

Acquisition Cost-Based Pricing for the PACE Program

Concept

- Amend PACE statute to use actual acquisition cost instead of average wholesale price as a preferred reimbursement methodology.
 - **“Average wholesale price” or AWP** has long prevailed in the United States and is used in PACE since its inception.
 - AWP is a suggested manufacturer list price and is not what wholesalers charge and it is not what retailers pay.
 - AWP is expected to go away due to numerous damaging studies and lawsuits. The commonwealth will eventually need an alternative.
 - **“Actual acquisition cost” or AAC** is the pharmacy retailers cost to buy drugs from wholesalers, distributors, and manufacturers. It is the net cost after rebates and discounts. This number may vary for each pharmacy.
 - For brand drugs, AAC is estimated at 82% of AWP.
 - For generic medications, AAC is estimated at 20% of AWP.

What PACE Does Now

- PACE uses the lowest of:
 - AWP minus 12% with a \$4 dispensing fee,
 - The CMS established “federal upper limit” with a \$4 dispensing fee, or
 - The usual and customary charge to the public.
- Both the AWP discount and dispensing fee are part of the equation –

Proposed Model

- **Use AAC as the basis for the drug cost** – paying the pharmacist back exactly what they paid.

and

- Use a higher dispensing fee for PACE program reimbursement that rewards generic utilization.
 - **Pay \$10 dispensing fee for generics and \$5 for brand-name drugs.**

or

- Pay the lesser of :
 - The Federal Upper Limit;
 - Usual and customary cost; or
 - AWP-18 for brand and AWP-80 for generics

Advantages of this Proposal

- Would generate an estimated \$41 million in cost savings.
 - PACE program would pay less overall by:
 - Paying less than AWP-12 for the ingredient,
 - Paying more than the \$4 dispensing fee, and
 - Increasing the use of lower-cost generics.
 - Legislation will maintain “lower of” language to assure savings.
- It is the “real” cost.
 - It is the most transparent – other formulae utilize drug price indices, however, like AWP, they approximate actual acquisition cost plus a mark-up.
- It is fair to the pharmacist.
 - Differentials for rural vs. urban and large vs. small pharmacies are built into the unit cost which is the price likely determined by buying volume.
- It is readily verifiable.
 - PACE currently has access to pharmacy invoices through its audit process and would be able to request this data.