

## **Maximum Allowable Cost (MAC) Primer**

### **What is MAC?**

Maximum allowable cost (MAC) is one of the most common methodologies used in paying pharmacies for dispensing generic drugs. MAC is the maximum allowable reimbursement paid to a pharmacy for a particular generic drug that is available from multiple manufacturers and sold at different prices. Each manufacturer has its own price for a particular generic drug and these prices can differ extensively by manufacturer.

### **How is MAC calculated?**

Within the pharmacy industry, individual pharmacies and chains can procure drug products from various wholesalers, under private contracts, to which PBMs have no direct insight. As a result, the PBM industry uses other reference data as a proxy for the establishment of MAC pricing. MAC is calculated based on industry-available data which demonstrates the average cost for drug products in the market. This data includes information provided from nationally recognized pricing services (e.g., Medi-Span), wholesalers, and drug manufacturers. This information is reviewed, in aggregate, to determine the average cost to pharmacies for generic drugs. The resulting MAC price for a given generic drug product is established using the estimated market price while balancing the contractual requirements established by each unique pharmacy and plan sponsor. Each PBM develops and maintains its own confidential MAC lists derived from its specific proprietary methodologies.

### **Why are there multiple MAC lists?**

Multiple MAC lists are created as a result of consumers getting their health insurance (and drug benefits) from different insurers and plan sponsors. These insurers and plan sponsors contract with PBMs in a variety of different ways to meet their individual plan needs. As a result, PBMs may need to utilize different MAC lists to meet the plan sponsor's unique contractual requirements. For example, a large national or regional employer would bring a larger volume of business to pharmacies as compared to a small employer, thus justifying a different reimbursement list. Other programs such as a state Medicaid program or a state employee/retiree health program may have different reimbursement objectives than commercial health programs. This wide variety of objectives cannot be achieved using a single MAC list.

### **Who uses MAC?**

MAC lists are used by 79% of private employer prescription drug plans for retail generic prescriptions. Forty-five state Medicaid programs now use MAC lists.

### **Why do payers use MAC?**

MAC pricing is used to standardize the reimbursement amount for identical products from various manufacturers, regardless of each manufacturer's price. MAC pricing also incentivizes pharmacies to negotiate more competitive rates for generic drugs with manufacturers and wholesalers in order to keep overall prices down. States adopted MAC lists after government audits showed that Medicaid reimbursements for generic drugs far exceeded a pharmacy's acquisition costs.

### **What is the role of PSAOs?**

Independent pharmacies may join buying groups and/or Pharmacy Services Administration Organizations (PSAOs) to earn discounts and rebates from preferred suppliers of drugs and other products. The typical PSAO represents thousands of pharmacies, giving these groups access to pooled purchasing power, negotiating advantages, and contracting strategies. Pharmacies rely on their PSAO to purchase drugs from wholesalers and manufacturers at the lowest cost available, to manage MAC appeals, and to perform other administrative tasks. Some PSAOs are owned by drug wholesalers, and these relationships may limit a pharmacy's purchasing to certain wholesalers' inventories of drugs. PBMs are not party to these confidential PSAO-pharmacy contracts. The ultimate cost of drugs to the pharmacies, including the discounts, rebates and other incentives that have been negotiated among the manufacturers, wholesalers, PSAOs and pharmacies, is blind to the PBM.