



## **The Business Case for Pricing Vaccines**

Developed by AAP Private Payer Advocacy Advisory Committee

As new vaccines are introduced into the American Academy of Pediatrics (AAP), the American Academy of Family Physicians (AAFP) and the Advisory Committee on Immunization Practices (ACIP) schedule, how should the practicing pediatrician price them and what payments are appropriate from the insurers? To answer this question, we must first accept the fact that a pediatric practice is really a small business and must run on sound, generally accepted business principals to remain viable. These new vaccines have become increasingly expensive, necessitating a more business-like approach. What does this mean? For universal purchase states, this only means getting an acceptable vaccine administration fee, as there are no vaccine purchase costs. But as we will see below, there are costs in maintaining vaccines that need to be recovered somewhere.

### Vaccine Related Expenses

1. Administration fees. Both the injectable pediatric specific administration codes (CPT 90465 & 90466) and the injectable administration codes (CPT 90471 & 90472) now have the same relative value units (RVU) values - .53 & .29 respectively. With the 2007 conversion factor of 37.8975, this translates to \$20.09 for 90465 or 90471 and \$10.99 for 90466 or 90472 on the Medicare fee schedule. The practice expense component of the administration fee includes: clinical staff time (RN/LPN/MA blend), medical supplies (1 pr. Non-sterile gloves, 7 feet of exam table paper, 1 OSHA-compliant syringe with needle, 1 CDC information sheet, 2 alcohol swabs, 1 band-aid) and medical equipment (exam table).
2. Purchase price of the vaccine.
3. Personnel costs for ordering and inventory.
4. Storage costs since the vaccines must be stored in a refrigerator or freezer, which is depreciated.
5. Insurance to insure against loss.
6. There is an estimated wastage/non-payment of at least 5% (this should be accurately accounted for in each office).
7. Lost Opportunity costs. The cost that is often forgotten is the cost of the money invested in vaccine inventory. A recent inventory at a 10 provider, 3 location pediatric group showed that they had \$100,000 in vaccine inventory, including their initial shipment of Menactra. Any business that invested that money in a product would expect a reasonable return on investment and so should every pediatric practice.

So what should be the final price for a vaccine? If you are receiving adequate administration fees, then the vaccine charge should stand on its own. This needs to include the purchase price, dollars for the office expenses as noted above and a return on the investment for the dollars invested in vaccine inventory. When you add this up, it needs to be at least 17-28% above the vaccine purchase price. If the vaccine administration fee is less than appropriate, then this either needs to be renegotiated or additional costs moved into the vaccine charge.

The insurers are businesspeople. They understand the concept of return on investment and expect it in their business. There is no reason we should accept their refusal to recognize it in our business by paying only the vaccine purchase price. They pass on their increased costs to their purchasers to maintain profitability. We have a legitimate business case to make for adequate reimbursement for vaccines and vaccine administration and we must all make it.

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