PhRMA
RESEARCH • PROGRESS • HOPE

Follow the Dollar

Understanding How the Pharmaceutical Distribution and Payment System Shapes the Prices of Brand Medicines

February 2025

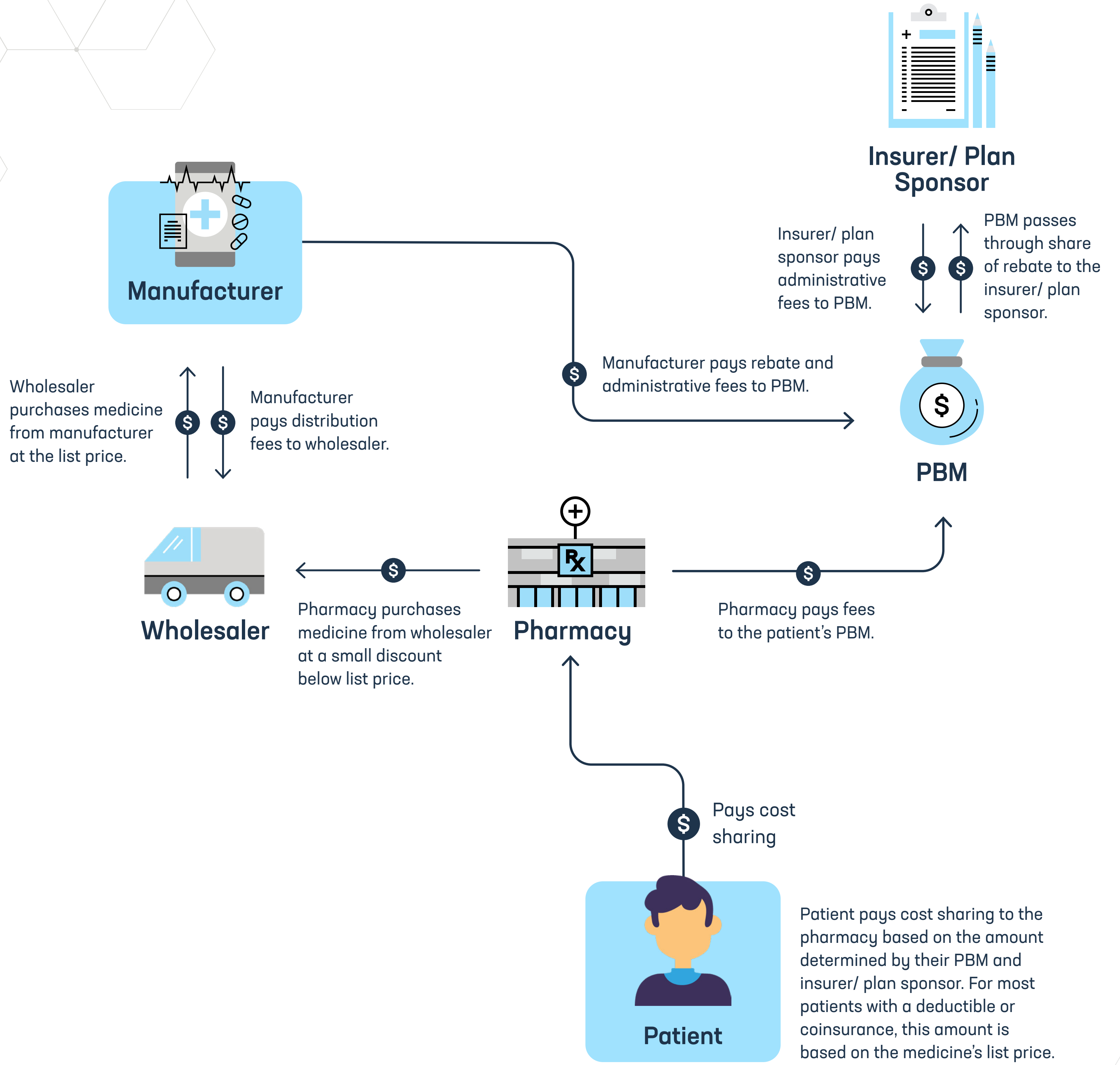
Executive Summary

Drug pricing is a complex and often confusing issue, shaped by a pharmaceutical distribution and payment system that involves multiple transactions among numerous stakeholders.

While there has been significant public discussion about the prices of prescription medicines, it is rarely clear what price is being discussed. There is no one price for a medicine, as prices paid by wholesalers, pharmacies, pharmacy benefit managers (PBMs), and health plan sponsors all vary and are determined by negotiations between stakeholders, each with varying degrees of negotiating power.

A better understanding of the players involved in the pharmaceutical supply chain, and the role each plays in determining what patients ultimately pay for their prescriptions, can help consumers and policymakers find answers to their questions and concerns about affordability and access to medicines. Drawing from published materials and interviews with industry experts, this paper explains the financial flows that occur as brand medicines move through the supply chain for retail, mail-order, and specialty drugs. Illustrative examples are provided for 3 patients: Jane, Erik, and Scott. Because payment terms are determined through confidential negotiations between stakeholders, the terms of individual contracts are highly variable and may differ from these hypothetical examples.

General Overview



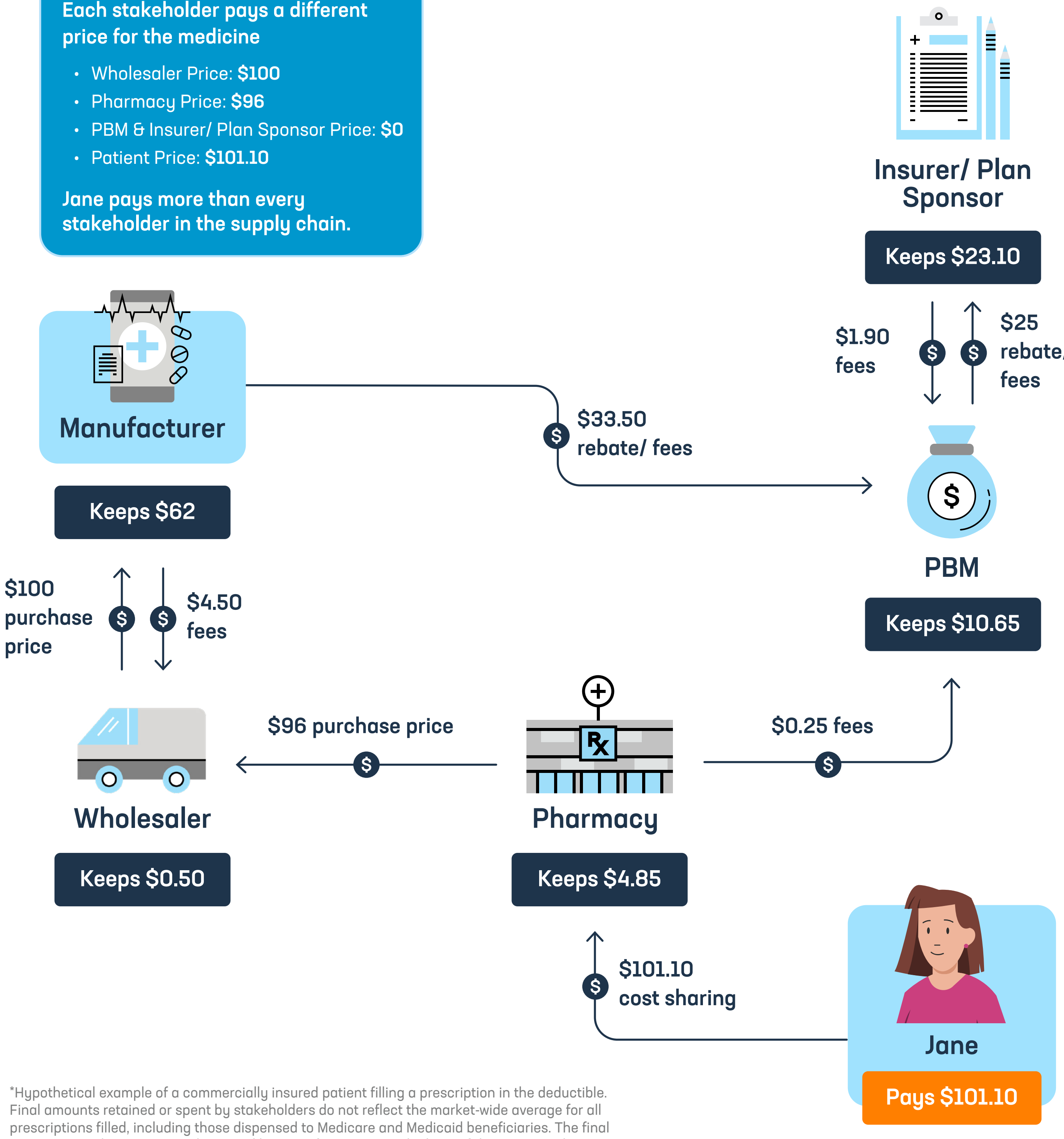
EXAMPLE 1:

Deductible

Each stakeholder pays a different price for the medicine

- Wholesaler Price: **$100**
- Pharmacy Price: **$96**
- PBM & Insurer/ Plan Sponsor Price: **$0**
- Patient Price: **$101.10**

Jane pays more than every stakeholder in the supply chain.



*Hypothetical example of a commercially insured patient filling a prescription in the deductible. Final amounts retained or spent by stakeholders do not reflect the market-wide average for all prescriptions filled, including those dispensed to Medicare and Medicaid beneficiaries. The final amount spent by patients and retained by manufacturers may be lower if the patient utilizes a manufacturer cost-sharing assistance program.

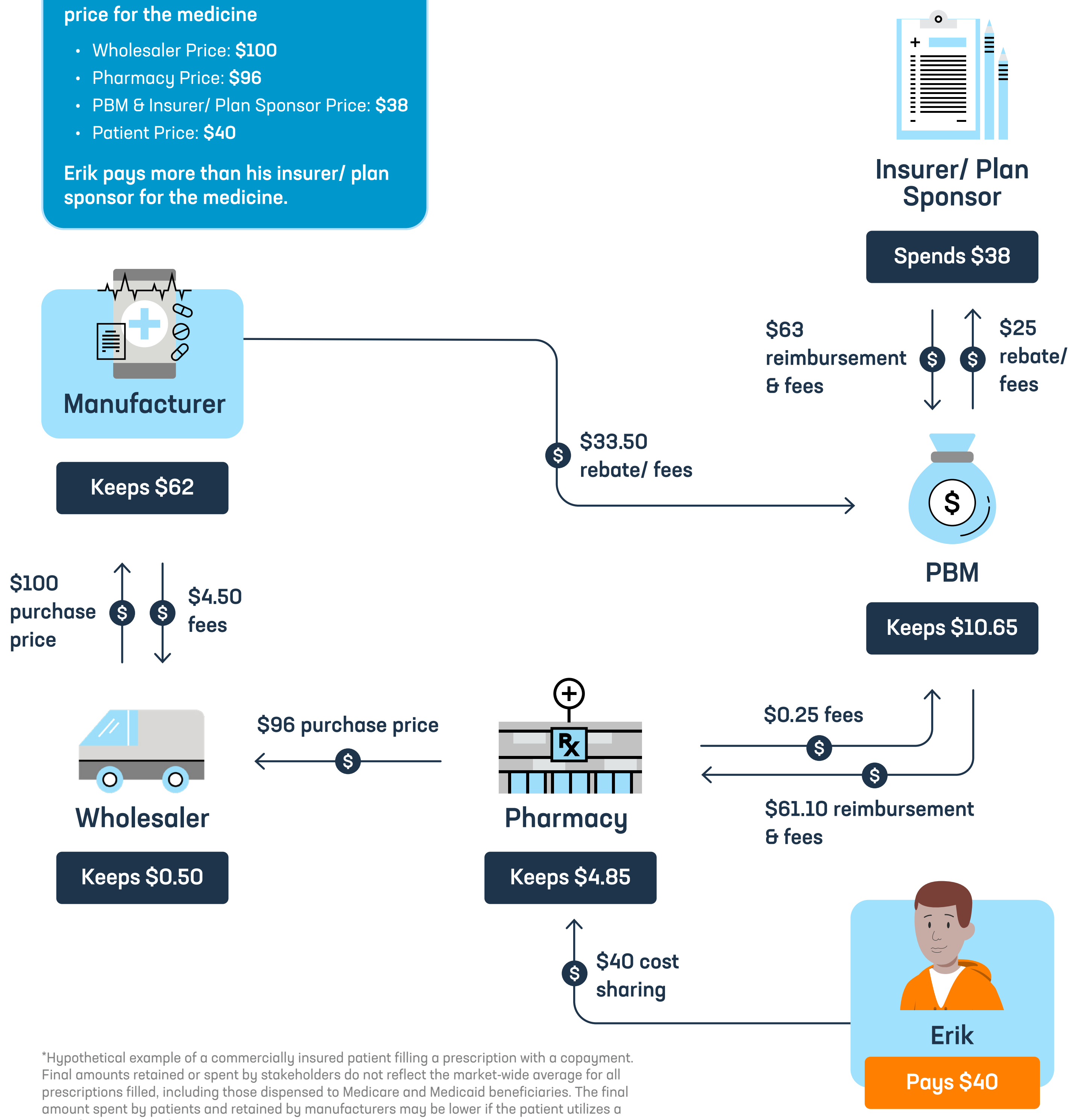
EXAMPLE 2:

Copayment

Each stakeholder pays a different price for the medicine

- Wholesaler Price: **$100**
- Pharmacy Price: **$96**
- PBM & Insurer/ Plan Sponsor Price: **$38**
- Patient Price: **$40**

Erik pays more than his insurer/ plan sponsor for the medicine.



*Hypothetical example of a commercially insured patient filling a prescription with a copayment. Final amounts retained or spent by stakeholders do not reflect the market-wide average for all prescriptions filled, including those dispensed to Medicare and Medicaid beneficiaries. The final amount spent by patients and retained by manufacturers may be lower if the patient utilizes a manufacturer cost-sharing assistance program.

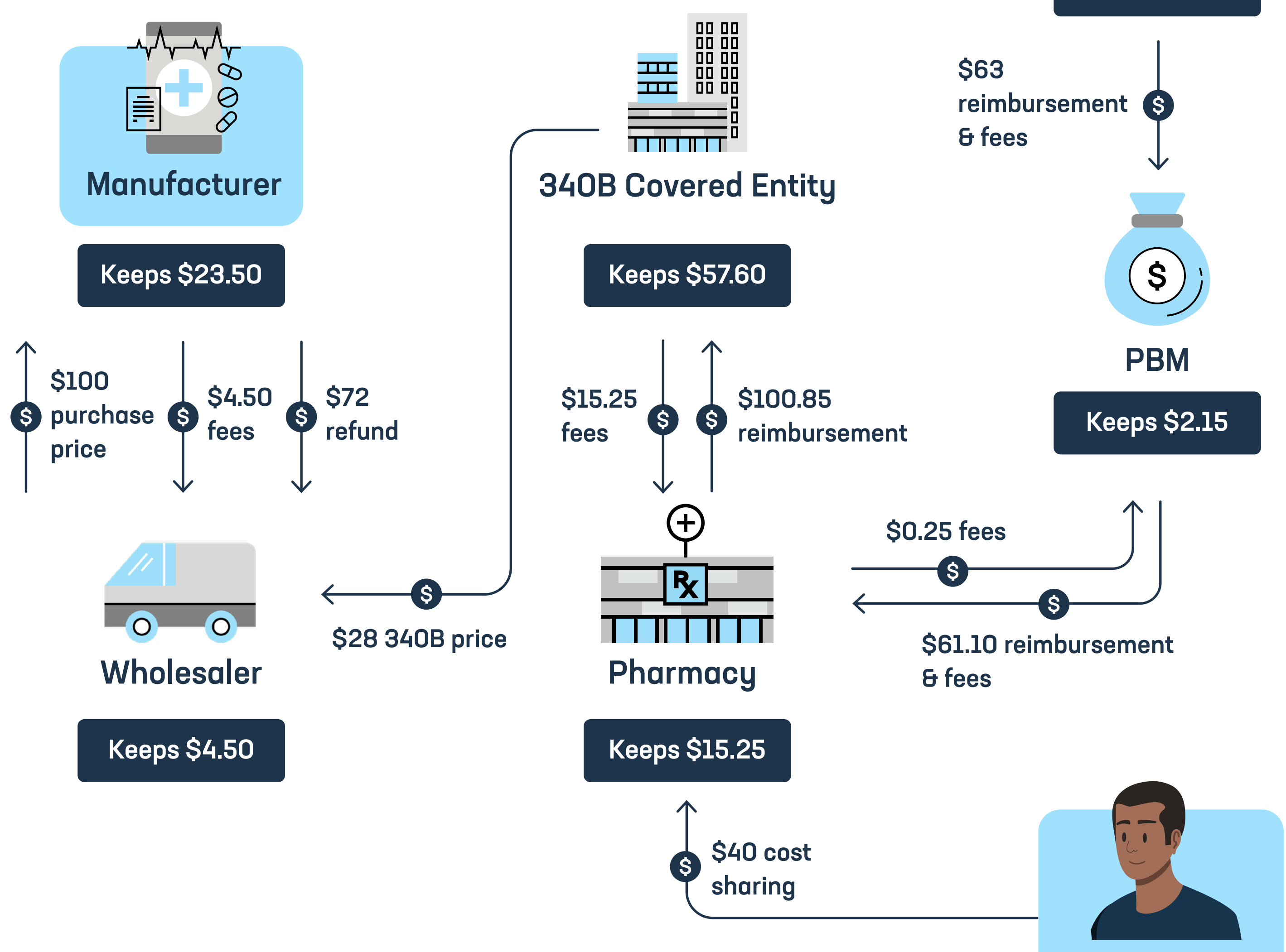
EXAMPLE 3:

340B

Each stakeholder pays a different price for the medicine

- Wholesaler Price: **$100**
- Pharmacy Price: **$28**
- PBM & Insurer/ Plan Sponsor Price: **$63**
- Patient Price: **$40**

The covered entity keeps more than twice what the manufacturer makes, with no benefit to the patient.



*Hypothetical example of a commercially insured patient filling a prescription in the deductible. Final amounts retained or spent by stakeholders do not reflect the market-wide average for all prescriptions filled, including those dispensed to Medicare and Medicaid beneficiaries. The final amount spent by patients and retained by manufacturers may be lower if the patient utilizes a manufacturer cost-sharing assistance program.

Vertical Integration Overview