Pennsylvania Supreme Court Narrows Scope of Workers' Compensation Anti-Referral Provision: Implications in Light of Federal Physician Self-Referral Law

July 28, 2026
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On June 16, 2026, the Pennsylvania Supreme Court issued a significant decision interpreting Section 306(f.1)(3)(iii) of the Workers' Compensation Act (the "Act"), commonly known as the Anti-Referral Provision. The Court held that the placement of the phrase "goods or services" following a list of enumerated medical services does not operate as a broad catch-all prohibition on physician self-referrals. Instead, the Court concluded that the statutory prohibition is limited strictly to the specifically enumerated services that precede that phrase.

As a result, physician self-referrals to pharmacies in which they hold a financial interest (e.g., ownership interest or compensation arrangement) fall outside the scope of the Act's anti-referral restriction. Employers and insurers are therefore required to reimburse for reasonable and necessary prescriptions, even where the prescribing physician has a financial interest in the dispensing pharmacy.

This ruling represents a major shift in the interpretation of Pennsylvania's healthcare cost-containment framework and invites comparison to the federal Ethics in Physician Self-Referral Law, 42 U.S.C. § 1395nn ("Stark Law") enacted in 1989 and later expanded in 1993.

Background

The case arose from multiple consolidated claims involving two (2) physicians who issued prescriptions filled by 700 Pharmacy, an entity in which they held a financial interest. When the State Workers' Insurance Fund ("SWIF") denied payment for those prescriptions, the pharmacy filed Medical Fee Review Applications seeking reimbursement.

The applications were denied at the administrative level, when the hearing officer concluded that the prescriptions constituted unlawful self-referrals under the Act. The Commonwealth Court affirmed that determination, relying on what it viewed as the plain language of the statute. In its view, the phrase "goods or services" reflected a deliberate legislative choice intended to broadly encompass all forms of medical care, including pharmaceuticals and pharmacy services.

Supreme Court Opinion

The Pennsylvania Supreme Court reversed. The majority applied a textualist approach, concluding that the statutory language does not extend beyond the specific categories of medical services expressly listed in the provision. Because prescription drugs and pharmaceutical services are not included among those specified categories, the Court held that they fall outside the

scope of the Anti-Referral Prohibition.

In doing so, the Court rejected the argument that “goods or services” should function as a residual clause capturing all forms of medical treatment. Instead, it interpreted the statute as intentionally limited, declining to expand its reach based on broader policy considerations.

Two dissenting opinions highlight the stakes of that interpretive choice. Justice McCaffery emphasized that the Anti-Referral Provision was enacted to prevent financially motivated medical decision-making and argued that the phrase “goods and services” should be read broadly to effectuate that purpose. Justice Wecht, in a separate dissent, challenged the majority’s textual analysis, suggesting that the statutory language more naturally supports a broader interpretation.

Legislative Context and Comparison to Stark Law

The Anti-Referral Provision was enacted as part of Pennsylvania’s workers’ compensation reform efforts in 1993 (Act 44), legislation designed to control rising system costs and curb perceived abuses. Its purpose closely parallels that of the federal Stark Law, which Congress enacted in 1989 to address the risks posed by physician self-referrals and the resulting overutilization of healthcare services.

The difference lies in execution. The Stark Law is deliberately expansive, covering a wide range of “designated health services,” including outpatient drugs, and imposing strict liability for prohibited referrals unless a regulatory exception applies. It is grounded in the premise that financial incentives can distort clinical judgment and therefore must be tightly regulated.

By contrast, the Pennsylvania Supreme Court’s decision reflects a narrower, text-driven interpretation of state law. Rather than extending the Anti-Referral Prohibition to align with its underlying purpose, the Court confined its application to the statute’s enumerated categories. The result is a regulatory gap: a set of financial relationships that would raise significant concerns under federal law now fall outside the scope of Pennsylvania’s workers’ compensation anti-referral framework.

Practical Implications for Healthcare Providers

The Court’s decision opens the door for physicians to more freely integrate ancillary services into their practices, particularly in the area of pharmacy ownership. Physicians may now prescribe medications that are filled by a pharmacy in which they have a financial interest without violating the Anti-Referral Provision.

This flexibility brings with it clear financial opportunities. Providers now have the ability to capture additional revenue streams tied to prescription medications, including dispensing margins and pharmacy-related services. Given the frequency with which injured workers require ongoing medication management, particularly in chronic or complex cases, this development may have a meaningful economic impact on certain practices.

At the same time, the decision does not eliminate compliance risk; rather, it shifts the focus of that risk. Providers remain subject to the Act’s cost-containment measures, including fee schedules and utilization review. Prescribing decisions must still be medically necessary and defensible, and patterns of overutilization or unusually high-cost prescribing are likely to draw scrutiny. In practice, the question is no longer simply whether a referral is permitted, but whether it can be justified.

It is also critical to recognize that this ruling is limited to Pennsylvania’s workers’ compensation system and does not alter obligations under federal law. The Stark Law and the Anti-Kickback Statute continue to impose strict limitations on financial relationships tied to referrals in Medicare, Medicaid, and other federal healthcare programs. As a result, providers must take care not to conflate what is permissible in the workers’ compensation context with what is allowed elsewhere. Maintaining clear compliance boundaries between these regulatory frameworks will be essential.

From a strategic standpoint, the decision is likely to prompt providers to reconsider how they structure ownership and referral relationships. Investments in pharmacies, compounding operations, and related ancillary services may become more attractive, particularly where those services can be aligned with workers’ compensation patients. The ruling effectively invites

more deliberate planning around the integration of care delivery and revenue generation.

At the same time, providers should expect increased scrutiny from insurers and payers. Carriers are unlikely to accept this shift passively and may respond by intensifying utilization review and monitoring prescribing patterns more closely. High-cost medications, unusual prescribing volumes, or patterns suggesting financial motivation may face heightened challenge. In that sense, while the legal restriction has narrowed, the practical oversight surrounding these arrangements may increase.

Conclusion

The Pennsylvania Supreme Court's decision represents a significant narrowing of the Workers' Compensation Act's Anti-Referral Provision, grounded in a strict textual reading of statutory language. While the ruling is consistent with principles of statutory interpretation, it departs from the broader policy approach embodied in the federal Stark Law and from the apparent cost-containment objectives underlying Act 44 of 1993.

By excluding pharmaceuticals from the anti-referral framework, the Court has created a gap between legislative intent and statutory reach. For healthcare providers, the decision presents both opportunity and risk: new flexibility in structuring business relationships, coupled with continued regulatory oversight and the possibility of future legislative correction. Whether the General Assembly will act to close that gap remains to be seen, but the decision has already reshaped the compliance landscape for provider self-referrals in Pennsylvania's workers' compensation system.