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PIPELINE TO PROFITS: HOW DRUG MIDDLEMEN MAKE THEIR MONEY

The path of prescription drugs from the factory to the patient is complicated. Here, Julie Appleby of Kaiser Health News explains how money flows through the system and contributes to the cost of a 30-day supply of a hypothetical brand-name medicine.

THE PATIENT

KEY PRICES IN THE PROCESS

After a drugmaker develops a brand-name product and wins marketing approval, there are two key prices that it needs to begin selling:

LIST PRICE (WAC)

Set by drugmakers, this **wholesale** acquisition cost or WAC covers

Called average wholesale price or AWP. It's the WAC

\$250 +20%= **\$300**

research, production and profits

Those with insurance pay an amount set Two common methods:

\$25 co-payment

INSURED

- ▶ A percentage of the cost of the drug.
- ► Flat-dollar co-payments, say \$10 to \$50 per prescription.

\$300 INET PAID OUT

UNINSURED

Depending on the pharmacy, some might pay less, while others pay more.

1 — The price may be lowered by manufacturer or pharmacy discount programs.

WHOLESALE PRICE (AWP) ◆

multiplied by a set percentage.

Employers/insurers sign contracts with pharmacy benefit managers that include specific formulas for how much they reimburse PBMs for the cost of each prescription, gener ally an amount 15% to 22% below AWP. They sometimes also aet rebates from drugmak ers that are funneled

\$232 REIMBURSEMENT TO PBM

through the PBM.

- \$50 REBATE FROM DRUGMAKER

\$182 PAID BY INSURER/ EMPLOYER FOR THE DRUG

PHARMACY BENEFIT MANAGER (PBM)



A firm hired by insurers or employers to manage claims, set up networks of pharmacies, create drug formularies and negotiate discounts and rebates with drug makers.

Generally known as "ain't what's paid" — as you'll see in the chart below

INSURER OR

EMPLOYER

PBMS are reimbursed by insurer/employers amounts that are generally above what the PBMs have paid pharmacies. They can also collect rebates from manufacturers.

PBM payments to the pharmacy are based on a percentage of the AWP, which is higher than the list price, even though no one has actually paid that amount.

\$229 PAID TO PHARMACY

\$232 < REIMBURSEMENT

+ \$12.50 REBATE FROM DRUGMAKERS

\$3

\$15.50 INET RECEIVED

THE WHOLESALER

\$250 **<** wac

\$240 PAYMENT TO WHOLESALER +\$229 ◆REIMBURSEMENT FROM PBM

+\$25 ◀PATIENT CO-PAY

\$14 INET RECEIVED BY PHARMACY

- 4%

THE PHARMACY

The contract between the

pharmacy and wholesaler for brand-name drugs generally sets a price below the WAC. Note: Different payment arrange



\$250 **<** WAC

- 5%

+\$240 **◄ PRICE PAID BY PHARMACY**

\$2.50 INET RECEIVED BY WHOLESALER

THE DRUGMAKER



\$237.50 I FROM WHOLESALER

-\$62.50 ◀ REBATE TO INSURERS

\$175 ◀NET RECEIVED BY DRUGMAKER

REBATE TO INSURER AND BENEFIT MANAGER

\$50 + \$12.50 = **\$62.50**

The PBM has negotiated a rebate on this particular drug. Drugmakers sometimes offer rebates in order to win favorable spots on an insurer's or PBM's formulary, so more patients take their drugs

Rebates range widely, but can be 25% or more of the drug's WAC. In this case, let's assume the PBM gets back 25%, or \$62.50.



THE REBATES