

Definitions and Glossary

Prepared by WCD August 2006

Average Manufacturer Price (AMP) - the average price paid to a manufacturer by wholesalers for drugs distributed to retail pharmacies. AMP was a benchmark created by Congress in 1990 in calculating Medicaid rebates and is not publicly available.⁶

Average Sales Price (ASP) - the weighted average of all non-federal sales to wholesalers net of chargebacks, discounts, rebates, and other benefits tied to the purchase of the drug product, whether it is paid to the wholesaler or the retailer. The basis for reimbursement for products covered under Medicare Part B changed under the Medicare Modernization Act of 2003 from AWP to ASP.⁶

Average Wholesale Price (AWP) - the most commonly used price benchmark in pharmaceutical transactions in workers' compensation; used in 28 states.¹

Definition:

AWP is the price assigned to a drug and is listed in various pricing guides such as the Red Book, First DataBank (used by WCD), or Medispan. AWP operates as a suggested list price, and is typically not what is paid as buyers may negotiate lower prices through the inclusion of discounts, rebates, or free products.

Application:

AWP is the most commonly used price index in pharmaceutical transactions. State Medicaid programs use AWP to calculate payments to retail pharmacies for providing drug products to Medicaid patients. AWP has recently come under significant scrutiny to determine its appropriateness as a mechanism for prescription drug reimbursement. AWP is also used in Medicare programs for calculating the cost of drug products administered in a physician's office. Prescription benefit managers (PBMs), insurance carriers, and other managed care organizations use AWP to calculate payments to retail pharmacies.

How Calculated:

According to the Red Book, AWP pricing information is "based on data obtained from manufacturers, distributors and other suppliers." There are no requirements that AWP reflect the price of any actual sale of drugs by a manufacturer, nor is it defined in law or regulations.³

Dispensing Fee - the charge for the professional services provided by the pharmacist when dispensing a prescription (including overhead expenses and profit). Medicaid and most direct pay insured prescription programs use dispensing fees to establish pharmacy payment for prescriptions. Dispensing fees do not include any payment for the drugs being dispensed.⁵

Estimated Acquisition Cost (EAC) - a state Medicaid agency's best estimate of the price generally paid by pharmacies for a particular drug.⁶

Federal Upper Limit (FUL) - the federal payment ceiling that applies to drugs with three or more generic versions. The FUL is set at 150 percent of the published price (in any of the published compendia of cost information for drugs) for the least costly therapeutic equivalent that can be purchased by pharmacists in quantities of 100 tablets or capsules.⁴

Formulary - a preferred drug list that typically limits the number of drugs available within a therapeutic class for purposes of drug purchasing, dispensing, and/or reimbursement. A government body, third-party insurer, health plan, or institution may compile a formulary. Some institutions or health plans develop closed (i.e. restricted) formularies where only those drug products listed can be dispensed in that institution or reimbursed by the health plan. Other formularies may have no restrictions (open formulary) or may have certain restrictions such as higher patient cost-sharing requirements for off-formulary drugs.⁵

Maximum Allowable Cost (MAC) - represents the upper limit price that an insurer or health plan will reimburse for generically available or multiple source medications. This typically follows the initiative for reimbursement by the Medicare or Medicaid program when more than two generic drugs are available in the marketplace.⁴

Medicaid Best Price - the lowest price paid to a manufacturer for a brand-name drug, taking into account rebates, chargebacks, discounts, or other pricing adjustments, excluding nominal prices.¹

Pharmacy Benefit Manager (PBM) - an organization that provides administrative services in processing and analyzing prescription claims for pharmacy benefit and coverage programs. PBM services can include contracting with a network of pharmacies; establishing payment levels for provider pharmacies; negotiating rebate arrangements; developing and managing formularies, preferred drug lists, and prior authorization programs; maintaining patient compliance programs; performing drug utilization review; and operating disease management programs. Many PBMs also operate mail order pharmacies or have arrangements to include prescription availability through mail order pharmacies. PBMs are expected to play a key role in managing pharmacy benefit plans in the Medicare drug program.⁵

Preferred drug list – see formulary

Prior authorization - prior dispensing approval given to a provider by a PBM or payer to ensure that the drug is medically appropriate and eligible for reimbursement.²

Physician-dispensed pharmaceuticals (aka repackaged drugs) - advocates say this is more convenient for patients, and leads to enhanced compliance with medication regimens. It also works better for certain vulnerable populations that have difficulty

accessing retail pharmacies because of distances or language differences. The California study found nearly one-third of all prescriptions are dispensed by physicians, and at a much higher cost than retail pharmacy prices.²

Reference pricing - typically equal to the price of the lowest cost interchangeable drug. It defines the maximum reimbursement for interchangeable drugs and in a sense is cost sharing, because the patient pays the difference between the price of the drug and the reference pricing.²

Step therapy - the practice of beginning drug therapy for a medical condition with the most cost-effective and safest drug therapy and progressing to other more costly or risky therapies only if necessary. Relatively new policy tool; usually requires that a generic be tried before the more expensive drug would be covered; medical exceptions granted to patients for clinical reasons.²

Wholesale Acquisition Cost (WAC) - developed by manufacturers using algorithms to account for expected demand for the product, future competition for the product, and project marketing costs. The WAC is the baseline price at which wholesale distributors purchase products.⁶

¹ NCCI WC Prescription Drug Study – 2006 Update

² WCRI Cost and Use of Pharmaceuticals in WC

³ Academy of Managed Care Pharmacy, [A Guide to Understanding Common Prescription Drug Pricing Terms](#)

⁴ National Health Policy Forum, [Average Wholesale Price for Prescription Drugs: Is There a More Appropriate Price Mechanism?](#)

⁵ <http://www.hrsa.gov/opa/glossary.htm>, Health Resource and Services Administration, U.S. Department of Health and Human Services

⁶ [Follow the Pill: Understanding the US Commercial Pharmaceutical Supply Chain](#), The Health Strategies Consultancy LLC, 2005