

Understanding Pharmacy Reimbursement

The Basics

Traditional Pharmacy Reimbursement consisted of:

1. **Ingredient Cost** (*estimated compendium benchmarks that included markups. Typically, AWP or WAC*) PLUS

2. **Dispensing Fee** (nominal amount, not reflective of actual overhead and related costs)

1 AND 2 = TOTAL reimbursement (less applicable patient copayments) to the pharmacy

New Reimbursement Requirement

The Centers for Medicaid and Medicare Services (CMS) is now requiring state Medicaid programs to utilize reimbursement methods that are cost based:

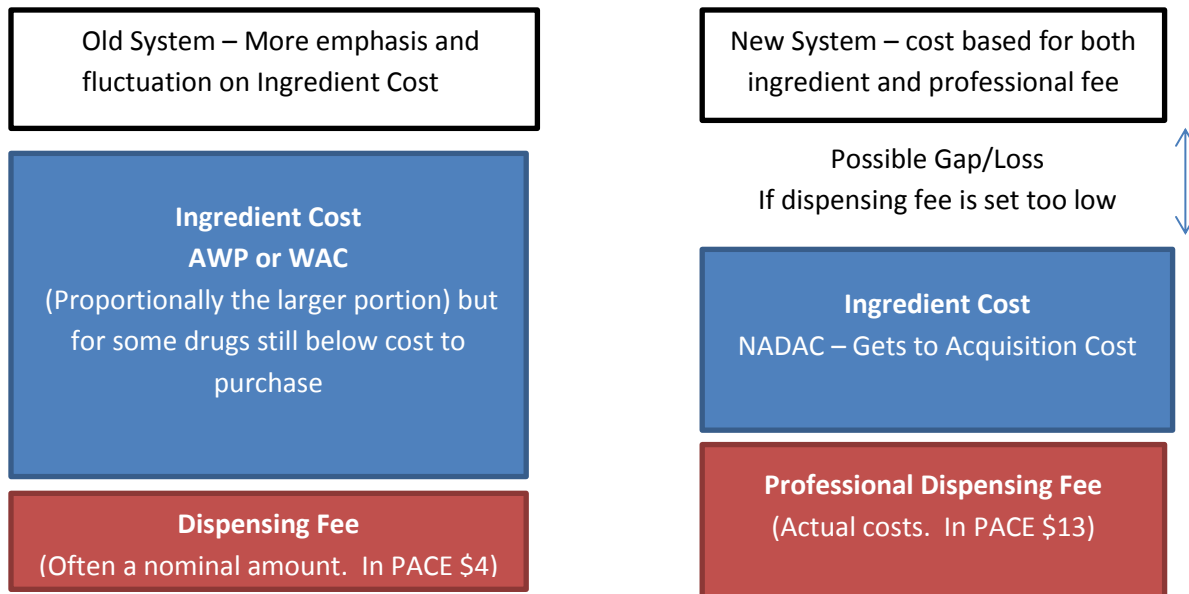
1. **Ingredient Cost is Actual Acquisition Cost** (Uses NADAC, includes no markup!) PLUS

2. **Professional Dispensing Fee** reflecting actual costs including overhead to dispense a prescription per a Cost of Dispensing Survey. (In Pennsylvania, the Office of Medical Assistance Programs (OMAP) paid Mercer to conduct a survey of pharmacies in the Commonwealth which was completed in the fall of 2016).

1 AND 2 = TOTAL reimbursement (less applicable patient copayments) to the pharmacy

In this way, the change doesn't result in paying pharmacies more, it rebalances the formula taking the margin out of the ingredient cost and offsetting it with a true professional dispensing fee. In many cases, the payment to pharmacies is still a decrease, especially if the dispensing fee is set low.

REBALANCING OR ALIGNING THE PAYMENT SYSTEM



UNDERSTANDING THE TERMINOLOGY

NADAC = National Actual Drug Acquisition Cost (the cost the pharmacy pays to purchase the drug) The price list is readily available on the CMS website and is updated weekly.

AWP = Average Wholesale Price - estimated compendium benchmark for ingredient cost, includes mark up; Medicaid cannot use after April 1, 2017

CMS = Center for Medicaid and Medicare Services

FULs = Federal Upper Limits – applies to ingredient cost on generic drugs, dramatically cut by Feds to conform with cost-based reimbursement

WAC = Wholesale Acquisition Cost – estimated compendium benchmark for ingredient cost, includes mark up; Medicaid cannot use after April 1, 2017