

The Need for Legislation Regarding “Maximum Allowable Cost” (MAC) Reimbursement

Background—What is MAC?

A “Maximum allowable cost” or “MAC” list refers to a payer or PBM-generated list of products that includes the upper limit or maximum amount that a plan will pay for generic drugs and brand name drugs that have generic versions available (“multi-source brands”). Essentially, no two MAC lists are alike and each PBM has free reign to pick and choose products for their MAC lists.

There is no standardization in the industry as to the criteria for the inclusion of drugs on MAC lists or for the methodology as to how the PBM will determine the maximum price or how it’s changed or updated. PBMs have free reign on developing these methodologies and in turn, the ultimate price. The PBM’s client is left entirely in the dark.

PBM Use of MAC as Revenue Stream:

Because of this lack of clarity, many PBMs use their MAC lists to generate significant revenue. Typically, they utilize an aggressively low MAC price list to

reimburse their contracted pharmacies and a different, higher list of prices when they sell to their clients or plan sponsors. Essentially, the PBMs 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.*

Most PBMs try to incentivize the use of their own in-house mail order pharmacies and do not apply MAC pricing to mail order drugs. Instead these PBMs offer a discount off Average Wholesale Price (AWP) – another industry pricing standard – for mail order generic drugs at a rate agreed upon by the PBM and plan sponsor. In this way, the PBM is motivated to utilize the product with the highest AWP relative to the actual drug acquisition cost for their in-house mail order operations, not the product with the lowest net cost. *Thus, plan sponsors could pay significantly more for generic drugs via the PBM-owned mail order pharmacy than through a community retail pharmacy.*

MAC legislation is designed to reasonably address the above concerns by:

- Providing clarity to plan sponsors and pharmacies w/regard to how MAC pricing is determined and updated and establishing an appeals process in which a dispensing provider can contest a listed MAC price.
- Providing standardization for how products are selected for inclusion on a MAC list.
- Compelling PBM disclosures to plan sponsors about the use of multiple MAC lists and whether or not MAC pricing is utilized for mail order products

In summary, neither plan sponsors nor contracted retail network pharmacies have any transparency into the MAC process. They are required to blindly agree to contracts. Retail pharmacies are not informed how products are added or removed from a MAC list or the methodology that determines how reimbursement is ultimately calculated. However, pharmacies must contract with PBMs to provide services and participate in plans without having this critical information. In other words, pharmacies are required to sign contracts not knowing how they will be paid. It is equivalent to agreeing to the services of a home builder, not knowing how you will be paid or what materials will be utilized in the homes construction.