

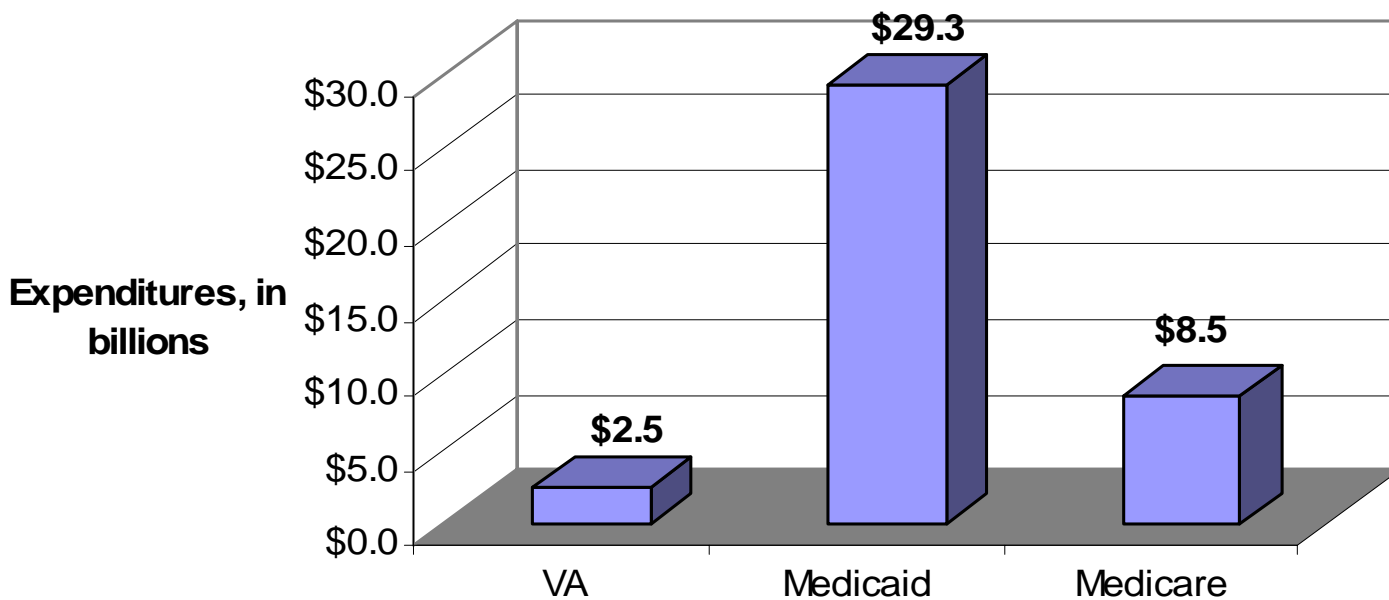
Prescription Drugs

Select Government Payers and Prices

Laura A. Dummit

**Director, Health Care
Medicare Payment Issues
U.S. Government Accountability Office**

Outpatient Prescription Drug Expenditures for Select Government Programs, FY 2002



Note: Medicare expenditures are CMS estimates for calendar year 2002.

Department of Veterans Affairs (VA)

Outpatient pharmacy benefit available to eligible veterans

VA operates its own delivery system

- VA physicians prescribe drugs
- Prescriptions are filled at VA pharmacies

VA purchases drugs directly from manufacturers at negotiated prices or at prices obtained through competitive bidding

VA Drug Prices

Federal supply schedule (FSS) price

- The price available to all federal purchasers. Intended to equal or better the prices manufacturers charge their most-favored non-federal customers

Federal ceiling price (FCP)

- The maximum price manufacturers can charge for FSS-listed brand-name drugs to VA, DOD, PHS, and the Coast Guard. No higher than 76 percent of the non-federal average manufacturer price

National contract price

- The price VA has obtained through competitive bids from manufacturers for select drugs in exchange for inclusion of these drugs on the VA formulary; generally lower than FSS price.
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VA as Payer

VA obtains favorable drug prices from manufacturers

- FSS prices affect a small share of domestic pharmaceutical sales
 - Participation in FSS allows manufacturers access to the much larger Medicaid market
 - Participation in FSS and national contracts ensures that a manufacturer's drugs are widely used in VA hospitals where many of the nation's physicians receive part of their training
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Medicaid

Medicaid coverage of prescription drugs is optional, but all states provide the benefit

State Medicaid programs reimburse pharmacies for prescription drugs dispensed to Medicaid beneficiaries.

- Reimbursement includes payment for costs of acquiring the drugs as well as dispensing fees

Manufacturers provide state Medicaid programs rebates on outpatient prescription drugs dispensed to Medicaid beneficiaries

Medicaid Drug Prices - Reimbursement

Average wholesale price (AWP)

- The average list price that a manufacturer suggests wholesalers charge pharmacies
- Most states reimburse pharmacies based on a percentage of AWP, ranging from AWP minus 4 percent to AWP minus 15.1 percent

Federal upper limit (FUL)

- Federally-established national ceiling prices for certain drugs under Medicaid

Maximum allowable cost (MAC)

- State-established ceiling prices for certain drugs under Medicaid
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Medicaid Drug Prices – Rebates

The rebate is calculated by a formula using the following prices:

Average manufacturer price (AMP)

- The average price paid to a manufacturer by wholesalers for drugs distributed to retail pharmacies. FSS prices and prices associated with direct sales to HMOs and hospitals are excluded

Best price

- The lowest price available from the manufacturer to any purchaser (with some exceptions), taking into account certain pricing adjustments such as discounts and rebates
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Medicaid as Payer

Largest single purchaser of prescription drugs

Medicaid is complex; each state establishes its own reimbursement formulas

Under the rebate program, states receive rebates based on prices and price adjustments in the private market.

State Medicaid programs received rebates of about \$5.6 billion for covered outpatient drugs in 2002

Medicare Part B

Limited outpatient pharmacy benefit under Part B

- covers approximately 450 drugs and biologics

Most outpatient drugs paid for by Medicare are either:

- administered in a physician's office; or
- self-administered inhalation therapy drugs

Medicare reimburses either the physician or pharmacy supplier for drugs they purchase

Medicare Part B Drug Prices

AWP

- In 2004, Part B drugs were generally reimbursed at 85 or 95 percent of AWP, depending on the drug

Average sales price (ASP)

- The weighted average of manufacturers' sales prices after certain pricing adjustments such as discounts and rebates. Excludes sales to certain government and other purchasers
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Illustration of Relative Drug Prices Across Select Government Payers

<u>VA</u>	<u>Medicaid</u>		<u>Medicare</u>
	-reimbursement-	-rebates-	
	AWP		AWP
		AMP	
		Best price	ASP
FSS FCP Contract price			