



An Illustration of Rx Drug Sales, Distribution and Reimbursement and an explanation of the Impact of the Upcoming AWP Rollback if Left Unchanged

Step 1

Pharmaceutical companies make a prescription drug and assign it a price for sale in the pharmacy distribution system, mostly through pharmaceutical wholesalers. The price is referenced as Wholesale Acquisition Cost (WAC).

Step 2

Pharmaceutical wholesalers sell and distribute prescription drugs to pharmacies for their subsequent sale and dispensing to consumers. Wholesalers typically sell to pharmacies at a mark-up on the WAC price that they pay to a manufacturer. Although business agreements vary, WAC plus 2% is an amount commonly paid by pharmacies for brand name prescription drugs.

Step 3

A publicly available pricing index known as AWP (Average Wholesale Price) is established, for most brand name prescription drugs, by a direct mark-up of WAC. Two companies, First Data Bank and Medispan, are the companies that publish AWP prices. AWP serves as a prescription drug “sticker price”. It is used for relative price comparisons and the reimbursement of pharmacies by insurers.

Prior to 2001, AWP was established as 120% of WAC.

In 2001, AWP for most brand name drugs was increased to 125% of WAC.

Step 4

Private and public payors of prescription drugs commonly use AWP as a reference point for determining payment levels for pharmacy providers. Wisconsin Medicaid currently reimburses pharmacy providers for brand name drugs using a reimbursement formula of AWP-14% plus a \$2.94 dispensing fee.

Example:

For a brand name prescription drug with a \$100 WAC:

A typical pharmacy would pay \$102 to acquire the Rx drug from its wholesaler

The prescription drug would have an AWP of \$125.

Medicaid would pay the pharmacy provider \$107.50 for the drug (AWP-14%), plus a \$2.94 dispensing fee.

The pharmacy would have a gross margin of \$5.50 plus \$2.94 (**\$8.44 total**)

At Issue

A federal court settlement has ordered the companies which establish the AWP for brand name drugs to return to the practice of prior to 2001 (marking up WAC by 120%) effective 9/26/09.

This court directive does not affect the price paid by pharmacies for prescription drugs but it could dramatically affect the amount pharmacies are reimbursed for brand name drugs:

Example:

For the same brand name prescription drug in the above example, with a \$100 WAC:

A typical pharmacy would pay \$102 to acquire the Rx drug from its wholesaler

The prescription drug will have an AWP of \$120

Medicaid would pay the pharmacy provider \$103.20 for the drug (AWP-14%), plus a \$2.94 dispensing fee.

The pharmacy would have a gross margin of \$1.20 plus \$2.94 (**\$4.14 total**)

Left unchanged, a pharmacy provider would have its payment reduced by more than 50%!