

PENNSYLVANIA COMPENSATION RATING BUREAU

Evaluation of House Bill 1846 of 2014 (HB1846)

The PCRB previously evaluated HB1846 for the purpose of PCRB Proposals C-365, C-366 and C-368, the Pennsylvania loss cost filings effective April 1, 2015, April 1, 2016 and April 1, 2017, respectively. We have retained the evaluation of HB1846 on workers compensation medical costs found in those filings for use in the April 1, 2018 filing.

However, the impact of the unchanged HB1846 evaluation is different when applied to the April 1, 2018 filing as compared to the previous three loss cost filings.

The April 1, 2018 loss cost filing includes an adjustment due to the impact of HB1846 for the policies effective from April 1, 2018 through March 31, 2019. The total impact of HB1846 on workers compensation medical costs in this filing was approximately 1.61% (or 0.9839). This impact is comprised of a medical savings factor of approximately 0.9908 and the impact of medical severity trend deflection of approximately 0.9930 ($0.9839 = 0.9908 * 0.9930$). The impact of HB1846 on the April 1, 2018 loss cost change can be found in Exhibit 34 of this filing in Exhibit J (Addendum).

Except for Exhibit J (Addendum), the remainder of Exhibit 34 contains the narrative and Exhibits A through R from Exhibit 34 of the April 1, 2015 filing.

Exhibit 34 narrative from the April 1, 2015 loss cost filing

The PCRB has estimated that HB1846 will reduce medical costs for workers compensation insurance in the Commonwealth by approximately 1.16 percent for the policies effective from April 1, 2015 through March 31, 2016. This medical savings lowers the indicated change in overall loss costs by 0.60 points (changing the overall indicated reduction in loss costs from 5.39 percent to 5.99 percent).

The PCRB's evaluation of HB1846 is discussed in the following narrative and illustrated in the accompanying exhibits.

Background

House Bill 1846 (HB1846) was signed into law on October 27, 2014 to become effective on December 26, 2014. This legislation included various provisions pertaining to prescription drugs and pharmaceutical services.

For purposes of this discussion, it is useful to define the term "Outpatient Provider" to exclude licensed pharmacies because many provisions of HB1846 treat licensed

pharmacies differently than all other outpatient providers such as physicians, physicians' assistants and nurse practitioners.

The key changes enacted in HB1846 are broadly summarized below:

- Reimbursement for repackaged drugs dispensed by a physician will be limited to 110 percent of the Average Wholesale Price as determined by reference to the original manufacturer's National Drug Code number (NDC), and cannot be based on a repackaged NDC.
- No Outpatient Provider can be reimbursed for Schedule II drugs in excess of one initial seven-day supply beginning on the initial treatment for a work injury or illness, or in excess of an additional 15-day supply immediately after a medical procedure including surgery.
- No Outpatient Provider can be reimbursed for Schedule III drugs containing Hydrocodone in excess of one initial seven-day supply beginning on the initial treatment for a work injury or illness, or in excess of an additional 15-day supply immediately after a medical procedure including surgery.
- No Outpatient Provider can be reimbursed for "any other drug" (interpreted to mean drugs not listed in Schedule II and not listed in Schedule III and containing Hydrocodone) in excess of one initial 30-day supply beginning on the initial treatment for a work injury or illness.
- The above time limitations apply across health care providers involved in treating each workers compensation claim.
- No Outpatient Provider can be reimbursed for over-the-counter drugs.

HB1846 requires the PCRB to calculate savings achieved through the implementation of the law within 18 months following its effective date, and further requires that, for calendar year 2016, the amount of such savings shall be used to reduce "rates".

Under Pennsylvania's Workers Compensation Act, the PCRB cannot file "rates", but instead must make annual filings limited to the provision for claim payment, or "loss costs". As the effective date for HB1846 is December 26, 2014, 18 months after that date is approximately June 26, 2016. The combination of Pennsylvania's competitive pricing system and the timing set forth in language of HB1846 make it unclear how an evaluation done by PCRB in mid-2016 would be used to adjust calendar year 2016 rates. However, the PCRB has estimated the effect of HB1846 on Pennsylvania loss costs beginning with new and renewal policies effective April 1, 2015 or later. If approved, the PCRB's proposed April 1, 2015 loss costs, including specific provision for HB1846 savings, will be available for each insurer licensed in Pennsylvania to use in promulgating their independent and competitive schedules of workers compensation insurance rates on or after April 1, 2015.

Outline of PCRB Analysis

HB1846 makes the following changes to procedures used to determine reimbursements for prescription drugs and pharmaceutical services:

- 1) Reimbursement for repackaged drugs dispensed by physicians to workers compensation claimants is limited to 110 percent of the original manufacturer's NDC.
- 2) Except for limited periods defined in terms of number of days' supply following initial treatment or a medical procedure including surgery, products listed on Schedule II of the Controlled Substance, Drug, Device and Cosmetic Act or listed on Schedule III of that same act and including Hydrocodone cannot be dispensed to workers compensation claimants by any Outpatient Provider.
- 3) Except for a 30-day supply following initial treatment, drugs not listed on Schedule II of the Controlled Substance, Drug, Device and Cosmetic Act or listed on Schedule III of that same act and including Hydrocodone cannot be dispensed to workers compensation claimants by any Outpatient Provider.
- 4) Only licensed pharmacies can dispense over-the-counter drugs to workers compensation claimants.

As a basis for estimating the impact of these changes on Pennsylvania's workers compensation system, the PCRB used information obtained through its Medical Data Call. The Medical Data Call was begun in most states (including Pennsylvania) in mid-2010. Under the Medical Data Call, designated insurers that are qualified, based on their respective market shares, report specified line item detail information from workers compensation medical bills on a quarterly basis. Since 2010, Pennsylvania has collected over 31 million records (medical bill line items) accounting for almost \$3 billion in paid medical benefits for workers compensation claims in its Medical Data Call.

The PCRB used Medical Data Call records with dates of service during Calendar Year 2013, and with payments made through the First Quarter of 2014, as a basis for its primary evaluation of the effects of HB1846. We will refer to that information as the "2013 Dataset". This data was partitioned first between drug and non-drug benefits, and then the drug benefits were further divided between those affected, or potentially affected, by HB1846, and those not subject to HB1846.

Drug benefits affected or potentially affected by HB1846 included the following:

- (a) Repackaged drug products dispensed by physicians
- (b) Non-Repackaged drugs dispensed by Outpatient Providers, and
- (c) Over-the-Counter drugs

The resulting dataset presented the respective partitions shown in the accompanying Exhibit A.

Using the services in the 2013 Dataset, the PCRB modelled the implications of specific provisions of HB1846 in order to derive amounts that would be paid with those provisions being applied. Differences between the amounts thus obtained and payments shown in the 2013 Dataset represented estimated savings for HB1846, and the proportion of those savings to the 2013 Dataset payments produced an estimated percentage reduction in medical costs for HB1846.

Details of the PCRB's approaches and estimates thus derived follow.

Repackaged Drug Products

The management of repackaged pharmaceutical products is the most important feature of HB1846, and it is the aspect of the law which produces the majority of the estimated savings for the bill.

The Medical Data Call includes the applicable NDC for pharmaceutical products or services. It does not include a cross-reference to the original manufacturer's NDC.

Using a resource "Truven Health Analytics Micromedex® Clinical Knowledge Suite Red Book™ – Select" (Truven), the PCRB was able to look up NDC's and determine which products were known repackaged products.

For repackaged drugs, as determined by reference to Truven, the PCRB then used another reference, First Data Bank MedKnowledge™ – Core Package¹ (First Data Bank) to look up the repackaged NDC's and find the associated original manufacturer's NDC's.

Using Truven and First Data Bank in concert, the PCRB was able to map approximately 40 percent of the drugs appearing in the 2013 Dataset and shown as being repackaged drugs in the Truven source to an original manufacturer's NDC. Estimates of the effect of HB1846 on medical costs associated with repackaged drugs were derived by applying savings estimates derived from that universe of known pairings of repackaged and original NDC's to all known repackaged drugs in the 2013 Dataset.

¹ First Data Bank includes the following disclaimer with the resource identified above:

The information contained in the First Databank (FDB) databases is intended to supplement the knowledge of physicians, pharmacists, and other healthcare professionals regarding drug therapy problems and patient counselling information. This information is advisory only and is not intended to replace sound clinical judgment in the delivery of healthcare services. FDB disclaims all warranties, whether expressed or implied, including any warranty as to the quality, accuracy, and suitability of this information for any purpose.

This approach allowed comparison of the prices paid in the 2013 Dataset to Outpatient Providers for repackaged drug products to the prices paid to licensed pharmacies for the counterpart original manufacturer's NDC's. Across all the repackaged drugs for which the PCRB was able to identify a related original manufacturers' NDC, this produced an estimated savings factor of 55.1 percent – that is, payments to licensed pharmacies for the original manufacturer's NDC averaged approximately 55.1 percent less than the payments to Outpatient Providers for the counterpart repackaged NDC's. The procedure used in this step of the analysis is illustrated in the accompanying Exhibit B, with the ten repackaged drugs representing the largest amounts paid in the 2013 Dataset shown individually and all other repackaged drugs combined in an "Others" line.

The 55.1 percent savings estimate applies for a product(s) previously dispensed by a physician, and billed using a repackaged NDC, that will henceforth be obtained from a licensed pharmacy, and billed using the original manufacturer's NDC.

Depending on the Schedule of the Controlled Substance, Drug, Device and Cosmetic Act in which a drug is included, HB1846 does allow physicians to dispense limited numbers of days' supplies of prescriptions after first treatment of a worker and/or after a medical procedure including surgery. When such dispensing is undertaken after HB1846 takes effect, reimbursement to the physician is limited to 110 percent of the Average Wholesale Price of the original manufacturer's NDC. Outside the allowances for physician-dispensing defined by HB1846, physicians can no longer dispense pharmaceutical products, and those products must be obtained from licensed pharmacies only.

The Medical Data Call captures the units of service for medical bill line items (for prescriptions, typically, but not always, a pill count), but it does not record the number of days for which each prescription is intended to be used. Since this reporting mechanism has only been in place for a few years, it reflects payments made on a broad mix of new, recent and old claims in each payment period. It thus includes some payments on many claims for which early and/or longer-term payments are omitted. Accordingly, application of the Medical Data Call information to the precise metrics of HB1846 concerning physician-dispensing was not possible.

As a surrogate for identifying days' supply by prescription and establishing the association, if any, of any given prescription with a first treatment and/or a medical procedure, the PCRB approached this aspect of the analysis as follows:

The PCRB first organized the 2013 Dataset by claim (an exercise in which a unique combination of carrier number, policy number, policy effective date and claim number as reported in the Medical Data Call was considered to be a separate claim for benefits).

Within each claim, the Medical Data Call records were then sorted in chronological order by service date.

Within each claim record, the first item(s) pertaining to a pharmaceutical product(s) and dispensed on the same service date by an Outpatient Provider was/were treated as continuing to be eligible to be dispensed by that type of provider after implementation of HB1846. Other (subsequent) prescriptions on that claim dispensed by an Outpatient Provider were treated as if they would be required to be obtained from a licensed pharmacy after implementation of HB1846.

The above construct assumes that where an outpatient provider had dispensed any repackaged drugs to a given claimant, one (but only one) such dispensing event would continue to be allowed under HB1846. This convention streamlined the analytical exercise of estimating the effects of provisions of HB1846. The PCRB subsequently tested the sensitivity of its estimates to extreme changes in the above assumption, and found that estimated savings changed little across the spectrum of possible alternative scenarios (see “Sensitivity Testing” further in this discussion).

The PCRB was able to separate initial dispensing Outpatient Providers into physicians (including individuals such as physician assistants and nurse practitioners) and other outpatient providers. These two cohorts of providers showed different levels of reimbursement in the 2013 Dataset, so the starting points for savings estimates for the two groups were necessarily different. Based on the universe of repackaged drugs for which the PCRB was able to identify an original manufacturer’s NDC, savings for the prescriptions assumed to be dispensed by Outpatient Providers and reimbursed at 110 percent of the Average Wholesale Price of the original manufacturer’s NDC were estimated to be 44.0 percent for physicians, and approximately 42.8 percent for other outpatient providers.

Non-Repackaged Drugs

Because of the profound effect that repackaging has on drug prices, the savings estimated for the provisions of HB1846 applicable to non-repackaged drugs are substantially less than those noted above for repackaged drugs.

For non-repackaged drugs, the PCRB used a subset of all products accounting for a significant portion (approximately 38 percent) of all non-repackaged drug payments to measure the differences between practices in effect for the 2013 Dataset and the changes mandated by HB1846. The comparison of payments in the 2013 Dataset to estimated payments under HB1846, and the resulting savings, are shown in the accompanying Exhibit C.

Comparing payments to Outpatient Providers for the selected sample of non-repackaged drugs to 110 percent of Average Wholesale Price for those same products shows an estimated savings of 10.7 percent.

The PCRB adopted the same approach to separating historical dispensing of non-repackaged pharmaceutical products by Outpatient Providers into prescriptions that would be assumed to continue to be allowed under HB1846, and those that would be

required to be obtained from licensed pharmacies under HB1846, as was described above in the analysis of repackaged drugs.

Also similar to its analysis of repackaged products, the PCRB separated Outpatient Providers identified as having dispensed the first prescription product(s) into physicians (including individuals such as physician assistants and nurse practitioners) and other outpatient providers. These two cohorts of providers again showed different levels of reimbursement in the 2013 Dataset, so the starting points for savings were once more necessarily different. Based on the selected sample of non-repackaged drugs, savings for the prescriptions assumed to be dispensed by physicians and reimbursed at 110 percent of the Average Wholesale Price of the original manufacturer's NDC were estimated to be 1.8 percent for physicians, and approximately 3.5 percent for other outpatient providers.

Over-the-Counter Drugs

HB1846 prohibits reimbursement to an Outpatient Provider for over-the-counter drugs. This is a much smaller segment of pharmaceutical costs than either repackaged or non-repackaged drugs. The PCRB reviewed a sample of over-the-counter drugs that accounted for a significant portion (approximately 84 percent) of the total costs for such products in the 2013 Dataset, and compared average prices paid to Outpatient Providers to the average prices paid to licensed pharmacies. The difference across the sample was very small and the costs were slightly higher for pharmacies than for other outpatient providers. Exhibit D attached presents these comparisons. Because of the small volume and nominal differences seen in the 2013 Dataset, the PCRB did not attribute any savings, or cost, to the provisions in HB1846 dealing with over-the-counter drugs.

Savings within Medical Costs Subject to HB1846

Exhibit E presents a summary of the PCRB's estimated savings for HB1846 by category subject to HB1846, derived as described above. The medical costs subject to HB1846 are estimated to be reduced 34.55 percent.

Overall Savings within Medical Costs

Exhibit F presents a summary of the PCRB's estimated savings for HB1846, derived as described above. Overall, medical costs subject to HB1846 are estimated to be reduced 0.92 percent.

Trend Deflection

If HB1846 changes the growth rate of the portion of medical costs to which it applies, then HB1846 may have an ongoing effect on medical costs in addition to its initial impact.

To explore this question, the PCRB summarized Medical Data Call information from its inception in mid-2010 through the first half of 2014, and showed the reported paid losses

by six-month period. This history was separated into portions representing prescription costs to which HB1846 applies, remaining prescription costs, and all other medical costs. The resulting tabulation is shown on Exhibit G.

In fact, it does appear that, in the Medical Data Call history, the portion of prescription benefits subject to HB1846 has been growing at a more rapid rate than the remaining prescription costs and other medical. Fitting exponential curves to the observed amounts of payments over the most recent 6, 7 and 8 (all available) points produced the following six-month rates of change in those respective amounts:

Number of Points Used	Growth in Prescription Costs Subject to HB1846	Growth in Prescription Costs Not Subject to HB1846	Growth in Other Medical
6	+3.7%	+2.0%	+0.6%
7	+5.5%	+3.0%	+0.1%
8	+7.2%	+2.8%	0.0%

Using the 7-point rates of trend, a model for expected future growth of medical costs was constructed. The results of that work are shown in Exhibit H.

HB1846 becomes effective on December 26, 2014. This date is very close to January 1, 2015, and, for convenience, the PCRB used that effective date as an approximation in its evaluation of savings for the law.

Using the estimated savings of total medical costs (0.92 percent) as an estimate of the change in medical costs upon implementation of HB1846, revised amounts for the period 1/15-6/15 can be derived for costs subject to HB1846 and total medical costs. The results of that calculation are shown in Exhibit I.

Further on Exhibit I, the PCRB has continued the observed rates of change used in Exhibit G based on the 7-point exponential rate of change for prescription payments not subject to HB1846 and for other medical but has assumed that, with the benefit of the changes in HB1846, the growth in costs subject to HB1846 will be the same as the growth in prescription costs not subject to HB1846 before the implementation of the law (+3.0% each 6 months) instead of the 7.2% change observed in the Medical Data Call History. The progression of payment amounts consistent with that approach complete the projection periods after 1/15-6/15 shown in Exhibit I.

Exhibits H and I can be used to measure the estimated effect of HB1846 on growth in medical payments. Exhibit H shows that, between 1/15-6/15 and 1/16-6/16, medical payments were expected to grow about 1.2% ($\$357,000,713 / \$352,767,713 = 1.01199940$). Exhibit I shows that under the assumption that costs subject to HB1846 grow by 3.0 percent each six months instead of 7.2%, growth over the same period would be about 1.0% ($\$353,033,135 / \$349,522,250 = 1.01004481$).

Accordingly, the change in growth over a period of one year due to the assumed effect of HB1846 is a factor of approximately 0.9981 ($1.01004481 / 1.01199940 = 0.99807$).

The mid-point of the loss costs proposed to become effective on April 1, 2015 is April 1, 2016. That date is approximately 1.25 years after the effective date of HB1846, December 26, 2014. Thus, based on the measure of change in growth developed in Exhibits H and I, the relative change in medical payments expected due to HB1846 would be approximately 0.9976, computed as follows:

$$0.9981^{1.25} = 0.9976$$

Overall Savings within Medical Costs Subject to HB1846

Exhibit J presents a summary of the PCRB's estimates of savings for HB1846 for the policy period April 1, 2015 to April 1, 2016, including the estimated initial savings from HB1846 and anticipated slowing of growth in medical costs arising from the changes mandated under that legislation. Exhibit J applies the initial HB1846 savings and change in medical payment growth combined to derive an overall medical savings.

Prior to recognition of HB1846, the PCRB's loss cost change indication effective April 1, 2015 was for an overall average reduction of 5.39 percent, derived from trended on-level indemnity and medical loss ratios as shown on Exhibit J (0.9461), comprised of an indemnity loss ratio of 0.4252 and a medical loss ratio of 0.5209. Applying the HB1846 savings to that medical loss ratio results in a revised medical loss ratio of 0.5149, a revised total loss ratio of 0.9401 and an indicated overall loss cost reduction of 5.99% ($0.9401 - 1.0000 = -.0599$).

Sensitivity Testing

As noted above, the PCRB could not accurately mimic the exact thresholds of numbers of days' supply and the connections between first treatment and/or medical procedures and prescriptions that apply under HB1846. We adopted an approach that treated the first Outpatient Provider-dispensed prescription on each claim in our database as allowable under HB1846 (subject to revised reimbursement procedures), and treated all subsequent Outpatient Provider-dispensed prescriptions as if they would have to be obtained from a licensed pharmacy under HB1846.

Using the savings estimates previously obtained by category of prescription (i.e., dispensing by an Outpatient Provider being either allowable or not allowable under HB1846), we tested the sensitivity of our estimated savings in overall medical loss costs to dramatic changes in our assumption concerning future dispensing by Outpatient Providers. In one case, we tested the assumption that ALL outpatient-dispensed prescriptions in the 2013 Dataset would be allowed under HB1846, and in the other extreme we assumed that NO Outpatient Provider-dispensed prescriptions would be allowed under HB1846.

Because of the limited portion of medical expenditures represented by pharmaceutical products and the relatively small portion thereof impacted by HB1846, the results showed very small differences between these assumptions and the method used by the PCRB. As summarized below:

Assumption re: Allowable Dispensing <u>By Non-Pharmacies</u>	Estimated Savings on Prescriptions Subject to <u>to HB1846</u>	Estimated Savings on <u>Medical</u>	Estimated Savings on <u>Total Loss Costs</u>
All in 2013 Dataset	27.48%	0.96%	- 0.50%
PCRB Method	34.55%	1.16%	- 0.60%
None in 2013 Dataset	36.98%	1.23%	- 0.64%

The calculations underlying the evaluation of the first and third alternative assumptions above are presented on Exhibits K, L, M and N (All Non-Pharmacy Dispensing in 2013 Dataset Eligible for Dispensing by Non-Pharmacies) and Exhibits O, P, Q and R (No Non-Pharmacy Dispensing in 2013 Dataset Eligible for Dispensing by Non-Pharmacies).

PENNSYLVANIA COMPENSATION RATING BUREAU
EVALUATION OF HOUSE BILL 1846
2013 DATASET - SELECTED PAYMENT CATEGORIES

1) Non-Prescription Payments	\$ 533,222,704	
2) Prescription Payments	\$ 82,600,596	
2a) Not Impacted by HB1846		\$ 66,222,334
2b) Impacted by HB1846		\$ 16,378,262
3) Total (1) + (2)	\$ 615,823,300	

PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

REPACKAGED DRUG SAVINGS

PRESCRIPTIONS FORMERLY DISPENSED BY NON-PHARMACIES MOVING TO PHARMACY SOURCE

	(1)	(2)	(3)	(4)
			= (1) - (2)	= (3) / (1)
<u>Drug Category</u>	<u>Paid in</u>	<u>Estimated Paid</u>	<u>Savings</u>	<u>Savings %</u>
	<u>2013 Dataset</u>	<u>per HB1846</u>		
MELOXICAM	\$ 991,487	\$ 325,548	\$ 665,939	67.2%
OMEPRAZOLE	402,595	183,822	218,773	54.3%
TRAMADOL HYDROCHLORIDE	368,325	136,682	231,643	62.9%
CARISOPRODOL	319,660	276,201	43,460	13.6%
OXYCODONE AND ACETAMINOPHEN	239,689	168,176	71,513	29.8%
ZOLPIDEM TARTRATE	189,255	36,428	152,827	80.8%
CYCLOBENZAPRINE HYDROCHLORIDE	134,690	45,603	89,087	66.1%
HYDROCODONE BITARTRATE AND ACETAMIN	96,546	60,443	36,103	37.4%
APAP/HYDROCODONE BITARTRATE	93,158	64,017	29,141	31.3%
FENTANYL TRANSDERMAL SYSTEM	87,181	61,016	26,164	30.0%
Total - Ten Drugs Above	\$ 2,922,586	\$ 1,357,937	\$ 1,564,649	53.5%
Other - Repackaged Drugs	1,069,569	433,768	635,801	59.4%
Grand Total	\$ 3,992,155	\$ 1,791,705	\$ 2,200,450	55.1%

Note: Values shown on this Exhibit may be carried at a greater level(s) of precision than is/are shown. Accordingly, column totals or other relationships may be subject to nominal rounding differences which would not affect the key results of this evaluation.

PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

NON-REPACKAGED DRUG SAVINGS

PRESCRIPTIONS FORMERLY DISPENSED BY NON-PHARMACIES MOVING TO PHARMACY SOURCE

	(1)	(2)	(3)	(4)
			= (1) - (2)	= (3) / (1)
<u>Drug Category</u>	<u>Paid in</u>	<u>Estimated Paid</u>	<u>Savings</u>	<u>Savings %</u>
	<u>2013 Dataset</u>	<u>per HB1846</u>		
FENTORA	\$ 712,583	\$ 582,252	\$ 130,331	18.3%
OXYCONTIN	386,734	356,115	30,619	7.9%
GABAPENTIN	239,162	226,754	12,408	5.2%
LIDODERM	147,141	137,193	9,948	6.8%
LYRICA	121,885	114,546	7,340	6.0%
CYMBALTA	110,626	102,236	8,389	7.6%
CELEBREX	79,211	79,015	196	0.2%
PERCOCET	51,631	50,453	1,178	2.3%
OPANA ER	45,628	43,792	1,836	4.0%
Total	\$ 1,894,601	\$ 1,692,356	\$ 202,245	10.7%

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PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

**OVER-THE-COUNTER DRUG SAVINGS
FORMERLY DISPENSED BY NON-PHARMACIES MOVING TO PHARMACY SOURCE**

	(1)	(2)	(3)	(4)
	Paid in	Estimated Paid	= (1) - (2)	= (3) / (1)
<u>Drug Category</u>	<u>2013 Dataset</u>	<u>per HB1846</u>	<u>Savings</u>	<u>Savings %</u>
MEDROX	\$ 790,257	\$ 789,354	\$ 903	0.1%
DENDRACIN NEURODENDRAXCIN	169,218	173,483	-4,265	-2.5%
TEROCIN	71,200	72,545	-1,344	-1.9%
SOMNICIN	38,572	39,341	-769	-2.0%
TRU-MICIN	34,565	36,368	-1,804	-5.2%
LIDOPRO	7,485	7,596	-111	-1.5%
CIDAFLEX	7,263	7,213	49	0.7%
PROMOLAXIN	3,162	3,040	122	3.8%
Total	\$ 1,121,721	\$ 1,128,941	- \$ 7,219	-0.6%

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PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

MEDICAL SAVINGS SUMMARY BY CATEGORY

	(1)	(2)	(3)
Category	Paid in 2013 Dataset	Savings	Savings %
Over-the-Counter Drugs	\$ 1,328,514	\$ 0	0.00%
Physician-Dispensed Repackaged Drugs Eligible for Non-Pharmacy Dispensing	2,621,156	1,152,749	43.98%
Physician-Dispensed Repackaged Drugs Required to be Dispensed by Pharmacy	7,102,969	3,913,736	55.10%
Physician-Dispensed Non-Repackaged Drugs Eligible for Non-Pharmacy Dispensing	1,052,203	19,288	1.83%
Physician-Dispensed Non-Repackaged Drugs Required to be Dispensed by Pharmacy	3,847,069	411,636	10.70%
Other Dispensed Repackaged Drugs Eligible for Non-Pharmacy Dispensing	79,860	34,175	42.79%
Other Dispensed Repackaged Drugs Required to be Dispensed by Pharmacy	211,369	116,464	55.10%
Other Dispensed Non-Repackaged Drugs Eligible for Non-Pharmacy Dispensing	48,910	1,730	3.54%
Other Dispensed Non-Repackaged Drugs Required to be Dispensed by Pharmacy	86,213	9,225	10.70%
Total	\$ 16,378,262	\$ 5,659,003	34.55%

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PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

OVERALL MEDICAL SAVINGS ESTIMATE

	(1)	(2)	(3) = (1) * (2)
	Paid in <u>2013 Dataset</u>	HB1846 Savings <u>Factor</u>	HB1846 Savings <u>Savings</u>
Prescriptions Subject to HB1846	\$ 16,378,262	0.3455	\$ 5,659,003
Other Prescriptions	\$ 66,222,334	0.0000	\$ 0
Other Medical	<u>\$ 533,222,704</u>	0.0000	<u>\$ 0</u>
Total	\$ 615,823,300	0.0092 *	\$ 5,659,003

* \$ 5,659,003 / \$ 615,823,300 = 0.0092

Note: Values shown on this Exhibit may be carried at a greater level(s) of precision than is/are shown. Accordingly, column totals or other relationships may be subject to nominal rounding differences which would not affect the key results of this evaluation.

PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

MEDICAL CALL DATA HISTORY

	Non-Pharmacy Dispensed Prescription Benefits <u>Subject to HB1846</u>	Other <u>Prescription Benefits</u>	Other <u>Medical Benefits</u>	Total <u>Medical</u>
7/10 - 12/10	\$ 5,337,211	\$ 30,820,657	\$ 298,488,672	\$ 334,646,540
1/11 - 6/11	6,227,279	29,669,349	301,294,898	337,191,526
7/11 - 12/11	8,169,806	32,274,952	296,121,507	336,566,265
1/12 - 6/12	7,064,924	35,120,672	289,790,844	331,976,439
7/12 - 12/12	8,049,311	34,062,303	283,966,969	326,078,583
1/13 - 6/13	8,826,915	36,049,837	300,360,398	345,237,151
7/13 - 12/13	8,853,086	35,248,030	293,070,090	337,171,206
1/14 - 6/14	9,028,417	36,499,192	303,258,149	348,785,758

Note: Values shown on this Exhibit may be carried at a greater level(s) of precision than is/are shown. Accordingly, column totals or other relationships may be subject to nominal rounding differences which would not affect the key results of this evaluation.

PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

MEDICAL CALL DATA HISTORY & PROJECTIONS PRIOR TO EFFECTS OF HB1846

	Non-Pharmacy Dispensed Prescription Benefits <u>Subject to HB1846</u>		Other <u>Prescription Benefits</u>		Other <u>Medical Benefits</u>		Total <u>Medical</u>
7/10 - 12/10	\$ 5,337,211		\$ 30,820,657		\$ 298,488,672		\$ 334,646,540
1/11 - 6/11	6,227,279		29,669,349		301,294,898		337,191,526
7/11 - 12/11	8,169,806		32,274,952		296,121,507		336,566,265
1/12 - 6/12	7,064,924		35,120,672		289,790,844		331,976,439
7/12 - 12/12	8,049,311		34,062,303		283,966,969		326,078,583
1/13 - 6/13	8,826,915		36,049,837		300,360,398		345,237,151
7/13 - 12/13	8,853,086		35,248,030		293,070,090		337,171,206
1/14 - 6/14	9,028,417		36,499,192		303,258,149		348,785,758
7/14 - 12/14	9,524,461	*	37,589,106	**	303,633,037	***	350,746,603
1/15 - 6/15	10,047,760	*	38,711,565	**	304,008,388	***	352,767,713
7/15 - 12/15	10,599,810	*	39,867,543	**	304,384,203	***	354,851,556
1/16 - 6/16	11,182,191	*	41,058,040	**	304,760,483	***	357,000,713
7/16 - 12/16	11,796,569	*	42,284,086	**	305,137,228	***	359,217,883
1/17 - 6/17	12,444,703	*	43,546,744	**	305,514,438	***	361,505,885
7/17 - 12/17	13,128,447	*	44,847,106	**	305,892,115	***	363,867,669

* - Rate of Change = +5.5%

** - Rate of Change = +3.0%

*** - Rate of Change = +0.1%

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PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

MEDICAL CALL DATA HISTORY & PROJECTIONS REFLECTING EFFECTS OF HB1846

	(1)		(2)		(3)		(4)	
	Non-Pharmacy Dispensed Prescription Benefits <u>Subject to HB1846</u>		Other <u>Prescription Benefits</u>		Other <u>Medical Benefits</u>		Total <u>Medical</u>	
7/10 - 12/10	\$ 5,337,211		\$ 30,820,657		\$ 298,488,672		\$ 334,646,540	
1/11 - 6/11	6,227,279		29,669,349		301,294,898		337,191,526	
7/11 - 12/11	8,169,806		32,274,952		296,121,507		336,566,265	
1/12 - 6/12	7,064,924		35,120,672		289,790,844		331,976,439	
7/12 - 12/12	8,049,311		34,062,303		283,966,969		326,078,583	
1/13 - 6/13	8,826,915		36,049,837		300,360,398		345,237,151	
7/13 - 12/13	8,853,086		35,248,030		293,070,090		337,171,206	
1/14 - 6/14	9,028,417		36,499,192		303,258,149		348,785,758	
7/14 - 12/14	9,524,461		37,589,106		303,633,037		350,746,603	
1/15 - 6/15	6,802,297	B	38,711,565	D	304,008,388	D	349,522,250	A
7/15 - 12/15	7,005,422	C	39,867,543	D	304,384,203	D	351,257,168	E
1/16 - 6/16	7,214,613	C	41,058,040	D	304,760,483	D	353,033,135	E
7/16 - 12/16	7,430,051	C	42,284,086	D	305,137,228	D	354,851,365	E
1/17 - 6/17	7,651,922	C	43,546,744	D	305,514,438	D	356,713,104	E
7/17 - 12/17	7,880,418	C	44,847,106	D	305,892,115	D	358,619,640	E

- A \$ 352,767,713 from Exhibit H * .9908
- B \$ 349,522,250 - \$ 304,008,388 - \$ 38,711,565
- C Prior Period * 1.030
- D From Exhibit H
- E Sum of columns (1), (2) and (3)

Note: Values shown on this Exhibit may be carried at a greater level(s) of precision than is/are shown. Accordingly, column totals or other relationships may be subject to nominal rounding differences which would not affect the key results of this evaluation.

PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

IMPACT ON APRIL 1, 2015 LOSS COST CHANGE

Loss Cost Indication Pre-HB1846:

<u>Indemnity</u> <u>Loss Ratio</u>	<u>Medical</u> <u>Loss Ratio</u>	<u>Total</u>
0.4252	0.5209	0.9461

Loss Cost Change = 0.9461 - 1.0000 = -5.39%

Loss Cost Indication Post-HB1846:

<u>Indemnity</u> <u>Loss Ratio</u>	<u>Medical</u> <u>Loss Ratio</u>	<u>Total</u>
0.4252	0.5209	0.9461

Complement of HB1846 Savings Factor (0.0092)	0.9908
HB1846 Annual Trend Deflection	0.9981 *
HB1846 Trend Deflection 1/1/15 - 4/1/16	0.9976

* (\$ 353,033,135 / \$ 349,522,250) from Exhibit I // (\$ 357,000,713 / \$ 352,767,713) from Exhibit H

<u>Revised</u> <u>Indemnity</u> <u>Loss Ratio</u>	<u>Revised</u> <u>Medical</u> <u>Loss Ratio</u>	<u>Total</u>
0.4252	0.5149 **	0.9401

** 0.5209 * 0.9908 * 0.9976 = 0.5149

Loss Cost Change = 0.9401 - 1.0000 = -5.99%

PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

SAVINGS WITH ASSUMPTION THAT ALL NON-PHARMACY DISPENSING IN 2013 DATASET WOULD BE ALLOWED UNDER HB1846

Category	Paid	Savings	Savings %
Over-the-Counter Drugs	\$ 1,328,514	\$ 0	0.0%
Physician-Dispensed Repackaged Drugs Eligible for Non-Pharmacy Dispensing	9,724,124	4,281,744	44.0%
Physician-Dispensed Non-Repackaged Drugs Eligible for Non-Pharmacy Dispensing	4,899,272	90,522	1.8%
Other Dispensed Repackaged Drugs Eligible for Non-Pharmacy Dispensing	291,229	125,007	42.9%
Other Dispensed Non-Repackaged Drugs Eligible for Non-Pharmacy Dispensing	135,123	4,258	3.2%
Total	16,378,262	4,501,531	27.48%

Note: Values shown on this Exhibit may be carried at a greater level(s) of precision than is/are shown. Accordingly, column totals or other relationships may be subject to nominal rounding differences which would not affect the key results of this evaluation.

PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

OVERALL MEDICAL SAVINGS ESTIMATE

SAVINGS WITH ASSUMPTION THAT ALL NON-PHARMACY DISPENSING IN 2013 DATASET WOULD BE ALLOWED UNDER HB1846

	(1)	(2)	(3) = (1) * (2)
	Paid in <u>2013 Dataset</u>	HB1846 Savings <u>Factor</u>	HB1846 Savings <u>Savings</u>
Prescriptions Subject to HB1846	\$ 16,378,262	0.2748	\$ 4,501,531
Other Prescriptions	\$ 66,222,334	0.0000	\$ 0
Other Medical	<u>\$ 533,222,704</u>	0.0000	<u>\$ 0</u>
Total	\$ 615,823,300	0.0073 *	\$ 4,501,531

* \$ 4,501,531 / \$ 615,823,300 = 0.0073

Note: Values shown on this Exhibit may be carried at a greater level(s) of precision than is/are shown. Accordingly, column totals or other relationships may be subject to nominal rounding differences which would not affect the key results of this evaluation.

PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

MEDICAL CALL DATA HISTORY - WITH PROJECTIONS MODIFIED TO REFLECT HB1846 SAVINGS AND CHANGE IN GROWTH RATE
 PROJECTIONS ASSUME ALL NON-PHARMACY DISPENSING PRIOR TO HB1846 WOULD BE ALLOWED UNDER HB1846

	Non-Pharmacy Dispensed Prescription Benefits Subject to HB1846		Other Prescription Benefits		Other Medical Benefits		Total Medical	
7/10 - 12/10	\$ 5,337,211		\$ 30,820,657		\$ 298,488,672		\$ 334,646,540	
1/11 - 6/11	6,227,279		29,669,349		301,294,898		337,191,526	
7/11 - 12/11	8,169,806		32,274,952		296,121,507		336,566,265	
1/12 - 6/12	7,064,924		35,120,672		289,790,844		331,976,439	
7/12 - 12/12	8,049,311		34,062,303		283,966,969		326,078,583	
1/13 - 6/13	8,826,915		36,049,837		300,360,398		345,237,151	
7/13 - 12/13	8,853,086		35,248,030		293,070,090		337,171,206	
1/14 - 6/14	9,028,417		36,499,192		303,258,149		348,785,758	
7/14 - 12/14	9,524,461		37,589,106		303,633,037		350,746,603	
1/15 - 6/15	7,472,555	B	38,711,565	D	304,008,388	D	350,192,508	A
7/15 - 12/15	7,695,696	C	39,867,543	D	304,384,203	D	351,947,442	E
1/16 - 6/16	7,925,499	C	41,058,040	D	304,760,483	D	353,744,021	E
7/16 - 12/16	8,162,165	C	42,284,086	D	305,137,228	D	355,583,479	E
1/17 - 6/17	8,405,898	C	43,546,744	D	305,514,438	D	357,467,080	E
7/17 - 12/17	8,656,909	C	44,847,106	D	305,892,115	D	359,396,131	E

A \$ 352,767,713 from Exhibit H * 0.9927

B \$ 350,192,508 - \$ 304,008,388 - \$ 38,711,565

C Prior Period * 1.030

D From Exhibit H

E Sum of columns (1), (2) and (3)

$$\begin{array}{r}
 \text{Annual Trend Deflection} = \frac{\$ 353,744,021}{\$ 350,192,508} \\
 \frac{\$ 357,000,713}{\$ 352,767,713} \\
 \frac{(1/16 - 6/16 \text{ above})}{(1/15 - 6/15 \text{ above})} \\
 \frac{(1/16 - 6/16 \text{ Exhibit H})}{(1/15 - 6/15 \text{ Exhibit H})} \\
 \frac{1.01014160}{1.01199940} = 0.9982
 \end{array}$$

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PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

IMPACT ON APRIL 1, 2015 LOSS COST CHANGE SAVINGS WITH ASSUMPTION THAT ALL NON-PHARMACY DISPENSING IN 2013 DATASET WOULD BE ALLOWED UNDER HB1846

Loss Cost Indication Pre-HB1846:

Indemnity	Medical	
<u>Loss Ratio</u>	<u>Loss Ratio</u>	<u>Total</u>
0.4252	0.5209	0.9461

Loss Cost Change = 0.9461 - 1.0000 = -5.39%

Loss Cost Indication Post-HB1846:

Indemnity	Medical	
<u>Loss Ratio</u>	<u>Loss Ratio</u>	<u>Total</u>
0.4252	0.5209	0.9461

Complement of HB1846 Savings Factor (0.0073) 0.9927
 HB1846 Annual Trend Deflection 0.9982
 HB1846 Trend Deflection 1/1/15 - 4/1/16 0.9978

Revised	Revised	
Indemnity	Medical	
<u>Loss Ratio</u>	<u>Loss Ratio</u>	<u>Total</u>
0.4252	0.5159 *	0.9411

* 0.5209 * 0.9927 * 0.9978 = 0.5159

Loss Cost Change = 0.9411 - 1.0000 = -5.89%

PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

SAVINGS WITH ASSUMPTION THAT NO NON-PHARMACY DISPENSING IN 2013 DATASET WOULD BE ALLOWED UNDER HB1846

Category	Paid	Savings	Savings %
Over-the-Counter Drugs	\$ 1,328,514	\$ 0	0.0%
Physician-Dispensed Repackaged Drugs Required to be Dispensed by Pharmacy	9,724,124	5,357,992	55.1%
Physician-Dispensed Non-Repackaged Drugs Required to be Dispensed by Pharmacy	4,899,272	524,222	10.7%
Other Dispensed Repackaged Drugs Required to be Dispensed by Pharmacy	291,229	160,467	55.1%
Other Dispensed Non-Repackaged Drugs Required to be Dispensed by Pharmacy	135,123	14,458	10.7%
Total	16,378,262	6,057,140	36.98%

Note: Values shown on this Exhibit may be carried at a greater level(s) of precision than is/are shown. Accordingly, column totals or other relationships may be subject to nominal rounding differences which would not affect the key results of this evaluation.

PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

OVERALL MEDICAL SAVINGS ESTIMATE

SAVINGS WITH ASSUMPTION THAT NO NON-PHARMACY DISPENSING IN 2013 DATASET WOULD BE ALLOWED UNDER HB1846

	(1)	(2)	(3) = (1) * (2)
	Paid in <u>2013 Dataset</u>	HB1846 Savings <u>Factor</u>	HB1846 Savings <u>Savings</u>
Prescriptions Subject to HB1846	\$ 16,378,262	0.3698	\$ 6,057,140
Other Prescriptions	\$ 66,222,334	0.0000	\$ 0
Other Medical	<u>\$ 533,222,704</u>	0.0000	<u>\$ 0</u>
Total	\$ 615,823,300	0.0098 *	\$ 6,057,140

* \$ 6,057,140 / \$ 615,823,300 = 0.0098

Note: Values shown on this Exhibit may be carried at a greater level(s) of precision than is/are shown. Accordingly, column totals or other relationships may be subject to nominal rounding differences which would not affect the key results of this evaluation.

PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

MEDICAL CALL DATA HISTORY - WITH PROJECTIONS MODIFIED TO REFLECT HB1846 SAVINGS AND CHANGE IN GROWTH RATE
 PROJECTIONS ASSUME NO NON-PHARMACY DISPENSING PRIOR TO HB1846 WOULD BE ALLOWED UNDER HB1846

	Non-Pharmacy Dispensed Prescription Benefits Subject to HB1846		Other Prescription Benefits		Other Medical Benefits		Total Medical	
7/10 - 12/10	\$ 5,337,211		\$ 30,820,657		\$ 298,488,672		\$ 334,646,540	
1/11 - 6/11	6,227,279		29,669,349		301,294,898		337,191,526	
7/11 - 12/11	8,169,806		32,274,952		296,121,507		336,566,265	
1/12 - 6/12	7,064,924		35,120,672		289,790,844		331,976,439	
7/12 - 12/12	8,049,311		34,062,303		283,966,969		326,078,583	
1/13 - 6/13	8,826,915		36,049,837		300,360,398		345,237,151	
7/13 - 12/13	8,853,086		35,248,030		293,070,090		337,171,206	
1/14 - 6/14	9,028,417		36,499,192		303,258,149		348,785,758	
7/14 - 12/14	9,524,461		37,589,106		303,633,037		350,746,603	
1/15 - 6/15	6,590,636	B	38,711,565	D	304,008,388	D	349,310,589	A
7/15 - 12/15	6,787,441	C	39,867,543	D	304,384,203	D	351,039,187	E
1/16 - 6/16	6,990,123	C	41,058,040	D	304,760,483	D	352,808,645	E
7/16 - 12/16	7,198,857	C	42,284,086	D	305,137,228	D	354,620,171	E
1/17 - 6/17	7,413,824	C	43,546,744	D	305,514,438	D	356,475,006	E
7/17 - 12/17	7,635,210	C	44,847,106	D	305,892,115	D	358,374,432	E

A \$ 352,767,713 from Exhibit H * 0.9902

B \$ 349,310,589 - \$ 304,008,388 - \$ 38,711,565

C Prior Period * 1.030

D From Exhibit H

E Sum of columns (1), (2) and (3)

$$\begin{array}{r}
 \text{Annual Trend Deflection} = \frac{\$ 352,808,645}{\$ 349,310,589} = \frac{(1/16 - 6/16 \text{ above})}{(1/15 - 6/15 \text{ above})} = 1.01001417 \\
 \frac{\$ 357,000,713}{\$ 352,767,713} = \frac{(1/16 - 6/16 \text{ Exhibit H})}{(1/15 - 6/15 \text{ Exhibit H})} = 1.01199940 \\
 \text{Annual Trend Deflection} = \frac{\$ 352,808,645}{\$ 349,310,589} = 1.01001417 = 0.9980
 \end{array}$$

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PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

IMPACT ON APRIL 1, 2015 LOSS COST CHANGE SAVINGS WITH ASSUMPTION THAT NO NON-PHARMACY DISPENSING IN 2013 DATASET WOULD BE ALLOWED UNDER HB1846

Loss Cost Indication Pre-HB1846:

<u>Indemnity</u> <u>Loss Ratio</u>	<u>Medical</u> <u>Loss Ratio</u>	<u>Total</u>
0.4252	0.5209	0.9461

Loss Cost Change = 0.9461 - 1.0000 = -5.39%

Loss Cost Indication Post-HB1846:

<u>Indemnity</u> <u>Loss Ratio</u>	<u>Medical</u> <u>Loss Ratio</u>	<u>Total</u>
0.4252	0.5209	0.9461

Complement of HB1846 Savings Factor (0.0098) 0.9902
 HB1846 Annual Trend Deflection 0.9980
 HB1846 Trend Deflection 1/1/15 - 4/1/16 0.9975

<u>Revised</u> <u>Indemnity</u> <u>Loss Ratio</u>	<u>Revised</u> <u>Medical</u> <u>Loss Ratio</u>	<u>Total</u>
0.4252	0.5145 *	0.9397

* 0.5209 * 0.9902 * 0.9975 = 0.5145

Loss Cost Change = 0.9397 - 1.0000 = -6.03%

PENNSYLVANIA COMPENSATION RATING BUREAU

EVALUATION OF HOUSE BILL 1846

IMPACT ON APRIL 1, 2018 LOSS COST CHANGE

Loss Cost Indication Pre-HB1846 and Post-Protz Adjustment:

Indemnity <u>Loss Ratio</u>	Medical <u>Loss Ratio</u>	<u>Total</u>
0.5207	0.4943	1.0150

Loss Cost Change = 1.0150 - 1.0000 = 1.50%

Loss Cost Indication Post-HB1846 and Post-Protz Adjustment:

Indemnity <u>Loss Ratio</u>	Medical <u>Loss Ratio</u>	<u>Total</u>
0.5207	0.4943	1.0150

Complement of HB1846 Savings Factor (0.0092)	0.9908
HB1846 Annual Trend Deflection	0.9981 *
HB1846 Trend Deflection 1/1/15 - 4/1/19	0.9930

* (\$ 353,033,135 / \$ 349,522,250) from Exhibit I // (\$ 357,000,713 / \$ 352,767,713) from Exhibit H

Revised Indemnity <u>Loss Ratio</u>	Revised Medical <u>Loss Ratio</u>	<u>Total</u>
0.5207	0.4863 **	1.0070

** 0.4943 * 0.9908 * 0.9930 = 0.4863

Loss Cost Change = 1.0070 - 1.0000 = 0.70%