

Federal Drug Discount and Compliance Monitor



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...**BREAKING NEWS...**

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President Proposes Overhaul of Medicaid Rebate Program

In an effort to “increase efficiency and lower costs in Medicaid prescription drugs,” President Bush has proposed an overhaul of the Medicaid drug rebate formula that could also change the way that 340B discounts are calculated.

The President’s Budget for Fiscal Year 2006, released today, seeks to eliminate “best price” from the rebate formula and replace the figure with a flat rebate so that manufacturers would not have a disincentive to offer prices below their “best price” to customers in the private market.

According to the budget, the current formula prevents large purchasers such as hospitals and health maintenance organizations (HMO) from negotiating deep discounts because pharmaceutical manufacturers are obligated to offer their lowest private market price, or “best price,” to the Medicaid program.

In the past, the Administration has also argued that best price calculations can be confusing because it is unclear which prices manufacturers must include.

“Best price effectively acts as a price floor,” the budget states. “The Administration proposes to replace best price with a budget neutral flat rebate, allowing private purchasers to negotiate lower drug prices.”

Although the budget does not mention any changes to the 340B program, such a reform would presumably have an equally significant impact on the program because the 340B ceiling price for brand name drugs is equal to the lesser of either best price or Average Manufacturer Price (AMP) – 15.1%. Therefore, if Congress were to enact the President’s proposal, the new flat rebate would also most likely apply to the 340B program.

This is not the first time that the Administration has attempted to reform the rebate formula. In 2002, President Bush included in his budget a proposal that would have changed the rebate from the difference between a manufacturer's best price and the Average Manufacturer Price (AMP) to the difference between the best price and Average Wholesale Price (AWP), which is estimated to be significantly higher than AMP.

The 2006 budget also argues that the government should reform the Medicaid pharmacy reimbursement system by implementing a formula that “more closely aligns pharmacy reimbursement with pharmacy acquisition cost, while providing adequate payment for dispensing prescriptions.”

Press reports indicate that the Administration prefers a system based on Average Sales Price (ASP), which represents the weighted average of all non-federal sales to wholesalers and takes into account chargebacks, discounts, rebates, and other benefits tied to the purchase of the drug product.

ASP has already supplanted AWP as the basis for reimbursement of pharmaceuticals purchased through Medicare Part B.

More details will be available in the February 2005 issue of The Monitor.