

# The ABCs of Pharmacy Reimbursement



*Pharmacies are usually reimbursed by a pharmacy benefit manager (PBM) for their administrative cost for dispensing a drug (Dispensing Fee) and for the estimated price of the drug, which is often referred to as the “ingredient cost” or the Estimated Acquisition Cost (EAC).*

$$\text{Pharmacy Reimbursement} = \text{Dispensing Fee} + \text{Estimated Acquisition Costs (EAC or Ingredient Costs)}$$

## **Dispensing Fee**

The dispensing fee, one portion of a pharmacy’s reimbursement, is a fixed, per-prescription payment to help cover the administrative costs of dispensing a drug. Nationally, dispensing fees have remained slightly less than \$2.00 per prescription for the past 10 years.<sup>1</sup> The dispensing fee does not necessarily cover the pharmacy’s full cost of dispensing a

drug. In many instances, a majority of a pharmacy’s profit is earned from the difference between what the pharmacy actually paid for a drug and what a pharmacy benefit manager (PBM) pays for the Estimated Acquisition Cost (EAC), which is the PBM’s best estimate for the price of the drug.

## **Ingredient Costs (Estimated Price of a Drug or EAC)**

In addition to the dispensing fee, health plans and PBMs reimburse pharmacies for the costs they incur in purchasing drugs. Pharmacies do not share their actual drug acquisition costs, so PBMs rely on a few methods to determine the estimated price a pharmacy paid to purchase a drug. PBMs use two different types of pharmaceutical price lists, referred to as “list prices” and “maximum allowable cost (MAC) lists”, to

estimate the acquisition cost of a drug, which determines reimbursement to pharmacies for ingredient costs. List prices, typically used for brand name reimbursement, are often a pricing benchmark based on publicly reported prices and costs of prescription drugs. MAC lists, typically used for generic drug reimbursement, represent a set price list competitively developed by a PBM based on an estimate of actual drug costs.

## List Price – Brand-Name Drugs

For brand-name drugs, pharmacies are usually reimbursed for ingredient costs based on a list price, which is a publicly reported benchmark of drug prices. The most common list prices are the Average Wholesale Price (AWP) and the Wholesale Acquisition Cost (WAC).

Brand-Name Rx Reimbursement = % of AWP or WAC + Dispensing Fee

### Wholesale Acquisition Cost (WAC)

Wholesale Acquisition Cost (WAC) is an estimate of the manufacturer's list price for a drug to wholesalers or direct purchasers. It does not include discounts or rebates. Without including rebates and other incentives provided by manufacturers, it is hard to estimate the actual cost of the drug. This means there is a spread between the reported WAC and what the wholesaler paid for the drug.

### Average Wholesale Price (AWP)

Average Wholesale Price (AWP) is a measurement of the price paid by pharmacies to purchase drug products from wholesalers in the supply chain. It also does not include rebates or discounts to a pharmacy, which can cause the AWP to also be much higher than the actual acquisition costs for a pharmacy and not accurately reflect actual marketplace prices.

## List Prices Are Price Estimates of Drugs Moving Through the Supply Chain



Drug Manufacturer



Wholesaler



Pharmacy

## MAC Lists – Fair Pricing for Generic Drugs

*The most commonly used reimbursement lists are the MAC lists developed by PBMs for generic drugs. Each PBM develops and maintains its own competitive and proprietary MAC list derived through methodologies typically including a survey of wholesale prices existing in the marketplace that takes into account: market share, existing inventory, expected inventories, and reasonable profits margins. MAC lists are the most common reimbursement lists, given that generics make up more than 80% of the prescription drug market.*



Generic Rx Reimbursement = MAC + Dispensing Fee

### *MAC Lists and MAC Pricing*

A MAC list is a standard reimbursement amount for identical generic products. MAC pricing is used by more than 85% of private employer prescription drug plans for generic prescriptions<sup>2</sup> and a majority of state Medicaid programs.<sup>3</sup> MAC lists incentivize pharmacies to negotiate more competitive rates for generic drugs with manufacturers and wholesalers in order to keep overall prices down. At one time, AWP was used to reimburse pharmacies for the ingredient costs of generic drugs. However, over time, it became clear that AWP was substantially higher than the actual acquisition cost incurred by pharmacies, due to rebates and discounts that were not reported. This caused reimbursement to be much higher than what was being seen in the market, which unnecessarily increased the cost of prescription drugs. In response, government programs, such as Medicaid, developed MAC lists as a method to more accurately and competitively reimburse for the actual cost of generic prescriptions.

Today, as individual manufacturer pricing (AWP and WAC) continues to be inflated for generic drugs, PBMs use MAC lists to create a competitive reimbursement for identical generic drug products from various manufacturers.

PBM MAC lists are generated by considering comprehensive pricing data that approximates a generic drug's acquisition cost. MAC lists and MAC pricing help reconcile an inflated AWP to ensure that the pharmacy reimbursement is closer to actual drug cost. Each PBM develops and maintains its own competitive and proprietary MAC list derived through methodologies typically including a survey of wholesale prices existing in the marketplace that takes into account: market share, existing inventory, expected inventories, and reasonable profits margins.

*A study by the Office of Inspector General of the U.S. Department of Health and Human Services has shown that MAC lists covered significantly more drugs and achieved additional cost savings over other federal pricing methods.<sup>4</sup>*

## Efforts to Boost MAC List Transparency

The 83rd Texas Legislature passed SB 1106, supported by the various independent pharmacy associations, which put in place key MAC pricing transparency and reform initiatives for the Texas Medicaid program. As a result, Medicaid plans are required to provide up-front and real-time MAC pricing information through a company portal, so that pharmacies can plan for drug costs before purchasing. Pharmacies are also allowed to challenge MAC prices, and Medicaid managed care organizations (MCOs) are required to adjust prices for all pharmacies following a successful challenge to MAC pricing. The 84th Legislature recently passed SB 332, which establishes criteria and disclosure requirements for MAC lists in the private commercial health plan market.

## Sources

<sup>1</sup>2014-15 Economic Report on Retail , Mail and Specialty Pharmacies, Adam J. Fein, Ph.D., Pembroke Consulting, Inc., and Drug Channels Institute, January 2015.

<sup>2</sup>2009-10 Prescription Drug Benefit Cost and Plan Design Report, Pharmacy Benefit Management Institute, 2009, 23.

<sup>3</sup>Medicaid Drug Pricing in State Maximum Allowable Cost Programs, HHS Office of Inspector General, 2013.

<sup>4</sup>Medicaid Drug Pricing In State Maximum Allowable Cost Programs, HHS Office of Inspector General, 2013.

## About TAHP

The Texas Association of Health Plans (TAHP) is the statewide trade association representing private health insurers, health maintenance organizations, and other related health care entities operating in Texas. As the voice for health plans in Texas, TAHP strives to increase public awareness about our members' services, health care delivery benefits and contributions to communities throughout the state.

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