

DEPARTMENT OF VETERANS AFFAIRS (VA)
VETERANS HEALTH ADMINISTRATION (VHA)
WASHINGTON, DC 20420

May 29, 2021

Dear Tribal Leader:

We would like to invite Tribal Leaders (or their designated representative) along with Tribal Health Program leadership to participate in a written tribal consultation regarding pharmacy reimbursement rates for the lower 48 state facilities participating in VA's Indian Health Service/Tribal Health Program (IHS/THP) Reimbursement Agreement Program (RAP). VA continues to seek improvements to VA's IHS/THP RAP to enhance program operations. Currently, reimbursement agreements under this program state that VA will reimburse "actual costs" for pharmaceuticals. In implementing this requirement, VA has realized that this term, "actual costs", may be ambiguous and has led to difficulties in administering the agreements in compliance with applicable laws. VA is considering replacing the term "actual cost" with a more recognizable and easily calculated rate. Selecting an industry standard pharmaceutical rate structure would benefit IHS/THP sites by making it easier to understand and predict the reimbursement rate and by eliminating the need to calculate actual cost.

VA is proposing two distinct pharmacy payment rates for IHS and THP facilities. For IHS facilities, VA has collaborated with IHS to use the Federal Supply Schedule (FSS) or other contract vehicles (i.e. joint national drug contracts) pharmaceutical pricing, whichever is lower, as the proposed reimbursement rate, as the majority of their pharmaceuticals are purchased using the FSS contract or other contract vehicles. For those pharmaceuticals not available on the FSS, claims will be paid based on the adopted rate that is agreed upon with the THPs.

For THP facilities, VA is suggesting using one of two industry standard pharmacy reimbursement methodologies. These proposed methodologies are: (1) Wholesale Acquisition Cost (WAC) plus dispensing fee, and (2) Average Wholesale Price (AWP), minus discount, plus dispensing fee for the purpose of selecting a new pharmacy payment methodology for THPs. See Attachment 1 for a summary of each methodology.

VA is seeking stakeholder feedback on each of these methodologies and proposes the following questions:

- (1) For the rates for THP facilities, what is your preferred pharmacy payment methodology; Wholesale Acquisition Cost (WAC) or Average Wholesale Price (AWP), plus dispensing fee?
- (2) For the rates for THP facilities, if you identify Average Wholesale Price (AWP) as the preferred method, what would you propose as the AWP discount percent rate for generic drugs and name brand/specialty drugs? How did you calculate or determine the proposed discount percent rate?
- (3) For THP dispensing fee, VA proposes to adopt an amount in the industry standard range, generally less than \$1.00 per drug, to be applied to either selected rates (WAC or AWP). Do you agree with \$1.00/drug dispensing fee? If not, what do you propose the dispensing fee should be? How did you calculate or determine the proposed dispensing fee?
- (4) Do you have any comments on pharmacy reimbursement rates for IHS facilities and/or the related claims submission and reimbursement process?

Written comments may be submitted before July 5, 2021 by email to tribalgovernmentconsultation@va.gov or by mail at Department of Veterans Affairs, Suite 915L, 810 Vermont Avenue, NW, Washington, DC 20420.

For questions, please contact VA IHS/THP RAP at Tribal.Agreements@va.gov. Program information including templates, provider guides, and factsheets can be found on the VA Office of Community Care's website: https://www.va.gov/COMMUNITYCARE/providers/info_IHS-THP.asp, and the Office of Tribal Government Relations Web site: <http://www.va.gov/tribalgovernment>.

I appreciate your support as we move forward together to enhance and improve the care provided to our American Indian/Alaska Native Veterans.

Sincerely,



Elizabeth Brill, MD, MBA, FACOG

Acting Deputy to the Assistant Under Secretary for Health for Community Care

Attachment 1 – Detailed definitions of AWP, WAC, and FSS

Payment Reimbursement Rate Methodologies Discussion

Indian Health Service/ Tribal Health Program (IHS/THP) Reimbursement Agreement Program (RAP)

Dear Tribal Leader Letter (DTLL) Attachment 1

VA proposes updated pharmacy reimbursement methodologies to replace “actual costs” for the IHS/THP Reimbursement Agreement Program (RAP). These options will be different for IHS and THP facilities. These proposed pharmacy reimbursement rates will not change the requirement that prescription drugs must be in the VA national formulary system under the VA Medical Benefit Package, 38 CFR § 17.38.

For THP facilities, the two most common pharmacy reimbursement options under consideration are the following: 1) Wholesale Acquisition Cost (WAC) plus dispensing fee, and 2) Average Wholesale Price (AWP) minus discount, plus dispensing fee.

For IHS, we will adopt two different pharmacy rates based on their procurement situation. The pharmaceutical Federal Supply Schedule (FSS) or other established contract vehicles (i.e. joint national drug contracts) pharmaceutical pricing, plus dispensing fee, as these cover most pharmaceuticals. For drugs not offered on the FSS or by other contracts, referred to as “non-contracted”, we propose to adopt the same methodology selected for THPs.

Below is a more detailed discussion on each methodology.

Tribal Health Programs (THP)

1) Wholesale Acquisition Cost (WAC) + dispensing fee

Also known as direct price, Wholesale Acquisition Cost (WAC), is an industry standard based on the manufacturer’s list price of a medication when selling to a wholesaler. WAC does not represent the publicly disclosed amount that a drug can be purchased at by individual consumers, rather what price the manufacturer sells it to a retailer. Pharmacies typically buy their drugs from wholesalers. WAC is calculated to include total cost-plus profit margin. Methodology for pricing WAC would be WAC plus dispensing fee.

Discussion:

- Pricing methodology adopted for the Alaska sites under the IHS/THP RAP program, and some THPs bill this rate.
- Most straight forward and most economical to implement within VA claims processing operations. VA would still need to update systems.
- Dispensing fees: Based on market research, dispensing fees associated with a WAC rate are generally less than \$1 per drug. VA proposes \$1 dispensing fee but entertains discussion to hear justification for an alternative rate.
- Not all tribes will be able to bill WAC as they may have billing systems limitations or do not contract to obtain WAC pricing updates, however, bills will be reconciled and paid the accurate amount by VA in the payment process.

2. **Average Wholesale Price (AWP) - discount, + dispensing fee**

Known as suggested retail price from the drug manufacturing company, sometimes compared to the “list price”, AWP is an industry standard based on the average price paid by a retailer to buy a drug from the wholesaler (i.e., Walgreen pharmacy drug sales price). The AWP is not a true representation of actual market prices for either generic or brand drug products and is usually inflated by 20% relative to actual market prices or wholesale acquisition cost for prescription drugs.¹ While used throughout the industry, it is a controversial pricing benchmark. The rate does not include buyer volume discounts or rebates often involved in prescription drug sales. Drugs are rarely paid at AWP, rather are paid at reduced or discounted rate of 15% to 40% from AWP depending on whether is a generic, brand or specialty drug. A dispensing fee is added to the AWP rate.

Methodology for rate calculation would be AWP minus discount rate plus dispensing fee, one each for generic and brand name /specialty drugs.

Discussion

- Pricing methodology billed by IHS sites, and some THPs.
- More complicated to calculate the rate, as claims processors will have to calculate discount and then add in dispensing fee.
 - Must be paid at a discounted rate of 15% to 40%, depending on generic versus name brand drugs, as AWP adds in profit. A discount rate for each generic and brand drug will have to be adopted.
 - A dispensing fee must be added.
- Based on market research, dispensing fees associated with an AWP rate are generally less than \$1 per drug. VA proposes \$1 dispensing fee but entertains discussion to hear justification for an alternative rate.
- Longer implementation period: this would be a new pricing methodology for VA and calculating each claim amount would be more complex. VA would update systems. Claims may need to be manually processed, which is less efficient and could lead to errors.
- Not all tribes will be able to bill AWP as they may have billing systems limitations or do not contract to obtain AWP pricing however, bills will be reconciled and paid the accurate amount by VA in the payment process.

¹ [Average Wholesale Price \(AWP\) \(drugs.com\)](https://www.drugs.com/average-wholesale-price-awp)

Indian Health Programs

Contract Drugs - Federal Supply Schedule² (FSS) for pharmaceuticals + administration fee

IHS facilities have access to FSS and other established contract vehicles (i.e. joint national drug contracts) pharmaceutical pricing (whichever is lower) as well as VA's Consolidated Mail Outpatient Pharmacy (CMOP) which leverages the same contracts³ for procurement and dispensing pharmaceuticals via mail. These rates are published on VA's National Acquisition Center (NAC) Contract Catalog Search Tool (CCST). The FSS contract and other contract vehicles are collectively referred to as the FSS rate.

For drugs filled via CMOP, a dispensing fee would not be reimbursed, as the tribe is not dispensing the pharmaceuticals. CMOP does charge administrative fee that tribes would be reimbursed.

Methodology for rate calculation would be FSS plus VA administrative fee *or* FSS plus CMOP administrative fee, depending on the how the drug was filled.

Non-Contract Specialty Drugs – AWP or WAC methodology

There are times when specialty drugs needed are not offered under the FSS and a different reimbursement rate will be needed for these situations. We will refer to these as non-contracted specialty drugs. It is proposed we adopt the same methodology as selected for the THP reimbursement, AWP or WAC. See the above THP section for discussion.

Methodology for rate calculation would be what the THPs adopts.

Discussion:

- VA and IHS collaborated to identify the reimbursement methodologies, but there will still be implementation issues to resolve. This includes IHS identification of drugs purchased at CMOP, which will impact the administration fee VA will reimburse.
- Administrative fees:
 - For pharmaceuticals dispensed by the tribes, we will use [VA average administrative cost for prescriptions](#) published in the Federal Register each year.
 - For pharmaceuticals purchased from CMOP, VA will reimburse the amount that CMOP reimburses for administrative costs. This changes annually and is currently \$2.07/drug in FY 2021.
- IHS will not be able to bill FSS rates given their system limitations, however, VA will reconcile in the claims processing system and reimburse the accurate amount.

² <https://www.vendorportal.ecms.va.gov/nac/>; <https://www.va.gov/opal/nac/fss/pharmPrices.asp> .

³ VA's contractor, or Pharmaceutical Prime Vendor, is currently McKesson