Pharmaceutical Pricing and Contracting: An Overview

March 2006

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# Pharmaceutical Pricing Definitions
(illustration based on fictional $100 product)

<table>
<thead>
<tr>
<th>Price Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WAP or WAC (List or Wholesaler Acquisition Price)</strong></td>
<td>$100</td>
</tr>
<tr>
<td><strong>95% AWP (Medicare Reimbursement)</strong></td>
<td>$118.75</td>
</tr>
<tr>
<td><strong>AMP (Average Manufacturer’s Price to Retail)</strong></td>
<td>$98</td>
</tr>
<tr>
<td><strong>ASP (Average Sales Price)</strong></td>
<td>$90</td>
</tr>
<tr>
<td><strong>Best Price (Most Favored Customer Price with &lt;15.1% off AMP)</strong></td>
<td>$85</td>
</tr>
<tr>
<td><strong>Medicaid Submission Price (15.1% off AMP)</strong></td>
<td>$83.20</td>
</tr>
<tr>
<td><strong>FSS Price</strong></td>
<td>$74.49</td>
</tr>
</tbody>
</table>

FSS Price:
(Federal Supply Schedule 76% of Non-FAMP less CPI-U fees + 0.5% IFF – Industrial Funding Fee)
There are Various Entities Who Can Receive Discounts from Manufacturers

- Manufacturer
- Wholesaler
- Government
- Pharmacy
- Hospital
- Physician Office

- Prompt Pay Discounts
- Purchaser Discounts
- Back end rebates
- Ships Product
- Payer Rebates
A Variety of Discounts are Offered to Customers

- **$100 product**
  - Prompt Pay Discount: 2%
  - Physician Office Off Invoice Discount: 10%
  - Pays $100 to manufacturer
  - $2 prompt pay discount
  - $10 rebate to wholesaler
  - Pays $90 to wholesaler
  - $9 rebate to physician office

- **10% Back-end rebate based upon:**
  - Clinical metrics
  - Volume threshold
  - Market share goal

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Medicaid Receives Payment from Manufacturer and the Federal Government

$125 AWP/$100 WAC/ AMP = $90

CMS National

Medicaid Rebate = $13.5

Pharmacy Reimbursement = 90% AWP = $112.50

Dispensing Fee = $4.00
AMP Reform is Critical to Future Manufacturer Rebates as well as Medicaid Reimbursement

- The DRA mandated that the definition of AMP be clarified
- There are a number of outstanding issues in regard to calculating AMP:
  - Determining if certain rebates are included in AMP
    - Long term care pharmacy
    - PBM
  - Clarifying how prompt pay terms and fair-market-value fees are incorporated
  - Addressing lagged price concessions, returned goods, and update frequency
- AMP reform will have two primary impacts on the industry:
  - Medicaid rebate calculations and payments
  - Medicaid pharmacy reimbursement rates