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# Pharmacy Billing and Reimbursement

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Disclosure #FSHP2017

I, Tara McNulty, do not have a vested interest in or affiliation with any corporate organization offering financial support or grant monies for this continuing education activity, or any affiliation with an organization whose philosophy could potentially bias my presentation


Objectives #FSHP2017

- Review rising costs of prescription drug medications
- Define and discuss types of reimbursements plans (private and public)
- Review and interpret pharmacy billing cycle (retail focus)
- Explain different components of pharmacy reimbursement
- Define and explain third party reimbursement billing systems
- Review third party billing resolutions for patients





Rising Prescription Costs #FSHP2017







Increases in pharmacy costs are skyrocketing at an alarming rate.... #FSHP2017

- Total U.S. prescription sales in the 2016 were \$448.2 billion, a 5.8% increase compared with 2015, resulting in predictions for 2017 to project a rise in spending by 6-8%
- According to the Centers for Medicare and Medicaid Services (CMS), retail drug spending in the United States increased 12.4% in 2014 to \$298 billion and 9.0% in 2015 to \$324.6 billion
- The United States outspends all other countries on healthcare




American Journal of Health-System Pharmacy May 2017, ajhp170164: DOI: <https://doi.org/10.2146/ajhp170164>

Factors Influencing Rising Drug Costs #FSHP2017

- Increase in the number of people with health insurance due to the Affordable Care Act (ACA)
- Price increases within existing drugs
- New drug approvals and patent expirations
- Increase in healthcare utilization
- Demand for prescription drugs in the U.S is higher than anywhere else in the world
- No universal health plan



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## Health Plans



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## Pharmacy Billing Basics

Pharmacy billing is comprised of three different categories. Knowing and understanding these three groups is imperative in terms of billing/reimbursement for the pharmacy and the patient.

3 Pharmacy billing categories by health plan

- Private
- Public
- Cash

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## Private Health Plans

Private health plans are offered through commercial insurance companies and also may be purchased through a group or individual. Private health plans include the following:

- Fee for Service Plans
  - HMO's (Health Maintenance Organizations)
  - PPO's (Preferred Provider Organizations)
  - EPO's (Exclusive Provider Organizations)
  - Long term care and home health coverage available
- Characteristics of these plans
  - Monitor how providers are treating patients
  - Part of a "network"
  - Provide lower health care costs
  - Providers receive payment for services rendered

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## Public Health Plans

Public health care is classified as "government sponsored" and provide coverage for low income(family/children) and senior citizens who meet required eligibility requirements. Public health care plans include the following:

- Medicaid
  - Government sponsored program for people of all ages with low income
  - Overseen by Centers for Medicare and Medicaid Services
  - Funded by the state and federal government, but managed by the state
  - Recipients must be U.S. Citizens or legal residents
  - Part of a "network"
  - Provide lower health care costs

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## Public Health Plans (cont.)

- Medicare
  - National social insurance that guarantees health insurance for Americans 65 and older, and younger people with disabilities, end stage renal disease and ALS.
  - Overseen by Centers for Medicare and Medicaid Services
  - Offers a defined benefit-covers some medical costs but not all
  - Consists of 4 parts
    - Part A- Hospital Insurance
    - Part B-Medical Insurance
    - Part C-Medicare Advantage Plan-coverage for Part A and B through a private health plan-HMO,PPO
    - Part D- helps to cover some prescription costs
  - Additional insurance to groups including children and pregnant women, military veterans(Veterans Health Administration), families of military personnel(TRICARE), and native Americans (Indian Health Service)

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## Pharmacy Billing and Reimbursement




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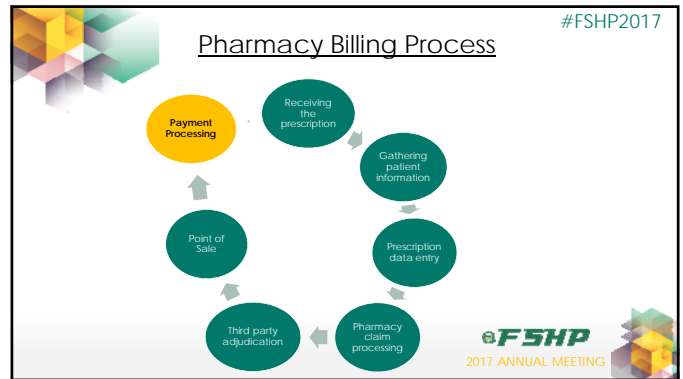
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## Pharmacy Billing and Reimbursement

From Pharmacy to the patients hand, a prescription has numerous stages of reimbursement for not only the pharmacy, but also the patient. Understanding the life cycle of a prescription from entry to adjudication can be complicated, but is the key to understanding how pharmacy billing works.



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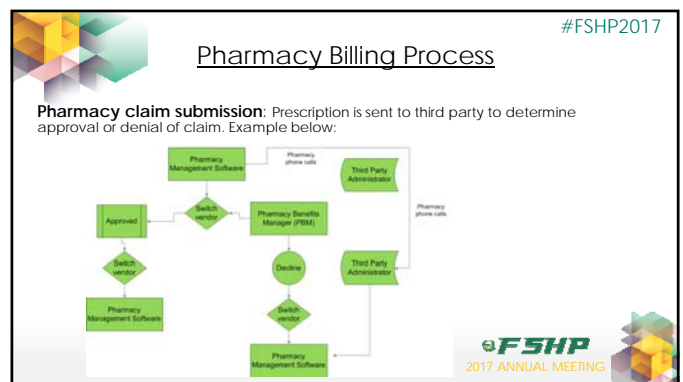
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## Pharmacy Billing Process

**Important processing steps:**

1. **Tracking** of the prescription (point of origin) through code- POC codes entered through the pharmacy management software. Codes range from 0-4 indicating written, verbal, e-prescribe, or fax
2. **Gathering patient insurance data** including which type of coverage (primary, secondary), BIN number, group number and member ID
3. **Data entry steps-** entering important billing information such as: Prescriber info with DEA and NPI number (national provider identifier number)
4. **DAW codes-** entered for medication substitution if applicable
5. **Drug information** including medication name with National Drug Code (NDC)

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## Pharmacy Billing Process

**Pharmacy claim submission:**

- When pharmacy claim is transmitted, it does so through a **switch vendor**, which is a vendor that ensures the information being transmitted to conform to the National Council for Prescription Drug Programs (NCPDP) standards prior to the claim reaching the Pharmacy Benefit Manager (PBM)



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## Pharmacy Billing Process

**Declined submissions:**

- The pharmacy and or the prescriber will need to contact the PBM or the third party payer to receive approval

**Common Reasons for rejected claims:**

- Non covered medication requiring Prior Authorization
- Incorrect days supply
- Refill too soon
- Invalid quantity
- Incorrect insurance information

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## Pharmacy Billing Process

**Adjudication:**

- When a script is accepted, claim is then adjudicated by the payor and cross references the patient insurance benefits for coverage and indicates what the patient will owe for the prescription. This process is done electronically and immediate.

**Patient Pick Up-Point of Sale:**



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## Pharmacy Reimbursement

Pharmacy reimbursement is the "*behind the scenes*" component of processing a patient's prescription. Let's explore some of the ways pharmacies get reimbursed....

**Retail Pharmacy Example:**

- Pharmacies enter into an agreement /contract with a PBM and a rate/formula is set for dispensing brands, generics, and specialty medications
- Usually rate for brand and specialty dispensing is Average Wholesale Price (AWP) less a set % plus a dispensing fee
- Generics rates typically are a fixed amount called MAC (Maximum Allowable Cost) that is the maximum amount that the plan will pay for a generic medication
- MAC can be adjusted as prices lower

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## Pharmacy Reimbursement: How they get paid

Pharmacies get reimbursed depending on what medications are dispensed and what plan the medications are originating from.

Health Plan member is on	Reimbursement Type
Medicare	Part D sponsors (health plans) independently negotiate pharmacy reimbursement and price concessions with manufacturers and pharmacies
Medicaid	State Medicaid agencies administer Medicaid and reimburse pharmacies for drugs. States, in conjunction with the Federal Government, determine pharmacy reimbursement under broad Federal guidelines. States also receive federally mandated Medicaid drug rebates and may negotiate with manufacturers for additional funds
Private	Usually base reimbursement formula on AWP. PBM negotiates reimbursement with dispensing fees individually with pharmacies that is usually 40% off the usual dispensing fee charge

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## Pharmacy Reimbursement: How they get paid

Reimbursement Terms	Definitions
Negotiated Rate	Consist of ingredient cost, dispensing fee, and sales tax.
Ingredient Cost	Based on the average wholesale price (AWP) discounted by a specified percentage or maximum allowable cost set by the plan sponsors
Dispensing Fees	Compensates the pharmacy for processing the prescription and covers expenses such as overhead, stocking and storing medications


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## Pharmacy Reimbursement: Rebates/Discount Programs

Other ways pharmacies receive payment is through Rebates and Discount programs.

- Manufacturers/ drug companies negotiate with payors (Medicaid, Medicare, and private health plan PBM's) to pay rebates after a medication has been dispensed
- Rebates from drug manufacturers provide reimbursement and profit to the pharmacy. In 2014, Medicaid spent approximately \$42 billion on prescription drugs and collected about \$20 billion in rebates
- Patient discount or coupons for medications are provided for high dollar or specialty medications- this aids the pharmacy in dispensing and adjudication of these usually very costly medications



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## Pharmacy Third Party Resolutions



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## Patient View Point of Pharmacy Billing Issues

Lets review from a patient perspective a possible billing issue while processing a claim....

```

graph LR
    A[Member receives prescription] --> B[Pharmacy processes the claim through the PBM]
    B --> C[Claim will either pay or reject based on the member's benefits]
    C --> D[Medications or approved medications adjudicate and the member pays designated co-pay]
    D --> E[If the medication rejects it may need a prior authorization to adjudicate]
    E --> F[A coverage determination may be received by the pharmacy]
  
```

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## Patient View Point of Pharmacy Billing Issues

**Prior Authorizations** Prior authorization (PA) are a requirement that the prescriber may need to obtain approval from a health insurance plan to prescribe a specific medication. PA is a technique for minimizing costs, wherein benefits are only paid if the medical care has been pre-approved by the insurance company. This is usually the case for very expensive medications.

**Reasons for Prior Authorizations**

- Expensive or 4<sup>th</sup> tier medications
- Brand name medicines that are available in a generic form
- Drugs prescribed to treat a non-life threatening medical condition, such as erectile dysfunction drugs
- Drugs that are usually covered by the insurance company but are being used at doses higher than normal.
- Off label use

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## Patient View Point of Pharmacy Billing Issues

Depending on what type of insurance a patient is enrolled in will determine how the patient can resolve an issue with a non-covered, needed medication. For **Medicare** patients see the below process:

```

graph LR
    A[Request a Coverage Determination or an Exception from insurance company] --> B[Standard requests must be replied to patient by ins comp within 72 hours]
    B --> C[Expedited requests must be responded to within 24 hours]
  
```

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## Patient View Point of Pharmacy Billing Issues

**Medicare Appeals Process:** There are 5 steps *after* an initial denial (coverage determination) from the insurance company that may take place to substantiate a patients or providers request for a particular non covered medication.

1. **Level 1:** Redetermination from plan (Appeal)-can be for any denied coverage determination request stemming from Formulary exceptions, tiering exceptions, and request for member reimbursements
2. **Level 2:** Review by Independent Review Entity (IRE)
3. **Level 3:** Hearing by Administrative Law Judge (ALJ)
4. **Level 4:** Review by Medicare Appeals Council (Appeals Council)
5. **Level 5:** Judicial Review by Federal District Court

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## Patient View Point of Pharmacy Billing Issues

**Medicaid Recipients:**

- Medicaid patients must be prescribed medications from the **Preferred Drug List (PDL)** approved by the state. There is only preferred or non-preferred options.
- Non-preferred medications will always require a Coverage Determination request

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## Patient View Point of Pharmacy Billing Issues

**Private Health Plan Patients:**

- Medications through private health plans are listed through the plans Formulary Drug list. Drugs not listed are **non-preferred drugs**
- Prescribing physician must prove that the "formulary" medications have already been tried and are not effective in treatment for the patient
- A prior authorization request form must be submitted
- In most cases, an alternative medication is suggested or cash pay is the only option

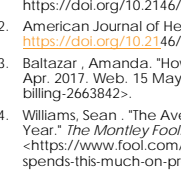
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## Questions?


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