NEIL ABERCROMBIE
GOVERNOR OF HAWAII

SUNSHINE P.W. TOPPING
INTERIM DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT
235 S. BERETANIA STREET
HONOLULU, HAWAII 96813-2437

February 14, 2011

TESTIMONY TO THE
HOUSE COMMITTEE ON HEALTH

For Hearing on Tuesday, February 15, 2011
10:00 a.m., Conference Room 329

BY

SUNSHINE P.W. TOPPING
INTERIM DIRECTOR

Written Testimony Only

House Bill No. 1243, HD1
Relating to Repackaged Drugs and Compound Medications

TO CHAIR RYAN I YAMANE AND MEMBERS OF THE COMMITTEE:

The purpose of H.B. No. 1243, HD1 is to amend Section 386-21, Hawaii Revised Statutes, so as to regulate the amount that can be charged for repackaged prescription drugs and compound medications.

The Department of Human Resources Development is in strong support of this bill. We have found that, in many instances, the amounts being charged for repackaged prescription drugs and compound medications were more than 200% greater than what was being charged by retail pharmacies and Health Maintenance Organizations for the same prescriptions. Under this bill, we would also be permitted to contract for a price lower than the amount provided for in the fee schedule adopted by the Director of Labor. This provision, along with regulating the amount that can be charged, will reduce medical costs without affecting an injured employee's access to required medications.

Thank you for the opportunity to testify on this measure.

NEIL ABERCROMBIE
GOVERNOR

DWIGHT Y. TAKAMINE
DIRECTOR

AUDREY HIDANO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
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February 15, 2011

To: The Honorable Ryan I. Yamane, Chair
and Members of the House Committee on Health

Date: February 15, 2011
Time: 10:00 a.m.
Place: Conference Room 329, State Capitol

From: Dwight Y. Takamine, Director
Department of Labor and Industrial Relations

Testimony in SUPPORT
Of
H.B. No. 1243, H.D. 1 Relating to Repackaged Drugs & Compound Medications

I. OVERVIEW OF PROPOSED LEGISLATION

House Bill 1243, H.D. 1 proposes to amend Section 386-21, HRS, by placing a cap on prescription drugs to not exceed the average wholesale price as listed in Red Book, plus 40 percent, or a lower percentage; restricting the cost of repackaged or relabeled drugs to not exceed the amount that was paid had it not been repackaged or relabeled; determining how repackaged, relabeled and compound medication is to be reimbursed; and allow the carrier to contract for a lower amount.

II. CURRENT LAW

The current Workers' Compensation Medical Fee Schedule Administrative Rule, Section 12-15-55, allows for prescription drugs to be reimbursed at the average wholesale price as listed in Red Book plus forty percent when sold by a physician, hospital, pharmacy, or provider of service other than a physician. All billings for prescriptive drugs must include the national drug code listed in Red Book followed by average wholesale price listed at time of purchase by the provider of service.

The current law does not address the reimbursement of repackaged and relabeled, and compound medications.

III. HOUSE BILL

The Department supports this bill, which opposes excessive or unnecessary added cost of prescription medication. The department continues to work towards insuring that Hawaii's injured workers continue to receive quality medical care, services, supplies, and easy access to filling prescription medication, while insuring providers of services and suppliers who care for Hawaii's injured workers are fairly reimbursed. The department does have an additional concern:

1. The bill allows carriers to contract for a lower amount. The Department has no objections to this as long as it does not limit the injured workers to only specific pharmacies or from a pharmacy, that he/she has the most reasonable access too.

Hawaii Injured Worker's Alliance
715 South King Street Suite #410
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February 15, 2011

Committee on Health

House Bill 1243 HD1 Relating to Repackaged Drugs and Compound Medications

Supporters of the bill before you points to circumstantial evidence that suggests a cost savings in pharmacy-dispensed medications. These views are both opinionated and shortsighted as it relates to cost savings for the Hawaii work comp system as a whole and the unintended consequences any fee schedule change will have on access to care for Hawaii's injured workers.

I would like to point to a study recently published by the Workers' Compensation Research Institute that demonstrates how physician-dispensed medications save the workers' compensation system as measured on a per-claim and per-script basis.

GIECO, in its' testimony, points to one instance whereby a physician-dispensed medication was more costly than a similar pharmacy-dispensed medication. Geico's "cherry picked" claim is inconclusive as the AWPs of any particular medication is tied to its' national drug code, which varies widely across manufacturers.

There are studies that have conducted similar analysis with statistically significant sample sizes:

The Workers' Compensation Research Institute's (WCRI) latest report published in March of 2010 (see attached "WCRI Report", p. 28) sought to compare costs between pharmacy-dispensed and physician-dispensed medications across 16 sample states. Indeed, the report concluded that physician-dispensed medications were incrementally more on a per-pill basis than pharmacy-dispensed medications, at a rate of $1.29 to $1.16.

However, on a per-script and per-claim basis, **physician-dispensing has proven to be more cost-effective**:

i. The average cost for a pharmacy-dispensed script was $51 as compared to $37 for a physician-dispensed script
ii. The average cost for a pharmacy-dispensed claim was $400 as compared to $128 for a physician-dispensed claim

Physicians do not enjoy the huge rebates offered from manufacturers and distributors of drugs that pharmacy chains do, nor do they have the resources to count pills nor the ability to assume the huge liability of cross-contamination and wrong-fills. Thus, for safety reasons, physicians must purchase medications in treatment dosages. There is obviously a cost associated with packaging medications in treatment dosages with trackable bar-coding. This explains the incremental cost on the per-pill level.

However, advocates of this bill are still missing the big picture and do not see the savings not only on prescription costs at the claim and script level but the **enormous savings on the indemnity portion of the claim due to injured workers' actually being able to receive their medications** and follow their treatment protocol. As you know, the indemnity portion of any work comp claim is approximately 50% of the total claim, while the prescription medication portion is merely 5%. I would also like to point to two more studies that demonstrate that any altering of Hawaii fee schedules as it relates to workers' compensation would drive specialists out of workers' compensation and severely choke off injured workers' access to care.

In 1998, in response to growing concerns about injured workers' access to medical care, Hawaii's state legislature commissioned a study by the Legislative Reference Bureau to determine if "the 110% ceiling on workers' compensation medical fee schedule should be adjusted". "The Bureau found a significant trend in health care providers that is shifting away from accepting all patients with workers' compensation injuries and moving towards policies that limit or totally reject prospective patients with work-related injuries covered under the workers' compensation law. The most common reason given for this trend is the change in the medical fee schedule level of reimbursement". The chart (p. 13 of the attached UCLA Study), concludes that **77% of Hawaii neurologists, neurosurgeons, orthopedists & physical med/rehab physicians accepted work comp before the straight 110% Medicare Fee Schedule while only 23% did after implementation of the new fee schedule**.

A follow-up study was conducted by the California Association of Neurologists by interviewing all Hawaii neurologists in private practice to see if participation levels were improving as physicians adjusted their practices to the reality of the 110% fee schedule..."[p]erhaps the most troubling finding with regard to Hawaii is that it appears that the decline in physicians accepting workers' compensation caused by low-multiple fee schedules is extremely long-lasting...physician participation levels remained largely unchanged even ten years after the original fee schedule was adopted, with less than 30% of all neurologists accepting workers' compensation patients in Hawaii in 2005."

Current research has suggests that participation in Hawaii has dipped even more, with only 19% of neurologists and 44% of orthopedists indicating that they still accept workers' compensation patients.

Physician dispensing has allowed specialists to gradually come back into workers' compensation by allowing them to subsidize the enormous overhead and reduced fee schedule associated with treating an injured worker.

Due to the high cost of purchasing medications in prescription doses, a new fee schedule based on original manufacturer's AWPs will make it too costly for physicians to dispense, thus eliminating it as an option to injured workers.

Any hypothetical cost savings to insurance companies will come at the real cost of impeding access to care for injured workers in Hawaii.

The Hawaii Injured Workers Alliance strongly opposes HB 1243 HD1.

George Waialeale
Executive Director
Hawaii Injured Workers Alliance

Aloha Pain Clinic

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(808) 885-PAIN

February 14, 2011

Committee on Health; Rep Ryan Yamane, Chair and Rep Dee Morikawa, Vice Chair
Re: **HB1243 - Relating to Repackaged Drugs and Compound Medications**

Dear Sirs and Madams,

This letter is in strong opposition to the proposed fee schedule change that will dictate and change reimbursement for all prescription medications dispensed in a workers' compensation case in Hawaii. As a physician who practices on the outer islands and has limited access to ancillary help such as pharmacies, this would be disastrous. Here on the Big Island our nearest pharmacy is over 20 miles away and is inaccessible to most of our patients. Hawaii has historically been known for the worst reimbursement rates. The proposed Hawaii fee schedule change would set a reimbursement rate that would cripple our practice by reducing the reimbursement rate by more than half for practitioners that provide medications in treatment dose.

Currently, many Hawaiian physicians, including myself, offer point-of-care dispensing to their workers' compensation patients. As you can imagine, the ability of these injured workers to receive their medication for free at the doctor's office is of enormous benefit. The majorities of our patients are underprivileged and can't afford their prescriptions or a means of transport to and from the pharmacy. Typically, when an injured worker is forced to go to a pharmacy to fill a prescription they have difficulty in receiving their medications due to the awkwardness of the work comp verification process. Work comp patients that receive their meds at point of care are more likely to abide by their course of therapy, reach Maximum Medical Improvement faster, return to work quicker and will be less inclined to involve a lawyer in their case and decreases the indemnity portion of the work comp claim cost, which is on average 50% of the total claim cost.

The proposed fee schedule would prevent me from being able to continue this service to my work comp patients and will decrease the current level of care I am able to provide to these patients. As a result injured workers would be severely limited in their access to the quality health care and no-cost medications that they are entitled to which will in turn, increase the overall cost of the workers' and decrease the likelihood of further state run assistance.

Please join us in ensuring that injured workers continue to receive superior medical care in Hawaii by rejecting the proposed fee schedule that would eliminate my ability to provide this service to my patients.

Thank you,
Rudolph Puana MD

February 14, 2011

To: Hawaii Legislature and Honorable Members of the Committee on Health

From: James F. Van Natta MD

Concerning: **SB1414 Relating to Repackaged Drugs and Compound Medications**

Dear Rep Ryan Yamane, Chair, Rep Dee Morikawa, Vice – Chair:

I am an interventional pain management physician. My partners and I have two multidisciplinary clinics, one in Kahului and the other in Waikoloa, i.e. Aloha Pain Clinic (APC). Following is a brief description of the reasons we are against house bills 1243:

- Analysis of APC's account receivables illustrates the extreme lag time between treating workman's compensation (WC) patients and receiving reimbursement; e.g. WC pays an average of 34% expected payments vs. 71% by other major carriers including Medicare, HMSA, Quest, and Alohacare within 120 days
- Physician dispensing is an available tool to marginally increase revenue to aid in maintaining collections at a sufficient level to continue to treat WC patients during the extended collection period
- Clinic/Physician controlled dispensing allows for greater control of opioids and other habit forming medications. The most rigid control of addictive prescription drugs, and thus prevention of abuse, would be achieved by only permitting patients to receive these medications at the clinic level by one specific provider for the patient.
- WC documentation, billing, collections, etc., time commitment requires much greater time than any other carrier. Perhaps, as much as 4-5 times more.
- Passing these Bills will greatly decrease the number of providers treating WC patients, including APC.

Sincerely,

James F. Van Natta MD
frankvannatta@hotmail.com

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PCI Property Casualty Insurers Association of America
Shaping the Future of American Insurance
1415 L Street, Suite 670, Sacramento, CA 95814 Telephone 916-449-1370 Fascimile 916-449-1378 www.pciaa.net

To: The Honorable Ryan I. Yamane, Chair
House Committee on Health

From: Samuel Sorich, Vice President

Re: **HB 1243 HD1 – Relating to repackaged drugs and compound medications**
PCI Position: Support

Date: Tuesday, February 15, 2011
10:00 a.m.; Conference Room 329

Aloha Chair Yamane and Committee Members,

The Property Casualty Insurers Association of America (PCI) supports HB 1243 HD1 which would limit markups of repackaged prescription drugs and compound medications to what is currently authorized for retail pharmacies under state law.

This bill would treat such drugs in the same manner as other drugs and keep the cost of such drugs more affordable for workers' compensation care. Recent workers compensation cost data has shown an alarming increase in medical costs and much of this cost is driven by pharmacy costs, in particular the increasing use of repackaged and compound drugs. Often times these drugs are "created" or packaged for the sole purpose of moving the prescription off of the pharmacy fee schedule. Hawaii already has one of the most generous workers' compensation fee schedules in the nation to reflect the unique challenges faced in Hawaii. HB 1243 HD1 would close this loophole by limiting the markups for these types of drugs.

Compound medications are often paired with topical and transdermal creams that have not been approved by the FDA which poses a safety risk to injured workers. Since compound medications are a combination of other medications, these medications present unique billing issues and many insurers have seen instances where the bill for a compounded drugs is several times more expensive than the comparable oral, FDA-approved, commercially available oral dosage.

We note that the intent of this legislation is not to abolish the use of compound or repackaged medications but to merely place some guidelines around their use. In some cases, these types of medications may be appropriate. These drugs, however, should be treated in the same manner as other drugs. Medical necessity should drive the desire to prescribe a medication, not a higher reimbursement rate. This bill an important step not only for controlling an unnecessary cost to the workers' compensation system, but also to ensure that injured workers are protected and the practice does not generate inappropriate fees.

Thank you again for the opportunity to present testimony in strong support of HB 1243 HD1. PCI respectfully requests your support for this bill.

HAWAII INSURERS COUNCIL
A trade association of property and casualty insurance companies

Pauahi Tower, Suite 2010
1003 Bishop Street
Honolulu, Hawaii 96813
Telephone (808) 525-5877
Facsimile (808) 525-5879

Alison Powers
Executive Director

TESTIMONY OF LINDA O'REILLY

HOUSE COMMITTEE ON HEALTH
Representative Ryan I. Yamane, Chair
Representative Dee Morikawa, Vice Chair

Tuesday, February 15, 2011
10:00 a.m.

HB 1243, HD1

Chair Yamane, Vice Chair Morikawa, and members of the Committee, my name is Linda O'Reilly, Workers' Compensation Claims Manager at First Insurance, testifying on behalf of Hawaii Insurers Council. Hawaii Insurers Council is a non-profit trade association of property and casualty insurance companies licensed to do business in Hawaii. Member companies underwrite approximately 40% of all property and casualty insurance premiums in the state.

Hawaii Insurer Council **supports** HB 1243, HD1 which would restrict markups of repackaged prescription drugs and compound medications to what is currently authorized for retail pharmacies under state law.

Hawaii's current reimbursement rate for pharmaceuticals is already the highest in the nation for both brand and generic products. The state fee schedule is AWP + 40%, with Redbook being cited as the pricing source. To demonstrate the markups, Exhibit 1 lists commonly dispensed medications that were re-packaged and re-labeled from a physician's office that specializes in the treatment of Workers' Compensation injuries. Exhibit 2 lists the same medication with the applied Hawaii fee schedule reimbursement rate.

Exhibit 3 lists commonly dispensed compound medication and the charges national observers have seen associated with them. Compound medications present their own

unique challenge because as their name suggest, compound medications are a combination of several drug products, and do not have a unique National Drug Code (NDC). As a result if left unregulated, compounding pharmacies can continue to create "dummy" NDCs and inflate charges.

States of California, Arizona, and Mississippi have experienced abuse until markups on repackaged prescription drugs and compound medications were regulated. Since Hawaii's reimbursement rates are already the highest in the nation, we respectfully request your support of HB 1243, HD1, which would restrict unreasonable increases of prescription drug costs to our people and business communities.

Thank you for the opportunity to testify.

Exhibit 1

AWP Comparisons

Drug	QTY	Re-Packaged AWP	Common Retail Pharmacy AWP	% of Mark Up
ACETAMI/CODE 300/30MG	60	$35.78	$17.83	100.7%
ACETAMI/CODE 300/60MG	60	$69.19	$56.20	23.1%
ACETAMINPHEN/CODE 300/30MG	30	$17.89	$8.91	100.7%
ALPRAZOLAM .5MG	30	$49.02	$25.33	93.5%
CELEBREX 200MG	30	$166.16	$132.92	25.0%
DIAZEPAM 5MG	30	$102.70	$5.94	1627.9%
DOCUSATE SODIUM 100MG	30	$39.14	$5.94	558.5%
ETODOLAC 50MG	30	$51.18	$45.04	13.6%
FLUOXETINE HCL 10MG	30	$185.55	$74.13	150.3%
FLUOXETINE HCL 20MG	30	$190.32	$80.04	137.8%
GABAPENTIN 300MG	30	$57.98	$39.89	45.4%
GABAPENTIN 300MG	120	$231.99	$159.55	45.4%
GABAPENTIN 600MG	30	$98.63	$75.60	30.5%
GABAPENTIN 600MG	60	$220.29	$151.20	45.7%
GABAPENTIN 600MG	120	$440.59	$302.40	45.7%
HYDRO/APAP 10/650MG	30	$52.31	$15.96	227.8%
HYDRO/APAP 10/650MG	60	$104.62	$31.92	227.8%
HYDRO/APAP 5/500MG	30	$34.49	$12.56	174.7%
HYDRO/APAP 5/500MG	60	$68.97	$25.11	174.7%
HYDROC/APAP 5/500MG	120	$137.94	$50.22	174.7%
HYDROC/APAP 7.5/500MG	30	$43.11	$15.45	179.1%
HYDROC/APAP 7.5/500MG	60	$86.22	$30.90	179.1%
HYDROCODONE/APAP 7.5/750MG	30	$38.54	$10.67	261.4%
IBUPROFEN 400MG	30	$8.84	$5.15	71.6%
IBUPROFEN 400MG	60	$17.67	$10.30	71.5%
IBUPROFEN 800MG	90	$39.33	$27.43	43.4%
LUNESTA 2MG	30	$251.10	$200.88	25.0%
LUNESTA 3MG	30	$251.10	$200.88	25.0%
MELOXICAM 15MG	30	$205.84	$145.35	41.6%
MELOXICAM 7.5MG	30	$134.62	$94.94	41.8%
METHOCARBAMOL 500MG	30	$22.23	$15.24	45.9%
NAPROXEN 500MG	30	$65.94	$33.78	95.2%
NAPROXEN 500MG	60	$131.88	$67.56	95.2%
PROMETHAZINE 25MG	30	$16.81	$14.43	16.5%
RANITIDINE 150MG	60	$244.96	$88.80	175.9%
TIZANIDINE 4MG	30	$65.22	$41.75	56.2%
TRAMADOL 50MG	60	$93.27	$50.03	86.4%
TRAMADOL 50MG	120	$186.54	$100.06	86.4%
TRAZODONE HCL 50MG	30	$64.13	$13.24	384.3%
TRIAZOLAM .25MG	30	$56.40	$20.25	178.6%
ZOLPIDEM 10MG	30	$167.01	$137.22	21.7%

Exhibit 2

Hawaii State Fee Schedule applied

Drug	QTY	Re-Packaged AWP at Fee Schedule	Common Retail Pharmacy AWP at Fee Schedule	% of Mark Up
ACETAMI/CODE 300/30MG	60	$50.09	$24.96	100.7%
ACETAMI/CODE 300/60MG	60	$96.87	$78.68	23.1%
ACETAMINPHEN/CODE 300/30MG	30	$25.04	$12.48	100.7%
ALPRAZOLAM .5MG	30	$68.63	$35.46	93.5%
CELEBREX 200MG	30	$232.62	$186.09	25.0%
DIAZEPAM 5MG	30	$143.78	$8.32	1627.9%
DOCUSATE SODIUM 100MG	30	$54.80	$8.32	558.5%
FLUOXETINE HCL 10MG	30	$259.77	$103.78	150.3%
FLUOXETINE HCL 20MG	30	$266.45	$112.06	137.8%
ETODOLAC 50MG	30	$71.85	$63.06	13.6%
GABAPENTIN 300MG	30	$81.17	$55.84	45.4%
GABAPENTIN 300MG	120	$324.79	$223.37	45.4%
GABAPENTIN 600MG	30	$138.08	$105.84	30.5%
GABAPENTIN 600MG	60	$308.41	$211.68	45.7%
GABAPENTIN 600MG	120	$616.83	$423.36	45.7%
HYDRO/APAP 10/650MG	30	$73.23	$22.34	227.8%
HYDRO/APAP 10/650MG	60	$146.47	$44.69	227.8%
HYDRO/APAP 5/500MG	30	$48.29	$17.68	174.7%
HYDRO/APAP 5/500MG	60	$96.58	$35.16	174.7%
HYDROC/APAP 5/500MG	120	$193.12	$70.31	174.7%
HYDROC/APAP 7.5/500MG	30	$60.35	$21.63	179.1%
HYDROC/APAP 7.5/500MG	60	$120.71	$43.25	179.1%
HYDROCODONE/APAP 7.5/750MG	30	$53.96	$14.93	261.4%
IBUPROFEN 400MG	30	$12.38	$7.21	71.6%
IBUPROFEN 400MG	60	$24.74	$14.42	71.5%
IBUPROFEN 800MG	90	$56.06	$38.40	43.4%
LUNESTA 2MG	30	$351.54	$281.23	25.0%
LUNESTA 3MG	30	$351.54	$281.23	25.0%
MELOXICAM 15MG	30	$288.18	$203.49	41.6%
MELOXICAM 7.5MG	30	$188.47	$132.91	41.8%
METHOCARBAMOL 500MG	30	$31.12	$21.34	45.9%
NAPROXEN 500MG	30	$92.32	$47.29	95.2%
NAPROXEN 500MG	60	$184.63	$94.58	95.2%
PROMETHAZINE 25MG	30	$23.53	$20.21	16.5%
RANITIDINE 150MG	60	$342.94	$124.32	175.9%
TIZANIDINE 4ML	30	$91.31	$58.45	56.2%
TRAMADOL 50MG	60	$130.58	$70.04	86.4%
TRAMADOL 50MG	120	$261.16	$140.08	86.4%
TRAZODONE HCL 50MG	30	$89.78	$18.54	384.3%
TRIAZOLAM .25MG	30	$78.96	$28.34	178.6%
ZOLPIDEM 10MG	30	$233.61	$192.11	21.7%

Exhibit 3

Commonly dispensed Compound Medications produced by compounding pharmacies and associated Charges

Dummy NDC	Compound	Billed Charge	AWP + 40%
99999-9999-99	MEN 1% CAM .5% CAP .05% 60GM COMPOUND	$223.83	$27.34
99999-9999-99	LIDOCAINE 10% GEL, 60GM	$219.35	$16.09
99999-9999-99	MEN 1%, CAM 0.5%, CAPS 0.05% 60GM	$226.07	$30.18
99999-9999-99	MEN 1% CAM .5% CAP .05% 10GM COMPOUND	$53.30	$6.06
99999-9999-99	MEN 1% CAM .5% CAP 0.05% 120GM COMPOUND	$291.00	$54.73

morikawa2 - Grant

From: patrick adams [tandemadams@me.com]
Sent: Monday, February 14, 2011 2:53 PM
To: HLTtestimony
Subject: HB 1243

TO: Committee on Health
From: Patrick Adams, Rph
Re: HB1243

Honorable Chair Yamane and members of the committee,

In OPPOSITION to HB 1243

I am concerned that bill HB 1243 puts repackaging and compounding into the same category. Repackaging and Compounding are separate issues and should not be addressed together as the same activities.

Unlike Repackaging, compounding is the creation of a medication. A pharmacist may take many ingredients to compound a specific medication, at a specific dosage, for a specific patient to get a specific outcome. This bill does not account for the labor or the professional knowledge to produce these medications. This is not just an independent or community pharmacy issue but an issue that would affect the compounding of IVs in hospitals and nuclear pharmacies with their expertise in the compounding of radioisotope imaging medications. The bill is much too far reaching and crosses over into
many different divisions of pharmacy some that I have not mentioned.
This bill would reduce the payments of compounded medications to a level that it would eliminate producers and result in a hardship for the citizens of Hawaii.

Repacking is another issue entirely. I am not as familiar with these practices and cannot testify to the impact of the bill on that industry. This bill as it stands only takes into account the ingredient cost of compounding and would eliminate payment for newly created medications compounded by a pharmacist. Compounding is an expertise that takes knowledge, effort and time to produce. These are valuable services that need to be paid for insure of the health injured workers.

Sincerely,

Patrick Adams, Rph