Understanding the Role of Rebates in Prescription Drug Pricing

Drug Supply Chain, Rebates in Relationship to Costs and Access

Avalere Health | An Inovalon Company
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Presentation Outline

- Drug Benefit Categories
- Drug Payment Methodologies
- Key Stakeholders Involved in the Drug Distribution and Reimbursement System
- Drug and Payment Flow Examples under Pharmacy Benefit
Prescription Drugs Are Covered Under the Medical or Pharmacy Benefit Based on Several Key Factors

Who Administers The Drug?
- Physician Administered
- Self Administered

Who Purchases The Drug?
- Provider
- Pharmacy

Pharmacy Benefit (Part D)
- Oral
- Injection

Medical Benefit (Part B)
- Infusion
- Injection

Various Drug Pricing Methodologies May Be Used for Drug Reimbursement

**WAC**
- Wholesale Acquisition Cost
  - The only drug pricing type defined in regulations
  - It is the list price from a manufacturer to a wholesaler / direct purchaser without discounts
  - Often used as the base price for rebate negotiations under pharmacy benefit
  - Part B, Part D Medical, Pharmacy Benefit

**ASP**
- Average Sales Price
  - Weighted average unit price paid to the manufacturer for a drug in the US
  - Reported by the manufacturer to CMS and includes most discounts and rebates
  - Used often by Medicare and commercial payers to reimburse drugs under medical benefit
  - Part B Medical Benefit

**AWP**
- Average Wholesale Price
  - Originally intended to convey real pricing information to third-party payers
  - Not a government-regulated figure and does not include buyer volume discounts or rebates
  - Part B, Part D Medical, Pharmacy Benefit
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Illustrative Example of Drug Pricing Methodologies in Pharmacy Benefit Reimbursement

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Net Reimbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturer</td>
<td>$650</td>
</tr>
<tr>
<td>Wholesaler</td>
<td>$10</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>$30</td>
</tr>
<tr>
<td>PBM</td>
<td>$70</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Expense*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payer</td>
<td>$560</td>
</tr>
<tr>
<td>Patient</td>
<td>$200 + premiums</td>
</tr>
</tbody>
</table>

* Does not account for manufacturer expense

1. Manufacturer sells at WAC to Wholesaler, Wholesaler sells at WLP (Wholesale List Price) to Pharmacy
2. Pharmacy Reimbursement is AWP based
3. Manufacturer rebate is WAC based

Flow of Funds

- Manufacturer sells at WAC to Wholesaler, Wholesaler sells at WLP (Wholesale List Price) to Pharmacy
- Pharmacy Reimbursement is AWP based
- Manufacturer rebate is WAC based

This is an illustrative example and is not intended to be reflective of real-world data.