

## Maximum Allowable Cost (MAC) Pricing

Maximum Allowable Cost (MAC) pricing is a payment model contractually agreed to in the marketplace by all participants. It includes payers and pharmacies and ensures employers and consumers – those purchasing health insurance benefits – get the lowest possible price on generic drugs. MAC price reimbursement is a more accurate pricing tool than other payment alternatives for generic drug reimbursement because MAC prices are updated frequently to keep pace with market changes in the purchase prices of generic drugs available to pharmacies. AMCP supports the use of MAC pricing as a managed care tool to encourage the dispensing of cost saving generic drugs and thereby benefiting the overall health care system.

MAC pricing is designed to promote competitive pricing for pharmacies as an incentive to purchase the least costly generic drugs available in the market, regardless of the manufacturer's list price. Different manufacturers will charge different amounts for equally interchangeable generic drugs. If a pharmacy purchases the higher-priced product, it may not make as much profit or, in limited instances, may lose money on that specific purchase. Alternatively, if they purchase generic drugs at a more favorable price available in the marketplace, they will be more likely to make a profit. MAC pricing plays an important role in keeping economic incentives aligned for both payers and pharmacies.

MAC prices are driven by factors inherent in marketplace competition, including how long the drug has been generic, how many manufacturers are making generic versions, how widely available the generic drug is accessible for purchase, and whether there have been problems in manufacturing (such as access to basic ingredients or product recalls). Drugs that have been generic longer are more likely to have greater competition and, therefore, lower pharmacy-purchasing prices. In general, market competition reflected in MAC pricing supports payers' goals of keeping drug costs down for consumers and employers and not overpaying for generic drugs.

Health plans and pharmacy benefit managers (PBMs) operate in a highly competitive environment; therefore, it is essential to ensure that their contracted pharmacies compete with each other to obtain the lowest price possible. If MAC price information is publicly disclosed, it would have an anti-competitive effect on health plans, employers and other payers. Competing health plans would have access to others' pricing information, and competing pharmacies would have access to others' MAC reimbursement calculations, allowing both the potential opportunity to price fix. This may drive up drug prices for health plans, employers, other payers and consumers.

AMCP is not aware of any other instance where federal or state laws require private companies to disclose their proprietary pricing methodology to a purchaser. Further, enacting laws that require one party to a contract to disclose its pricing methodology to the other party allows government to guarantee a profit to a privately held business. AMCP believes that instituting government pricing controls on one segment in the marketplace to financially benefit another segment is not an appropriate role for the legislative process.

AMCP strongly supports market based competition and contractual negotiation between private parties. AMCP does not support the use of state or federal law to intervene in private contracts to regulate MAC-based payments solely for the benefit of one party to the contract. When government seeks to set pricing controls, it only focuses on one side of the market. It does not recognize that pharmacies purchase from a variety of sources and make business decisions that may from time to time not be financially sound. When government “contracts” on their behalf, there is no incentive for a pharmacy to make reasoned purchase decisions or negotiate with their suppliers in order to reduce their costs. Government intervention is short sighted because it invariably arises out of constituent complaints because a pharmacy is “losing” money on a particular drug. When the government intervenes, it does not take into account that many times MAC pricing is based on aggregating data, and so pharmacies naturally make more profit on some drugs, but may not recognize a profit on every drug; however, the overall reimbursement is profitable. This market reality is not taken into consideration when the legislature acts; yet another example of why government should not be involved in price setting controls for private contracting entities.

Accordingly, AMCP would oppose the following:

- all federal or state requirements with respect to MAC list calculations, including requirements that payers disclose to pharmacies the proprietary methodology used to calculate pharmacy MAC reimbursement;
- requirements that payers may only use specific sources for setting MAC payment rates on each list included under a contract, and that payers must specify the sources utilized for each list and each client;
- requirements which dictate the frequency with which MAC lists must be updated, and that establish a statutory process for notification, including who must be notified and the exact timing of notification; and
- State and federal intervention into private contracts to mandate one party’s profitability, including requirements that payers must pay a specific margin above MAC to pharmacies to guarantee greater pharmacy profits, and provisions that allow pharmacies to refuse to dispense a prescription for which they may not be guaranteed a profit.

AMCP supports, as a best practice, payers providing a fair and timely MAC appeals process related to a contracted pharmacy’s MAC pricing inquires or disputes. AMCP recognizes that there are instances when the MAC pricing must be revised based on certain environmental factors; e.g., the supply of available products is diminished or limited.

Examples of where MAC pricing may be suspended include when raw ingredient availability reduces the number of trade available products on the market and when litigation or the threat of litigation lead to an injunction or concern within the marketplace, thereby limiting the number of manufacturers who offer a product. Plans need the flexibility to adjust for these market circumstances.

Also, AMCP supports, as a best practice, payers including a provision in the contract that provides for notification of updates to the MAC list within a specified time period.

AMCP believes that government regulation of prescription drug pricing, regardless of its structure, would have an overall negative impact on consumer cost, quality, and access to health care benefits. Legislation that allows the government to dictate reimbursement terms of a private contract between a payer and a pharmacy, or that mandates that the payer disclose proprietary pricing methodology, is not an appropriate focus of government regulation. Further, AMCP believes that competitive negotiations between parties are more likely to provide fair and equitable reimbursement on drugs dispensed. AMCP does not support the intervention of government into private contracts to require payers to advise pharmacies on where to purchase their drugs; that is an unnecessary and inappropriate intrusion into the private arrangements of a pharmacy with its supplier. This type of government mandate takes away the incentive for a pharmacy to make wise purchasing decisions. The payers and consumers will not benefit from a system of government mandated payments to a private entity; rather, it will decrease competition and further drive up the cost of the prescription drug benefit.

*Approved by AMCP Board of Directors, December 2013*

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[www.amcp.org/positionstatements](http://www.amcp.org/positionstatements).