

# Prescription Pricing

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- Each pharmacy should have a uniform and consistently applied system of prescription pricing that ensures a fair return on investment and costs and enables the pharmacy to provide the needed services to the community.
- Although many methods of prescription pricing have been used over the years, the following are the most common:

# 1. Markup Percentage

- In this common method, the desired markup percentage is taken of the cost of the ingredients and added to the cost of the ingredients to obtain the prescription price.
- The markup percentage applied may vary depending on the cost of the ingredients, with a lower markup percentage generally used for prescription items of higher cost, and a higher markup percentage applied for prescription items of lower cost.

$$\text{Cost of ingredients} + (\text{Cost of ingredients} * \% \text{ Markup}) \\ = \text{Prescription price}$$

- If the cost of the quantity of a drug product to be dispensed is \$4.00 and the pharmacist applies an 80% markup on cost, what would be the prescription price?
- $\$4.00 + (\$4.00 * 80\%) = \$4.00 + \$3.20 = \$7.20$

## 2. Markup Percentage Plus a Minimum Professional Fee

- In this method, both a markup percentage and a minimum professional fee are added to the cost of the ingredients.
- The markup percentage in this method is usually lower than that used in the method just described.
- The minimum fee is established to recover the combined cost of the container, label, overhead, and professional services.
- $\text{Cost of ingredients} + (\text{Cost of ingredients} * \% \text{ Markup}) + \text{Minimum professional fee} = \text{Prescription price}$

- If the cost of the quantity of a drug product to be dispensed is \$4.00 and the pharmacist applies a 40% markup on cost plus a professional fee of \$2.25, what would be the prescription price?
- $\$4.00 + (\$4.00 * 40\%) + \$2.25$   
=  $\$4.00 + \$1.60 + \$2.25$   
=  $\$7.85$ , answer.

## 3. Professional Fee

- This method involves the addition of a specified professional fee to the cost of the ingredients used in filling a prescription.

- A pharmacy may determine its professional fee by
- (1) averaging the amount previously charged, above the cost of ingredients, for prescriptions dispensed over a specified period; or
- (2) using a more exacting cost analysis method in which all costs attributed to the prescription department are divided by the prescription volume in determining the actual cost of filling a prescription, with the profit and desired fee then determined.
- Pharmacies that charge a professional fee commonly make adjustments for prescriptions requiring compounding to compensate for the extra time, materials, and equipment used.
- $\text{Cost of ingredients} + \text{Professional fee} = \text{Prescription price}$

- If the cost of the quantity of a drug product to be dispensed is \$4.00 and the pharmacist applies a professional fee of \$4.25, what would be the prescription price?
- $\$4.00 + \$4.25 = \$8.25$ , answer.

# Example Calculations of Third-Party Reimbursement for Professional Services

- Each third-party payer establishes the professional fee it will pay the pharmacists interested in participating in its program.
- In addition, because the actual acquisition cost of a given drug product may vary substantially among pharmacies, depending on the discounts received, most third-party payers use the average wholesale price (AWP) less an established percentage as the cost basis for the drug in reimbursement programs. The AWP is obtained from commercial listings.

- If a third-party payer reimburses a pharmacy “AWP less 15%” plus a professional fee of \$4.75, what would be the total reimbursement on a prescription calling for 24 capsules having an AWP of \$25.00 per 100 capsules?

AWP for 24 capsules = \$6.00, less 15% = \$5.10

- \$5.10 + \$4.75 = \$9.85, answer.

- If a pharmacy provider contract calls for a copayment of \$2.00 to be paid directly to the pharmacy for each prescription the patient has filled, how much would the third party reimburse the pharmacy in the preceding example?
- $\$9.85 - \$2.00 = \$7.85$ , answer.