

## Understanding Prescription Drugs

Unlike most of your daily purchases, prescription drug prices are not advertised. You can't research them online nor compare prices from pharmacy to pharmacy. Understanding a little about what components make up drug prices might help you with your next purchase.

**Prescription Drug costs have three main components: the actual drug cost, the pharmacy markup and the dispensing fee.**



### TOTAL PRESCRIPTION COST

**Drug Cost:** the drug ingredient cost the pharmacy pays to buy the drug.

**Pharmacy Markup:** the additional amount the pharmacy may charge for the drug above the ingredient drug cost.

**Dispensing Fee:** the professional fee a pharmacist charges to fill your prescription, covering services like maintaining medication records, explaining the treatment to you and dispensing your prescription.

Markups and dispensing fees can vary by pharmacy, store, company or region, impacting the final cost of your prescription drug purchase. Though there are no limits to what a pharmacy can charge for medications, most provincial plans limit the markups and dispensing fees they will reimburse to a pharmacy. Similarly, most insurers will establish maximum markups for prescription drug coverage. If a pharmacy is charging a markup that exceeds this maximum, the eligible amount for coverage will be limited to the allowable amount. The same is true for dispensing fees. As the illustration shows, though the drug cost is identical, differences in markups and dispensing fees can become significant.



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## Understanding Prescription Drugs (cont'd)

Understanding your drug cost is made up of components, and from pharmacy to pharmacy ingredient costs, wholesale markups, pharmacy markups and dispense fees can differ widely, it may pay to do some comparisons. Though your insurance coverage can help to defer prescription costs, most plans have a coinsurance amount (a percentage of the cost for which you are responsible). Taking the time to shop around can limit your out-of-pocket costs – and those savings can add up quickly.

### Generic Substitution

Generic substitution is a process whereby a different brand or an unbranded drug product is dispensed instead of the one prescribed by the physician. Many group benefit plans include generic substitution in their plan design. It helps keep drug coverage affordable and can lower an individual's out-of-pocket costs.

Many drugs are available in both generic and brand name forms. Generic drugs are typically less expensive, but are just as effective as brand name versions. Both drugs have the same active chemical ingredient, same dosage strength and dosage form. If your plan uses generic substitution, this means the reimbursement amount of your prescription is limited to the cost of the lowest-priced generic alternative.

If your doctor prescribes a brand name drug, you can either:

- ask your pharmacist for the more cost-effective generic version of the drug, or
- request the brand name drug your doctor has prescribed and pay the difference in cost between the lowest-priced generic drug and the brand name drug.

Though plans may substitute generic equivalents wherever possible, some plans will allow a brand drug to be dispensed if the generic is unacceptable. In some cases it may be as simple as having your physician specify “No Substitution” on the prescription. In others, your doctor may need to provide medical evidence supporting the specific need for the brand name medication for the exception to be approved.

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# BENEFIT facts:

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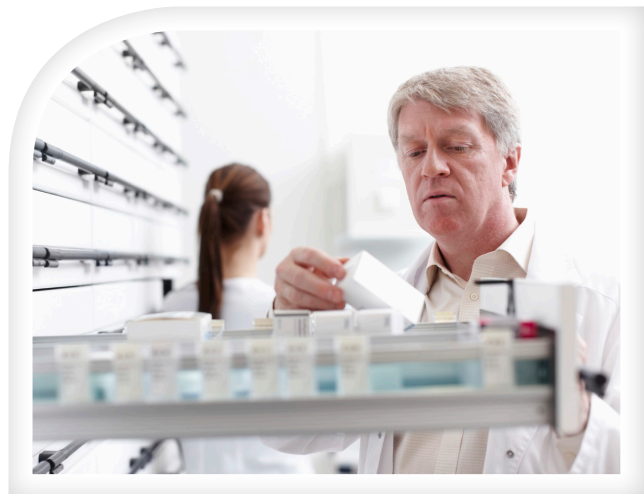
## Understanding Prescription Drugs (cont'd)

To illustrate how costs can vary between brand name and generics, see the example below. Assuming a 10% markup, identical dispensing fees, and the insurance company providing 80% coverage, out-of-pocket costs are 35% less with the generic drug. By utilizing generics wherever possible, you can lower prescription drug costs and your out-of-pocket charges.

BRAND NAME			GENERIC		
Markup \$8.00	Drug Cost \$80.00	Dispensing Fee \$5.00	Markup \$5.00	Drug Cost \$50.00	Dispensing Fee \$5.00
<b>TOTAL PRESCRIPTION COST = \$93.00</b>			<b>TOTAL PRESCRIPTION COST = \$60.00</b>		
<b>PLAN PAYS 80% - \$74.40</b>			<b>PLAN PAYS 80% - \$48.00</b>		
<b>YOU PAY \$18.60</b>			<b>YOU PAY \$12.00</b>		

### Bottom Line

Most benefit plans adjudicate claims based on set fee and price files established by provincial legislation, negotiations with Provincial Pharmacy Associations, or individually with each pharmacy. The specific plan's coinsurance or deductible are then applied to the established fee and price file calculated cost of the prescription. By understanding what goes into determining your prescription drug costs, you can take steps to ensure you are getting the most value from your coverage.



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