

Hospital Charges and Reimbursement for Medicines:

2023 Update Analysis of Markups Relative to Acquisition Cost

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Hospital Charges and Reimbursement for Medicines: Analysis of Markups Relative to Acquisition Cost

Analyses of prescription medicine spending trends may not always reflect the role various parts of the pharmaceutical supply chain play in those trends. We estimate, based on publicly available data, how much hospitals paid, on average, to acquire a medicine from its manufacturer. We then calculate the amount by which hospital charges and commercial insurers' payment to hospitals for those medicines exceeded their acquisition cost. The tables that follow analyze hospital markups and margins by site of service for the 20 individual medicines that commercial payers cover that account for the largest share of per member per month (PMPM) spending.

Table 1. Analysis of Hospital Charge Information

Masked Drug Name	Estimated Hospital Charge per Claim	Estimated Hospital Acquisition Cost per Claim (ASP)	Mark-up: Hospital Charge/ Cost	Percent Mark-up: Hospital Charge/ Cost	Top Commercial Drugs in 2021
Drug A	\$ 58,782	\$ 8,117	\$ 50,666	724%	5.00
Drug B	\$ 15,233	\$ 2,254	\$ 12,979	676%	
Drug C	\$ 22,789	\$ 3,416	\$ 19,373	667%	
Drug D	\$ 19,530	\$ 3,066	\$ 16,464	637%	
Drug E	\$ 80,939	\$ 14,125	\$ 66,814	573%	
Drug F	\$ 25,573	\$ 4,475	\$ 21,099	571%	
Drug G	\$ 19,769	\$ 3,503	\$ 16,266	564%	
Drug H	\$ 13,381	\$ 2,528	\$ 10,853	529%	
Drug I	\$ 33,150	\$ 6,384	\$ 26,767	519%	
Drug J	\$ 23,310	\$ 4,607	\$ 18,703	506%	
Drug K	\$ 348,422	\$ 73,137	\$ 275,284	476%	
Drug L	\$ 17,810	\$ 3,748	\$ 14,062	475%	
Drug M	\$ 140,338	\$ 32,007	\$ 108,331	438%	
Drug N	\$ 38,233	\$ 8,843	\$ 29,390	432%	
Drug O	\$ 40,569	\$ 9,458	\$ 31,111	429%	
Drug P	\$ 201,090	\$ 49,147	\$ 151,943	409%	
Drug Q	\$ 47,506	\$ 11,862	\$ 35,644	400%	
Drug R	\$ 94,287	\$ 23,997	\$ 70,291	393%	
Drug S	\$ 7,619	\$ 2,170	\$ 5,449	351%	
Drug T	\$ 104,271	\$ 44,544	\$ 59,727	234%	

As **Table 1** indicates, on average hospitals charge 500 percent of their acquisition cost for these 20 medicines, though the percentage varies materially from product to product. These charges exclude fees charged for administering the medicine. While we are not aware of common reimbursement contracts between payers and hospitals that are denoted in terms of 100 percent of billed charges, hospital outpatient departments often are reimbursed based on a percentage of

charges, and hospital charges do influence patient payments, particularly for uninsured patients.¹ 2

Table 2. Comparison of Commercial Reimbursement with Average Sales Price

Masked Drug Name	Hospital Outpatient Commercial Reimbursement per Claim	Estimated Hospital Acquisition Cost per Claim (ASP)	Mark-up: Hospital Reimbursement/ Cost	Percent Mark-up: Hospital Reimbursement / Cost	Top Commercial Drugs in 2021
Drug A	\$ 18,282	\$ 9,458	\$ 8,824	193%	1.80
Drug B	\$ 5,063	\$ 3,416	\$ 1,647	148%	
Drug C	\$ 6,339	\$ 2,254	\$ 4,085	281%	
Drug D	\$ 8,310	\$ 4,607	\$ 3,703	180%	
Drug E	\$ 38,093	\$ 23,997	\$ 14,096	159%	
Drug F	\$ 8,630	\$ 4,475	\$ 4,155	193%	
Drug G	\$ 5,593	\$ 2,528	\$ 3,065	221%	
Drug H	\$ 4,832	\$ 3,503	\$ 1,329	138%	
Drug I	\$ 11,339	\$ 6,384	\$ 4,955	178%	
Drug J	\$ 7,067	\$ 3,066	\$ 4,001	231%	
Drug K	\$ 112,939	\$ 73,137	\$ 39,802	154%	
Drug L	\$ 3,859	\$ 2,170	\$ 1,689	178%	
Drug M	\$ 58,903	\$ 32,007	\$ 26,896	184%	
Drug N	\$ 14,867	\$ 8,843	\$ 6,024	168%	
Drug O	\$ 15,666	\$ 8,117	\$ 7,549	193%	
Drug P	\$ 79,461	\$ 49,147	\$ 30,314	162%	
Drug Q	\$ 20,381	\$ 11,862	\$ 8,519	172%	
Drug R	\$ 64,717	\$ 44,544	\$ 20,173	145%	
Drug S	\$ 5,069	\$ 3,748	\$ 1,321	135%	
Drug T	\$ 26,940	\$ 14,125	\$ 12,815	191%	

As **Table 2** demonstrates, the data support the conclusion that commercial payers are reimbursing medical benefit medicines at rates that are, on average, 180 percent of estimated hospital acquisition cost.

We believe average sales price (ASP) is a conservative estimate of hospitals’ acquisition cost and that this analysis likely underestimates hospital markups and margins, primarily because our analysis did not account for discounts provided through the 340B Drug Pricing Program. According to the Berkeley Research Group, more than 35% of Medicare Part B spending for outpatient medicines occurred at 340B hospitals in 2021.² Similar patterns exist in the commercial market.

Medicine purchased at 340B prices typically will have larger margins (reimbursed amount divided by acquisition cost) than shown above. One recent *JAMA* study looking at hospital markups used results from a Centers for Medicare & Medicaid Services survey to estimate that hospitals’ acquisition cost for 340B medicines in Part B averaged 65.3% of ASP,³ and the American Hospital Association has stated that 340B hospitals can achieve savings of 25–50

¹ Batty M, Ippolito B. Mystery of the Chargemaster: Examining the Role of Hospital List Prices in What Patients Actually Pay. *Health Affairs* 36, no.4 (2017): 689-696.

² Blalock E. Measuring the Relative Size of the 340B Program – 2022 Update. Available at: <https://media.thinkbrg.com/wp-content/uploads/2022/06/30124832/BRG-340B-Measuring-Relative-Size-2022.pdf> (Accessed May 12, 2023)

³ Xiao R, Ross JS, Gross CP, et al. Hospital-Administered Cancer Therapy Prices for Patients with Private Health Insurance. *JAMA Intern Med.* 2022;182(6):603–611. doi:10.1001/jamainternmed.2022.1022

percent on pharmaceutical purchases. Therefore, medicine purchased at 340B prices typically will have larger margins (reimbursed amount divided by acquisition cost) than shown above. For instance, in the case of a medicine with an ASP of \$2,500, and assuming the weighted average is 180 percent of commercial insurance reimbursement to ASP reported above, payment to a non-340B hospital would exceed the hospital's cost of acquiring the medicine, on average, by \$2,000. If the same medicine is acquired through 340B at a 34.7 percent discount (\$1,632.50), a commercial insurance payment of \$4,500 to the hospital would equal 276 percent of the hospital's acquisition cost. The commercial reimbursement would exceed the cost of acquiring the medicine by \$2,867.5, on average.

Methodology

- Hospital reimbursement cost per claim for 2021 was obtained from the Magellan Rx Management Medical Pharmacy Trend Report™: 2022 Twelfth Edition (the Magellan report). Units per claim values were estimated using Medicare fee for service units per claim and assuming that a similar dosing pattern would occur in commercial claims. We calculate the ASP per claim by multiplying the Medicare ASP per unit for the same period (Q4 2021) by the number of units. This methodology is consistent with an analysis previously conducted by the Drug Channels Institute⁴.
- We calculated the hospital charge per claim using the average charge per unit from the 2021 Medicare 100% Outpatient Standard Analytic File and the units per claim from the Magellan report. We expect charge per unit to be roughly the same for Medicare and commercially insured patients.
- The average total mark-up and total margin across the 20 medicines were both weighted using medicine-level commercial per member per month PMPM data from the Magellan report. Weighting by PMPM reflects both the reimbursement amount and volume that each of the 20 medicines make up in the commercial market.

⁴ Fein A. *Latest Data Show That Hospitals Are Still Specialty Drug Profiteers*. Drug Channels Institute. 2017. Available at: <http://www.drugchannels.net/2017/04/latest-data-show-that-hospitals-are.html>. Accessed December 15, 2022.