

Issue Brief



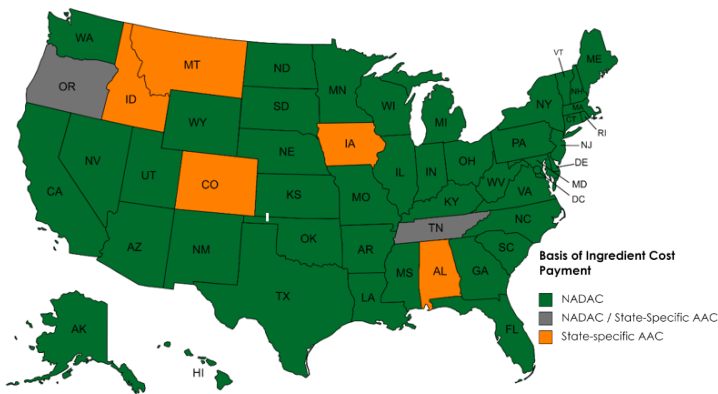
Section 206 of the bipartisan Prescription Drug Pricing Reduction Act (PDPRA), and similar proposals, seek to mandate responses by pharmacies to CMS' National Average Drug Acquisition Cost (NADAC) survey. Such proposals have the potential to unlock significant added savings to federal programs.

This issue brief examines the potential savings arising out of the increased availability of prescription drug pricing information.

What is NADAC?

NADAC is a drug pricing benchmark that estimates the national average drug invoice price paid by independent and chain pharmacies to acquire prescription drugs. CMS developed NADAC to help state Medicaid Fee-for-Service (FFS) programs meet CMS' requirements to reimburse pharmacies at actual acquisition cost (AAC); although NADAC does not reflect rebates, price concessions, or off-invoice discounts pharmacies may receive related to the drug purchases they make. Presently, the majority of states rely upon the federal survey (i.e., NADAC) for setting their FFS reimbursement (Figure 1).

FIGURE 1: MEDICAID INGREDIENT COST AAC BASIS, Q2 2021



NADAC vs. Traditional Benchmarks

Traditional pharmacy pricing benchmarks, such as Average Wholesale Price (AWP) or Wholesale Acquisition Cost (WAC), are based upon drug manufacturer-set list prices. However, pharmacies purchase drugs at or below the manufacturer's list price and are most often reim-

bursed by pharmacy benefit managers (PBMs) at a set discount off of AWP. Participants in the drug supply chain, such as pharmacies and PBMs, rely upon the difference between their true acquisition cost and reimbursement, or "spread", as a major source of revenue. As can be seen below, the difference between the traditional pricing benchmarks and NADAC is already significant.

NADAC Equivalency	Brand Drugs		Generic Drugs	
	WAC Mean	AWP Mean	WAC Mean	AWP Mean
March 2021	-4.6%	-20.6%	-44.1%	-79.5%

Making NADAC Better

While NADAC is a more accurate pricing benchmark than AWP or WAC, as it is based upon pharmacy costs, there are improvements that can be made to its methodology. Today, one of the most significant limitations of NADAC is that the price survey is voluntary. **This limitation is fixed by Section 206 of PDPRA.** With a response rate of approximately 20%, NADAC currently does not capture the price of some drugs (i.e., specialty brands often lack a NADAC price) and may not capture some pharmacies (i.e. national chains). As a result of some of these limitations, seven state Medicaid programs have elected to conduct their own assessments of AAC (Figure 1). At least one of these states, Alabama, mandates that all pharmacies in the state respond to their AAC survey.

As a result, Alabama's AAC presents an opportunity to assess the potential cost savings available to federal payers from mandating responses from both large, small and independent pharmacies to NADAC surveys.

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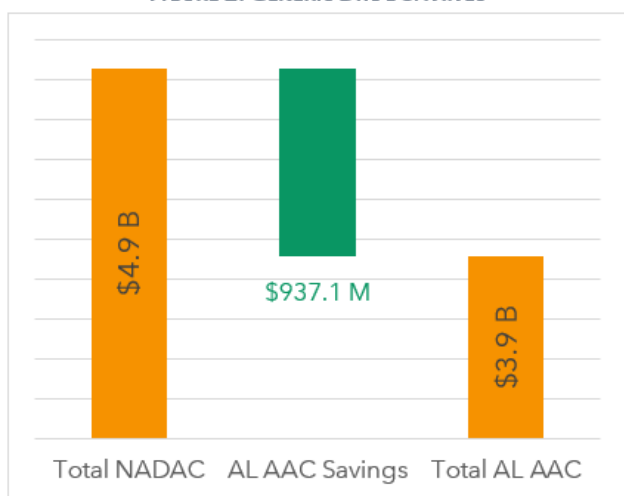
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Savings

Capturing Additional Generic Drug Savings

When comparing generic drug costs with a NADAC and an Alabama AAC, we find a total of \$937 million in annual savings across Medicaid (FFS & MCO), representing nearly a 20% discount derived from mandatory acquisition price reporting by pharmacies (Figure 2). The average savings per drug is 22%. These savings are recognized across more than 2,000 unique products (i.e., unique active ingredient, strength, and dosage form). Over a 10-year period, the additional savings approaches \$10 billion.

FIGURE 2: GENERIC DRUG SAVINGS

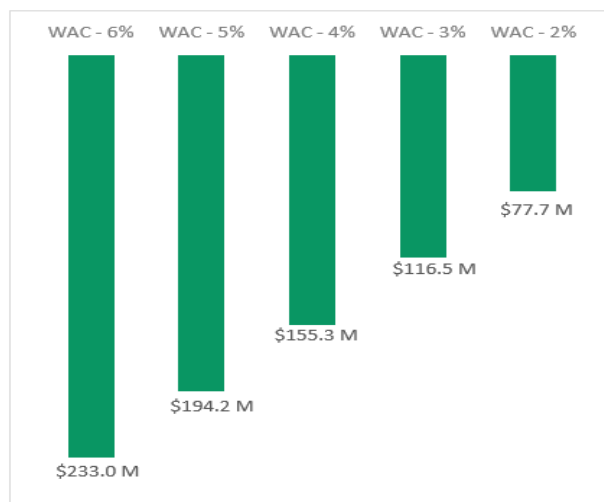


Transparent Pricing Around Previously Hidden Drug Costs

There are nearly 1,600 unique oral solid products used in Medicaid that currently lack a NADAC price, such as specialty medications not administered in a provider office. These products represent \$3.7 billion in annual Medicaid expenditures (5% of total). Absent a transparent price, these products are nearly universally paid based upon WAC or a discount to AWP. According to CMS, the average NADAC discount for brand name drugs relative to WAC is roughly 4%. A WAC discount of this magnitude represents approximately \$155 million in additional annual savings based upon these

drugs gaining price transparency via mandatory NADAC responses by pharmacies. Figure 3 presents a sensitivity analysis to measure these savings based upon different aggregate discounts to WAC. Over a 10-year period, the additional savings exceeds \$1.5 billion.

FIGURE 3: SAVINGS FROM TRANSPARENT PRICING



Methods

3 Axis Advisors compared all Medicaid transactions available within CMS' State Drug Utilization Data (SDUD) from Q3 2019 to Q2 2020. Comparisons were based upon the total value for the underlying NADAC, WAC, and Alabama AAC prices for the Medicaid prescriptions dispensed.

Disclosures

This research was funded by Capital Rx.

References:

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- <https://www.federalregister.gov/documents/2016/02/01/2016-01274/medicaid-program-covered-outpatient-drugs>
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