

Pharmacy Pricing Process

Background-

According to a study conducted for the Medicare Payment Advisory Commission (MPAC), departments such as pharmacy traditionally develop separate pricing policies when compared to the rest of the organization (Lewin Group, 2005, p. 22-25).

These pricing policies involve the development of distinct formulas. Generally, facilities assign higher level markup formulas to items with lower cost and assign lower markup formulas for higher priced items. Health care organizations create markups based on various factors including:

- Payer mix
- Utilization
- Market Rates
- Service Offerings

Hospitals are moving towards standardizing pharmacy pricing across all departments and services, thus improving compliance issues associated with inconsistent charging practices. Although no standard methodology exists, it is **ParaRev's** opinion that when creating pharmacy pricing methodologies, the following must be considered:

- Self-Administered Drugs (SAD) should have lower markups to comply with Medicare billing standards
- Pricing should be developed using a nationally recognized cost basis or actual acquisition cost
- Fixed Add-On and Minimum Charges should be utilized to compensate for any use of additional departmental resources for handling or compounding the medication

Category	Low	High	Minimum	Multiplier	Fixed Add On
COMP	0.01	999,999.99	0.00	4.20	5.00
IV	0.01	999,999.99	0.00	10.24	12.00
IVCAR	0.01	999,999.99	0.00	9.75	12.00
IVTPN	0.01	999,999.99	0.00	1.00	0.00
LIQUIDS	0.01	999,999.99	0.00	3.15	2.00
NCMED	0.01	999,999.99	0.00	.00	0.00
NOCHARGE	0.01	999,999.99	0.00	.00	0.00
UD INJ	0.01	999,999.99	0.00	3.31	15.00
UD SOLIDS	0.01	999,999.99	0.00	3.15	2.00

Category	Low	High	Minimum	Multiplier	Fixed Add On
COMP	0.01	999,999.99	0.00	2.50	10.00
IV	0.01	999,999.99	0.00	5.00	75.00
IVCAR	0.01	999,999.99	0.00	5.00	75.00
IVTPN	0.01	999,999.99	0.00	1.00	0.00
LIQUIDS	0.01	999,999.99	0.00	2.50	5.00
NCMED	0.01	999,999.99	0.00	.00	0.00
NOCHARGE	0.01	999,999.99	0.00	.00	0.00
UD INJ	0.01	999,999.99	0.00	5.00	75.00
UD SOLIDS	0.01	999,999.99	1.00	2.50	0.00

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Charge Category Options-

The **ParaRev Pharmacy Pricing Process** is also customized to meet the needs of the pharmacy through the use of charge category values either provided by the First DataBank National Drug Data File or other categories as provided by the client. The following charge category options are available for this review:

- First DataBank (FDB) Categories - The following categories are those assigned by FDB according to the National Drug Code (NDC) assigned to the drug. These can be used as new categories for pharmacy markups to assist in lowering markups for self-administered drugs.

BUCCAL	INTRAMUSCULAR	OPHTHALMIC
DENTAL	INTRAOCULAR	ORAL
EPIDURAL	INTRAPERITONEAL	OTIC
HEMODIALYSIS	INTRAPLEURAL	PERFUSION
IMPLANTATION	INTRATHECAL	RECTAL
IN VITRO	INTRAUTERINE	SUBCUTANEOUS
INHALATION	INTRAVENOUS	SUBLINGUAL
INJECTION	INTRAVESICAL	TOPICAL
INTRA-ARTERIAL	IRRIGATION	TRANSDERMAL
INTRA-ARTICULAR	MISCELLANEOUS	TRANSLINGUAL
INTRACAVERNOSAL	MUCOUS MEMBRANE	URETHRAL
INTRADERMAL	NASAL	VAGINAL

- Client Categories – If clients are unable to adjust the charge categories available, **ParaRev** will create a markup using the client’s available categories and may also suggest the addition or removal of some categories during the project.

The screenshot displays the 'Charge Process' tab in the ParaRev software. The interface is divided into several sections:

- Navigation:** A top menu bar with options like 'Select', 'Charge Quote', 'Charge Process', 'Claim/RA', 'Contracts', 'Pricing Data', 'Pricing', 'Rx/Supplies', 'Filters', 'CDM', 'Calculator', 'Advisor', 'Admin', 'RAC', 'CAT', 'PARA'. Below it, a secondary menu includes 'My Profile', 'Add User', 'Invite User', 'Access', 'Workflow', 'Passwords', 'QAP Quotes', 'QAP Admin', 'Contacts', 'Hospital', 'Rx/Supply', 'Pricing', 'Projects', 'Docs', 'Widget Admin'.
- 1 Select a schedule:** A dropdown menu showing 'PARA Standard - FDB Routes - FDB WAC Unit Cost'. Radio buttons for 'Rx' (selected) and 'Supplies' are present.
- 2 Click on a level for editing:** A table listing various categories with their respective pricing parameters.

Category	Low	High	Minimum	Multiplier	Fixed Add On
BUCCAL	0.01	9,999,999.99	2.00	3	0.00
DENTAL	0.01	9,999,999.99	2.00	3	0.00
EPIDURAL	0.01	9,999,999.99	22.50	3	0.00
HEMODIALYSIS	0.01	9,999,999.99	2.00	3	0.00
IMPLANTATION	0.01	9,999,999.99	2.00	3	0.00
IN VITRO	0.01	9,999,999.99	2.00	3	0.00
INHALATION	0.01	9,999,999.99	2.00	3	0.00
INJECTION	0.01	9,999,999.99	22.50	3	0.00
INTRAARTERIAL	0.01	9,999,999.99	2.00	3	0.00
INTRAARTICULAR	0.01	9,999,999.99	2.00	3	0.00
INTRACAVERNOSAL	0.01	9,999,999.99	2.00	3	0.00
INTRADERMAL	0.01	9,999,999.99	2.00	3	0.00
INTRAMUSCULAR	0.01	9,999,999.99	22.50	3	0.00
INTRAOCULAR	0.01	9,999,999.99	22.50	3	0.00
INTRAPERITONEAL	0.01	9,999,999.99	2.00	3	0.00
INTRAPLEURAL	0.01	9,999,999.99	2.00	3	0.00
- 3 Make changes:** A section for editing the selected schedule. It includes fields for 'Schedule Name' (PARA Standard - FDB Routes - FDB WAC Unit Cost), 'Primary' checkbox, 'Categories' dropdown (FDB Routes), 'Cost' dropdown (FDB WAC Unit Cost), and input fields for 'Low', 'High', 'Multiplier', and 'Fixed Add On'. Buttons for 'Update Level', 'Delete Level', 'Update Schedule', 'Delete Schedule', and 'Copy Schedule' are provided.
- 4 Revenue Codes:** A section for managing revenue codes, with fields for 'Revenue Code' and 'Assigned Revenue Codes', and buttons for 'Add Revenue Code' and 'Delete Revenue Code'.

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Cost-Basis Options-

The **ParaRev Pharmacy Pricing Process** is customized to meet the needs of the pharmacy through the use of a variety of cost-basis options. **ParaRev** has partnered with First DataBank to provide the best available drug cost information available. The **ParaRev Pharmacy Pricing Process** can use cost-basis values either provided by the First DataBank National Drug Data File or other costs as provided by the client. The following cost-basis options are available for this review:

- First DataBank (FDB) Wholesale Acquisition Cost (WAC) – This cost-basis represents the manufacturer’s published list price for a drug to wholesalers as reported to FDB by the manufacturer. WAC does not represent actual transaction prices and does not include discounts or rebates.
- First DataBank (FDB) Suggested Wholesale Price (SWP) – This cost-basis is the manufacturer’s suggested price for the drug from wholesalers to customers (i.e. retailers, hospitals, physicians, and other buyers) as reported to FDB by the manufacturer. This cost basis does not represent actual transaction prices.
- Client Acquisition Cost (ACQ) - This cost-basis value is reported in the client’s pharmacy information system as acquisition cost. Depending on the internal process of the facility, this cost may include any purchasing contract discounts and may not be updated frequently.
- Client Average Wholesale Price (AWP) – Although AWP was a national standard, many issues have surfaced over the years which discredited the value as a valid source of cost information. Therefore, AWP is no longer considered a nationally recognized cost basis.

<http://www.fdbhealth.com/policies/drug-pricing-policy/>



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Drug Pricing Policy

FDB (First Databank) is committed to serving our customers and the healthcare industry by publishing the best available drug and drug pricing information.


FDB publishes several drug pricing data fields including Average Acquisition Cost (AAC), Wholesale Acquisition Cost (WAC), Direct Price, Suggested Wholesale Price (SWP), and Federal Upper Limit (FUL) in addition to our clinical drug information.


FDB discontinued the publication of Blue Book Average Wholesale Price (AWP) on September 28, 2011.





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Some facilities are still receiving AWP as a cost in their pharmacy information system feeds. Depending on the service provider, the “AWP” provided may include a hybrid of SWP, WAC, and other cost basis options. Some pharmacy systems are publishing an “AWP” that is actually a markup of WAC. Please verify with the pharmacy information system provider for details and options on what costs are provided in monthly feeds.

<http://www.medispan.com/pricing-policy-update/>



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Pricing Policy Update

IMPORTANT NOTICE FOR WOLTERS KLUWER HEALTH'S MEDI-SPAN CUSTOMERS:

Wolters Kluwer Health would like to provide its Medi-Span customers with an update about its previously announced plan to discontinue publishing Average Wholesale Price information (AWP) in its drug information files. In May 2007, we announced that we would work with customers, professional and trade organizations and industry leaders to facilitate the creation of sustainable drug price benchmarks that could replace AWP. Despite our efforts and those of other industry participants, no comprehensive alternative benchmark price is yet available. Recently, the NCPDP's Special Committee on AWP recommended WAC as a possible replacement price benchmark for single-source products, but industry participants have not uniformly adopted that recommendation. That Special Committee also made no recommendation on a replacement price benchmark for multi-source products.

Wolters Kluwer Health remains committed to providing benchmark pricing information that is useful to its customers and the industry. Based on comments from our customers and other industry participants, we understand that discontinuation of AWP before development and industry-wide acceptance of a viable alternative price benchmark to replace AWP could create significant customer problems and confusion or disruption throughout the entire healthcare industry. We also recognize that changes to the data published in our drug information solutions may impact our customers' businesses and require significant lead time for them to make corresponding technical and contractual adjustments. It appears that consensus around a comprehensive alternative pricing standard will not be reached this year in time for such necessary adjustments to be made before the end of 2011, as we had expected.

As a result, Wolters Kluwer Health intends to publish AWP (or a similarly determined benchmark price) until relevant industry or governmental organizations develop a viable, generally accepted alternative price benchmark to replace AWP. Wolters Kluwer Health expects to continue to support industry efforts to identify a widely accepted, alternative benchmark and, once such a viable AWP alternative exists, to work with its customers to migrate to publication of that new price benchmark in place of AWP, under an appropriate implementation and transition schedule.

To promote a clear understanding of the nature and source of the AWP included in Medi-Span's drug information solutions, we wish to call your attention to the following:

» First, despite its name or possible use as an index, the AWP published by Wolters Kluwer Health is not an “average” of actual wholesale prices. It is not derived from, and does not reflect, either the actual prices paid in sale transactions between wholesalers (meant to include any who buy direct from manufacturers) and their customers, or any actual discounts, rebates or other price reductions offered by wholesalers in connection with those transactions. In fact, a wholesaler may agree to sell

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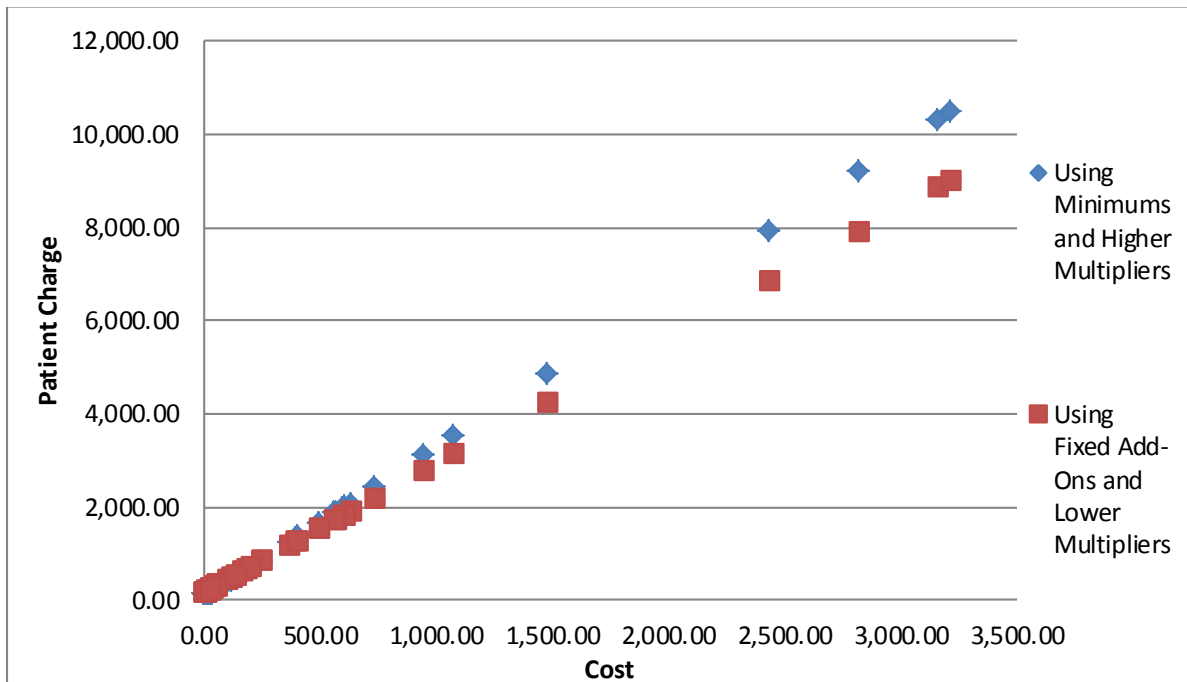
Fixed Add-On and Minimum Charges-

Pharmacies generally have a need to account for extra compounding resources or other special handling of pharmaceuticals. Minimum charges or fixed add-ons could serve the purpose of accounting for these resources. However, the patient price will reflect differently depending on which is used.

Let's now consider the following pharmacy markup comparisons with fixed add-on versus minimum charges. In order to ensure an accurate comparison, the markup with minimum charges uses a higher multiplier than the markup using fixed add-ons, but result in the same revenue goal.

Both markups show a consistent increase in the patient price as the cost of the item increases. However, the markup with the minimum charges (because of its higher multiplier) pushes the higher priced items more than when using a fixed add-on fee.

One of the benefits of using a fixed add-on versus a minimum is that it helps to keep the higher cost items lower. The chart below demonstrates the effect of the different markup structures on chemotherapy medications.



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Establishing Fixed Add-On Charges-

When establishing a value for a fixed add-on, it is beneficial to map out the time associated with preparing and handling various categories of medications. This information can be used in conjunction with staffing costs to determine a defensible fixed add-on value to use for pharmacy pricing.

Below is a list of some considerations that should be made when determining a fixed add-on charge:

- Route
- Skill Level
- Pharmacy Prep Time
- Average Pharmacy Staff Hourly Rate
- Additional Outsourcing or Handling Costs

Gross and Net Revenue Projections-

ParaRev's Pharmacy Pricing Process uses historical transaction data and the top ten payer contract terms to project the gross and net revenue realized by changes to the pharmacy markup. The **ParaRev Data Editor** has the ability to copy and compare different markup schedules to "test" various scenarios using different cost-basis and charge category options.

The screenshot displays the 'Contracts' tab in the ParaRev Data Editor. The interface includes a navigation bar with tabs for 'Summary', 'Inpatient', 'Outpatient', 'Ambulatory Surgical', 'Emergency', 'Urgent Care', 'Non Patient', 'Stop Loss', 'Blended Rate', 'Comments/Notes', 'Contacts', and 'ADDB'. The main area contains a form for contract management with the following fields:

- Select Parent Contract to Filter By...:** BLUEPPO - BLUE CROSS-PPO
- Sort By...:** Sort
- Contract Management and Analysis Process:** Show Pro Forma Contracts
- *Contract Mnemonic:** BLUEPPO
- *Insurance Company Name:** BLUE CROSS-PPO
- Bind to this Parent contract:** BLUE CROSS-PPO - Parent
- Save Contract:**
- Parent contract:**
- Insurance Contract Type:** [Dropdown]
- Contract Term Effective Basis:** [Dropdown]
- Renewal Status:** [Dropdown]
- Billing Time Limit:** [Text] Days
- Payment Late Penalty:** [Text] Days
- Pre-Authorization:** No
- Contract Term:** [Text] From: [Text] To: [Text]
- Required Notice Period:** [Text] Days
- Renewal Status Warning:** [Text] Days
- Rebillable:** Yes
- Interest Rate of Late Payment:** [Text] %
- Pro Fees Billable:** No
- Co-Pay - Annual:** [Text]
- Co-Pay - Outpatient:** [Text]
- Co-Pay - Inpatient per Admit:** [Text]
- Co-Pay - Emergency:** [Text]
- Co-Pay - Office:** [Text]
- Annual Revenue Inflation Cap:** 6 %
- % of Medicare:** [Text] %

Total Charges: \$83,870,351.73 : **Date Range:** 11/01/2011 - 10/31/2012

Hospital Patient Type	PARA Patient Type Map	Total Charge(s) Per Hospital Patient Type	Total Terms Per PARA Patient Type
I -		\$0.00	
O -		\$0.00	
SDC - SURGICAL DAY CARE	Ambulatory Surgical	\$17,559,953.90	2
ER - EMERGENCY ROOM	Emergency	\$16,189,430.98	1
PRE - PRE-ADMIT	Inpatient	\$0.00	3
IN-OTHER - INPATIENT OTHER	Inpatient	\$0.00	3
IINP - INPATIENT	Inpatient	\$22,681,980.00	3
NPA - NON PATIENT ACCOUNT	Non-Patient	\$0.00	0
POV - PHYSICIAN OFFICE VISIT	Non-Patient	\$0.00	0

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Implementation Options-

PK has the capability to assist with full implementation of proposed pharmacy markups. The PK **Data Maintenance Services** establish a secure connection to the hospital system to update markups, costs, and NDC information. Please see the link below regarding details of **PARA's Data Maintenance Services**.

<https://apps.para-hcfs.com/pde/documents/PARA%20Data%20Maintenance%20Service%20-%20Final%20March%202013.pdf>

Facility Data Maintenance

Goal of the Process:

Establish a secure connection to the hospital system to facilitate the following:

- Create data downloads for the **ParaRev Data Editor (PDF)**
- Process updates to the Hospital charge master for pricing revisions
- Process updates to the Hospital charge master for coding revisions
- Access pharmacy clinical system for NDC, markup, and cost updates
- Access purchase item master for cost, markup, and charge number updates

ParaRev will have the option of installing a batch update service, usually incorporating a scripting solution, if the manual update process is determined by **ParaRev** to be too time consuming (in excess of 5 hours per month on average).

ParaRev Deliverables:

This engagement allows ParaRev to access necessary tables and reporting tools to process the following within the hospital systems.

- Update recommendations from charge master reviews and CMS quarterly updates
- Update recommendations from Market Based Pricing and other pricing reviews
- Monthly coding updates from Medicare, Medicaid, and Worker's Compensation
- Process new charge items and changes to existing charge items
- Access to Medical Records for coding/claim audits
- Follow up for Accounts Receivable
- Process physician billing activities

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Post-Implementation Analysis-

The **PARA Pharmacy Pricing Process** includes post-implementation impact studies. These are performed after one month of implementation and then on a quarterly basis during the length of the engagement.

The pharmacy impact analysis compares pharmacy transaction data from the base period, the period prior to implementation, and the period of implementation to diagnose the performance of the markup. The analysis isolates the various aspects of performance including rate and volumes.

The results of these impact studies help to determine if adjustments need to be made to the markup in order to reach the established revenue goals.

	BASE PERIOD: JUN-AUG 2011	PERIOD PRIOR TO IMPLEMENTATION: MAR-MAY 2012	IMPLEMENTATION PERIOD: JUN-AUG 2012	Actual Variance	Percent Variance
Qty	111,338	125,923	115,128		
Avg price per Qty	22.40	21.12	24.14		
Gross Revenue	2,493,724	2,659,271	2,778,707		
Implemented Period to Base Period Variance					
Qty	111,338		115,128	3,790	3%
Avg price per Qty	22.40		24.14	1.74	8%
Gross Revenue	2,493,724		2,778,707	284,983	11%
Implemented Period to Period Prior to Implementation Variance					
Qty		125,923	115,128	10,795	-9%
Avg price per Qty		21.12	24.14	3.02	14%
Gross Revenue		2,659,271	2,778,707	119,436	4%
Base Period to Period Prior to Implementation Variance					
Qty	111,338	125,923		14,585	13%
Avg price per Qty	22.40	21.12		1.28	-6%
Gross Revenue	2,493,724	2,659,271		165,547	7%

Reference:

Lewin Group (2005). *A Study of Hospital Charge Setting Practices*. Retrieved September 13, 2012 from http://www.medpac.gov/documents/Dec05_Charge_setting.pdf

Pharmacy Pricing Process

THE PARA SOLUTION:

Although there is no right or wrong way to structure a markup formula for pharmacy, these concepts help to see the various factors and how they affect the overall result. The **PARA Pharmacy Pricing Process** assists facilities in creating a rational, cost-based pharmacy markup that remains sensitive to self-administered drugs and uses a nationally recognized cost basis.

Details of this project including purpose, data requirements, method, timeline, and deliverables are as follows. If you would like more information, please contact your Account Executive.

PURPOSE:

The purpose of the **PARA Pharmacy Pricing Process** is to create a rational, cost-based pharmacy markup using the cost-basis and charge categories as determined by the client according to the information presented above. The project focuses on reducing self-administered drugs while increasing injectable items to meet the revenue goals of the organization.

DATA REQUIREMENTS:

The required data tables and fields for the **PARA Pharmacy Pricing Process** are as follows:

- **Pharmacy Clinical Data**- National Drug Codes (NDC), drug type/charge category/route of administration and charge code
- **Pharmacy Markup**- Charge category, multipliers, minimums, and additional fees
- **Charge Master**- Charge code, current charge/price, HCPCS Code
- **Cost Basis**- NDC and AWP/ACQ/ASP as found in the pharmacy system
- **Transaction Data**- Detailed patient level claims data
- **Payer Contract Matrix**- Managed care contract settlement terms

METHOD:

PARA Data Staff will tie these tables together and load into the **PARA Data Editor**. The client will complete a Pharmacy Markup/Pricing Goals questionnaire to outline preferences in charge category, cost basis, revenue goals, and other important aspects of the analysis.

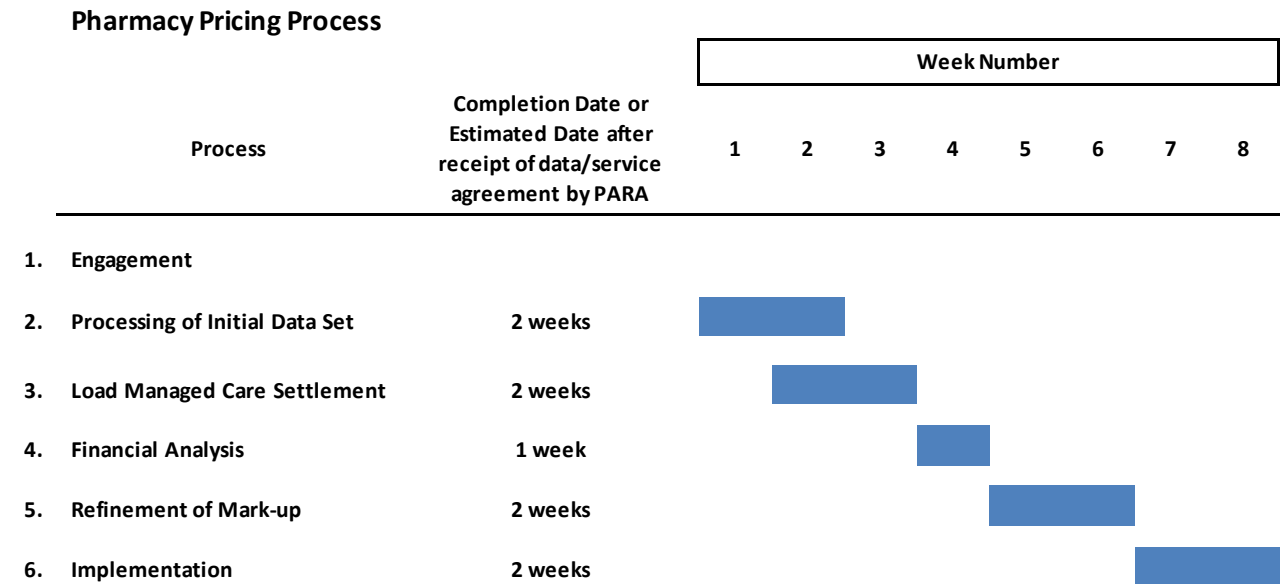
The **PARA** analytic staff will create a markup to meet the goals of the project and calculate the gross and net revenue opportunity of the proposed markup. The client will review the proposed markup and identify any areas where changes would like to be made.

After the final markup has been approved, the client will either implement or engage **PARA** to implement the markup as outlined above.

After implementation, **PARA** will perform an impact analysis after one month of implementation and every quarter through the length of the engagement.

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TIMELINE:



DELIVERABLES:

The **PARA Pharmacy Pricing Process** deliverables to the client include a proposed markup, gross and net revenue projections, an item-specific detailed spreadsheet proposed changes, and a full write-up of techniques and findings.

Procedure Description	NDC	Qty	Hospital AWP	Current Charge	Proposed Charge
ALBUTEROL 2.5MG/0.5ML INHL SOL	00487-9901-30	3,747	0.90	18.40	12.70
CLONIDINE 0.1MG TABLET	51079-0299-20	2,719	0.24	9.20	1.00
IPRATROPIUM BR. 2.5ML INHALATION	00487-9801-01	2,538	1.32	34.35	13.96
ASPIRIN 81MG CHEWABLE TABLET	63739-0434-01	2,509	0.10	5.50	1.00
FOLIC ACID 1MG TABLET	62584-0897-01	2,371	0.36	9.20	1.08
THIAMINE 100MG TABLET	00536-4680-01	2,331	0.20	5.50	1.00
SODIUM CHLORIDE 0.9% 1000ML INJ	00338-0049-04	2,130	6.97	83.75	92.88
ONDANSETRON 4MG INJECTION	00409-4755-03	2,044	0.78	38.70	68.12
POTASSIUM CHLORIDE 20MEQ CR TAB	63739-0447-10	1,943	0.62	10.45	1.86
THERAPEUTIC MULTIVITAMIN TABLET	00904-0539-61	1,931	0.70	10.45	2.10
DOCUSATE SODIUM 100MG CAPSULE	63739-0089-01	1,759	0.11	5.50	1.00
GABAPENTIN 300MG CAPSULE	68084-0080-01	1,741	1.38	15.35	4.14
HYDROCODONE/APAP 10-325MG TAB	51079-0779-21	1,738	1.10	21.45	3.30
METFORMIN 500MG TABLET	62584-0259-01	1,677	0.70	10.45	2.10
SODIUM CHLORIDE 0.9% 50ML INJ	00338-0049-11	1,660	7.27	55.75	94.08