
Undergraduate Certificate in Pricing and Reimbursement in Health Economics

Principles of Pricing in Healthcare

In the undergraduate certificate program in Pricing and Reimbursement in Health Economics, the Principles of Pricing in Healthcare course covers various key terms and vocabulary that are critical to understanding the complex world of healthcare pricing. Here, we will explain these key terms and concepts in detail, with examples and practical applications, to help learners master the subject.

1. Charges vs. Prices:

In healthcare, charges refer to the amount a provider bills for a service or procedure, while prices represent the actual amount that is paid by insurers or patients. Charges are often higher than prices due to negotiated discounts between providers and insurers.

Example: A hospital may charge \$1,500 for a routine colonoscopy, but the price paid by an insurer may be \$800 after negotiations.

2. Average Sales Price (ASP):

ASP is the average price paid by wholesalers or distributors for a particular drug or medical device. ASP is used as a benchmark for reimbursement rates in Medicare Part B.

Example: The ASP for a drug may be \$100, and Medicare will reimburse 106% of the ASP, resulting in a payment of \$106 to the provider.

3. Average Wholesale Price (AWP):

AWP is the average price at which wholesalers sell a drug or medical device to retail pharmacies. AWP is often used as a starting point for negotiations between providers and insurers.

Example: A provider may negotiate a 20% discount off the AWP of a drug, resulting in a price of \$80 for the drug.

4. Best Price:

Best Price is the lowest price paid by any purchaser, including wholesalers, retail pharmacies, and government entities, for a particular drug. Best Price is used as a benchmark for Medicaid reimbursement rates.

Example: If the Best Price for a drug is \$50, then the Medicaid reimbursement rate will be based on this price, regardless of the actual price paid by the patient or insurer.

5. Average Manufacturer Price (AMP):

AMP is the average price paid by retail pharmacies for a particular drug, excluding any discounts or rebates.

AMP is used as a benchmark for Medicaid reimbursement rates.

Example: If the AMP for a drug is \$70, then the Medicaid reimbursement rate will be based on this price, with adjustments made for any rebates or discounts provided to other entities.

6. Rebates:

Rebates are discounts provided by drug manufacturers to insurers or pharmacy benefit managers (PBMs) in exchange for preferred formulary placement or other considerations. Rebates are often used to reduce the cost of drugs for patients.

Example: A drug manufacturer may provide a 10% rebate to an insurer for a drug, resulting in a price of \$90 for the drug, down from the list price of \$100.

7. Formulary:

A formulary is a list of drugs covered by an insurance plan. Formularies are often tiered, with lower-cost generics and preferred brands on lower tiers and higher-cost specialty drugs on higher tiers.

Example: A formulary may include Tier 1 drugs with a \$10 copay, Tier 2 drugs with a \$30 copay, and Tier 3 drugs with a 20% coinsurance requirement.

8. Step Therapy:

Step therapy is a cost-saving strategy used by insurers and PBMs to encourage the use of lower-cost drugs before higher-cost drugs are prescribed. Patients are required to try and fail on a series of lower-cost drugs before moving up to higher-cost drugs.

Example: A patient with rheumatoid arthritis may be required to try a series of lower-cost disease-modifying anti-rheumatic drugs (DMARDs) before moving up to a higher-cost biologic drug.

9. Prior Authorization:

Prior authorization is a process used by insurers and PBMs to review the medical necessity and cost-effectiveness of a drug before it is prescribed. This process is used to prevent the unnecessary use of high-cost drugs.

Example: A patient may need prior authorization for a high-cost cancer drug to ensure that it is medically necessary and that there are no lower-cost alternatives available.

10. Reference Pricing:

Reference pricing is a cost-saving strategy used by insurers and PBMs to set a maximum price for a particular drug or class