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Addendum to the Recommendations for the Development of a New Fee-For-Service Drug Pricing / Pharmacy Reimbursement Methodology for the Texas Health and Human Services Commission

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Background

In May of 2014, Myers and Stauffer LC (MSLC) worked with the Texas Health and Human Services (HHSC) and issued a report titled, "Recommendations for the Development of a New Fee-For-Service Drug Pricing/Pharmacy Reimbursement Methodology".

For this report, MSLC collected invoices from various Texas Medicaid provider types including Retail, Long Term Care (LTC), Specialty, and Oncology providers. Using the collected invoices, MSLC calculated a simple average acquisition cost (AAC) for brand and generic products by provider type.[1] MSLC compared the calculated provider type AAC to various published pricing benchmarks including the National Average Drug Acquisition Cost (NADAC) and Wholesale Acquisition Cost (WAC). Analysis showed the NADAC closely approximated the average cost at which Texas pharmacies purchased drugs. Therefore, NADAC was recommended for ingredient reimbursement by HHSC.

Relative Provider Type Analyses

Comparison of NADAC to Relative Provider Types' Brand AAC

As indicated above, AAC rates were calculated for each provider type: Retail, LTC, Specialty and Oncology. There appeared to be a class of trade difference in purchasing power between each relative provider type. To illustrate the differences in provider type purchasing power, MSLC compared the calculated provider type AAC to NADAC. The analyses were separated by brand and generic products. Table one below highlights the differences in purchasing power, by provider type, for brand products as compared to NADAC.

Table 1: Provider Type Calculated AAC Rates as Compared to NADAC for Brand Products

	LTC	Oncology	Specialty
Number of NDCs	808	260	239
Simple Average Percent Difference	(2.37%)	(0.74%)	(1.73%)

On average, the NADAC was greater than the comparator provider types' AAC for brand products. For example, the average percent difference between the NADAC and the LTC AAC was (2.37%). Thus, on average, the LTC providers' AAC were 2.37% lower than the NADAC.

[1] The methodology for rate calculation is mentioned on page 12 of the original report.

Comparison of WAC to Relative Provider Types' AAC
WAC, like NADAC, is a published pricing benchmark which is widely accepted and utilized by multiple payers for pharmacy ingredient reimbursement. MSLC compared the calculated relative provider type AAC to WAC. Again, these analyses were separated by brand and generic products. Table two below highlights the differences in purchasing power by provider type for brand products as compared to WAC.

Table 2: Provider Type Calculated AAC Rates as Compared to WAC for Brand Products

	LTC	Oncology	Specialty
Number of NDCs	903	314	379
Simple Average Percent Difference	(3.4%)	(6.8%)	(8.0%)

On average, the WAC was greater than the comparator provider types' average acquisition cost for brand products. For example, the average percent difference between the WAC and the LTC AAC was (3.4%). Thus, on average, the LTC providers' average acquisition costs were 3.4% lower than the WACs.

Fiscal Impact of Utilizing Discounted NADAC for Relative Provider Groups
Tables one and two above illustrate that LTC, Oncology and Specialty providers purchased brand products at a lower average acquisition cost rate in the aggregate than retail community providers. HHSC was interested in developing a fiscal model utilizing the lower acquisition costs by applying the aggregate discount off NADAC and WAC for the relative provider types as noted in Tables one and two.

While utilizing a discount off NADAC for relative provider types may align more closely to the average acquisition cost of each provider group, it may require consideration of different dispensing fees that reflect the true cost to dispense prescription drugs for these relative provider types. The associated cost of differential dispensing fees for various provider types may offset or exceed any additional ingredient savings that may be achieved in discounting the NADAC and WAC for various provider types. The resulting overall affect to the HHSC could be a net cost.

Conclusion

HHSC would like to move forward with a differential ingredient and dispensing fee based on the relative type provider type. It is MSLC's understanding HHSC plans to base ingredient reimbursement off the NADAC for retail community providers, and NADAC less the discounts noted in Table one for each relative provider type. If the NADAC rate is not available for a product, HHSC plans to reimburse using WAC less two percent for retail community providers, and WAC less the discounts noted in Table two for each relative provider type. Finally, MSLC understands that provider's dispensing fee will be tied to a variable component based on the calculated allowable ingredient cost. As the HHSC moves forward with this proposed reimbursement methodology, MSLC recommends HHSC evaluate the following considerations:

- HHSC will need to identify how each provider is classified for reimbursement purposes in its claims processing system: Retail, LTC, Specialty, Oncology.
- Differential reimbursement by relative provider types will require continuous evaluation of the relationships between provider type acquisition costs with NADAC and WAC.
- Analysis of Oncology and Specialty provider purchases was not limited to specialty products. Specialty products have higher acquisition costs and may have different behaviors than products dispensed in the retail community setting.
- All analyses included both prescription and over-the-counter (OTC) products. There may be a different relationship between legend acquisition cost and pricing benchmarks as compared to OTC acquisition cost and the same pricing benchmarks. This was not considered in these analyses.
- Percent differences were calculated as simple averages. Evaluating the aggregate differences weighted by utilization could yield different discounts.
- This addendum restates observed relationships between relative provider types for brand acquisition cost to NADAC and WAC. There appears to be different relationships between relative provider types' generic acquisition cost to NADAC.[2]
- As with any average calculation, there will be some provider acquisition costs which are higher than the WAC/NADAC discount and some that are lower. The differences above and below the WAC/NADAC discount may be greater for higher cost products.

[2] Please see Table 10, page 17 of the original report.