

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES -
OTHER TYPES OF CARE

Revised: March 1, 2002

12. Prescribed drugs, dentures, and prosthetic devices; and eyeglasses prescribed by a physician skilled in diseases of the eye or by an optometrist
- a. Prescribed Drugs

The reimbursement rate has two components:

DISPENSING FEE: The Dispensing Fee is set at \$5.51, which represents the survey findings of a statistically valid actual cost of dispensing. **An additional differential dispensing fee shall be given to pharmacy providers when a generic that does not have a State or federal upper limit is dispensed. The additional differential dispensing fee is set at \$2.00.**

INGREDIENT COST: To assure quality of care and access, to assure efficiency and economy and safeguard against unnecessary utilization payment for ingredient cost for brand name drugs and all other drugs for which a specific limit has not been established is limited to the lesser of the provider's usual and customary charge or 86% of AWP (AWP-14%) for brand name drugs and 75% of AWP (AWP-25%) for multi-source (generic) drugs.

PAYMENT LIMITATIONS-INGREDIENTS: Arkansas Medicaid identifies certain brand and generically available drugs and places an upper limit on these drugs. Acquisition costs on these drugs are obtained from multiple sources. Depending on the variance, either the highest acquisition cost or an average of the acquisition costs is obtained and a percentage applied to determine a state upper limit.

Those drugs identified administratively, judicially or by a federal agency as having an Average Wholesale Price far exceeding the actual acquisition cost, and whose average sales price is presented to the state, will be subject to a state upper limit set by reference to the average acquisition cost.

The Federal upper limit standard that has been adopted for certain multiple source drugs identified in the State Medicaid Manual, Part 6, is based on an aggregate payment equal to an amount that includes the ingredient cost of the drug calculated according to the formula described below.

The Federal upper limit is an amount that is equal to 150% of the published price for the least costly therapeutic equivalent (using all available national compendia). The aggregate, rather than each individual drug identified by HCFA will be less than or equal to the HCFA defined multiple source cost listed in 42 CFR 447.332.

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INGREDIENT COST: To assure quality of care and access, to assure efficiency and economy and safeguard against unnecessary utilization payment for ingredient cost for brand name drugs and all other drugs for which a specific limit has not been established is limited to the lesser of the provider's usual and customary charge or 86% of AWP (AWP-14%) for brand name drugs and **80%** of AWP (AWP-20%) for multi-source (generic) drugs.

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 - a. Prescribed Drugs (continued)
 3. Eight of the pharmacies in the sample were institutional providers that dispensed prescriptions to patients in long-term care or other institutional settings. Acquisition costs at these pharmacies for brand name drug products averaged 79.5% of the AWP, as compared to 82.2% for pharmacies that dispensed prescriptions in traditional retail settings. This difference was found to be statistically significant by the application of a t-test at the 5% level of significance.
 4. Of the 1,752 brand name drug products, acquisition costs for brand name drugs ranged from 33.5% to 99.3% of the AWP with an average acquisition cost of 81.0% of the AWP (based on observations from external invoices only).
 5. The acquisition costs for multi-source drugs exhibited much greater variation, but averaged 54.0% of the AWP for drugs without FUL prices. For multi-source drugs with FUL prices, the average acquisition cost was 17.8% of the AWP and 45.9% of the FUL.

The survey concluded that the present ingredient reimbursement rate provides payments in excess of costs incurred by Arkansas pharmacies. The agency expends a high proportion of its drug budget on prescription for brand name drugs. The survey also suggested that the present reimbursement rate may provide an incentive to dispense higher cost drug products. DMS is setting a rate that is consistent with the survey that will safeguard against unnecessary utilization, assure payments are consistent with efficiency, economy and quality of care, and sufficient to enlist enough providers so that care and services are available at least to the extent such care and services are available to the general population.

The survey predicts to a 95% level of confidence, that the mean estimated acquisition cost for brand name drugs ranges from 82.0% to 82.3% of AWP. The average estimated acquisition cost is 82.7% of AWP (AWP-17.3%). For multi-source drugs with no federal upper limits (FUL) the average estimated acquisition cost ranges from 10% to 85% of AWP. The average estimated acquisition costs is 67.5% of AWP (AWP-32.5%). Under the rule payment for brand name drugs and all other drugs for which a specific limit has not been established is limited to the lesser of the provider's usual and customary charge or 86% of AWP (AWP-14%) for brand name drugs and **80%** of AWP (AWP-20%) for generic or multi-source drugs.