from three to 10 times higher than the amount it would cost when dispensed at a typical retail pharmacy. These additional costs are often passed on to insurers via third party or physician office bills, and with newly assigned national drug codes (NDC); frequently many of the typical bill processing and adjudication tools are unable to identify the codes as part of the state fee schedules. As a result, the process can circumvent cost control and automated drug utilization review edits.

The Issues

There are plenty of issues surrounding drug repackaging. The more prominent ones include:

Cost

As mentioned before, repackaged drugs have a huge impact on the total cost of workers' compensation claims. And, physician office dispensing is a major contributor. For example, in just three years, physician-dispensed prescriptions grew from 22% to 63% of all drugs dispensed in Illinois according to a WCRI study.² Also, an NCCI Holdings, Inc. study revealed that three-fourths of all repackaged drug costs in workers' compensation cases originate from physicians.³

Adjudication Issues

Because repackaging companies will change the NDC and assign a new AWP value, physician-dispensed drug charges can frequently miss the radar, and due to the way many PBMs and payers process these types of bills, the inflated costs may be adjudicated without being detected and no cost containment measures are applied.

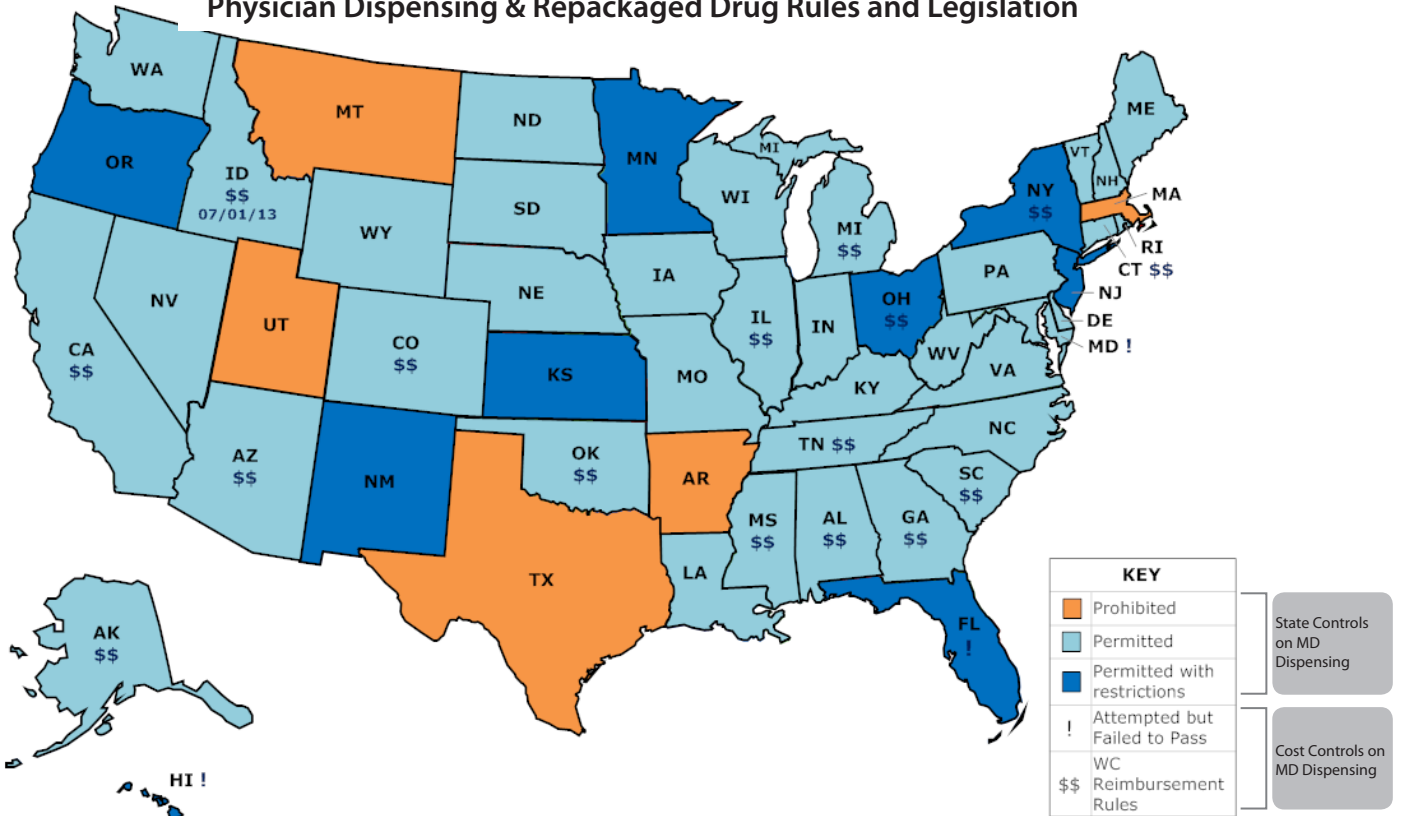
Patient Safety

Repackaged drugs can potentially adversely affect patient safety. While dispensing of repackaged drugs may have some benefits in providing easier access to care for an injured worker, there is a danger of a missed drug interaction and drug utilization review oversight. Many workers’ comp physicians are not the sole care provider for the injured worker, and the physician dispensing process, especially when billed on paper, typically will not process the prescriptions against a patient’s current regimen, which is standard practice in the retail pharmacy environment. The result is little to no oversight for catching any drug-related errors such as duplication or excessive therapy.

Most notably, due to the challenges associated with the frequent use of opioid therapy, less oversight increases the chances of an injured worker receiving multiple opioid prescriptions.

From a legislative and/or state rule making perspective, allowing the repackaged drug and physician dispensed process to go uncontrolled has caused the severity of the issue to significantly grow over a short period of time. For example, until California incorporated new fee schedule rules regarding physician dispensing and repackaged drugs in 2007, from 2000 to 2005 almost 60% of all prescriptions in the state came from these sources.

Physician Dispensing & Repackaged Drug Rules and Legislation



Legislation and new state rules will continue to play a significant role in controlling how repackaged drugs and physician dispensing is managed. Today, there are several states with rules or laws specifically addressing these activities. The map on Page 2 illustrates where reimbursement rules and/or laws are either in place or where legislative activity is pending.

Solutions and Success

Processes and adjudication methodology have proven to be successful at reducing the cost of repackaged drugs on average up to 70% below the billed amount.

For more detailed information about these solutions to the repackaged drug issue and upcoming legislative changes that will have an impact in 2013, including the most common drugs seen in repacks and the latest trends coming out of pharma companies – with insight into new “branded repacks” – read the upcoming fall edition of the *Rx Informer* journal. The journal is published in early November and available at the NWC&DC conference as well as electronic download at www.healthsystems.com/rxinformer. Submit your request for the fall edition today and receive it in your inbox this November.

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About Healthsystems

Healthsystems is a specialty provider of innovative medical cost management solutions for the workers' compensation industry. Our comprehensive products include a leading Pharmacy Benefit Management Program, expert Clinical Review Services and a revolutionary Ancillary Benefits Management solution for prospectively managing ancillary medical services.

Our Verticē Claims Information Portal delivers real-time pharmacy and ancillary benefit management program information, reports and tools. This intuitive web portal allows claims professionals to access tools for quickly and efficiently processing provider transactions, running reports, retrieving relevant clinical information and many other functions.

By leveraging powerful technology, clinical expertise and enhanced workflow automation tools, we provide clients with flexible programs that reduce the total cost of medical care and manage drug utilization, including the overuse of narcotics and other problematic drugs, all while increasing the quality of care for injured workers.

Sources:

- 1 NCCI Research Brief - May 2011 – Narcotics in Workers' Compensation by Chris Laws
- 2 *Physician Dispensing in Workers' Compensation*. Dongchun Wang. July 2012. WC-12-24
- 3 NCCI Research Brief - January 2011 – Workers' Compensation Prescription Drug Study (2010 Update) by Barry Lipton, Christ Laws, and Linda Li

Data referenced in this document was produced using Healthsystems' proprietary pharmacy database information.

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