

Pharmaceutical Supply Chain

Entity	Source of Income	Regulated By	What is Regulated
Manufacturer: · Research and develop pharmaceuticals to put on the market to treat conditions · Manufacturers have the most influence on drug prices (wholesale acquisition cost) · May incentivize using medication with rebates and discounts · Conduct direct to consumer marketing	Set initial drug price and sells to wholesalers for distribution	FDA	Oversee Clinical Trials and Approves Drugs for Patent and Distribution
Wholesaler: · Put pharmaceuticals into the supply chain by purchasing drug directly from manufacturers and selling to pharmacies · Nearly 90% of all drugs are purchased by 3 largest wholesalers: McKesson, Cencora and Cardinal · Wholesalers may negotiate rebates between manufacturers and large pharmacies	Sells drug at wholesale acquisition cost plus percentage	Board of Pharmacy, FDA and DEA	Transportation and sales
Health Plan-- Pharmacy Benefit Manager: · Either a health plan or a PBM, acting on behalf of a health plan, will negotiate with wholesalers to include medications on plan formulary · Create preferred medication lists to steer members toward effective therapies · Build pharmacy networks, including retail and specialty · Process and adjudicate claims · Apply benefits (copay, coinsurance, deductible) to pharmacy and/or medical-pharmacy claims · Create criteria for approval of medication therapies · A PBM may use its purchasing power to lower costs for smaller plans or multiple plans · Manage specialty medication costs by negotiating with specialty pharmacies	Plan: Premium, APTC, Reinsurance PBM: May include- per member per month charges to plan, spread pricing, network fees, processing fees, additional services to plan	State Regulations Overseen by Department of Insurance (CSI), CMS	Health Plans must meet Medical Loss Ratio Requirements (% of premium spent on direct care), Premium rates are reviewed by CSI and may be denied if excessive. Health plans must meet mental health parity and coverage of essential health benefits. PBMs must report to CSI information on rebate and pass through.
Pharmacy--Pharmacy Services Administrative Organization- Specialty Pharmacy: · Either a pharmacy or a PSAO, acting on behalf of a pharmacy, will negotiate with wholesalers to purchase medications · Choose which health plan networks to participate · Purchase medications from wholesaler · Ensure safety of prescribed medication · Consult with patients on proper medication usage and dosage · File claims with health plan · Specialty pharmacies make up 2% of most plans volume of claims and 50% of the cost of claims	Difference between purchase price (wholesaler) and reimbursed price (health plan & member), dispensing fees, other services	Board of Pharmacy, CMS	CMS has a fee schedule for medications reimbursed by Medicare and Medicaid. Commercial health plan reimbursement is not regulated.
Provider-Facility: · A provider or health care facility will prescribe, distribute and/or administer medications appropriate for the treatment of medical conditions · Research medication for efficacy and cost · Contracts with health plans for reimbursement · May steer patients to in-facility pharmacy (especially for specialty pharmacy) ·	Sets prices for services, reimbursement by health plans and patients	Board of Medical Examiners, CMS	CMS has a fee schedule for claims reimbursed by Medicare and Medicaid. Must be approved to participate in Medicare or Medicaid to contract with most commercial insurers. Commercial health plan reimbursement is not regulated.
Patient: · Chooses provider and pharmacy to receive care and medications · May request medications based on direct to consumer marketing · May choose health plan for coverage · Pays copay, coinsurance and deductible			

Hypothetical Example of Cost: **Manufacturer:** \$1000 WAC (sell) **Wholesaler:** \$1000 + 5% = \$1050 (sell) **PBM/Health Plan:** \$750 (reimburse) **Pharmacy:** **\$700**

Pharmaceutical Cost to Plans and Patients

	<u>Amount Billed</u>	<u>Allowed Amount</u>	<u>Plan Responsibility</u>	<u>Deductible</u>	<u>Copay</u>	<u>Coinsurance</u>	<u>Patient Cost</u>
Health Plan A							
Botox - Used	\$2,587.00	\$1,044.83	\$1,044.83		Met	\$0.00	\$0.00
Botox - Wasted	\$508.00	\$261.21	\$261.21		Met	\$0.00	\$0.00
Injection	\$478.00	\$221.50	\$171.50		Met	\$0.00	\$0.00
Office Visit	\$293.00	\$128.37	\$128.37		Met	\$50.00	\$50.00
Total	\$3,866.00	\$1,655.91	\$1,605.91			\$50.00	\$50.00

Health Plan B							
Botox- Used	\$2,706.00	\$2,706.00	\$1,894.00		Met	\$0.00	\$811.80
Botox- Wasted	\$530.00	\$530.00	\$371.00		Met	\$0.00	\$159.00
Injection	\$502.00	\$502.00	\$351.40		Met	\$0.00	\$150.60
Office Visit	\$237.00	\$237.00	\$187.00		Met	\$50.00	\$50.00
Total	\$3,975.00	\$3,975.00	\$2,803.40			\$50.00	\$1,171.40

	<u>Amount Billed</u>	<u>Allowed Amount</u>	<u>Plan Responsibility</u>	<u>Deductible</u>	<u>Copay</u>	<u>Coinsurance</u>	<u>Patient Cost</u>
Generic Drug Packet	\$2,000.00	\$1,350.00	\$1,310.00	Met		\$40.00	\$40.00
			\$1,310.00				\$40.00
Generic Drug Solution	\$100.00	\$35.00	\$35.00	Met		\$0.00	\$0.00
			\$35.00				\$0.00

Prepared by Mountain Health Co-Op for informational purposes only. For questions, contact Jackie Boyle, 406-431-9610

