THE CASE FOR PREDICTIVE ACQUISITION COST (PAC)

How to Accurately Determine True Drug Costs

New state legislation and regulations regarding drug price transparency have become the rule rather than the exception nationwide. More than 40 states already have maximum allowable cost (MAC) transparency laws on the books or in the pipeline, and the bipartisan FAIR Drug Pricing Act, under consideration in Congress, would establish price transparency standards for drug companies when they raise prices. As a result, commercial health plans and PBMs can expect to face more stringent requirements to justify their MAC prices while confronting pressure from higher drug prices across the board.

Meanwhile, retail pharmacies continue to be seriously impacted on a daily basis by a lack of transparency in acquisition costs and reimbursements, significant movement in the price of generics, and an ever-expanding list of drugs to monitor. All these factors compromise their ability to receive fair reimbursements and run a successful business.

With an evolution in drug pricing and reimbursement methodologies well underway, the critical question all players in the pharmacy industry should be asking is: "What is the way forward to show true costs in a complete and defensible way, and appropriately protect confidential pricing methodologies?"

BROUGHT TO YOU BY: Drug Topics ELSEVIER

The answer is Predictive Acquisition Cost (PAC), a drug pricing standard for the pharmacy industry. Launched in 2012, PAC is the most accurate tool available to track true acquisition cost and provide insightful analysis for drug price transparency, price setting, and cost containment.

HOW PAC WORKS

By leveraging the power of predictive analytics and deep domain expertise, PAC delivers reliable outputs to support drug pricing activity. It thoroughly reviews a number of factors, including industry MAC benchmarks, published price lists, existing price benchmarks, behavioral metrics, supply-demand measures, and survey-based acquisition costs. PAC then analyzes the data to accurately estimate the typical acquisition cost for each drug, be it brand or generic.

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Simply put, PAC estimates the pharmacy's drug acquisition costs in a transparent and defensible way without requiring the pharmacy to provide invoices or respond to cumbersome requests. PAC is more closely aligned with true drug acquisition costs than other market benchmarks, and it supports both pricing analytics and contractual requirements.

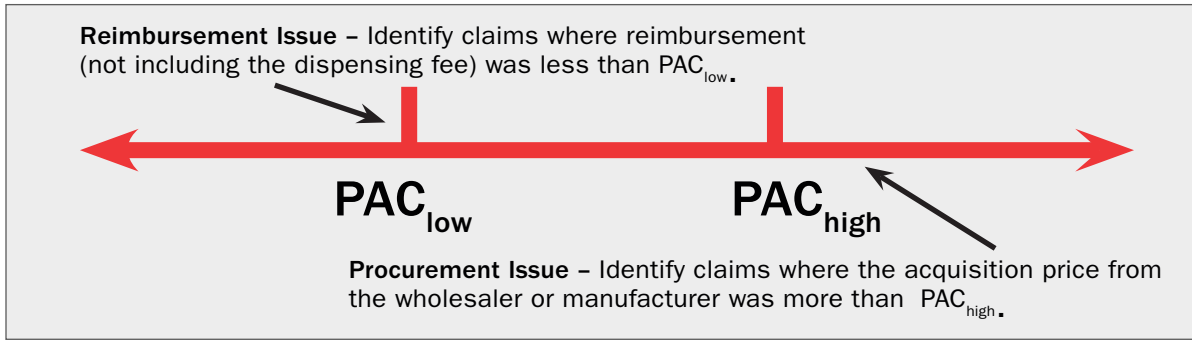
PAC is created daily for all drug groups, single-source and multisource, and used throughout the drug supply and pharmacy industry by retail pharmacies, drug wholesalers, commercial health plans, state Medicaid programs, manufacturers, and PBMs.

Most importantly, PAC results are assured because they meet the pharmacy industry's criteria for a successful new drug price benchmark through five important features:

1. **Transparent.** Genuine relation to actual acquisition cost with clearly defined and described factors that drive PAC output.
2. **Accessible.** Results are distributable to all parties within the drug supply chain.
3. **Comprehensive.** Covers brand and generic drugs, including single-source generics and new drugs for which survey-based acquisition costs have not yet been collected.
4. **Timely.** PAC updates for any given drug as soon as its input factors adjust, and changes are reflected in the database daily.
5. **Immune to manipulation.** PAC is retrained regularly to ensure that it accurately captures changes and factors new data as soon as it is available. Its robust monitoring system detects any unusual activity with its input factors.

USE CASE: ANALYZING LOSS FILES

PAC's predictive analytics model helps pharmacies perform their loss file analysis to determine if a claim that was reimbursed at less than the acquisition cost is actually a reimbursement issue or a procurement issue by using the PAC_{low} and PAC_{high} range.



PAC compares each reimbursement payment in the loss file (minus the dispensing fee) to the PAC_{low} to determine if there is a strong likelihood the payer/PBM reimbursed at a rate lower than what is acceptable.

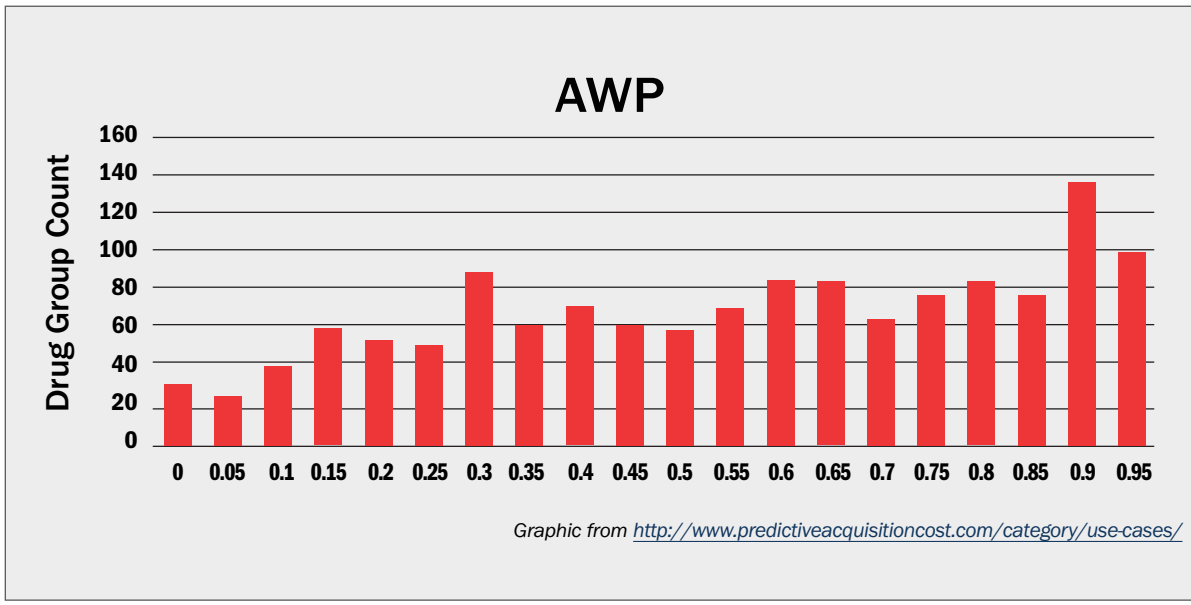
PAC also compares each drug acquisition price in the loss file to the PAC_{high} to determine if there is a strong likelihood the pharmacy purchased the drug at a price above what is considered acceptable.

This information allows the pharmacy to quickly identify where the discrepancy lies—with the payer/PBM or with the wholesaler. It also provides the evidence the pharmacy needs to file a MAC appeal or to discuss price with the wholesaler.

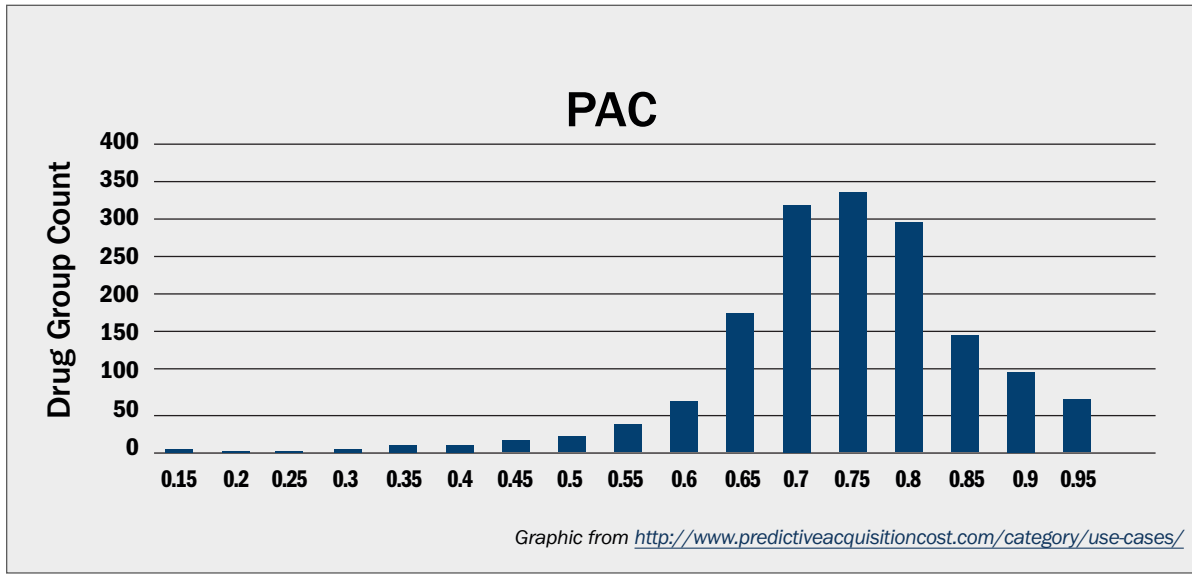
USE CASE: NEGOTIATING GER AGREEMENTS

When a pharmacy or health plan contracts with a PBM to manage its generic drug spend, the PBM typically agrees to pricing known as GER (generic effective rate), which is calculated off the highly-inflated list price known as AWP (average wholesale price).

The PBM guarantees that it will provide a set percentage discount off AWP. For



Graphic from http://www.predictiveacquisitioncost.com/category/use-cases/



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example, a GER of 80% means the PBM will reimburse at 80% less than AWP.

However, since AWP is so disconnected from the actual acquisition cost, the GER varies dramatically across drug groups when based on AWP.

Now contrast that to the PAC. When it is used instead of AWP in a GER agreement, the actual GER is much more predictable and transparent (see graphic on page 3).

It's important to note that besides the serious disconnect between AWP and true acquisition cost, another issue emerges when measuring the performance of a MAC using a GER metric based on AWP.

Across NDCs within a drug group, the AWP often varies even though the MAC is fixed at the drug group level. As a result, the GER depends partially on which manufacturers a pharmacy purchases from (i.e., which NDCs within a drug group are used). This phenomenon adds an added degree of uncertainty for the payer and pharmacy when targeting GER-based performance metrics.

CASE STUDY

CASE STUDY: OHIO PUTS PBMS/ INSURERS ON NOTICE OVER DRUG PRICE TRANSPARENCY

The evolution in drug pricing and reimbursement methodologies is gathering momentum as states and the federal government take steps to reform current practices.

In a bold move to create more transparency in drug pricing, the Ohio Department of Insurance (ODI) has notified PBMs and health insurers that operate in the state that they must disclose the lowest price for a prescription drug to patients. They are also prohibited from charging more for prescription drugs that cost less than the copay. "Gag orders" that contractually prevent pharmacists from telling patients that they could pay less than the insurance copay by paying out of pocket for generic drugs have also been banned.

Subsequently, Ohio Medicaid announced that it will end current state contracts with five PBMs that practice spread pricing, or billing taxpayers more than they reimburse pharmacies for filling Medicaid patients' prescriptions. The state will move to a more transparent pass-through pricing model in 2019 under which PBMs will receive administrative fees and must bill the state the same amount they pay pharmacies. Ohio Medicaid will enter into new contracts with PBMs who can provide services based on that model, the state said.

Beginning in 2019, PBMs will only be allowed to charge Ohio Medicaid exactly what they pay the pharmacy for the prescription drug, plus a dispensing fee and an administrative fee estimated at less than $2 per prescription. All rebates and discounts must be passed back to the state.

Ohio's policy change was motivated by a state analysis that showed that PBMs had billed taxpayers $223.7 million more for prescription drugs in a year than they reimbursed pharmacies to fill those prescriptions.

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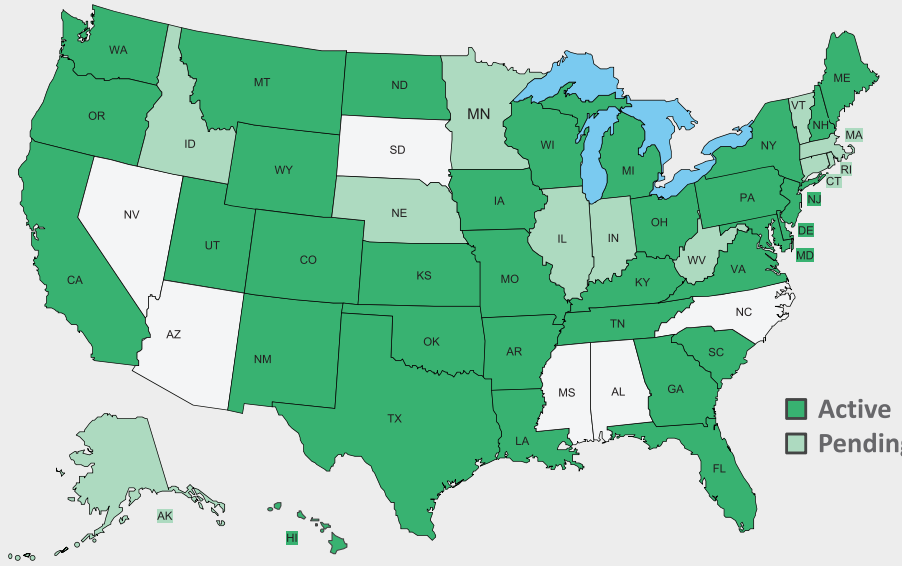
There is *Active* or *Pending* MAC transparency legislation in 44 States



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Antonio Ciaccia, director of government affairs for the Ohio Pharmacists Association, says the state is taking tremendous steps in the right direction. He predicts that the most immediate impact of the ruling from the ODI will be a lowering of drug copays, and that pharmacists also stand to benefit.

"Theoretically, plans and PBMs could still penalize pharmacists for pushing back and blowing the whistle on noncompliance with the new rules," Ciaccia acknowledges. "But ultimately, if PBMs ignore these new policies, they stand to be fined or have their licenses suspended by the Ohio Department of Insurance. Personally, I think the ODI edict ... will end these shenanigans for good."

The move puts Ohio in league with several other states—including Kentucky, West Virginia, and Virginia—that regulate how PBMs do business with their Medicaid programs. Dozens of other states have already enacted rules or are considering legislation to improve drug price transparency.

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