HOW THE Prescription Drug PROCESS WORKS

When a new drug is created and approved by the Federal Drug Administration (FDA), there are two types of prices that are created:

Wholesale Acquisition Cost (WAC)

WAC covers **research, production and profits** for a particular drug.

Average Wholesale Price (AWP)

AWP is set by the drug manufacturer and includes the WAC price plus a certain percentage.

Drug Manufacturers "re-release" AWP rates at different points in the patent life.

Hedge Funds & Private Equity companies purchase patents and reset AWP at a much higher rate to increase profit margins.

Employers contract with a Pharmacy Benefits Manager (PBM) directly or through an insurance company for prescription benefits coverage

- The PBM creates a tiered formulary list of medications that are covered under the prescription benefits based on cost, clinical efficacy and other factors. The particular drugs that are covered under each tier are determined by each PBM.
- The PBM sets a network of pharmacies. The pharmacies purchase the prescription drugs from a wholesaler. These prices are typically 2%-5% below WAC.
- The PBM sets up a reimbursement contract for the cost of each medication. Typical contracts are 10% to 15% below WAC and 15% to 22% below AWP. In some cases, the drug manufacturer offers a rebate to obtain a favorable position on the drug formulary of a PBM. A typical rebate is about 25% of WAC which is paid to the PBM and may be passed through to the employer typically on an 80 / 20 split.
- There is a contracted reimbursement amount to the employer and a different contracted reimbursement amount to the pharmacy. This is known as "spread" and is typically not disclosed to the employer.

Example of how money is made through the process:

Drug X (brand) is created by manufacturer who set a WAC of $300 and an AWP of $360.

Employer

Reimbursement to PBM is $280 (AWP-22%)
Rebate from drug manufacturer of $60
(80% of rebate which is typically 25% of WAC)
Net amount paid by employer for the drug is $220

PBM

Reimbursement from employer of $280
Amount paid to pharmacy is $273 (% of AWP derived by PBM)
Rebate from drug manufacturer of $15 (20% of the rebate)
Net amount received by PBM is $22

Wholesaler

Amount paid to drug manufacturer of $285 (WAC -5%)
Amount paid by Pharmacy is $288 (WAC -4%)
Net amount received by wholesaler is $3

Pharmacy

Amount paid to wholesaler is $288 (WAC -4%)
Reimbursement from PBM of $273
Copayment from employee of $25
Net amount received by pharmacy is $10

Manufacturer

Amount paid by wholesaler is $285
Rebates to employer/insurer and PBM of $75
Net amount received by manufacturer is $210

What can employers do?

Patient Advocate
An independent advocate who works with employees who are taking high-cost drugs to obtain discounts.

Precision Medicine Tiers
High cost specialty medications have their own cost share benefit (50%/50% ee/er).

Stand Alone Prescription Deductibles
A separate deductible for prescription medications in addition to a medical plan deductible.

Mandatory Maintenance Medications Program
Require anyone taking a maintenance medication to use generics and/or obtain through mail order.

Mandatory Generics with Pricing Differentials
Require employee to utilize generic medications and have multiple pricing tiers for generics.

Step Therapies
Require patients to try less expensive medications to determine efficacy before more expensive medications are approved.

Additional Information
Perform a PBM audit to confirm that claims were processed according to contracted rates.
Carve out PBM from insurance carrier in bundled self-funded plans.
Negotiate the amount of rebates to be received.

Limited Fill Programs (Initial & Ongoing)
Prior Authorizations only approve limited supply of high cost specialty medications to require patient to meet with physician to determine if medication is working (may approve 15 days, then meet with Dr, then approve 30 days).

Implement a Site of Service Strategy
Require that specialty medications be purchased through PBM (or PBM outside vendor) rather than through physician office to avoid downstream markups.

Transparent Model vs. Traditional Model

Transparent Model
Higher administrative fee.
All medications charged at "pass through" cost.
All rebates pass onto employer.

Traditional Model
Low or no administrative fee.
All medications charged at pre-set discounted amounts.
Rebates retained by PBM/carrier for offset lower fees.

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