Demystifying Pricing Methodologies

Vendors Sell on Price, Partners Sell on Value

Since the enactment of the Affordable Care Act in 2010, the 340B Drug Pricing Program has expanded in size, complexity, and risk due to changes to the regulation. The evolution of the 340B Program has driven increased interest from policymakers and stakeholders alike, as they continue to assess both the design and the financial impact of the program for all participants.

A major contributing factor to not only the growth of the 340B Program, but its complexity is the expansion of the regulation that now allows a single Covered Entity to contract with multiple contract pharmacies. As a result of program growth, the level of 340B Program scrutiny for Covered Entities and their contract pharmacy administrative partners has dramatically increased. Consequently, many 340B Contract Pharmacy Administrators are struggling to keep up with the changing requirements and increased demands of an experienced marketplace.

As the 340B marketplace has matured, Covered Entities have gained actual experience that provides them with first-hand understanding of real program results, much of which reveals broken promises by 340B Contract Pharmacy administrators that built their business on exaggerated financial projections. Today, many Administrators resort to fee discounting to hold on to underperforming clients, and to stem the tide of client churn. Discounting has led to service cutbacks, which has resulted in decreases in 340B account support, with resultant training deficiencies, frustrating automated services, and slower response times to questions and concerns. At a glance, lower fees may seem beneficial; however, some Covered Entities are beginning to look beyond the fees, and focus on the true benefits of 340B drug discounts, as they seek to define and evaluate overall program value.

As the market continues to expand, Covered Entities need to collaborate with 340B Administrators that are investing in and expanding services, providing aligned pricing methodologies, and committing the personnel necessary to optimize the Covered Entities' program net savings.

If You've Seen One Contract Pharmacy Services Program… You've Seen One Contract Pharmacy Services Program

Every 340B Contract Pharmacy Administrator operationalizes its business model differently. Finding the appropriate strategy for supporting Covered Entities lies in executing on three foundational tenets; (1) Audit Preparedness and Support (2) Transparent Pricing Methodology and (3) Pro-active Account Management. Successful implementation of these key principles results in optimizing program value for Covered Entities, while safeguarding their investment in expanded 340B administrative services.

Audit Preparedness: Run Clean and Maintain Good Mechanics

Audit Preparedness and Support requires detailed reporting and well-documented processes that will stand up to the scrutiny of a Health Resources and Services Administration (HRSA) or manufacturers' audit, while providing consultative support throughout the audit process.

Industry experts have warned it is not a matter of "if" but "when" a Covered Entity may be chosen to undergo an audit. It has been estimated that over 200 audits will be performed by HRSA in 2017. As the number of audits increase over time, Covered Entities will require additional support and guidance throughout the process. HRSA has awarded a 5 year contract to the Bizzell Group, comprised of health care professionals to perform 340B audits on its behalf. It is clear that the number of audits will increase over the next five years, as will the intensity in the level of scrutiny and in-depth analysis.

For Covered Entities with contract pharmacy arrangements, vigilant oversight is critical. It is the Covered Entity's responsibility to ensure compliance of their contract pharmacy arrangements with all 340B Program requirements, in order to prevent diversion and duplicate discounts. Covered Entities that have implemented a 340B Program understand the value that the 340B Program provides for their institution, and the importance of maintaining and growing a program that can withstand the rigors of an audit. Therefore, choosing a Contract Pharmacy Administrator that provides this assurance has become a leading priority.

340B Program Administrators must be able to provide the Covered Entity with a Client Audit Readiness Profile program (CARP), designed to ensure program integrity and focus on 340B Program optimization. **Ideally, key components include:**

- Written materials such as policies and procedure templates and the most recent HRSA Audit Data Request.
- Training for the Covered Entity, so that internal audits are scheduled and properly performed, on a regular basis.
- Education for the Covered Entity staff on the current and projected state of 340B regulations.
- Analysis of claims matching criteria and data.
- Audit simulations based on actual HRSA audits.
- Drafting and providing the Covered Entity with a written CARP summary.
- Account managers coordinate activities between operations and IT to assess a client's unique program requirements resulting in pinpointing actions needed to improve performance.
- Serving as the primary point of contact prior to, during, and following a HRSA audit. And, offering to personally attend and assist with any audits.
- Early identification of potential gaps in the Covered Entity's understanding and execution of the 340B program, along with proposed solutions.

Audit preparedness and support should be considered an integral part of the standard 340B Program administration offering for Covered Entities. As the 340B Program continues to grow, both in size and complexity, Covered Entities will be challenged to provide the appropriate level of resources and technical knowledge necessary to address manufacturers' and HRSA's rigorous audit requirements. Having and executing a proper CARP program should provide the level of program integrity necessary to ensure program continuance.

Transparent Pricing Methodology – Seeing Through Blurry Pricing

Only when 340B Contract Pharmacy Administrators offer transparent pricing methodologies can Covered Entities understand program value. Currently, some administrators are fiercely focused on providing rock bottom fees for administration services. The true cost is murky, because services that were once considered standard have increasingly become added extras, embedded in small type, within contracts. Contract Pharmacy Administrators may offer various pricing methodologies under slightly different names and/or operational variations, making comparisons difficult. These "minor" variations can have significant impacts on a Covered Entity's program and, ultimately, the benefit the Covered Entity receives, after factoring out the total cost of administration. Don't be fooled between price and cost — while the former may be one line in a proposal, the latter may entail a ticker tape bill of added services resulting in a much higher total cost.

Below are the four most prevalent pricing practices in the market today.
Without recommending one model over another, this information simply provides insight to educate Covered Entities prior to choosing the best administrator to meet its needs.

1

Percentage-Based Fee Model

Defined as an "Administrator fee risk-based" pricing methodology, percentage-based pricing models are based on the assumption that administration fees are only earned when program value is created. Compared to other methodologies that may have fixed fees, implementation fees, reporting fees and other add-on fees, the basis of this model is that the Administrator's fees are not guaranteed, unless their services assist in providing program value. The percentage based fees can be taken as a percentage of the "Total Program Value" or the "Total Savings Generated". It is critical that the Covered Entity get clear definition as to the basis of the fees, as percentages of the "Total Program Value" may result in a higher cost than those based on "Total Saving Generated".

PERCENTAGE-BASED FEE MODEL	
Pros	Cons
Aligns Covered Entity with Administrator on program performance	Percentage optics can appear to be higher, when compared to flat fee per claim models
Can produce less "negative claims" for the program	Not universally accepted within the 340B segment
Provides transparent pricing — no hidden fees	Challenging to forecast the cost until baseline can be established (after program runs for a period of time)*
	Fees will vary by claim

* Budget estimates can be requested by Covered Entities, and reputable 340B companies should be able to provide reasonable budgetary guidelines.

2

Per Processed Claim/"Per Click" Model

This model is defined as an "all payable claim transactions" methodology from data provided by the pharmacy's switch processor. Compared to other methodologies, the fee structure for this approach is based on the number of times a pharmacy transaction is reviewed or "clicked" on. The challenge with this methodology is that the Covered Entity may pay not only for all eligible claims from their prescribers, but will also be paying for any ineligible claims from those same prescribers. These could be claims that were written by prescribers from ineligible sites, claims for ineligible plans, or claims for ineligible drugs. The Covered Entity may also be paying multiple times for the same claims. This methodology is "transaction" or "click" based not "claim" based. A claim can have many associated "transactions/clicks" that occur at the pharmacy point of sale resulting in higher overall total cost per claim. It is critical for Covered Entities to get a clear definition as to which transactions they are being charged for as well as to monitor the net savings contribution of each contract pharmacy.

PER PROCESSED CLAIM/"PER CLICK" MODEL	
Pros	Cons
Great optics — very low cost per click	Number of clicks necessary to complete a claim is hard to determine and can be costly
	Confusing transaction-based approach
	High risk of installing underperforming pharmacies
	Not widely accepted within 340B segment
	Not available for all contract pharmacies
	Difficult to predict program cost

3

Per Eligible Claim Model

With this model, a Covered Entity is paying a flat fee for all 340B eligible claims regardless of whether the claim is carved in or out of the program and regardless of whether the claim contributes to program savings. A different fee can be charged based on the type of claim processed (i.e specialty claims, uninsured claims).

PER ELIGIBLE CLAIM MODEL	
Pros	Cons
Good optics — presents as a low cost, fixed fee approach	Entity rules defining carve-in can create confusion as to the impact on program value — Per 340B eligible claim models are more likely to be unfavorable for Brand Only/Winners Only programs given the volume of carve outs, unless the pharmacies have sufficient high value claims
Easy to predict program cost, if historical data is available	Program cost can be harder to budget for program expansion.
	Underperforming pharmacy risk exists
	Program misalignment between Administrator and Covered Entity. Fees collected regardless of value created

4

Fixed Per Pharmacy Fee Model

Defined as a flat charge per pharmacy billed monthly. There is increasing interest from Covered Entities for 340B administrators to oversee the ongoing 340B administration of their owned pharmacies. Given the nature of the established referral process, many Covered Entities are looking to establish a fixed annual charge per pharmacy. This pricing model has also been applied to contract pharmacy programs.

FIXED PER PHARMACY FEE MODEL	
Pros	Cons
Predictable budget costs	May hinder the ability to expand contract pharmacy network
Very beneficial for pharmacies with high v olume and high capture rates.	Pharmacies with lower volumes and lower capture rates can result in negative value depending on the established fee.

The risk associated with implementing and executing a successful 340B program sits squarely on the shoulders of the Covered Entity. In choosing the best Administrator for its needs, a Covered Entity should request pricing bids using the various methodologies described above and at the same time, provide clear pricing guidelines and sample data assumptions to apply to those bids. Covered Entity's should also ask for detailed explanation of any additional charges that the Administrator may not classify as "Administration Fee" (i.e. switch fees, licensing fees, implementation fees) that can significantly contribute to the overall cost of the program. This approach will ensure the Covered Entity's ability to obtain an "apples to apples" comparison and minimize confusion regarding differing assumptions associated with retail network participation, mix of brand, generic and specialty scripts, and overall projected program value.

Pro-Active Account Management

Pro-Active Account Management refers to providing the Covered Entity with a dedicated account representative focused on reviewing ongoing program performance and optimization opportunities. Understanding the unique challenges of each client, and custom-tailoring the program, can help to both grow program value and minimize risk. Anticipating and dealing with challenges before they occur ensures ongoing compliance, and sets a clear path for the future. Administrators employing a pro-active account management approach believe that program execution begins at implementation and grows over time to meet the changing needs of the market.

Besides the ongoing interactions with the pro-active account manager, Covered Entities should participate in quarterly reviews that assess every aspect of their program's performance in a completely transparent approach. **Components of a quarterly client review should include:**

Program Review and Description

- Contractual agreement and fee structure
- 340B carve-in/carve-out methodologies deployed
- Retail pharmacy inventory and payment management processes
- Financial workflows

Historical Program Results

- Program financial review
- Utilization by drug and pharmacy group
- True-up analysis
- Financial statement and reconciliation

Client Optimization Strategy

- Blueprint for program success
- Data interface and performance
- Threshold analysis and pharmacy expansion opportunities
- Program recommendation

Pro-active Account Management in a 340B Program is the essential component necessary to ensure that a Covered Entity's program is successful, compliant and optimized. Pro-active Account Management is a strategic asset with a responsibility to identify problematic issues before they become major distractions that impact program performance. Don't mistake traditional customer service, periodic visits or reactive calls from a vendor representative from time to time with pro-active account management.

Value Beats Price Every Time

A successful 340B program is one that provides the greatest value to Covered Entities, as well as the patients and communities they serve. 340B Contract Pharmacy Administrators create value for Covered Entities when they provide a program that is priced at a "fair-market value" for the level of services provided, commit to providing the level of assistance necessary to successfully support and withstand the audit process and provide dedicated resources necessary to ensure seamless integration, monitoring and elevated program performance.

About the Author

Michael Majerik
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Michael Majerik joined Wellpartner in April 2012 bringing with him over 20 years of healthcare sales, marketing, business development and operations experience. Most recently, he founded a strategic healthcare consulting group working with start-up organizations on strategic vision execution and go-to-market strategies. Over his career, Mr. Majerik served as Executive Vice President for such companies as Alere, a healthcare services organization acquired by Inverness Medical, Magellan Health Services, a behavioral healthcare organization and CorSolutions, a population healthcare company acquired by Matria.

Through his career, Mr. Majerik has built organizations and teams that have successfully partnered with health plans, employer groups, consulting organizations and physician practices.

Mr. Majerik received a Bachelor of Business Finance from Indiana University.

Wellpartner: Who We Are

Wellpartner is a leading provider of 340B Drug Pricing Program services. We also offer provider and patient centric specialty pharmacy services via our URAC accredited pharmacies. Our services are finely tuned toward optimizing our clients' programs through; industry leading compliance, the unique ability to unlock specialty prescriptions from exclusive networks, access to over 60,000 pharmacies, and easy to implement data interfaces. Our goals align with our clients', as we work together to stretch scarce Federal resources as far as possible, reaching more eligible patients and providing more comprehensive services. Today, hundreds of covered entities, ranging from large disproportionate share hospitals to small clinics, trust Wellpartner to optimize their 340B programs and serve their patients.

Wellpartner | When it matters most