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.

**KEY PRICES IN THE PROCESS**

**LIST PRICE (WAC)**
Set by drugmakers, this wholesale acquisition cost or WAC covers research, production and profits.

$250 + 20% = $300

**WHOLESALE PRICE (AWP)**
Called average wholesale price or AWP. It’s the WAC, multiplied by a set percentage.

**THE PATIENT**

- **$25** CO-PAYMENT INSURED
  - A percentage of the cost of the drug.
  - Flat-dollar co-payments, say $10 to $50 per prescription.

- **$300** NET 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.

**EMPLOYERS/INSURERS**

Sign contracts with pharmacy benefit managers that include specific formulas for how much they reimburse PBM's for the cost of each prescription, generally an amount 13% to 22% below AWP. They sometimes also get rebates from drugmakers that are funneled through the PBM.

- **$232** REIMBURSEMENT TO PBM
- **$182** PAID BY INSURER/EMPLOYER FOR THE DRUG
- **$50** REBATE FROM DRUGMAKER

**INSURER OR EMPLOYER**

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.

PBM's are reimbursed by Insurers/employers amounts that are generally above what the PBM's have paid pharmacies. They can also collect rebates from manufacturers.

**PHARMACY BENEFIT MANAGER (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.

$292 - $12.50 = $15.50

**THE PHARMACY**

The contract between the pharmacy and wholesaler for brand-name drugs generally sets a price below the WAC.

$250 - 4% = WAC
$240 + $229 + $25 = $229
$14 + $292 + $232 + $50 + $182 = $625

**THE WHOLESALE**

The contract between the drugmaker and the wholesaler discounts the WAC price by 2% to 5%.

$250 - 5% = WAC
$237.50 + $240 = $520.50
$2.50 + $240 = $2.50

**THE DRUGMAKER**

$237.50 - $62.50 = $175 NET RECEIVED BY DRUGMAKER

**THE REBATE**

$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 33% or more of the drug’s WAC. In this case, let’s assume the PBM gets back 33%, or $62.50.

**SOURCES:**