



Transforming the Business of Healthcare™

**Medication Revenue Cycle:
Mission, Margin, and Partnership!
Washington Alaska HFMA
March 14, 2024**



the craneware group™

Transforming the Business of Healthcare™



Our value cycle insights deliver revenue integrity and 340B compliance, as well as margin and operational intelligence – something no other single partner can provide.



For an unprecedented 13th time, The Craneware Group has secured top ranking in the Chagemaster Management category of the “Best in KLAS Awards: Software & Services.” The company also saw continued improvement for its solutions in the 340B Management Systems category.



The Craneware Group Secures Top KLAS Ranking in Chagemaster Management



Learning Objectives

Session Overview:

Discuss the current pharmaceutical landscape, focusing on the opportunities for effective partnerships within the medication revenue cycle and margins needed to support critical healthcare missions. Delve into the key aspects of medication margin analysis, gain insights into medication data sets, and explore essential optimization points for fostering successful collaborations.

Learning Objectives:

1. Discuss pharmaceutical expense and margins
2. Understand medication data sets
3. Consider key optimization points for collaboration

Take Aways:

Medication Revenue Cycle Checklist

Key Medication Margin Considerations

Common Formulary File Analysis Points

- **NDC** – National Drug Code, is a unique 11-digit number. It is a universal product identifier for human drugs in the United States.
- **Primary NDC** – A HIS System designator for a default NDC
- **HCPCS Code** – Healthcare Common Procedure Coding System
- **Revenue Code** – Standardized system to identify accommodations and services provided to patients
- **Biosimilar** – Medicine that is very close in structure and function to a biologic medicine
- **Generic** – Medication created to be the same as an already marketed brand name drug in form, safety, strength, route of administration, quality, performance characteristics, and intended use.
- **Therapeutic Class** – A drug class is a group of medications and other compounds that have similar chemical structures, the same mechanism of action (i.e. binding to the same biological target), similar modes of action, and/or are used to treat the similar diseases.

- **340B Program** – The 340B Drug Pricing Program is a US federal government program created in 1992 that requires drug manufacturers to provide outpatient drugs to eligible health care organizations and covered entities at significantly reduced prices.
- **NTAP** – New Technology Add-On Payments are a class of reimbursement that are meant to help pay for new technology that is not included in the diagnosis-related group (DRG) bundled payment. NTAPs are part of the inpatient prospective payment system (IPPS) final rule and should be reviewed annually. When high-cost devices are identified within your organization it is best practice work with HIM, Decision Support and Revenue Integrity to ensure they are captured, coded and reimbursed correctly.
- **P & T Committee** – Pharmacy and Therapeutics Committee, which manages the medication approval process for drugs to be purchased, ordered, dispensed and administered.

Pharmaceutical Landscape

Some components:

1. Increasing drug costs
2. Supply issues / drug shortages
3. Complex data sets
4. High-cost drugs
5. Billing compliance



Growth Projections and Outlook

With the World Health Organization's declaration on May 5, 2023, of the end of the COVID-19 public health emergency, attention has shifted to the prevention and treatment of other communicable diseases as well as non-communicable diseases, and the critical contributions of medicines globally.

Breakthrough therapies launched over the past decade for multiple diseases are reshaping patient care in many areas and the outlook for medicines use – and the related spending - through 2028 is higher than prior forecasts as more novel drugs become available and despite a significant downward revision of the outlook for COVID-19 vaccines and therapeutics.

The largest driver of medicine spending growth through the next five years is still expected to be the availability and use in developed markets of innovative therapeutics and offset by losses of exclusivity and the lower costs of generics and biosimilars.

Source: IQVIA Institute for Human Data Science. Global Use of Medicines: Outlook to 2028, January 2024.
Available from www.iqvainstitute.org

The Cost of Drugs and the Hospital Pharmacy

Current State:

- Hospitals today operate in a very challenging financial environment. And as the cost of drugs continues to climb, the hospital pharmacy has come under the microscope for scrutiny.
- The pandemic drove up costs across the board, including COVID-19 treatments like remdesivir, a specialty drug that topped hospital drug spending for the third straight year in 2022, according to the American Society of Health-System Pharmacists.
- Spending on specialty drugs continues to drive up overall costs for medications, rising 43% since 2016 to reach \$301 billion in overall pharmaceutical expenses in 2021, according to federal data. The increase is attributed to new specialty medications for the treatment of rare diseases, cancer, diabetes, autoimmune disorders, and Alzheimer's disease.
- Meanwhile, pharmacy leaders continually evaluate medication expenses against clinical efficacy, payor coverage and the hospital formulary, while also considering WAC purchasing, 340B opportunity and the growing availability of lower-cost generics and biosimilars.

Sources: www.thecranewaregroup.com/news-events/news-insights/2024/how-trisus-helps-hospitals-transform-the-business-of-pharmacy; <https://news.ashp.org/news/ashp-news/2023/05/02/impact-of-covid-on-hospital-drug-expenditures-continued-in-2022>; <https://aspe.hhs.gov/sites/default/files/documents/88c547c976e915fc31fe2c6903ac0bc9/sdp-trends-prescription-drug-spending.pdf>

Pharmacy Expense

1. Financial Statement presentation
2. Drill-down to detail
3. Metrics
4. High-cost drugs
5. Inventory and purchasing patterns
6. 340B, WAC, GPO
7. Contracts





DID
YOU
KNOW?

Cost of
medications is
typically between
20-40%
of a hospital's
entire budget

Hospitals experienced price increases in excess of 80 percent across different classes of drugs, including those for anesthetics, parenteral solutions, opioid agonists, and chemotherapy. ¹

Outpatient drug spending per adjusted admission increased 28.7 percent while inpatient drug spending per admission increased 9.6 percent during the same period. ¹



1. <https://www.aha.org/system/files/2019-01/aha-drug-pricing-study-report-01152019.pdf>

Hospital Pharmacy expenses, generally are presented at the financial statement level combined with medical supply expense. A few analysis points to consider:

- Drill down to department / cost center level detail
 - Departmental budget reports
 - Year over year trending
 - Know which expense accounts your medications post to
- Pharmacy Purchase data
 - Account type matters – WAC, 340B, GPO
 - Procurement contracts
 - 340B program optimization
- Top 5 Drug Spend
 - Therapeutic Class is a recommended category to review
 - Medication specific – review by NDC

How Does Your Hospital Pharmacy Expense Compare To Your Peer Groups?

- Common metrics used (IP/OP/Retail – best metric can vary by service type)
 - Per Patient Day ; Acuity adjusted
 - % of operating expense ; % of operating revenue
 - Inventory turnover
 - Contract compliance
- Patient population is a driver of Pharmacy expense
 - Acuity matters
- Benchmarking
 - Vendor software and services
- Source Example for Washington State Hospital Data
 - Washington State Department of Health

Hospital Year End Reports (volumes, financial statements, payer tables, support schedules, cost center tables) - Washington State Department of Health <https://doh.wa.gov/data-statistical-reports/healthcare-washington/hospital-and-patient-data/hospital-financial-data/year-end-reports/2022-hospital-year-end-reports>

Key Medication – Cost Reduction Indicators May Include:

- Medication inventory per adjusted patient day
- Medication inventory turnover rate
- Contract coverage percentage
- Contract compliance percentage
- Intravenous-to-oral dosage ratio
- Volume-adjusted total medication costs (e.g., cost per adjusted patient day, discharge, etc.)
- Volume-adjusted drug category costs (e.g., antibiotics, anesthesia-related drugs, etc.)
- Descending-order total purchase histories, tracked over time

Source: American Society of Health-System Pharmacists. ASHP guidelines on medication cost management strategies for hospitals and health systems. Am J Health-Syst Pharm. 2008; 65:1368–84

Medication Analysis Examples

1. Top Drug Spend
2. Reimbursement Variance
3. Payor Margin
4. 340B Spend Comparison



Payors pay differently

Do you know for each high-cost or high-volume medication what you are being reimbursed?

For commercial payors, opportunity to negotiate and review

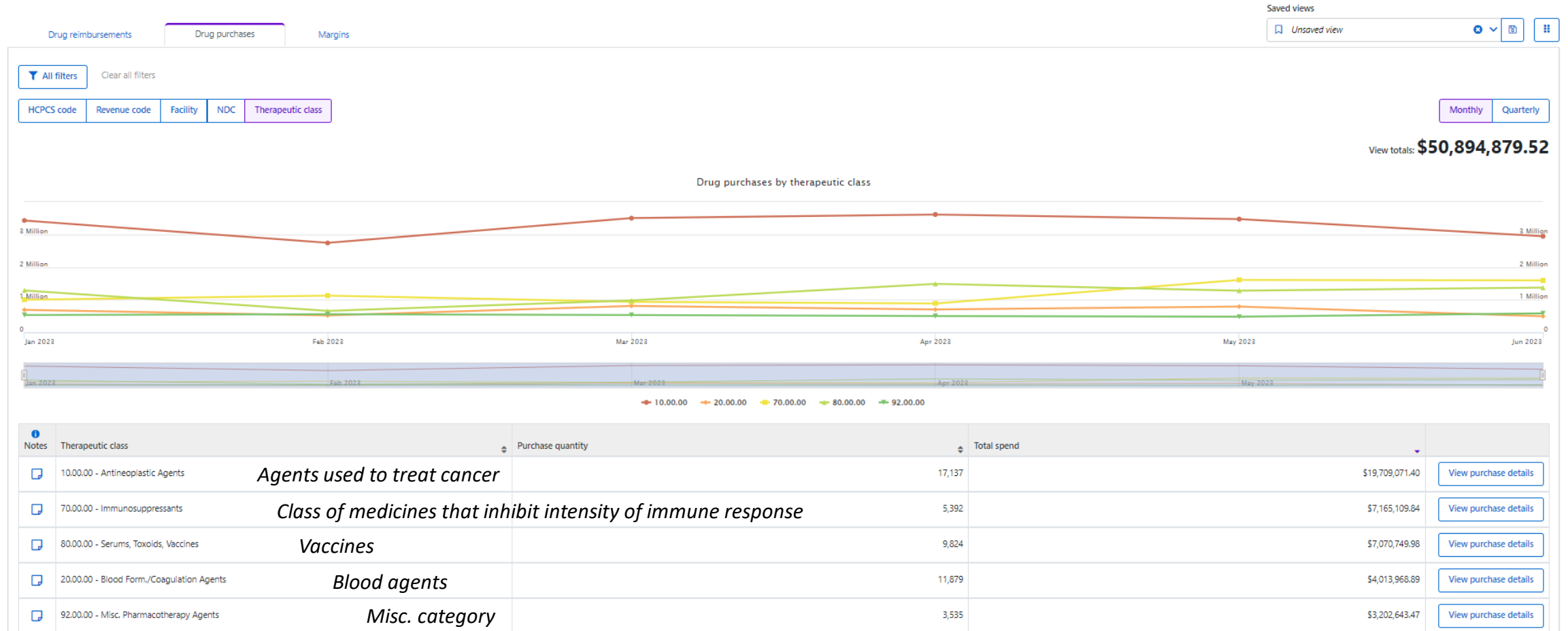
Based on how medication will be reimbursed, review variances by payor for like kind case scenarios



Drug Spend Example by Therapeutic Class

Financial Management

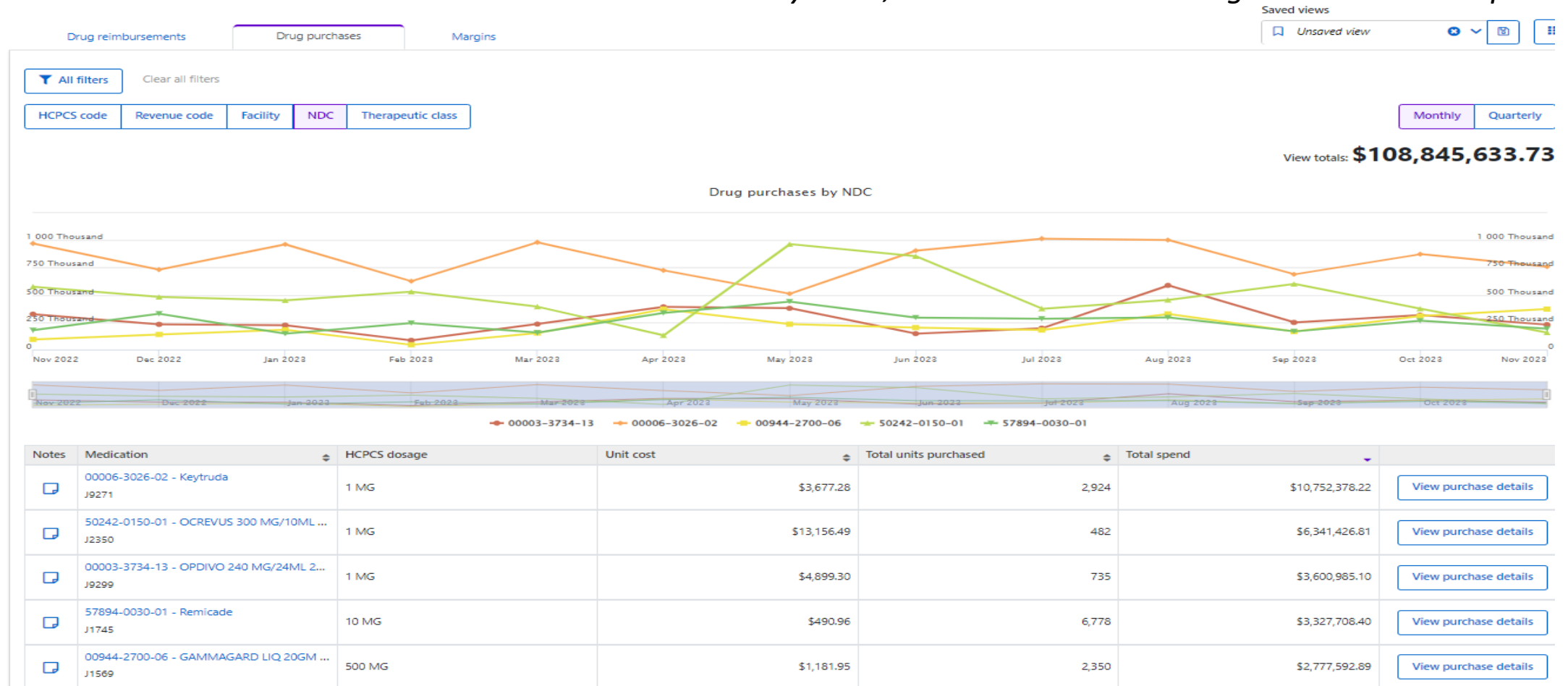
Trend Statement: Antineoplastic Agents make up the majority of the sample data spend



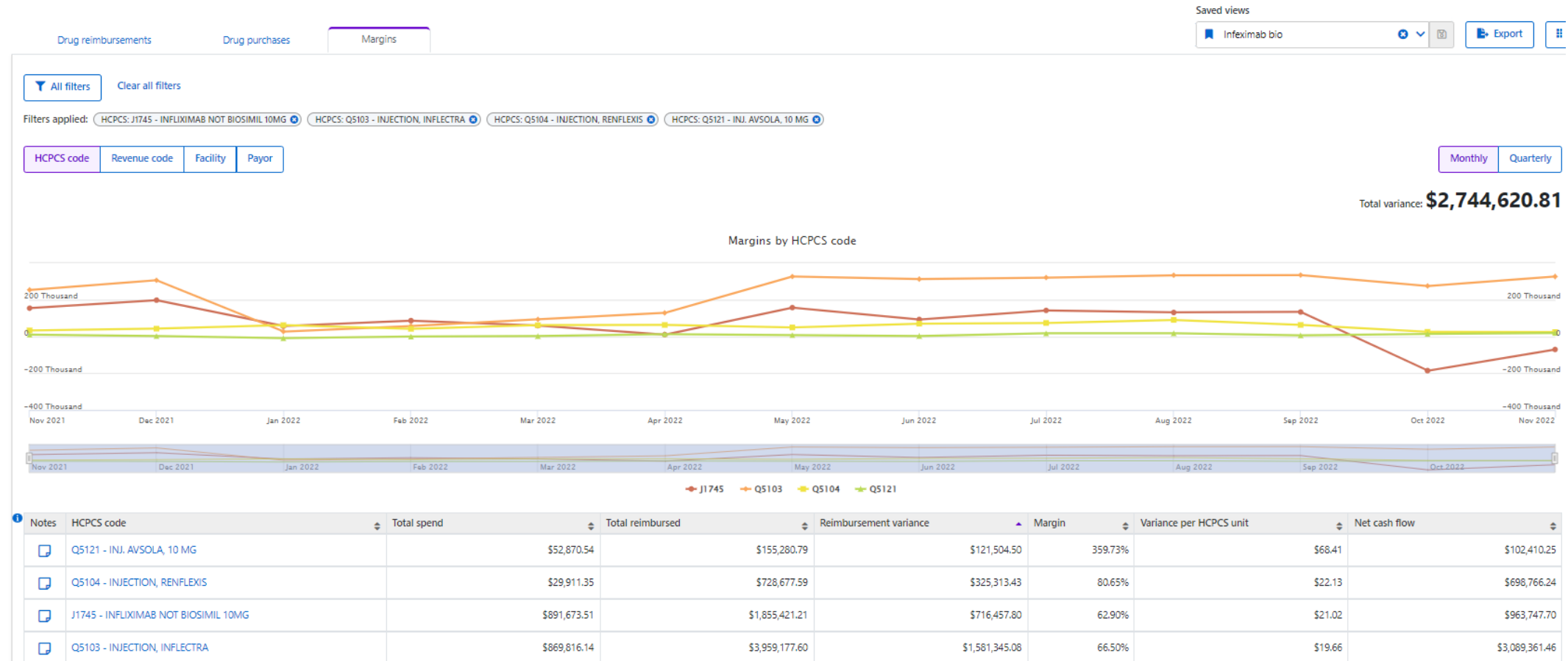
Courtesy of Trisus Medication Financial Management

Drug Spend Example by NDC

Keytruda, HCPCS J9271 has the highest medication spend



Example from Trisus Medication Financial Management



Example from Trisus Medication Financial Management

Let's walk through what to review

We are looking at different biosimilar drugs

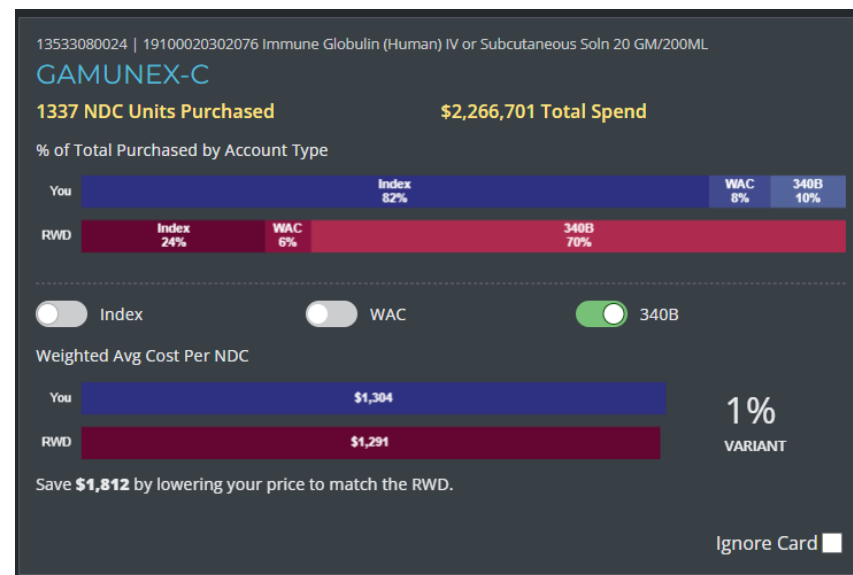
- By HCPCS Code
- All of the 5 drugs have a positive margin and cash flow in this example
 - Margin represented as reimbursement variance apportioned to quantity and spend
 - Net cash flow (total reimbursed minus total spend)

Next, review HCPCS per unit level information

- Consult clinicians if it would be appropriate to drive usage of biosimilar drug as opposed to the originator and increase your potential for greater margin and/or lower expense?
 - Review HCPCS unit cost
 - $\text{HCPCS Unit Cost} = \frac{\text{Total Spend}}{\text{Total HCPCS units purchased}}$
- Contract negotiating opportunity to potentially lower cost for non-biosimilar option

NDC Level Example of Peer Group Comparison

Examples from Trisus Medication Compare

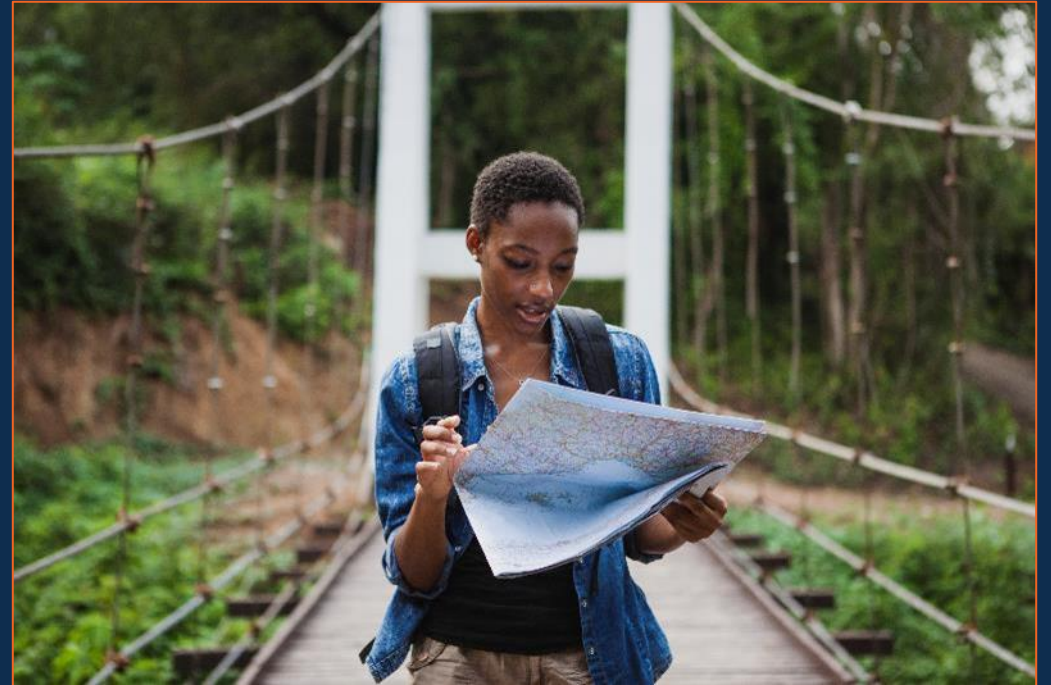


Review Points:

- Gamunex-C - brand name for a Human Immune Globulin preparation that is administered IV, commonly given in both inpatient and outpatient settings
- Index refers to the account type for items purchased through a group purchasing (GPO) negotiated contract or sometimes a location specific agreement between the manufacturer and the entity
- Wholesale Acquisition Costs (WAC) is the industry standard purchase price paid by a wholesaler or distributor for a drug
- 340B pricing refers to a Federal program established by Congress in 1992 that requires manufacturers to participate and provide reduced drug pricing so entities can stretch scarce federal resources to more patients and provide more comprehensive services
- Real World Data (RWD) is an aggregate data set from similarly classified health-systems
- Purpose - Identify purchasing or contracting opportunities to maximize available assets

Data Sets

1. Formulary File
2. Purchase Data
3. Charge Usage File
4. Remittance Data
5. Claim Data
6. Chargemaster (CDM)
7. Physician Order Entry



What is a Formulary file?

- An approved list of medications that are available for physicians to order and administer for patients
- Most organizations have a closed formulary which means medications need to go through a specific approval process in order to be purchased, ordered, dispensed and administered

Why should Revenue Integrity and Finance be familiar with this file?

- To ensure that medications purchased and administered have the expenses & charges captured correctly
- Accurate cost reporting
- Ensure costs are updated and are following mark-up policies
- Payors may require the administered NDC to be on the claim and in the patient record
- Accurate and active NDC records should be utilized

Important File Fields:

- NDC, Medication Cost, Primary NDC, Charge code, CDM Description

Pharmacy Purchase Data Types:

1. **WAC** – Wholesale Acquisition Cost. The WAC represents manufacturers' published catalog, or list, price for sales of a drug (brand-name or generic) to wholesalers.
2. **AWP** – Average wholesale price, of prescription drugs was intended to represent the average price at which wholesalers sell drugs to physicians, pharmacies, and other customers. The AWP is the published list price for a drug sold by wholesalers to retail pharmacies and nonretail providers.
3. **GPO** – Group Purchasing Organization. A group that leverages the collective buying power of the members to obtain discounts from vendors.
4. **Direct Purchases** – Acquire directly from supplier
5. **340B Program** – Congress created the 340B Drug Pricing Program in 1992 to protect safety-net hospitals from escalating drug prices by allowing them to purchase outpatient drugs at a discount from manufacturers.

1. **Charge Usage File** – A data file consisting of gross patient services received per encounter.
2. **Claim Data** – An 837 file is an electronic file that contains patient claim information. This file is submitted to an insurance company or to a clearinghouse.
3. **Remittance Data** – The Electronic Remittance Advice (ERA), or 835, is the electronic transaction that provides claim payment information.
4. **Chargemaster (CDM)** – Charge Description Master is critical to appropriate billing. The record contains fields such as Item numbers, CPT codes, Item Descriptions, Revenue Codes, Charge amounts, Department Number, General Ledger numbers, etc. For Pharmacy, it is important that HCPCS codes are captured correctly for drugs in the CDM.
5. **Physician Order Entry** – (CPOE) provider system used to create and send treatment instructions

Key Collaboration Points

1. Understanding processes
2. Document workflow
3. Key data fields
4. Build those relationships
5. Share information
6. Educate yourself
7. Ask questions!



Support the Future State of Pharmacy Operations:

- View the pharmacy not just as a cost center but a revenue center. This is a much more comprehensive business line approach that sets the stage for collaboration.
- Expand our knowledge. Educate, provide data, be open to sharing knowledge and embrace operational improvements.
- Understand the revenue side of the equation – be ready to address possible coding inaccuracies, newly purchased drugs missing from the chargemaster, capturing charges correctly, problems reconciling volumes, applying incorrect multipliers, and inappropriate charging on self-administered drugs.
- Partner with pharmacy leaders on technology, expertise and resources to manage the complex medication cycle from procurement through dispensing, charging, claims management, and reimbursement.

Components of a Cost-Management/Reimbursement Program

Pharmacy-Directed Activities Purchasing, GPO contracts, Facility contracts, Wholesaler contracts, Inventory management, Wholesaler ordering programs. Storage. Waste reduction, I.V. product waste, Returns

Interdisciplinary Activities Medication utilization program, Clinical pharmacy services, Assessment of drug costs, Medical staff support, Formulary management, Therapeutic interchange, Guideline (protocol) development, Pharmacist interventions, Plan implementation and analysis

Reimbursement & Charging 340B programs, CMS (DRG class), Commercial insurance (payer mix), Outpatient infusion center, Charging, Coding and processing, Indigent care programs

Source: American Society of Health-System Pharmacists. ASHP guidelines on medication cost management strategies for hospitals and health systems. Am J Health-Syst Pharm. 2008; 65:1368–84.

Key intersection points for Revenue Integrity, Finance, and Pharmacy teams to work together:

- Payor contracts held with Revenue Integrity/Finance
- P & T Committee initiatives
- Policy and procedure development
- Data fields in different system locations that drive results
- Purchasing contracts held with Pharmacy / C-Suite
- Charging policies – mark ups and variances
- Claim reimbursements monitoring processes
- Denial activity and account write-offs
- Claim edit processes to ensure billing units and modifiers are correct

Take Aways

1. Medication Revenue Checklist
2. Pharmacy Margin Considerations
3. Formulary File Analysis Points



Medication Revenue Cycle Checklist



Remember to work together to check and ensure:

- ✓ All drugs, regardless of route administered or coverage, should be billed and reported on the claim
- ✓ In order to set up a charge to bill a drug, a CDM user must:
 - ✓ Establish a charge code for a particular drug by Table of Drug description, units and administration method
 - ✓ Assign the correct HCPCS code if one exists, alt codes exist to code payer specific requirements (Q codes vs J code)
 - ✓ Assign a revenue code – alt codes exist to code payer specific requirements
 - ✓ Self-Administered Drugs – 637
 - ✓ End stage renal disease – ESRD – 634,635, and/or 636
 - ✓ Commercial vs. Medicare considerations
 - ✓ Assign a billing multiplier based on drug billing units for dose associated with charge if the multipliers are housed in the CDM
 - ✓ Pharmacy team advises on correct billing units
 - ✓ Revenue Cycle team advises on HCPCS units
- ✓ Assign a price for the billable unit following the established pricing policy if the price is hard coded in CDM – likely price is not coming from CDM
 - ✓ Many drugs carry a \$0 charge in the CDM. This is considered charge editable and the drug price is dynamically managed from the Formulary based upon purchase price x markup x billable units

Medication Revenue Cycle Checklist



Medication Revenue Cycle Checklist – additional review items

- ✓ Pharmacy/Clinical team must set up drug in order entry (OE) and in alternative charging systems as applicable (charge on dispense vs charge on administration)
- ✓ Pharmacy must set up each drug dose in the Formulary. Formulary contains many fields of data for each drug
- ✓ Pharmacy team should define waste eligible drugs
 - ✓ Modifiers JW and JZ
- ✓ Drug codes are subject to quarterly updates, and it is essential to review them to ensure that deleted or replaced codes are not present in the CDM.
- ✓ Drugs that qualify for inpatient Medicare New Technology Add-on payments should be reviewed on a fiscal year basis. If in CDM, review if they are ICD10-PCS coded, billed and paid correctly.
- ✓ Proper coding of new FDA approved drugs not yet assigned a HCPCS code – C9399
- ✓ Run fee schedule comparisons for payers with lesser of clauses
- ✓ Review SAD (Self-Administered Drugs) policies and adherence
- ✓ Top medication denial reason code review
- ✓ Pricing compliance and outlier review
- ✓ Verify brand specific HCPCS established in systems
- ✓ Review and educate on hierarchy of billing override rules and accuracy

Medication Revenue Cycle Checklist



Medication Revenue Cycle Checklist where gaps can occur:

- ✓ Transposition errors of charge codes pose a significant risk, as this key code serves as the link across all systems. If there's a transposition error involving one or more digits while inputting the code into any system, it may lead to a failure in linking charge codes or, even more critically, cause them to connect with an entirely different drug.
- ✓ Incorrect mapping of charge code to order entry system
- ✓ Revenue codes not correctly set up to ensure reimbursement – 250 vs 636; 637 vs 250 etc. If payers pay by HCPCS code and unit and drug is coded as 250 revenue code, it will not detail on the bill and therefore not be reimbursed
- ✓ Incorrect multiplier will cause incorrect billing units. This can cause under or over payments
- ✓ Incorrect HCPCS code/Alt HCPCS. E/B status for Medicare. Medicare HCPCS code assigned and other payer requirements are not considered. Overuse of not otherwise specified codes. Not sending all data required when NOS or not elsewhere classified (NEC) codes are used
- ✓ Drug in Formulary not the same NDC as drug in CDM
- ✓ Primary NDC in Formulary file not updated
- ✓ Medication cost in Formulary not maintained according to policy
- ✓ Lack of pre-authorization or certification
- ✓ Medication is not approved by payor contract



The Business of Pharmacy – Key Medication Margin Considerations

Data Point	Description	Business Reasons for Reviewing
Drug reimbursements	Review 835 file remittance data. Consider drill down to the HCPCS level and see remittance details for each transaction.	<ul style="list-style-type: none"> • Understand the revenue associated with your pharmacy activities • Compare one facility’s reimbursements against another • Compare one payor’s reimbursements against another
Drug purchases	Analyze pharmacy spend over time. If data available, drill down to the NDC or HCPCS level and see purchases by account type.	<ul style="list-style-type: none"> • Track and trend detailed or summarized purchases over time • Accumulate data to see your HCPCS unit cost by NDC—your “break even” point • Compare one facility’s purchases against another
Margins	Compare your purchase data to your reimbursement data—by HCPCS code, facility, and by payor.	<ul style="list-style-type: none"> • Focus first on drugs with the highest negative cash flow and reimbursement variance. • Compare one payor’s margins against another • Identify opportunities to negotiate contracts (reducing cost and improving fee schedules)
Analysis Points	Review high-cost medications	<ul style="list-style-type: none"> • Compare drugs within a therapeutic class • Create a “Top 10” watch list and track over time
Trend Statements	Develop trend statements	<ul style="list-style-type: none"> • Explain what you see in the data • Note trends • Ease of use for other reviewers
Payor Negotiations	Medication expense vs. reimbursement	<ul style="list-style-type: none"> • Use detail in contract negotiations



Pharmacy Business Review – Common Formulary File Analysis Points

Data Point	Description	Business Reasons for Reviewing
NDC Not In Formulary	Purchased NDCs not set-up in the Formulary file	<ul style="list-style-type: none"> • NDCs not in formulary may not be captured correctly for billing • Recommend to review results to determine if items flagged meet criteria to be added to formulary record • Document business rules for NDC maintenance
Volume Analysis	Review variances from purchased medications to charged medications	<ul style="list-style-type: none"> • Can be an indicator of waste • Can be an indicator of missed charges • May assist in inventory level review
Primary NDC	Primary NDC designated compared to purchase activity	<ul style="list-style-type: none"> • Accurate default NDCs are most important to areas that do not utilize bar code scanning • Formulary file accuracy • NDC billing compliance
Cost	Cost to benchmark variances are important	<ul style="list-style-type: none"> • How often are costs updated? • Is there an automated process? • Can assist in reviewing outliers where outdated costs are driving charges
HCPCS Code	If you build HCPCS in your formulary, are they up to date and how do they track to charge processes?	<ul style="list-style-type: none"> • Identify potential coding issues • Understand billing rules, overrides, modifier applied • Assist in review of brand specific HCPCS

Partnering in the Business of Pharmacy...

Trisus Medication Applications

Formulary

- Formulary data accuracy
- Meds purchased not in formulary
- Formulary purchase to charge reconciliation
- Code validation



Claim

- NDC replacement
- HCPCS/Rev code analysis
- Automated application of modifiers: UD, JG, TB, JW
- Medication cost modification



Financial Management

- Medication reimbursement visibility
- Pharmacy purchase cost trending
- Payor specific analysis of reimbursement & margin



Compare

- Real world data comparison
- Medication cost analysis
- Patient population analysis





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Questions?

Thank you for attending this session!

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