

CONGRESS OF THE UNITED STATES  
CONGRESSIONAL BUDGET OFFICE

A  
**CBO**  
PAPER

JANUARY 2007

**Prescription Drug  
Pricing in the  
Private Sector**







# Prescription Drug Pricing in the Private Sector

January 2007

The Congress of the United States ■ Congressional Budget Office

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## Note

The numbers in the text, tables, and figures of this paper may not add up to totals because of rounding.

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## Preface

**A**s prescription drugs move from manufacturers to consumers, a complex set of market transactions involving prices, discounts, and rebates occurs along the supply chain. Although the drugs themselves move in a relatively straightforward way, the flow of payments and the process by which they are determined are much more complex.

This Congressional Budget Office (CBO) paper, prepared at the request of Senate Majority Leader Frist, explains the supply chain, the flow of payments, and the process by which payments are determined and provides estimates of the relative prices that retail pharmacies and nonretail providers pay for prescription drugs. In keeping with CBO's mandate to provide objective, nonpartisan analysis, this paper makes no recommendations.

Julie Somers and Anna Cook prepared the paper under the supervision of Joseph Kile, David Moore, Bruce Vavrichek, and James Baumgardner. Alshadye Yemane and Susan Labovich assisted with the data analysis, and Peter Richmond assisted with the figures. Allison Percy served as CBO's internal reviewer. Information and data were provided by the Centers for Medicare & Medicaid Services as well as by IMS Health. Tom Bradley, Philip Ellis, Arlene Holen, Amy Petz, Shinobu Suzuki, and Tom Woodward provided useful comments on drafts. Outside of CBO, Terry Latanich and Judy Wagner, both private consultants, did the same. (The assistance of external reviewers implies no responsibility for the final product, which rests solely with CBO.)

John Skeen edited the paper, and Kate Kelly proofread it. Maureen Costantino took the photograph for the cover and prepared the paper for publication. Lenny Skutnik produced the printed copies, and Linda Schimmel handled the distribution.



Donald B. Marron  
Acting Director

January 2007

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