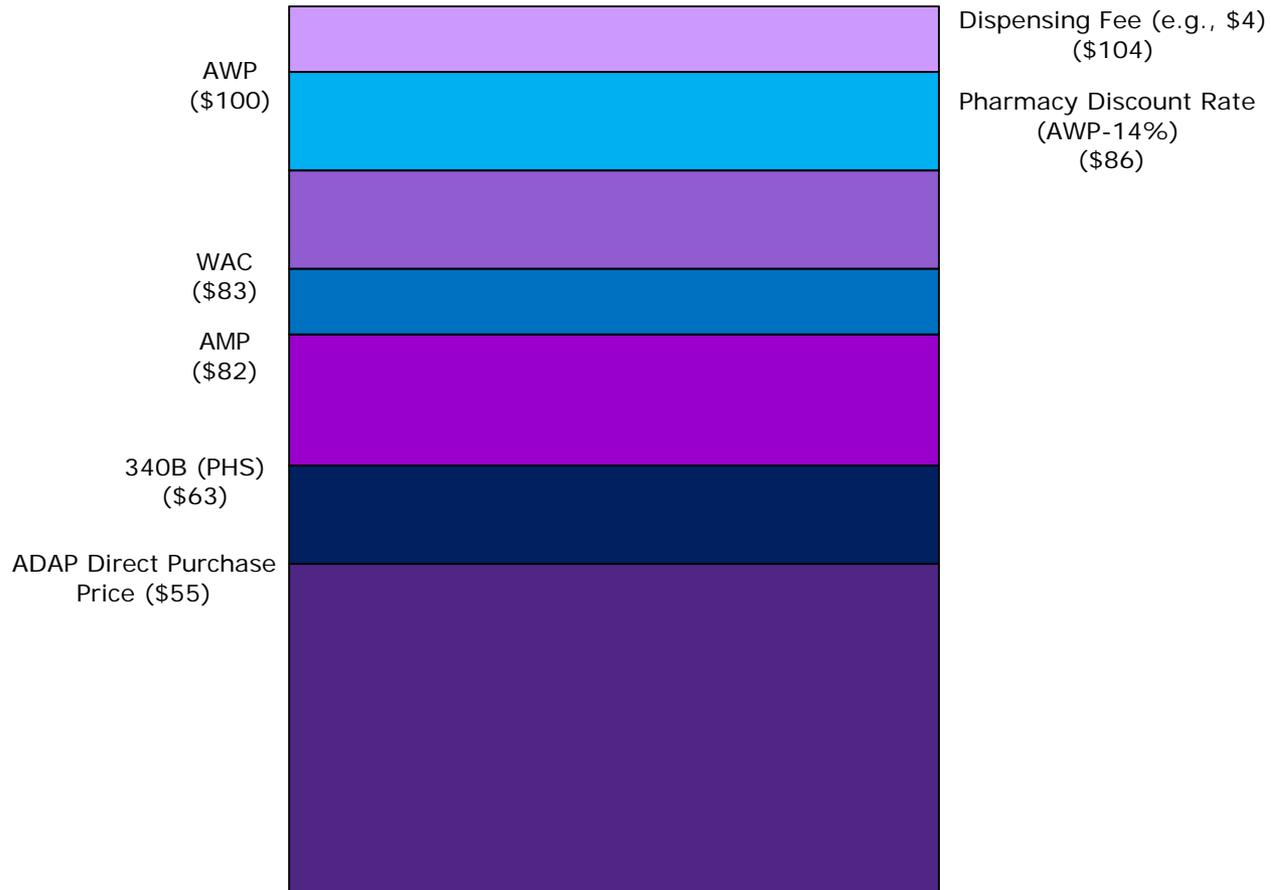


# DRUG PRICING OVERVIEW

Lanny Cross

# Drug Pricing Schedule

Hypothetical Drug = \$100.00 AWP



# Drug Terms - 1

- **Dispensing Fee:** The charge for the professional services provided by the pharmacist.
- **Average Wholesale Price (AWP):** A benchmark used for pricing and reimbursement of prescription drugs for both government and private payers. AWP is not a true representation of actual market prices for either generic or brand drug products. AWP has often been compared to the “list price” or “sticker price”, meaning it is an elevated drug price that is rarely what is actually paid. It is provided by pricing services (i.e., MediSpan, Redbook).
- **Pharmacy Discount Price:** The price paid to the Pharmacy by a program (i.e., ADAP, Medicaid) for drugs.
- **Wholesale Acquisition Cost (WAC):** WAC is the price set by manufacturers.

# Drug Terms - 2

- **Average Manufacturer Price (AMP):** The average price paid to a manufacturer by wholesalers for drugs distributed to retail pharmacies. A confidential price.
- **Best Price:** The lowest price paid to a manufacturer for a brand name drug, taking into account rebates, chargebacks, discounts or other pricing adjustments.
- **340B (PHS) Price:** The maximum price that manufacturers can charge covered entities participating in the Public Health Service's 340B drug discount program.
- **Wholesaler Discount:** Discount offered by wholesalers to direct purchasers for large volume and prompt payment.

# Drug Terms - 3

- **Federal Upper Limit Price (FUL):** Federally established maximum price (175% of the lowest published price) for a drug product, if there are three (or more) generic versions of the product rated therapeutically equivalent (A-rated) and at least three suppliers.
- **State Maximum Allowable Cost (SMAC):** Optional State Medicaid program to achieve additional savings by setting lower reimbursement amounts for more multiple-source drugs than are included in the FUL program.
- **Acquisition Cost (AC):** The net cost of a drug paid by a pharmacy and includes discounts, rebates, chargebacks and other adjustments.
- **ADAP Supplemental Discount/Rebate:** An additional discount for direct purchase states or rebate for pharmacy network states, negotiated with individual drug manufacturers by the ADAP Crisis Task Force.
- **National Drug Code (NDC)** – standardized drug coding system used in retail pharmacy transactions. The 11 digit number identifies the manufacturer/labeler (first 5 digits), drug - strength, dosage and formulation (next 4 digits) and packaging size (last 2 digits).

# Unit Rebate Amount (URA)

- The rebate amount paid by a manufacturer to ADAP/Medicaid for each unit (e.g., capsule) by NDC of drug.
- URA is calculated quarterly by Centers for Medicare & Medicaid Services (CMS) based on data submitted by the drug companies.
- The 340B Price is calculated by subtracting the URA from AMP.

# URA Calculation

## Brand Name Drugs

- Minimum of 23.1% of AMP  
OR
- Difference between AMP and Best Price, if larger (Best Price adjustment)  
PLUS
- Additional rebate if AMP price increases exceed inflation rate of the Consumer Price (Urban) Index. Inflation calculated back to initial introduction of the drug

## Generic Drugs

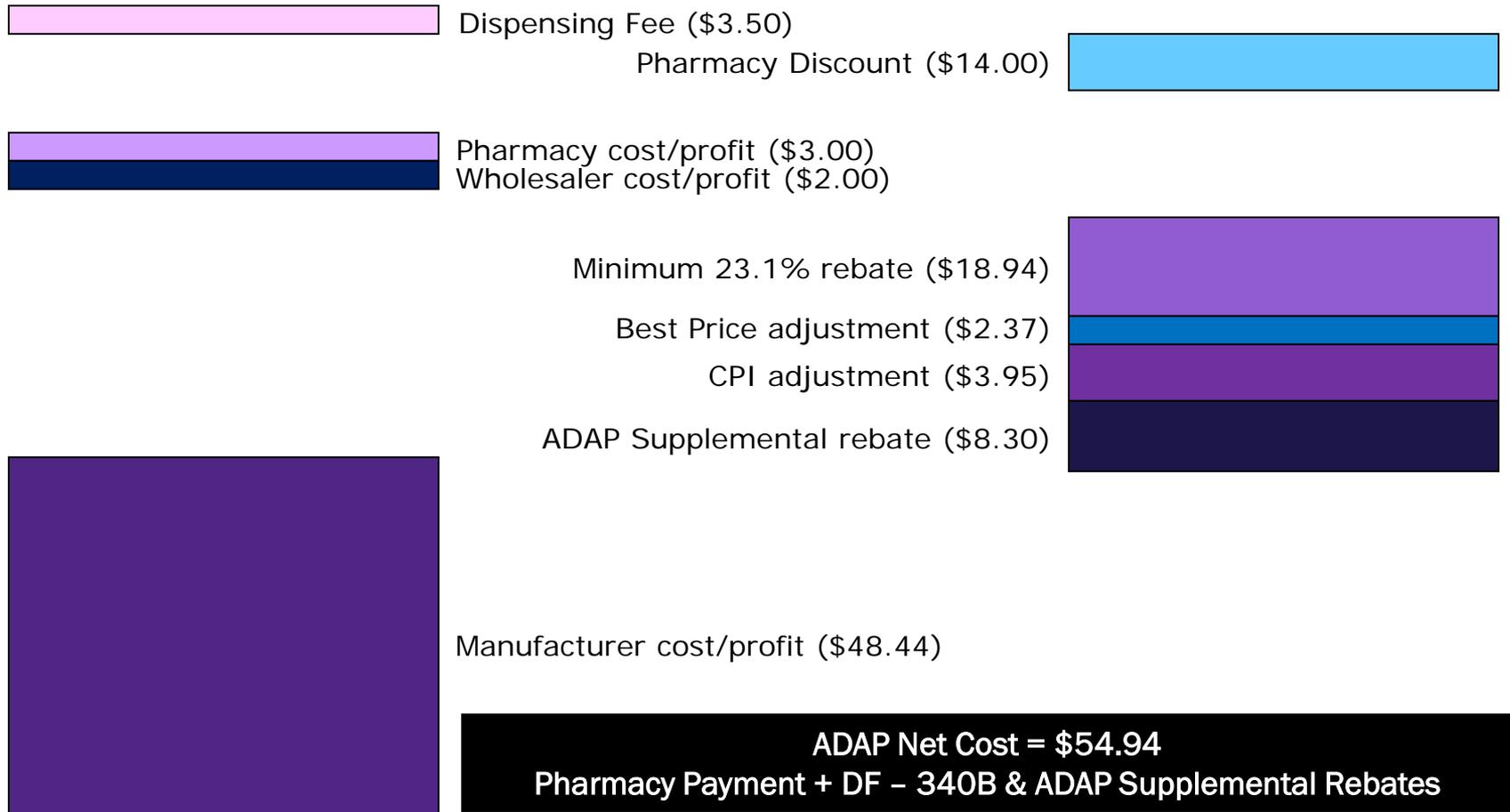
- 13% of AMP – with no further adjustments

# Pharmacy Network Distribution System Model

- Program reimburses a broad network of retail pharmacies for dispensing drugs to patients.
- Model used by Medicaid, private insurance companies and 50% of ADAPs.
- $\text{Cost} = \text{Pharmacy Discount Rate} + \text{Dispensing Fee} - \text{Rebate}$
- Reimbursement rates may be multi-tiered  
Example: Lowest of:
  - 1) Brand Name Drugs =  $\text{AWP} - 14\% + \$3.50$  (Dispensing Fee)
  - 2) Multi-source Drugs =  $\text{FUL price} + \$4.50$  (Dispensing Fee)
  - 3) Acquisition Cost = 340B price paid by hospital/clinic + Dispensing Fee (no rebate with #3)

# Pharmacy Network Costs

## Example = \$100 AWP Drug

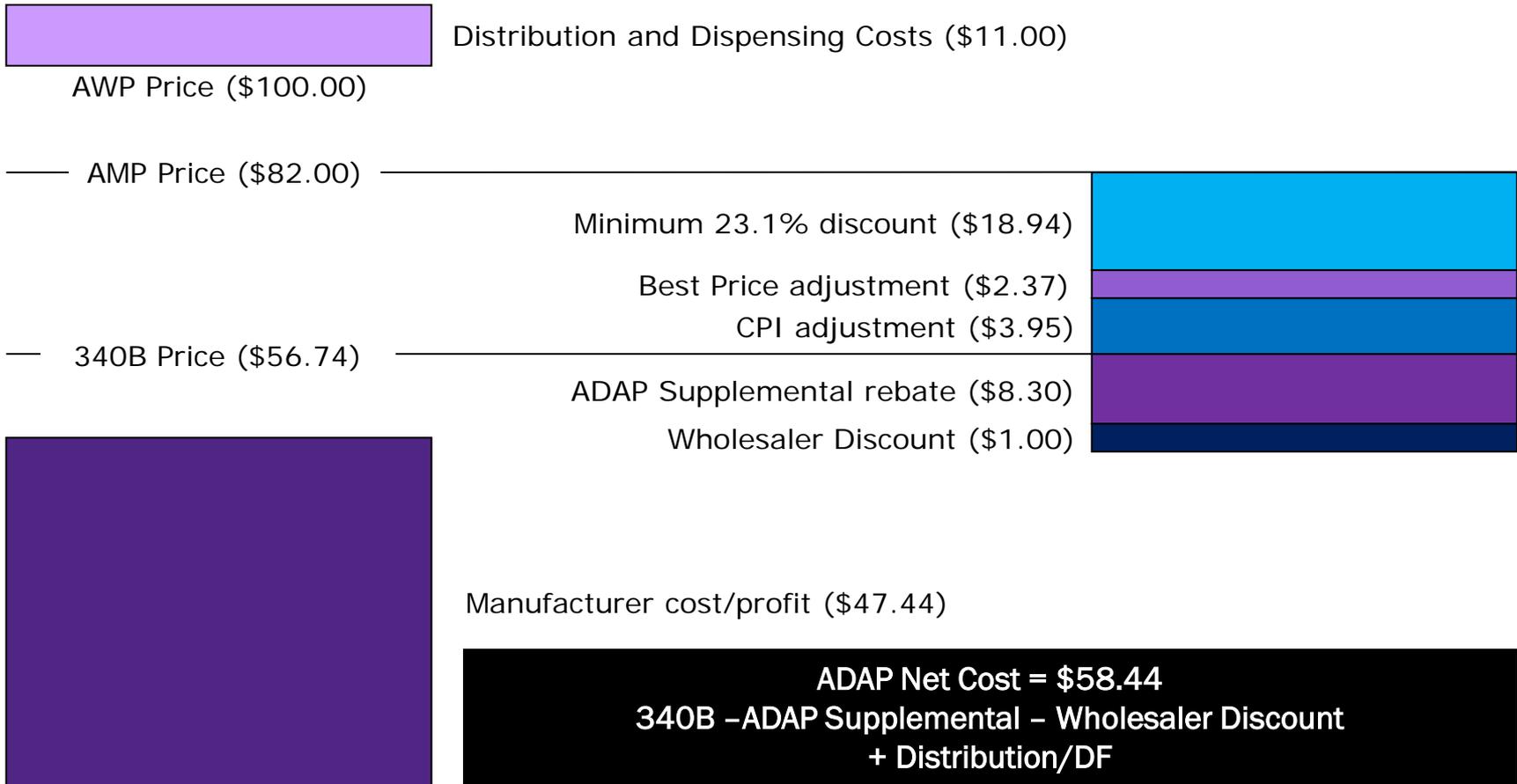


# Direct Purchase Model

- Program purchases drugs directly from wholesaler at 340B (PHS) pricing schedule.
- Model used by public hospitals, community health centers and 50% of ADAPs.
- $\text{Cost} = 340\text{B price} + \text{Distribution System Costs}$ .
- Distribution System Costs are variable based on approach, size and existing infrastructure and may include inventory, storage, shipping and staffing.

# Direct Purchase Costs

## Example = \$100 AWP Drug



# Generics

- The “retail” (AWP or WAC) prices of a generic are typically 90% of the brand name drug.
- The actual price (AMP) to a wholesaler/pharmacy for a generic drug may decrease dramatically when several generics are FDA approved, but the AWP and WAC prices do not decrease.
- Programs utilizing a Pharmacy Network model require a “pricing service” that provides reference prices (i.e., AWP, WAC) for reimbursement for each NDC.
- If there are multiple manufacturers of a generic, then a Federal Upper Limit (FUL) price is established by CMS which may be used to reduce the reimbursement rate to pharmacies.
- CMS has not established FUL prices on new generics since 2010.

# Generics - 2

- SMAC programs give State Medicaid programs greater latitude in (1) selecting the multiple-source drugs and (2) setting the reimbursement amounts for the drugs included in their MAC programs. 45 States utilized SMACs.
- If FUL or SMAC is not utilized, there is the potential for a very large profit margin for the pharmacy/wholesaler (spread between pharmacy discount rate based on AWP/WAC and the actual cost (AMP), and the cost of generic drugs may be significantly higher for these programs.

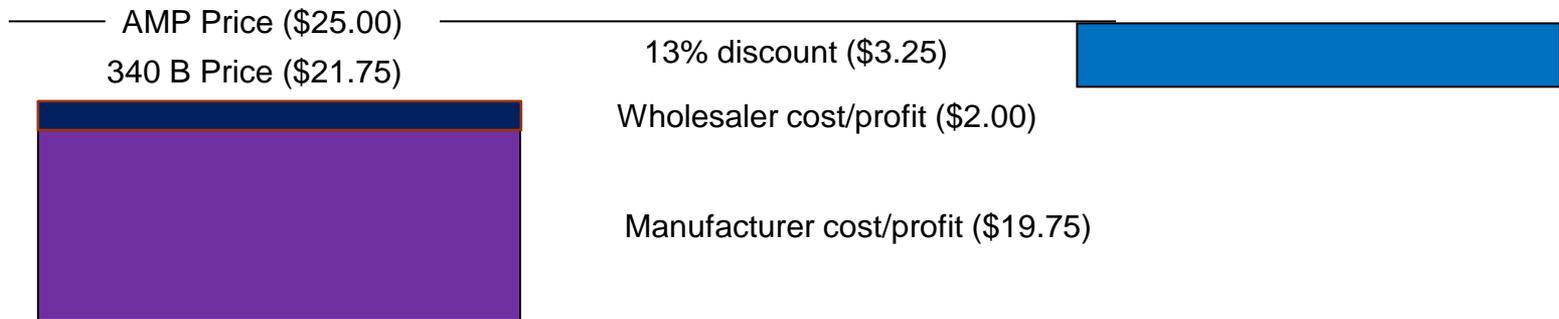
# Direct Purchase Costs

## Generic Example = \$90. AWP Drug

AWP Price (\$90.00)



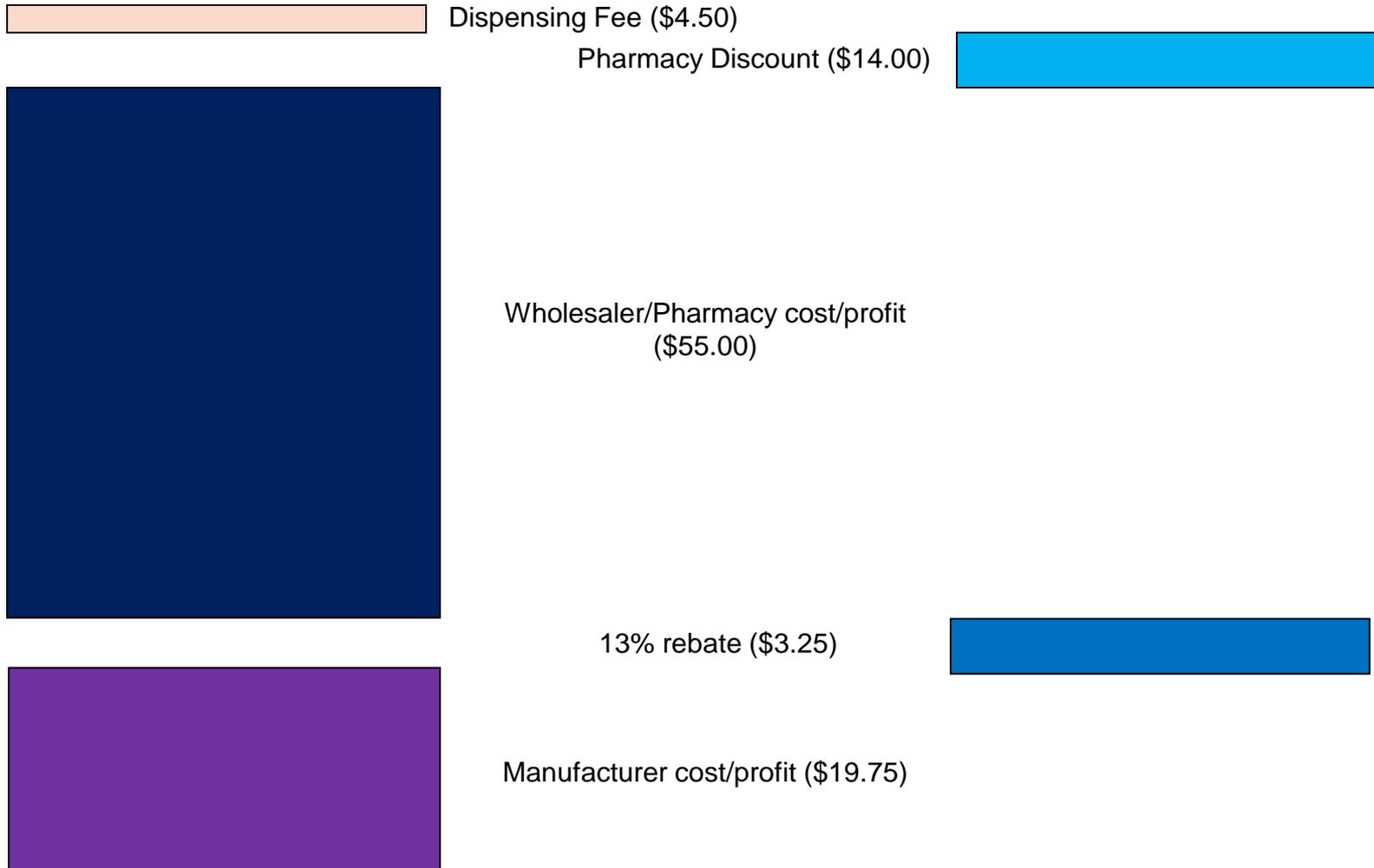
Distribution and Dispensing  
Costs (\$?.??)



ADAP Net Cost = 340B (\$19.75) + Distribution & Dispensing

# Pharmacy Network Costs

Generic Example = \$90. AWP Drug



Net Cost = \$74.65 (DF + Pharmacy/Wholesaler + Manufacturer)