

ELSEVIER HEALTHCARE & PHARMACEUTICAL ECONOMICS CONFERENCE 2014



Taking the Mystery Out of Maximum Allowable Cost (MAC) with PAC

October 29, 2014

Agenda

- **Drug Pricing History**
 - Acquisition cost
 - Focus on MACs
 - Predictive Acquisition Cost (PAC)

- **MAC Optimization**
 - Balance
 - Network Relations
 - Transparency

- **Monitoring MAC Optimization**
 - Pharmacy Tools
 - Payer (Client) Tools

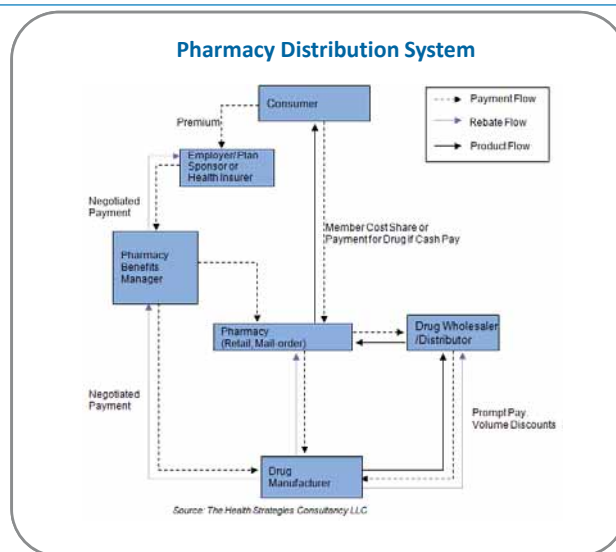
Drug Pricing History... Quick Review

- AWP has nothing to do with a pharmacy's acquisition cost... **but for 40 years it has been a staple in reimbursement agreements**
- Lawsuits, and more lawsuits... **AWP going away???**
- State of Alabama starts asking about Acquisition Cost... **Acquisition Cost trending**
- Now that we are talking about Acquisition Cost... **let's talk about how MACs are set**
- **Transparency, transparency, transparency**

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The Need for Transparency

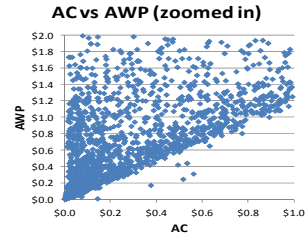


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The Challenge of MAC Creation

- Lack of Transparency into Acquisition Cost



Traditional benchmarks (e.g. AWP) bear little relation to acquisition-cost, and hence serve as a poor reference point when setting price

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The Challenge of MAC Creation

- Lack of Transparency into Acquisition Cost
- Movement in Price of Generics




Based on Maximum Allowable Cost (MAC) benchmark data for the 300 most active generic drug groups, over a 12 month period more than 20% of the generic drug groups exhibited at least a 10% month-over-month change in median MAC price, while more than 5% exhibited a 20%+ change.

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The Challenge of MAC Creation

- Lack of Transparency into Acquisition Cost
- Movement in Price of Generics
- Many Drugs to Monitor



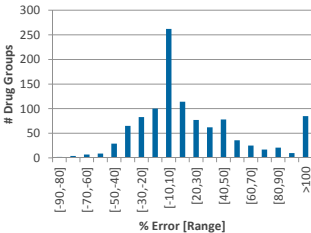
Typical MAC list
may contain around
2000 drugs

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The Challenge of MAC Creation

- Lack of Transparency into Acquisition Cost
- Movement in Price of Generics
- Many Drugs to Monitor
- Difficult to Contain Outliers

AMP based FUL



FUL understates
acquisition-cost by more
than 10% for 28% of drug
groups, creating a challenge
if used in "lesser-of" logic

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The Challenge of MAC Creation

- Lack of Transparency into Acquisition Cost
- Movement in Price of Generics
- Many Drugs to Monitor
- Difficult to Contain Outliers
- Many MACs Often Need to be Maintained

Without insight into Acquisition Cost, effective MAC Price Setting is extremely challenging

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Predictive Acquisition Cost (PAC)

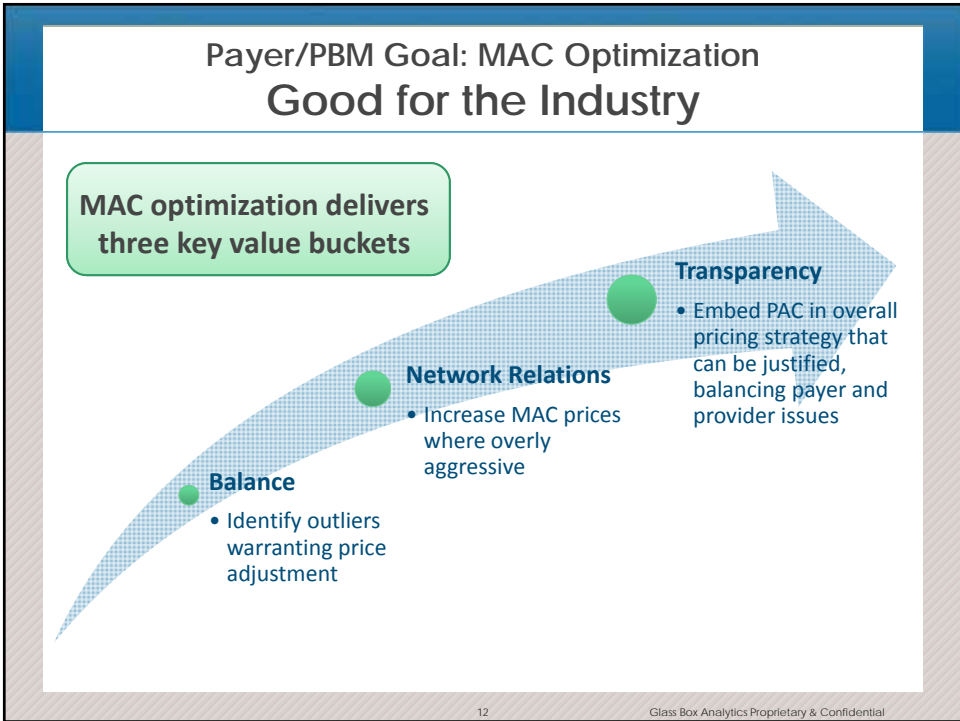
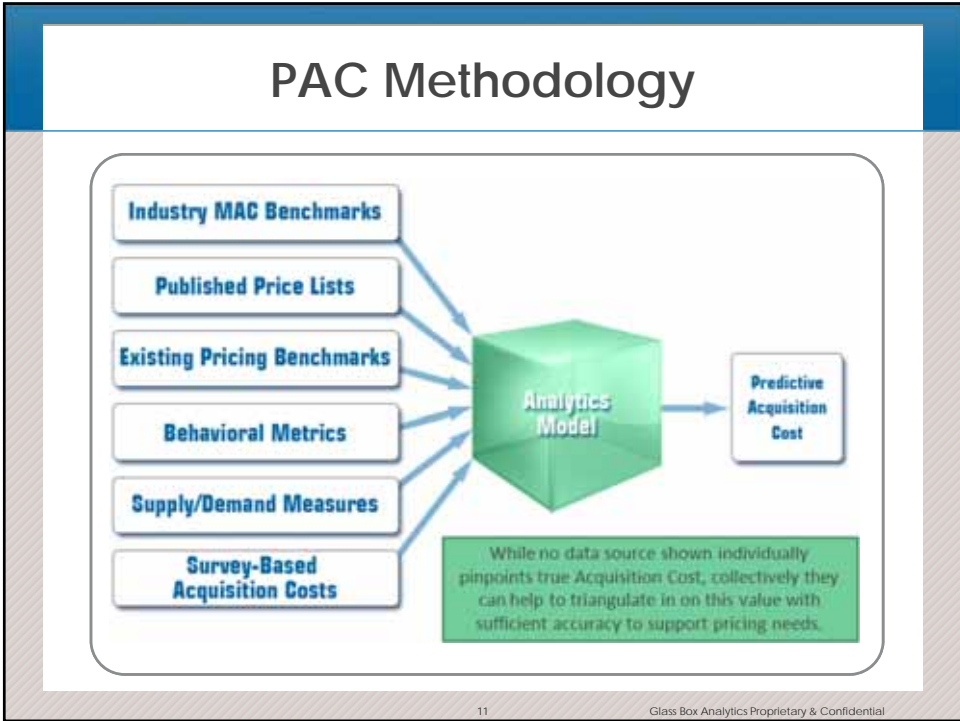
Key Criteria for an Effective Price Type

- ✓ **Transparency** – benchmark bears a genuine relationship to the actual acquisition cost of the drug. *(In addition to this “relevance” definition, transparency also sometimes refers to being “understandable”.)*
- ✓ **Accessibility** – benchmark readily accessible and can be readily adopted by the pharmacy industry.
- ✓ **Comprehensiveness** – benchmark available for all branded + generic drug groups.
- ✓ **Timeliness** – benchmark updated with a frequency appropriate to the quickly changing actual acquisition costs, especially for generic products.
- ✓ **Avoidance of Manipulation** – benchmark safe from manipulation.

- PAC estimates drug Acquisition Costs in a transparent and defensible way
- PAC is more closely aligned with true drug acquisition cost than any other available drug price type
- PAC supports both Pricing Analytics and Contractual Requirements
 - Use of PAC (with PAC_{low} and PAC_{high} range) to determine performance of contracts, guide reimbursement rates, improve negotiating position
 - Use of PAC as formal reference in “cost plus” contracts or PAC Retail as formal reference in discount based contracts

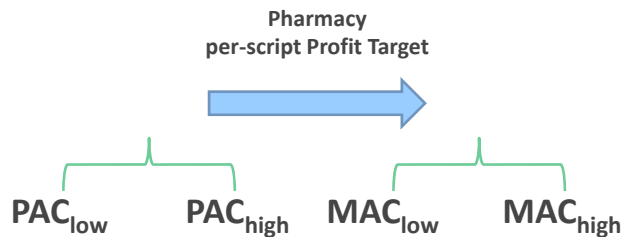
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MAC Optimization: Balance Establishing an Acceptable MAC Range

- PAC provides a range where we are highly confident the pharmacy's true acquisition cost will fall
- For a given pharmacy profit target, the PAC range translates into a range within which the MAC should fall



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MAC Optimization: Balance Reel in Outliers

- We can identify drug groups where the current MAC price is outside the range {MAC_{low}, MAC_{high}}

Drug	Current MAC	PAC	PAC _{low}	PAC _{high}	MAC Low	MAC High	Proposed	Target Price	Impact Potential
allopurinol tab 300 mg	0.0711	0.0546	0.0371	0.0721	0.0871	0.1221	Raise	0.0871	\$ (1,121.60)
carvedilol tab 25 mg	0.1421	0.0389	0.0250	0.0527	0.0525	0.0802	Reduce	0.0802	\$ 16,181.86
glimepiride tab 4 mg	0.3981	0.0616	0.0425	0.0807	0.0814	0.1196	Reduce	0.1196	\$ 31,319.04
lisinopril tab 20 mg	0.0794	0.0372	0.0237	0.0508	0.0694	0.0965	Unchanged	0.0794	\$ -
loratadine tab 10 mg	0.0925	0.0667	0.0456	0.0878	0.1234	0.1656	Raise	0.1234	\$ (25,653.50)
metformin hcl tab 1000 mg	0.1545	0.0406	0.0263	0.0549	0.0546	0.0832	Reduce	0.0832	\$ 33,630.35
methadone hcl tab 10 mg	0.1989	0.0692	0.0484	0.0800	0.0633	0.1049	Reduce	0.1049	\$ 31,290.82
mirtazapine tab 15 mg	0.1754	0.1065	0.0771	0.1358	0.1530	0.2117	Unchanged	0.1754	\$ -
risperidone tab 2 mg	0.5845	0.1636	0.1211	0.2060	0.1821	0.2670	Reduce	0.2670	\$ 86,793.25
simvastatin tab 40 mg	0.1898	0.0622	0.0430	0.0815	0.0944	0.1329	Reduce	0.1329	\$ 24,719.68
tizanidine hcl tab 4 mg	0.2878	0.0627	0.0433	0.0821	0.0766	0.1154	Reduce	0.1154	\$ 59,135.20
zolpidem tartrate tab 10 mg	0.0706	0.0320	0.0197	0.0444	0.1011	0.1258	Raise	0.1011	\$ (6,436.90)

Assumptions:

Min \$-profit/Rx (NOT including dispensing fee): \$ 2.50
 Min %-profit/Rx (NOT including dispensing fee): 10%

- We can adjust parameters to meet contract specific requirements (e.g. lesser of logic, GER targets)

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MAC Optimization: Improved Network Relations PAC Use First Month

- Significant adjustment of MAC values to create a better balanced MAC

	# Drugs
Raise	148
Reduce	482
Unchanged	272
Total	902

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MAC Optimization: Improved Network Relations Dramatic Reduction in Complaints

Network Complaints (monthly average)

Period	# Network Complaints (monthly average)
Pre-PAC	High
Post-PAC	Low

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MAC Optimization: Transparency Explainable Methodology

PAC model synthesizes cumbersome MAC price setting activities traditionally done manually

- Market pricing data collection
- Market pricing scoring, relevance
- Network feedback and insights



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MAC Optimization: Transparency Comply with MAC Transparency Laws

- **Pricing transparency legislation ...**
 - Provide insight into MAC methodology, including data sources used to establish price
 - Increase frequency of MAC updates
 - Publish MAC prices
 - Establish quick appeals process for challenges to MAC price

PAC can play a central role

- **Point to a sound and explainable MAC pricing methodology**

- MAC informed by PAC, be it to formulaically set price or to identify outliers
- Increased frequency of MAC updates
- Cite PAC as a source for acquisition cost, and implicitly a source for the various inputs that feed into PAC

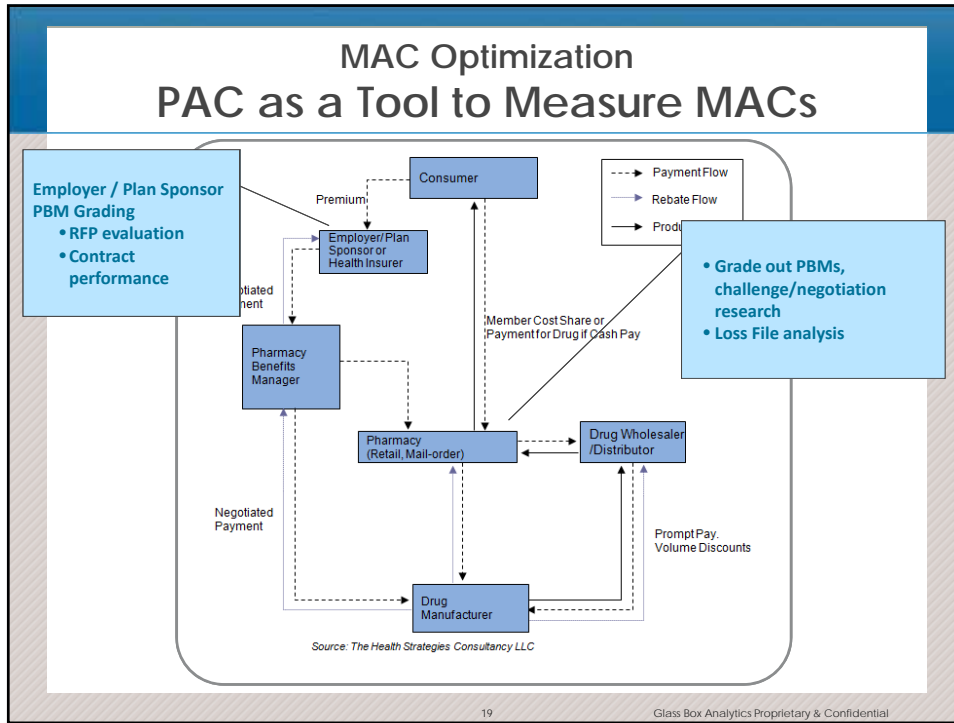
- **When looking at the MAC price of a particular drug**

- Utilize PAC Dashboard, and its view into various benchmarks and pricing in the marketplace, to assist in the appeals process



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Retail Pharmacy Loss File Analysis

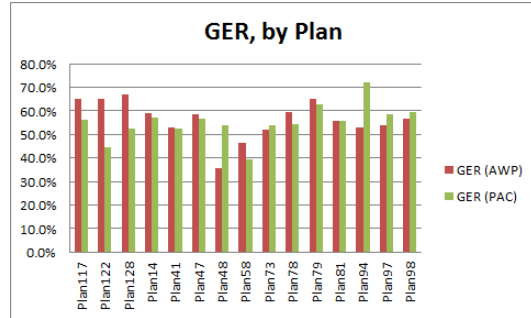
- For any specific claim, pharmacies use PAC to identify where it should direct its attention
- For example
 - Identify claims where the Wholesaler/Manufacturer is charging more than PAC-high
 - Identify claims where the Payer/PBM is paying less than PAC-low

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Retail Pharmacy Grading Payers/PBMs

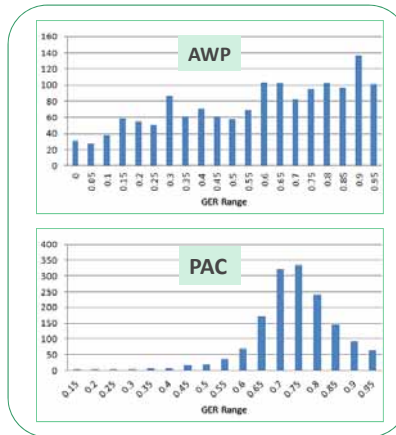
- PAC serves as a better reference point than AWP for benchmarking the quality of a price list

Can use PAC-Retail rather than AWP as the “MSRP” off of which to measure Generic Effective Rate (GER)

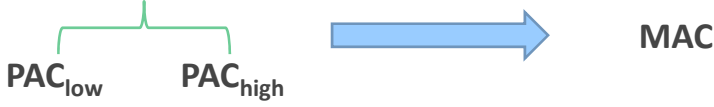


Payers / Health Plans Measure Price Quality

- “Generic Effective Rate” (GER) is an effective measurement of a MAC price list’s performance ... if using an underlying reference that tracks acquisition cost
 - The charts correspond to pricing that delivers a 74% GER when measured across all claims
- Problems with AWP-based GER
 - Stability: Can move if utilization-mix changes
 - Predictability: AWP can vary dramatically within drug group



Payers / Health Plans Formulaically Set MAC Pricing



The diagram illustrates the relationship between Payers/Health Plans and MAC pricing. It shows two terms, PAC_{low} and PAC_{high} , connected by a green bracket. A blue arrow points from this bracketed pair to the term **MAC**.

Case-Study

- Health Plan was unhappy with quality of MAC price list provided by its pass-through PBM
 - Took MAC process in-house, setting MAC based on PAC
- Results, as stated by Health Plan
 - Improved MAC balance (network satisfaction)
 - Channel savings back to the network via increased fill-fee and P4P programs

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**If you have questions about PAC,
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