Smarter Targeting for Inpatient Cost Savings:

What is WAC Premium?
Smarter Targeting for Inpatient Cost Savings

With medication hospital margins thinning every year, safety-net health systems are focused more than ever on reducing costs for the medications. For years, eligible hospital pharmacies have been purchasing products at lower prices for outpatients through the 340b program.

Since formal guidance on the GPO prohibition rule took effect, pharmacy departments have dedicated increasing resources to managing their medication purchasing programs. Despite these efforts, health systems are still losing millions of dollars every year to inefficiencies in this space.

Correcting inefficiencies can require hours of pharmacy staff time reviewing data across systems. With thousands of unique NDCs purchased each year, reviewing and troubleshooting every product is labor- and cost-prohibitive. Below are some strategies that health systems have used in the past to identify the best areas to focus their limited resources.

Prices for a typical medication at Disproportionate Share Hospitals (DSH) tend to follow this trend:

Given the distribution above, one might presume that all WAC purchases a system makes are “overspend” and target their reduction. With limited resources to devote to this reduction, how should teams focus on the best medications to improve? Consider the following example:

Of the two products listed, Product A has the highest WAC price, the highest WAC frequency as a portion of purchases, and the highest WAC total. Which of these two products would you prioritize today?
**WAC Price, WAC Frequency, and WAC Total Spend**

It would be reasonable to assume that in a world of limited resources, Product A would be the item to focus on to reduce costs most efficiently. Below, we will review these metrics for purchase efficiency and describe some of the scenarios where they will fail to show real value.

1. **Highest WAC Price**
   WAC price simply means focusing on the products purchased with the highest WAC unit cost. The premise is straightforward enough—by targeting the highest unit price medications, you hope to get the most “bang for your buck” per unit avoided on WAC.

   However, in inpatient settings or in medications with little generic pressure, higher WAC prices may not correlate well with savings potential. Despite Product A’s higher WAC price, note its GPO and 340b prices do not present great savings per unit. The financial reward per package has less impact per unit than Product B as shown below.

2. **Highest WAC Frequency**
   WAC Frequency can be calculated as (WAC purchases / total packages purchased). Again, one could fairly assume that resolving upstream accumulation issues that may lead to increased WAC purchasing frequency would have a bigger impact for products purchased on WAC most often.

   In medications with insignificant price differences, though, even WAC purchases in the thousands of units per month may not add up to worthwhile savings. Meanwhile, for some medications with deep GPO contract discounts, it may only take a handful of purchases to create significant impact.

   Despite being purchased on WAC more frequently, Product A’s opportunity is again limited by the difference between WAC and other prices. Without big savings per package over GPO or 340b, there is less potential to realize for Product A even at its much higher frequency of purchase.

3. **Highest WAC Total**
   WAC total represents the sum of all WAC spend for a product over a given time period. Note that in the original example, the “WAC Total” for Product A is more than triple the WAC Total for Product B. With a higher WAC total, one might expect a higher likelihood for improvement.

   With direct contracting, or in medications without contract competition, WAC and GPO prices can be very close if not identical. Examples of inpatient facilities completing extensive reviews of medications with high WAC totals only to find minimal savings are all too common.

   Additionally, as Apexus sub-WAC contracts becomes more competitive, moving sub-WAC purchases to GPO or 340b may lead to an INCREASE in total spend. Despite the much higher WAC total, splitting Product A’s WAC proportionally to its 340b and GPO accounts would have less of an impact on spend than splitting Product B’s.
What is WAC Premium?

Health systems have used some or all of these metrics - WAC price, WAC frequency, or total WAC spend - to target costs and measure efficiency. At best, these are markers of a purchasing issue, but they are not sensitive enough to be diagnostic alone.

Reacting to these measurements without the context of realizable potential is like treating lab results instead of a patient. As systems mature and markets shift, the rate of false positives in this space can make this work increasingly frustrating. Pharmacy and supply chain time is precious, and focusing where the impact is highest is essential.

To that end, health systems are moving towards targeting "WAC Premium" - calculated as the price difference between WAC and alternative prices multiplied by the volume or purchases. Below, you’ll see WAC Premium in green, representing the portion of WAC spend that could actually be saved.

WAC Premium corrects for a number of issues from our previous measures. It will not be tripped up by sub-WAC or direct contract items with no potential. It resists the impact of high-frequency WAC purchasing on products that do not offer significant cost reduction. It will ignore the “high dollar figure” WAC total headliners if there is no avenue for improvement. WAC Premium is a real impact-oriented metric that reveals what costs can be optimized.

Let’s calculate the WAC Premium for our example assuming purchases will be shifted from WAC to GPO:

<table>
<thead>
<tr>
<th>Product</th>
<th>WAC Premium Calculation</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PRODUCT A</strong></td>
<td>WAC Units x (WAC - GPO)</td>
<td>$200</td>
</tr>
<tr>
<td><strong>PRODUCT B</strong></td>
<td>WAC Units x (WAC - GPO)</td>
<td>$300</td>
</tr>
</tbody>
</table>

Assuming the same effort, resolving Product B’s WAC purchases will have a 50% higher cost reduction despite not hitting the top WAC frequency, WAC price, or WAC total lists. Scaling that impact across a health system, supply chain teams will reveal a multitude of opportunities that have been flying under the radar.