



OHIO PHARMACISTS ASSOCIATION

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The need for maximum allowable cost (MAC) pharmacy pricing reform

Did you know that a pharmacy could be reimbursed below the cost of the drugs that they purchase? They do. And now it's happening with increased frequency, and the losses are unsustainable. As pharmacy benefit managers (PBMs), who set the reimbursements for most drugs that pharmacies purchase, increase their control over the pharmacy marketplace, the Ohio Pharmacists Association believes that it is time to pull back the curtain on PBM reimbursements to pharmacies and to create guardrails to the process, which is currently unregulated in the state of Ohio.

What is a PBM?

Pharmacy benefits managers (PBMs) are “middlemen” who were originally designed to process claims, reduce administrative costs for insurers, validate patient eligibility, administer plan benefits, and negotiate costs between pharmacies and health plans. Many insurers outsource their prescription benefits for patients to PBMs in hopes that the PBM will work to reduce the overall cost of prescriptions over time. Over the years, PBMs have grown and leveraged their strategic position between the insurer and provider to assert control over most aspects of prescription drug transactions. The industry is dominated by three large PBMs who are estimated to make up more than 70% of the entire marketplace.

What is MAC pricing?

MAC refers to “Maximum Allowable Cost” lists generated by a PBM or other payer. The idea behind MAC is that if there are multiple manufacturers of a particular drug in the market, a MAC price – which is not a standard price, but instead determined and generated solely by the PBM – is supposed to be created based upon the price of the cheapest drug available for purchase by pharmacies. That MAC price is then used to reimburse the pharmacy. The goal is to encourage pharmacies to buy drugs at the lower prices. This is a valuable tool that PBMs use to keep pharmacy costs down. However, due to frequent fluctuations in generic drug prices, a MAC price is only as good as it is current.

So what's the problem?

Currently, the generic drug marketplace is experiencing growing instability in pricing. There are massive surges, with prices sometimes shooting up more than 1,000% overnight. If a MAC price is not updated by the PBM in a timely fashion, and the cost of a drug increases, the pharmacy takes a loss on that prescription every time they fill it. Ohio pharmacies have seen MAC price updates lag for months at a time for some drugs whose acquisition costs go up; however, anecdotally, we are told that if the acquisition cost goes down, the MAC price is updated immediately. Over the course of a year, pharmacies can lose thousands of dollars due to the lack of consistency in MAC price reimbursement. When a PBM's MAC price does not reflect changes in the marketplace, the PBM is in essence passing their responsibility of covering the cost of medications onto the pharmacies serving their covered patients. All of this occurs unbeknownst to the patient.

Is there one universal MAC price list for all pharmacies?

No. PBMs can have hundreds of different MAC lists, with different lists used to reimburse different pharmacies. OPA believes there are some inherent conflicts that exist within the PBM world, especially as it relates to MAC reimbursements. PBMs are not just in the pharmacy benefits business, but they are also in the pharmacy business. Many PBMs own their own mail order pharmacies and traditional “brick and mortar” pharmacies. So, not only do PBMs get to price-control their competition, but they also get to determine the reimbursement rates for their own pharmacies. This is one of many reasons that there should be some transparency and guardrails to this process.

Isn't this just a contracting issue?

An overwhelming majority of patients now use insurance to pay for their prescriptions, which means PBMs control most of the cash flow coming into pharmacies for prescriptions. Because of their large share of the marketplace, most insured patients coming into the pharmacy are covered by three large PBMs who each operate with non-transparent MAC prices. So a pharmacy could refuse a contract, but then be left with PBM competitors who operate in a similar fashion. Due to the fact that pharmacies must have access to patients in order to stay in business, they have little negotiating power when it comes to contracts with large PBMs. Many Ohio pharmacies – especially small business pharmacies – have reported that the contracts are “take it or leave it.” As evidenced by the problem, the contracting is so one-sided, that pharmacies can't negotiate being reimbursed for the costs of the drugs they are dispensing.

What is “spread pricing?”

There are MAC lists that are used to reimburse pharmacies, and then there are MAC lists used to charge plan sponsors. Several employers have raised issues after discovering large discrepancies between money paid to pharmacies and what is charged to them. This discrepancy is commonly referred to as the “spread.” Essentially, the PBMs can reimburse low and charge high with their MAC price lists, pocketing the significant spread between the two prices. Most plan sponsors are unaware that multiple MAC lists are being used and have no real concept of how much revenue the PBM retains on spreads.

So what is the solution?

While OPA feels that there are many issues that need to be resolved between PBMs and pharmacies, ultimately in Ohio, HB 127 – and now HB 64 – are a great step in the right direction to create some basic guardrails to the PBM MAC pricing process. The legislation mainly:

- would require PBMs to update their MAC price lists at a minimum of every seven days; give pharmacies some basic MAC price appeal rights;
- would require PBMs to supply pharmacies with a current list of the sources used to determine MAC prices;
- would require drugs appearing on a MAC price list to be commercially available for purchase by pharmacies in Ohio;
- would require PBMs to disclose any discrepancy in MAC reimbursements to pharmacies vs what is charged to plan sponsors;
- would require PBMs to be licensed as third party administrators (TPAs) by the Ohio Department of Insurance.

This solution in Ohio mimics changes that will be implemented by CMS in Medicare Part D beginning in 2016. Additionally, 16 states already have MAC pricing laws on the books, with several others currently pursuing legislation. For more information, please visit www.ohiopharmacists.org.

Here are a few additional resources that highlight the issues associated with a lack of MAC pricing guardrails:

Pharmacist survey raises concerns for patient access to generic drugs, *Medical Xpress*, April 8, 2015

<http://medicalxpress.com/news/2015-04-pharmacist-survey-patient-access-drugs.html>

Painful Prescription: Pharmacy benefit managers make out better than their customers, *Fortune Magazine*, October 2013

<http://katherineeban.com/2013/10/23/painful-prescription-fortune-com/>

The pill game, *Workforce Magazine*, October 10, 2013

<http://www.workforce.com/articles/19960-the-pill-game>

Don't get caught by PBMs' mousetraps, *Managed Care Magazine*, September 2008

<http://www.managedcaremag.com/archives/0809/0809.maxallowable.html>

NCPA Commends Medicare Steps on Generic Drug Reimbursement, *National Community Pharmacists Association*, May 20, 2014

<http://www.ncpanet.org/newsroom/news-releases/2014/05/20/ncpa-commends-medicare-steps-on-generic-drug-reimbursement-urges-congress-to-enact-any-willing-pharmacy-law>

Rep. Doug Collins (R-GA) prescription drug bill helps independent and community pharmacies, *Congressman Doug Collins*, January 16, 2015

<http://dougcollins.house.gov/press-releases/rep-collins-prescription-drug-bill-helps-independent-and-community-pharmacies/>

Generic Drug Price Spikes Wreaking Havoc on Patients, Pharmacists and Health Care Payers, *National Community Pharmacists Association*, November 20, 2014

<http://www.ncpanet.org/newsroom/news-releases/2014/11/20/pharmacist-testifies-generic-drug-price-spikes-wreaking-havoc-on-patients-pharmacists-and-health-care-payers>

Below-cost reimbursements pinch pharmacists, *Chain Drug Review*, April 7, 2015

<http://www.chaindrugreview.com/below-cost-reimbursements-pinch-community-pharmacists/>

Do drug benefit managers reduce health costs?, *USA Today*, March 3, 2014

<http://www.usatoday.com/story/money/personalfinance/2014/03/03/pharmacy-benefit-managers-healthcare-costs-savings/5495317/>

Independent pharmacies struggling with increasing generic costs, *NBC 4 Columbus*, January 27, 2014

<http://www.nbc4i.com/story/24559114/independent-pharmacies-struggling-with-increasing-generic-drug-costs>

Ohio legislators learn about small pharmacies' plight, *American Pharmacists Association/Martin's Ferry Times Leader*, March 23, 2015

<http://www.pharmacist.com/ohio-legislators-learn-about-small-pharmacies-plight>

Why Some Large Retail Pharmacy Chains are Struggling with Reimbursement and Generic Price Inflation, *FindSights*, October 9, 2014

<http://consultbfg.com/large-retail-pharmacy-chains-struggling-reimbursement-generic-inflation/>

Federal Advisory Council Votes Unanimously for More PBM Transparency with ERISA Health Plans, *National Community Pharmacists Association*, November 5, 2014

<http://www.ncpanet.org/newsroom/news-releases/2014/11/05/federal-advisory-council-votes-unanimously-for-more-pbm-transparency-with-erisa-health-plans>