ARE YOU RAISING YOUR HAND FOR AN AUDIT WITHOUT KNOWING IT?

How Your Wholesaler Could Cause You to Lose Your Optum Contract

BUYER BEWARE:

PHARMACY WHOLESALER BUYER BEWARE GUIDE
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With margins at an all-time low, independent pharmacies are constantly looking for ways to squeeze out additional profits. But this also means audits are at an all-time high... are you setting your pharmacy up for success and protecting it, or raising your hand asking for the dreaded clawback? You may be doing the latter without even knowing it!

One of the most popular, and easiest, methods for increasing profits is shopping around for the cheapest product. Of course, most pharmacies stick to the playbook and have a primary vendor who supplies most of their drugs. However, creative owners are also utilizing smaller wholesalers to save a few dollars. Makes sense, right? A lower-cost drug on the wholesale level equates to an increased margin on the retail.

However, while on the surface it seems logical for certain drugs, it’s not the case for many and is a slippery slope to the dreaded audit. Why? Optum, a PBM responsible for 20 percent of all insurance claims, is now requiring all wholesalers and suppliers to be VAWD Certified and if they’re not, the pharmacy dispensing the drug can expect audits, clawbacks and possibly even loss of the contract. The problem is that most owners don’t know about this new regulation and smaller, un-approved wholesalers are often not upfront about their status.

In this eBook, we outline what’s happening in the industry and why it’s critical for buyers to be aware of the negative consequences and how to protect their businesses.

Important Note: This information is for educational purposes only. Please contact your PBMs and wholesalers directly for the most up-to-date information.
SAVING $5-10 PER PRESCRIPTION ISN’T ALWAYS WORTH IT, WE PROMISE

With wholesalers and insurance companies tilting the markets to benefit the major chains, independent stores need every competitive advantage they can get, and if owners can identify a way to save $5 or $10 on a drug, they will. However, this is a dangerously narrow perspective when you examine what most of these products generate for the pharmacy in revenue.

For example, if a pharmacy is buying a product for $100 and it’s being paid $400 by the insurance company, the store is making a net profit of $300. A very nice deal.

Now, if an owner is looking to squeeze profits and notices they can source that product for $6 cheaper and makes the switch, the profit goes from $300 to $306. That’s only a 2% increase to take the chance on an insurance company coming back and claiming the cheaper drug wasn’t sourced from a compliant wholesaler. In our opinion, a 5 or 8% increase isn’t worth the chance of losing a major contract.

While these numbers may sound unrealistic given the current industry climate, the truth is that PDS Members are experiencing this level of profits by utilizing our exclusive supplier partnerships to offer unique products that insurance companies are in fact covering.

Bottom line

The problem is that the glasses most pharmacy buyers wear are so finite that the opportunity to make the margins just a little bit better seems worth it. This is absolutely the case on a product where you only make $4 - $6 and you dispense thousands every month. To increase your margins by $1 in that scenario is a fantastic deal. However, on a product where you only sell hundreds per month and you’re already making a significant profit, to increase that it only by 1-8% is likely not worth the risk.
In September 2016, Optum announced that it would no longer pay claims for products purchased by non-VAWD certified wholesalers and that if wholesalers wanted to be included in the Optum network, they needed to become certified within a year.

In June 2017, Optum sent extension letters announcing wholesalers would still be covered if their VAWD certification was pending, and the extension would expire at the end of the year. This has now been extended to March 31, 2018, with no guarantee of any further extensions.

According to our experts, this means that on April 1, 2018, all products that are adjudicated against the Optum PBM will need to be sourced from a VAWD-certified house. Meaning, it is important for pharmacy owners to move their sourcing to a VAWD-certified wholesaler so they can still sell to 20% of the market. No further extensions are expected.

Optum is United Healthcare’s PBM and covers one in every five Americans on insurance – meaning roughly 20% of the population has their prescriptions processed by this one PBM.
What does it mean to be VAWD certified?

VAWD stands for Verified-Accredited Wholesale Distributor. This credential is above and beyond the SOPs that are required to get licensed in each state. Meaning, in the United States, there are 50 states and each has their own set of guidelines to what it takes to become a wholesaler. What is required by one state, may not be in another and can cause potential misfires when doing business across state lines.

VAWD is a voluntary program that wholesalers engage with that is administered by the NABP, the National Association Boards of Pharmacy. When a wholesaler engages with VAWD, they come in and perform a full inspection of not only the facilities but also the SOPs and personnel background checks. And, in many cases, they will request or require that to get the seal, you have to add more and new stringent SOPs to their current list. This is great because every wholesaler that works with VAWD has an extra set of SOPs, an extra level of quality that they’ve been held to remain certified. Without the VAWD seal, wholesalers do not have to be held to the same standard.

The VAWD certification is important because in some states it is very easy to get a wholesale license and the standards for where the drugs can be sourced from is more relaxed. VAWD makes sure that not only is the wholesaler meeting the qualifications and standards of their home state, but they’re also meeting the qualifications of all 50 states, the FDA and more.
Why is Optum mandating a VAWD certification?

Optum, and essentially all of the PBMs, are aiming to limit adulterated drugs, products bought through the gray market. Or, in other words, through pharmacies or incorrect pedigrees.

Currently, Humana is requesting to see pedigrees on all transactions and, Caremark is heavily auditing copays. Optum chose to say that they require a credential for prescriptions to be covered. They want to know that the supplier of the drug is meeting all of the criteria they believe to be necessary to know that drug is safe, hasn’t been diverted or adulterated, and wasn’t pulled through a pharmacy.

They realized the VAWD certification seal met all those criteria and decided to require all wholesalers to maintain it. They then sent a direct communication to all pharmacies stating that if a store is buying from a non-VAWD wholesaler, they run the risk of chargebacks or loss of the contract.

What about other PBMs and wholesalers?

Currently, it is just Optum with this mandate. You can absolutely source products from more than one or a non-VAWD wholesaler for other PBMs, but it only takes one mistake to have a massive clawback or the potential where you would lose a contract. And as we said earlier, if you’re going to purchase something to save a few dollars, doesn’t it make sense to just buy all of your products from a company that meets the requirements?

Paying a little more can offer significant peace of mind.
Are all wholesalers rushing to become VAWD certified?

Not exactly. On October 1, 2017, Optum said they would grant extensions for pharmacies to continue ordering from a non-VAWD wholesaler, who could show proof that they’re in the process of becoming credentialed. The problem is that many of the wholesalers applying have not completed it yet and it’s likely that they won’t meet the January 1, 2018, deadline.

The reality also is that while VAWD does have high standards, the organization works with the wholesaler to fix the problems until they are up to standard. Meaning, if a wholesaler isn’t certified yet, there’s probably a reason they don’t want to – and it’s most likely because of where the drugs are being sourced, and it will impact their financials.

The scariest part

In the extension letters Optum provided to the vendors, it stated that the onus is on the wholesaler to notify the PBM if there was a change in the application status. For instance, if the application is canceled or denied certification, the wholesaler needs to contact Optum. This is scary because, according to our experts, many wholesalers had their applications canceled in Spring 2017 and never notified Optum that their application status changed. As a result, they’ve been providing the same letter to pharmacies stating that they received an extension, to continue buying from them, when in fact they didn’t.

We cannot tell what the fallout of that will be when the official ruling comes down, but now that there is a deadline of April 1, 2018. And while we don’t want to speculate, we have to believe that after the cutoff, Optum will start looking at pharmacies to see where they’ve sourced their products. And, if they find out it’s been from a wholesaler who hasn’t had a legit extension for 5 to 6 months, it probably isn’t going to be pretty.
Before working with any wholesaler – or even when reexamining your current Rolodex of suppliers – these are the three areas we recommend reviewing:

1. Are they VAWD certified?

The seal should be on the company’s website or easily sent to you when requested. Or, you can reference the NABP website via https://nabp.pharmacy/programs/vawd/vawd-accredited-facilities/.

2. The Drug Supply Chain Security Act (DSCSA) Transaction Report (T3)

Commonly known as the pedigree, the T3 report tracks the transaction information, transaction history, and transaction statement. In our opinion, this verification is even more important than the VAWD certification.

Our experts recommend only working with wholesalers who have ePedigrees that are electronic and show the transactions of that particular drug. It should show the source, each time the drug changed hands, and will have the pharmacy as the last link that that chain.

Some wholesalers will build their own platform where you can view a transaction through their company, but that’s not truly electronic. They’ve basically built a system where the pharmacy can log on and see transaction documents. This doesn’t necessarily prevent that wholesaler from adulterating the pedigree, or T3, because they’re in charge of the system.
If the wholesaler is not using an electronic hosted system, where all the links in the transaction are verified and accurate, the pharmacy needs to request a pedigree that verifies every license number that is attributed only to a wholesaler and that there’s no pharmacy license located at any of those same addresses.

Not having access to an ePedigree is the easiest way for a pharmacy to get caught up in PBM nightmare. As a pharmacy owner, you should want to know that the pedigree is not capable of being altered by any person or company supplying you. We’re not saying that all paper pedigrees are falsified. However, it is a red flag if a company is unwilling to pay the extra money to use an electronic verified pedigree system, like Track and Trace or Tracelink, where the transactions are confirmed by a third party and cannot be changed.

If a paper pedigree is provided, we recommend doing your due diligence by calling the manufacturer and asking if the wholesaler is an authorized distributor for them. Confirming they are selling directly to the wholesaler and they allowed to resell to the pharmacy. While it may seem extreme, this is completely viable query when a pharmacy isn’t provided a hosted pedigree system.

While slightly outdated with regards to some manufacturers, it’s also great to ask for the Authorized Distributor of Record (ADR) Letter.

This means that not only is the wholesaler able to purchase the product from the manufacturer directly but the manufacturer is authorizing them to resell it.

There are instances where companies have the right to buy directly from a manufacturer and don’t have the right to resell it. This would typically be a chain pharmacy scenario where there are 15 to 30 stores all under common ownership and they have a warehouse for the purpose of distributing to their own internal pharmacies. In many cases, the manufacturer will give the pharmacy a direct contract and not give them an ADR letter because they may be giving the chain prices that they don’t want to go out into the marketplace.

However, there are a handful of manufacturers that stopped distributing ADR letters in 2015. It’s definitely not the end all be all, but it is a good thing to ask for because most manufacturers still provide them when requested.

Additionally, some manufacturers list their authorized distributors on their website and any company that’s not on that list is technically not authorized to resell their product.
A quick homework recap

VAWD is the easiest and globally recognized way to know that the wholesaler is upholding certain quality standards and that the SOPs go beyond the necessary limit for most states. With this seal, pharmacy owners know they’re sourcing quality products for their patients and are complying with PBM standards. The ePedigree verification and ADR letters are the next steps. They confirm that the wholesaler has the chain of custody that pharmacy owners need to properly do business.

THE GOOD NEWS!

Once you’ve done your research and have settled on a vendor, the only time you need to ask additional questions is if you start to purchase a new product from the company, especially if it’s a new manufacturer.
Every three years, wholesalers are required to complete the re-accreditation process, and it’s almost as stringent as the original accreditation.

VAWD goes to the wholesaler and does a physical on-site inspection where they check to see if there have been any changes in personnel and the SOPs.

Pharmacy owners can access every VAWD-certified wholesaler on the NABP’s website. However, you cannot verify if they are pending, only if they are currently active or in the re-accreditation process.
Of course, the pharmacy industry enjoys keeping owners and vendors on its toes! However, in this space, the next big regulation will be serialization.

It was recently announced that manufacturers are required to start the process of serialization of all products. In 2019, transaction statements of the T3 ePedigree will become obsolete and all drugs will have a 2D barcode that’s scanned at every point of contact, including the pharmacy level, and reported back to the FDA. This is expected to eliminate the challenge of adulterated pedigrees because everything will be automated.

Many wholesalers, especially the smaller companies, are not currently prepared for this evolution. There is still time, but as you interview secondary suppliers, it is important also to know how they will prepare for this new regulation as you want a vendor who can stand the test of time.
WHICH PROFIT-INCREASING OPPORTUNITIES SHOULD YOU SEIZE?

Were you just thinking, “Man, that $300 profit mentioned earlier sounds pretty darn good... but unrealistic.”? For some pharmacies, it is, for others that’s actually just a drop in the bucket. It all comes down to your business mindset. Yes, margins are shrinking. Yes, the competition is intense. But you know what? You’re tougher and there are some incredible opportunities available at your fingertips. You just have to 1) know where to find them and 2) be willing to try.

For example, through the PDS RxAnalytics program, there is a metabolic supplement exclusively available to Members where many are experiencing $3,000 - $10,000 in additional profit per week. This is pure “found” profit and isn’t replacing anything they are currently doing. For example, they are working with doctors and asking to approve a prescription-grade vitamin that benefits the patients’ overall health, addresses drug-induced nutrient depletion and there is a copay assistance program so many patients who qualify don’t have any out-of-pocket cost. They’re also learning how to dispense smarter based on the collective data from our Membership and are increasing their average profit per prescription by 30 to 40% without increasing their prescription counts, for example.

But as we mentioned before, you must be partnering with wholesalers and suppliers who are reputable, uphold the quality that you want in your pharmacy, and are constantly searching for unique product opportunities that will bring either replacement or additional revenue to the store. However, you should only have two outside of your primary wholesaler. It’s a lot of work to juggle multiple vendors and all you’re often doing is saving pennies or dollars and, more importantly, putting yourself at risk for an audit.
PDS MEMBERS

Contact your Performance Specialist and access our recommended list of wholesalers who meet the certifications discussed in this eBook and offer tremendous opportunities through the RxAnalytics program for increasing your profits while improving your patients’ therapies.

NOT A PDS MEMBER AND WANT TO LEARN MORE ABOUT OUR SERVICES?

Go to WWW.PHARMACYOWNERS.COM or call us at (800) 987-7386.