**Prescription Drug Affordability Boards and Pharmacies**

A Prescription Drug Affordability Board (PDAB) has authority to establish statewide, all-payer, all-purchaser payment rates — upper payment limits (UPLs) — on drugs it has determined create financial challenges and patient access problems due to cost. The UPL should be a cost limit at which the state’s health care system (both private and public) can finance increased access to otherwise unaffordable drugs without high patient cost-sharing. Notably, the UPL most likely will reflect meaningful product discounts — discounts the manufacturer is already offering somewhere in the U.S. market.

**How a UPL works in the supply and financing chains**

A UPL essentially creates a statewide market, or purchasing group, for a drug. Everyone gets the same, significant discount — the UPL. A UPL requires suppliers to negotiate with manufacturers on behalf of the entire state. Pharmacies will stock UPL drugs by paying no more than the UPL, billing no more than the UPL and being reimbursed at the UPL plus professional fees. There is no intention that any part of the supply chain lose money on a UPL product.[[1]](#footnote-1)

**Pharmacy procurement:** The UPL applies to all payments and all purchases (that is, all in-state financial transactions) for a drug with a UPL. This means that the wholesaler or other in-state supplier must procure the drug at a cost that is compliant with the UPL and that allows in-state customers to also comply with the UPL. The UPL relies on the exact same procurement and financing chain in place today. Pharmaceutical companies regularly negotiate discounts with payers and providers in today’s market. The UPL simply establishes a statewide, uniform upper limit on costs so that everyone has affordable access. Payers and providers can still negotiate additional discounts using their market tools.

With a UPL in place, there is no option to buy or bill at a cost higher than the UPL. Pharmacies, like the rest of a state’s supply chain, can pay no more than the UPL. Pharmacies, like the rest of a state’s supply and financing chains, can bill no more than the UPL. Pharmacies bear no responsibility to address the lack of affordable product if manufacturers will not negotiate for drugs intended for sale in the state.[[2]](#footnote-2)

**Pharmacy reimbursement:** The PDAB Model Act (and the2021 Colorado PDAB law) specifies that independent pharmacies cannot be reimbursed less than the UPL. The UPL is the pharmacy acquisition cost. The act also stipulates that the UPL does not include dispensing or other pharmacy professional fees. The important point is that pharmacy reimbursement based on a UPL should end the chronic underpayment of independent and rural pharmacies that occurs when payers use national average acquisition costs to estimate local pharmacy acquisition costs.

A PDAB’s role is to assess affordability and access, and to establish a UPL that increases access to drugs. The UPL is not intended to be punitive to manufacturers or the supply chain. Rather, establishing an affordable payment limit that applies to all purchasers, payers and patients will:

* Provide a baseline of equitable access to lower costs.
* Improve access to costly drugs.
* Increase sales of costly products.
* Improve the fairness of reimbursement to independent and rural pharmacies.

1. In the updated PDAB Model Act (October 2021), the board is required to consider and account for the operational costs to the supply chain, which could include margin. [↑](#footnote-ref-1)
2. It is not likely that a manufacturer would boycott a state over a UPL that increases sales. Manufacturers sell their drugs in all countries with national price controls. A manufacturer that retaliates or boycotts a state intends to directly punish patients, which hurts the company’s reputation. A boycott also would cede market share to therapeutically similar products and potentially create anti-trust concerns or violations of state fair market practice laws. [↑](#footnote-ref-2)