

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

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DRUG CHANNELS INSTITUTE
An HMP Global Company

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ABOUT DRUG CHANNELS INSTITUTE

Drug Channels Institute (DCI) is a leading source of industry research about pharmaceutical economics and the drug distribution system.



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DCI hosts live video webinars during which Dr. Fein discusses trends and policies that affect the pharmaceutical industry and its channels. [Click here to view our current and previous video webinars.](#)

DCI also combines Dr. Fein’s expertise and cutting-edge analysis—such as this *2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*—into interactive e-learning modules that offer your team a thorough grounding in crucial industry topics. [Click here to view a module list.](#) These online learning tools explain highly complex economic and business data and concepts so you can:

- Make better decisions to achieve your business goals
- Improve relationships with key accounts
- Understand your customers, channels, and the economics of the U.S. pharmaceutical industry

To learn more about how Drug Channels Institute can help your business, please contact:

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INTRODUCTION AND GUIDE TO THE 2024 REPORT

Since the previous edition of this report, pharmacy and healthcare provider markets continued to experience strong post-pandemic growth. At the same time, U.S. distribution and dispensing channels for prescription drugs continue to undergo significant evolution and consolidation as conventional business models are challenged by the evolving economics of pharmaceuticals.

The 2024 edition of our *Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers* delves into all of the crucial commercial, political, financial, and legal forces driving change:

- For 2023, total prescription dispensing revenues of retail, mail, long-term care, and specialty pharmacies reached \$621 billion (excluding COVID-19 vaccines). The double-digit revenue growth was due partly to prescriptions for anti-obesity GLP-1 agonist drugs.
- Specialty drugs' share of dispensing revenues and payer costs declined for the first time in 2023. Net prices for these products were pressured by growing competition from biosimilars and generic specialty drugs as well as aggressive benefit management tactics.
- The Big Three pharmacy benefit managers (PBMs) continued to evolve their increasingly opaque profit models. States have taken the lead in regulating and monitoring PBMs, but federal legislation has stalled. Smaller PBMs are successfully challenging the Big Three's dominance, while also relying on their larger competitors for crucial business operations.
- List prices for brand-name drugs—which directly impact the revenues and profits of pharmacies and PBMs—are growing at mid-single-digit rates. Brand-name drugs' net prices are declining, due to manufacturers' mandatory and voluntary rebates and discounts. Consequently, growth in the number of people being treated and the number of prescriptions being dispensed remains the key driver of payers' drug spending growth.
- The gross-to-net bubble, which measures total rebates and discounts paid by manufacturers, reached \$334 billion for all brand-name drugs in 2023. (Note that the 2024 edition makes an important change in the presentation of the gross-to-net bubble figures.) The combined impact of changes to the Medicaid rebate program, the IRA, and novel formulary access strategies may result in the gross-to-net bubble popping for some high-list/high-rebate products, including insulin.
- Nine manufacturers began marketing 14 biosimilar versions of Humira, the best-selling pharmaceutical in the U.S. By the end of 2023, however, the collective market share of these biosimilars remained below 3%. PBMs and payers are adopting diverse tactics to respond to the biosimilars' market access and formulary strategies.



The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

- A growing share of prescriptions are being dispensed with no patient out-of-pocket expense. However, U.S. patients' out-of-pocket costs remain bifurcated, based on benefit design, diagnosis, and drug therapy. Some people take inexpensive generic drugs, have generous benefit plans, and can utilize copayment offset programs. Others face high out-of-pocket expenses due to benefit designs with deductibles and coinsurance spending.
- Plan sponsors accelerated their use of novel tools—copay accumulator adjustment, copay maximizers, and alternative funding programs—that allow them to access manufacturers' copayment support and patient assistance programs to offset plans' specialty drug costs. Patient advocacy, manufacturers' tactics, and state laws are challenging payers' ability to use these tools.
- Patient-paid prescriptions that bypass insurance at cash-pay pharmacies and via discount cards are booming, due to the widely varying prices at which inexpensive generic drugs are sold throughout the drug channel. Plan sponsors now routinely incorporate these new prescription pricing models within pharmacy benefits.
- Vertical integration among insurers, PBMs, specialty pharmacies, and providers has created large companies that are exerting greater control over patient access, sites of care, dispensing, and pricing. These organizations are now refining—and in some cases unwinding—their vertical strategies as they search for meaningful synergies.
- Pharmacies experienced renewed profit pressures, as revenues and gross profits that pharmacies earned from the administration of COVID-19 vaccines plummeted. However, retail pharmacies retained their share of flu vaccinations in the post-pandemic period.
- The retail pharmacy shakeout continued. The largest chains continued to reduce their store count, while smaller pharmacies exited the market. Rite Aid, the third largest drugstore chain, filed for bankruptcy, closed locations, and sold its PBM business.
- The 340B Drug Pricing Program continues to expand at double-digit rates, even as public scrutiny of the program's operations generates new controversies. By the end of 2023, nearly 30 manufacturers had altered their policies regarding 340B discounts available at contract pharmacies. These actions have triggered new hospital specialty pharmacy strategies and challenged profits at pharmacies and PBMs.
- The Inflation Reduction Act of 2022 (IRA) began to alter the Medicare Part D program and trigger changes in beneficiary out-of-pocket spending, drug prices, pharmacy economics, and market access strategies.
- Generic market pricing remained in a deflationary cycle during 2023, although drug shortages have triggered inflation in subsets of the market. Low generic prices continue to limit pharmacies' revenues and gross profits from these prescriptions.



The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

- CVS, Walgreens, and Walmart increased their investments in healthcare services and physician enablement. Following VillageMD's acquisition of Summit Health-CityMD, Walgreens has emerged as one of the largest non-hospital employers of U.S. physicians. CVS Health announced the acquisition of Signify Health and Oak Street Health.
- The federal government approved Florida's plan to import drugs originally intended for the Canadian market. Other states have submitted as-yet-unapproved proposals. However, commercial importation by states is unlikely to be feasible or cost-effective.
- The Food and Drug Administration delayed final implementation of the Drug Supply Chain Security Act (DSCSA) for one year, until November 2024.
- The three largest pharmacy chains—CVS, Walgreens, and Walmart—finalized national settlements of financial and other opioid obligations with states and local governments.

Understanding an Evolving Marketplace

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers—our 15th edition—remains the most comprehensive, fact-based tool for understanding the entire U.S. drug pricing, reimbursement, and dispensing system. This unique, encyclopedic resource is your ultimate guide to the complex web of interactions within U.S. prescription drug channels.

Thousands of companies operate within the U.S. system, enabling the 6.6 billion equivalent prescriptions to be dispensed and paid. The table below highlights the largest public companies that operate in the drug channel, along with their various channel roles. Many of these firms are among the largest businesses on the *Fortune 500* list.

Major Public Companies Operating in U.S. Drug Channels and Primary Roles

Company	Stock ticker	Primary U.S. channel role(s)						
		Insurer	Pharmacy benefit manager	Community pharmacy	Mail and/or specialty pharmacy	Healthcare provider	Discount card provider	Pharmaceutical wholesaler
Amazon	AMZN				✓		✓	
Cencora ¹	COR							✓
Cardinal Health	CAH							✓
Centene	CNC	✓	✓		✓	✓		
Cigna	CI	✓	✓		✓	✓	✓	✓
CVS Health	CVS	✓	✓	✓	✓	✓	✓	
Elevance Health	ELV	✓	✓		✓	✓		
GoodRx	GDRX						✓	
Humana	HUM	✓	✓		✓	✓		
Kroger	KR		✓	✓	✓	✓	✓	
McKesson Corporation	MCK				✓		✓	✓
Rite Aid Corporation	RAD			✓	✓		✓	
UnitedHealth Group	UNH	✓	✓	✓	✓	✓	✓	✓
Walgreens Boots Alliance	WBA			✓	✓	✓	✓	
Walmart	WMT			✓	✓	✓	✓	

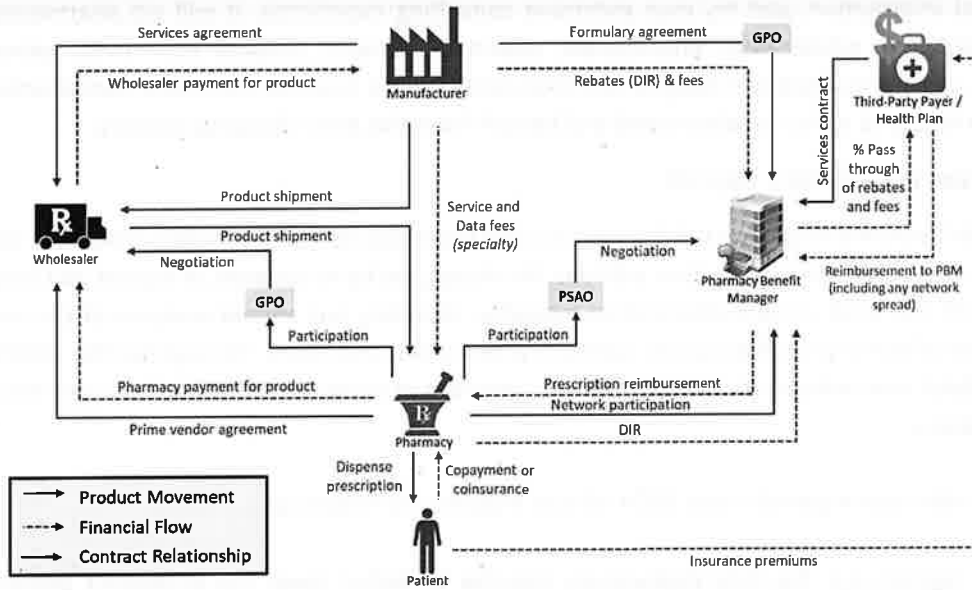
¹ Previously known as AmerisourceBergen
Source: Drug Channels Institute research



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These and other companies discussed in this report operate within a complex distribution, payment, and reimbursement system, illustrated below. It is important to understand that not every product or channel strategy will incorporate every one of these flows.

The U.S. Pharmacy Distribution and Reimbursement System for Patient-Administered, Outpatient Brand-Name Drugs



GPO = group purchasing organization; PSAO = pharmacy services administrative organization; DIR = direct and indirect remuneration
 Source: Drug Channels Institute research. Chart illustrates flows for Patient-Administered, Outpatient Drugs. Please note that this chart is illustrative. It is not intended to be a complete representation of every type of product movement, financial flow, or contractual relationship in the marketplace.

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers discusses and analyzes the key channel flows illustrated above:

- **Product movement**, which traces shipments from pharmaceutical manufacturers to the drug wholesalers that supply pharmacies. Retail, mail, long-term care, and specialty pharmacies mark the final step, in which a prescription is dispensed to a patient.
- **Financial flows**, which transfer money from third-party payers to PBMs, which in turn reimburse pharmacies. Funds flow to manufacturers via pharmacies, which purchase drugs from wholesalers. Funds flow from manufacturers to PBMs in the form of rebates and fees. The PBMs share most of these payments with plan sponsors, reducing plans' net prescription costs. Manufacturers' payments to PBMs and other third-party payers do not flow through wholesale or retail channels.
- **Contractual relationships**, which govern the relationships between: 1) payers and PBMs; 2) PBMs and pharmacies; 3) pharmacies and wholesalers; 4) wholesalers and manufacturers; and 5) manufacturers and PBMs.

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

In Sections II and III of the report, we revisit this chart to link each flow with the corresponding report chapters that explain and analyze it. This chart appears as [Exhibit 68](#) (page 117).

This definitive, nonpartisan report includes the most current information about pharmacy dispensing channels, third-party payers, PBMs, patients' financial contributions, government regulations, and more. The report synthesizes a wealth of statistical data, research studies, financial information, and my own extensive consulting experience. It will aid pharmaceutical manufacturers, wholesalers, pharmacists, pharmacy owners, hospital executives, pharmacy buyers, benefit managers, managed care executives, policy analysts, investors, consultants, and anyone else who wants to understand and benefit from this ever-changing industry.

What's New in the 2024 Report

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers retains the overall structure we employed in previous editions. As always, we have updated all market and industry data with the most current information available, including our annual analyses of the market positions of the largest pharmacies, specialty pharmacies, and PBMs. Throughout the report, we have added new industry data, deepened our coverage of many topics, and added more trending information.

The notable new material in this 2024 edition includes the following:

- [Section 4.3.](#) has new explanatory material to better cover the economics behind the growing market for patient-paid prescriptions—cash-pay prescriptions and discount cards. We have also updated [Section 12.4.3.](#), which reviews how and why plan sponsors are incorporating these programs within pharmacy benefits.
- [Section 5.1.4.](#) and [Section 12.2.2.](#) contain new analyses of the market dynamics for Humira biosimilars.
- [Section 6.2.](#) has been reorganized and contains an expanded presentation of material related to plan sponsors' use of such benefit design tools as copay accumulator, adjustment, copay maximizers, and alternative funding programs.
- [Section 7.3.2.](#) now integrates material related to specialty pharmacies' role in the gene therapy market. Since these therapies are typically covered by patients' medical benefits, we have shifted more detailed coverage to our companion [Economic Report on Pharmaceutical Wholesalers and Specialty Distributors](#).
- [Section 8.4.](#) has been reorganized into two new subsections to address developments in acquisition cost reimbursement for prescriptions. [Section 8.4.1.](#) updates our analysis of fee-for-service Medicaid programs, while [Section 8.4.2.](#) focuses on cost-based models by commercial payers and cash-pay pharmacies.

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

- [Section 9.1.1.](#) contains new analyses of PBMs' state-mandated disclosures on rebates.
- [Section 9.1.2.](#) and [Section 11.4.](#) include new data and updated estimates for manufacturers' and pharmacies' Part D liabilities, including direct and indirect remuneration (DIR) payments and coverage gap discounts.
- [Section 12.2.3.](#) includes expanded data and analyses of nonbiological generic specialty drugs, given the importance of these products for such cash-pay pharmacies as the Mark Cuban Cost Plus Drug Company.
- A new [Section 12.3.4.](#) analyzes how acquisition cost reimbursement could impact pharmacy profitability and the overall industry.
- We have added significant new material to the sections introduced in the 2023 edition of this report that discuss the Inflation Reduction Act of 2022. These include [Section 12.5.1.](#), which summarizes the key provisions of the law and current guidance, and [Section 12.5.2.](#), which highlights potential implications of the IRA for the drug channel.
- There are 262 exhibits in the 2024 edition, compared with 241 in the 2023 edition.

Structure of the 2024 Report

This report analyzes the industry in three major sections, comprising 12 total chapters:

SECTION I: THE U.S. PHARMACY INDUSTRY

- **Chapter 1: Industry Overview** (page 13) defines the industry and its regulatory framework, describes the different products and prescriptions that a pharmacy dispenses, provides data on traditional and specialty prescription costs, delineates different pharmacy industry participants, and quantifies differences among dispensing formats. This chapter includes our analysis of pharmacist-provided clinical services (including medication therapy management services), retail healthcare services, and COVID-19 vaccine administration.
- **Chapter 2: Pharmacy Industry Market Structure** (page 51) analyzes the industry's prescription and revenue growth trends. It identifies the largest pharmacies based on prescription revenues. It then analyzes recent market share trends for each dispensing format and for the major national companies.
- **Chapter 3: Specialty Drugs and Specialty Pharmacies** (page 74) provides a comprehensive overview of the pharmacies dispensing specialty medications. It includes our exclusive analyses of national market share for pharmacy-dispensed specialty drugs and accreditation trends among pharmacies. It also provides a competitive analysis of the various organizations that compete to dispense specialty medications. The chapter



reviews the channel strategies that pharmaceutical manufacturers use for specialty drugs, provides our exclusive analyses of limited and exclusive specialty dispensing networks, explains the role of service fees, and profiles the specialty hub services market.

SECTION II: THIRD-PARTY PAYMENT AND PHARMACY BENEFITS

- **Chapter 4: Payment and Spending for Prescription Drugs** (page 118) examines the primary payers for prescription drugs at retail, mail, long-term care, and specialty pharmacies. It analyzes recent changes in the payer mix and spending on traditional vs. specialty drugs. Chapter 4 also reviews patient-paid prescriptions using cash-pay pharmacies and discount card programs.
- **Chapter 5: Pharmacy Benefit Management** (page 146) identifies the services and roles of PBMs, analyzes the structure of the PBM industry, reviews the business strategies of the largest PBMs, profiles many smaller PBMs, and discusses PBM-owned purchasing organizations. It describes the relationship between PBMs and the pharmacies that participate in a PBM's network, explains the largest pharmacy services administrative organizations (PSAOs) and identifies the largest players, and details how plan sponsors compensate PBMs for benefit management services. Chapter 5 also reviews the primary sources of PBM compensation by plan sponsors, including spread pricing.
- **Chapter 6: Consumer Copayments and Coinsurance** (page 190) analyzes the benefit designs and plan structures that determine patients' out-of-pocket spending for the major third-party payers: employer-sponsored health plans, health insurance marketplace (HIM) plans, Medicare Part D, and Medicaid. We explore manufacturers' out-of-pocket payment support programs, explain the emergence and use of copay accumulators and maximizers, discuss alternative funding programs (sometimes known as specialty carve-out programs), and provide the latest data on patient out-of-pocket expenses. We also present the latest data on how benefit design affects patients' out-of-pocket costs.
- **Chapter 7: Narrow Pharmacy Networks** (page 237) analyzes the structure, utilization, and economics of narrow network models. We explain the use and economics of narrow networks for pharmacies in commercial health plans and Medicare Part D. We review mail and retail pharmacies as narrow network options for maintenance prescriptions. This chapter also evaluates the latest data on payer-defined networks for specialty drug dispensing in commercial health plans and for buy-and-bill channels.

SECTION III: DRUG CHANNEL ECONOMICS AND OUTLOOK

- **Chapter 8: Prescription Reimbursement by Third-Party Payers** (page 267) explains the formulas and methodologies for computing a pharmacy's revenue from brand-name, generic, and specialty prescriptions. It also delves into maximum allowable cost (MAC)



prices as well as the regulations and laws related to MAC prices. This chapter compares traditional list price methods with the acquisition-cost reimbursement approaches—such as the use of the National Average Drug Acquisition Cost (NADAC)—now utilized by fee-for-service Medicaid programs, commercial payers, and cash-pay pharmacies. We also review the economics of mail vs. retail pharmacies for payers and consumers.

- **Chapter 9: Drug Pricing, Rebates, and Payer Costs** (page 285) explores rebates in commercial health plans, Medicare Part D, Medicaid, and the Department of Veterans Affairs. It explains how PBMs negotiate with manufacturers, analyzes trends in list and net drug prices, and describes the gross-to-net bubble phenomenon. The chapter explains how plan sponsors use rebates, the role of point-of-sale rebates, and controversies over rebates. The chapter concludes by illustrating how prescription reimbursement, formulary rebates, and consumer copayments affect a plan sponsor's net costs for traditional and specialty prescriptions.
- **Chapter 10: Relationships with Pharmaceutical Wholesalers** (page 325) explores pharmacies' interactions with their primary wholesale suppliers of drugs. It explains wholesalers' channel roles and services, identifies the largest wholesale suppliers, and analyzes how wholesalers affect pharmacies' acquisition costs for drugs. We present our latest data on pharmacy group purchasing organizations and the generic sourcing relationships between wholesalers and large pharmacies. This material is adapted from our *Economic Report on Pharmaceutical Wholesalers and Specialty Distributors*.
- **Chapter 11: Pharmacy and Prescription Profitability** (page 337) unites the reimbursement and cost discussions from Chapter 8 and Chapter 10 by presenting the latest available data on pharmacy and prescription profitability. This chapter documents overall drugstore profitability, pharmacy margins for prescriptions from different dispensing formats, profit differences between brand and generic prescriptions, and the sources of PBMs' gross profits. Chapter 11 also includes material on the direct and indirect remuneration (DIR) fee payments that pharmacies make to PBMs and health plans. Finally, we consider pharmacies' role and profits in the 340B Drug Pricing Program.
- **Chapter 12: Outlook and Emerging Trends** (page 373) presents the outlook for the pharmacy industry's product mix and revenues in 2028. This chapter also considers the outlook for specialty drugs, including the growth in specialty generic drugs and pharmacy-dispensed biosimilars. We also discuss crucial emerging trends, including vertical integration, importation, state legislation, cost-based reimbursement, controversy over the 340B program, and shakeout and consolidation in retail pharmacy. We also address such new entrants as Amazon and venture-backed digital pharmacies, as well as the growth of patient-paid prescriptions within pharmacy benefits. The final section reviews the Inflation Reduction Act of 2022 and its potential impact on the drug channel.



How to Use the 2024 Report

The chapters are self-contained and do not need to be read in order. We include extensive internal clickable hyperlinks to help you navigate the entire document and customize it to your specific needs. You can use keyboard shortcuts to return to your previous location in the document. We also encourage you to search the entire PDF document for every occurrence of a word or phrase. The shortcuts and search approach will vary based on your computer platform.

There are nearly 1,100 endnotes, most of which have hyperlinks to original source materials. The report also includes a list of the Acronyms and Abbreviations used within it.

As always, I welcome your feedback. Please contact me if you have any questions or comments about *The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*.

Adam J. Fein
March 2024

P.S. [Click here for post-publication errata.](#)



CONTENTS

PREFACE: INDUSTRY TRENDS AND KEY REPORT THEMES	1
SECTION I: THE U.S. PHARMACY INDUSTRY	12
Chapter 1: Industry Overview	13
1.1. Pharmacy Fundamentals.....	13
1.1.1. Defining the Practice of Pharmacy.....	13
1.1.2. Pharmacies and the Drug Supply Chain Security Act.....	15
1.2. The Products That Pharmacies Dispense	18
1.2.1. Brand vs. Generic Drugs.....	18
1.2.2. Traditional vs. Specialty Drugs	22
1.2.3. Top Therapy Classes and Average Prescription Costs.....	26
1.3. Pharmacy Industry Participants	27
1.3.1. Pharmacy Dispensing Formats.....	27
1.3.2. Differences Among Outpatient Retail Dispensing Formats	29
1.3.3. Pharmacist Salaries and Employment.....	34
1.4. Healthcare and Clinical Services	37
1.4.1. Retail Healthcare and Provider Services	37
1.4.2. Medication Therapy Management (MTM), Clinical Services, and Provider Status	41
1.4.3. Immunization and Vaccination	46
1.4.4. Administration and Pharmacy Economics of COVID-19 Vaccines	48
Chapter 2: Pharmacy Industry Market Structure	51
2.1. Industry Trends	51
2.1.1. Total and 30-Day Equivalent Prescriptions	51
2.1.2. Prescription Dispensing Revenues	54
2.2. National Prescription Dispensing Market Share, by Company	55
2.3. Trends by Dispensing Format.....	56
2.3.1. Long-Term Trends in Revenues and Prescriptions.....	56
2.3.2. Market Changes in 2023	58
2.3.3. National Retail Chains	61
2.3.4. Regional Chains	66

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

2.3.5. Independent Pharmacies 66

2.3.6. Mail Pharmacies 70

Chapter 3: Specialty Drugs and Specialty Pharmacies 74

3.1. Specialty Pharmacies 74

3.1.1. Defining Specialty Pharmacy 74

3.1.2. Clinical and Data Services 75

3.1.3. Accreditation 77

3.2. Specialty Pharmacy Market Structure 79

3.2.1. Specialty Pharmacy Industry Market Size 79

3.2.2. Number of Accredited Specialty Pharmacies 81

3.2.3. National Market Share for Specialty Dispensing, by Company 83

3.2.4. Mergers and Acquisitions Among Specialty Pharmacies in 2023 84

3.3. Trends by Specialty Dispensing Format 86

3.3.1. Overview of the 2023 Marketplace 86

3.3.2. Pharmacy Benefit Managers and Health Plans 88

3.3.3. Independent Specialty Pharmacies 91

3.3.4. Retail Chains 94

3.3.5. Hospitals and Health Systems 96

3.3.6. Physician Practices 102

3.3.7. Pharmaceutical Wholesalers 105

3.4. Manufacturer Channel Strategies for Specialty Drugs 106

3.4.1. Manufacturer-Defined Dispensing Networks and REMS 106

3.4.2. Compensation for Specialty Pharmacy Clinical and Data Services 110

3.4.3. Specialty Hub Services and Leading Providers 113

SECTION II: THIRD-PARTY PAYMENT AND PHARMACY BENEFITS 117

Chapter 4: Payment and Spending for Prescription Drugs 118

4.1. U.S. Healthcare Spending 118

4.1.1. Enrollment in Health Insurance and COVID-19 Impact 118

4.1.2. Prescription Drugs and U.S. Healthcare Spending 121

4.2. Payer and Spending Trends 123

4.2.1. Payment for Outpatient Prescription Drugs 123

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

- 4.2.2. Trends in Drug Spending, by Payer 126
- 4.2.3. Trends in Drug Spending: Traditional vs. Specialty 129
- 4.2.4. Deconstructing Changes in Cost vs. Utilization 130
- 4.3. Patient-Paid Prescriptions 132
 - 4.3.1. Cash-Pay Prescriptions and Usual & Customary Pricing 132
 - 4.3.2. Discount Card Programs 137
- Chapter 5: Pharmacy Benefit Management 146**
 - 5.1. Overview of Pharmacy Benefit Management 146
 - 5.1.1. Services for Plan Sponsors 147
 - 5.1.2. Relationships with Plan Sponsors 147
 - 5.1.3. Formulary Development and Management 150
 - 5.1.4. Formulary Exclusions 152
 - 5.1.5. Utilization Management 158
 - 5.2. PBM Industry Structure 162
 - 5.2.1. National Market Share, by PBM 162
 - 5.2.2. Business Trends for the Largest PBMs 164
 - 5.2.3. Smaller PBMs 171
 - 5.2.4. PBM Purchasing Groups and GPOs 174
 - 5.3. Relationships Between PBMs and Pharmacies 177
 - 5.3.1. Pharmacy Participation in PBM Networks 177
 - 5.3.2. PBM–Pharmacy Negotiations 178
 - 5.3.3. Pharmacy Services Administrative Organizations (PSAOs) 179
 - 5.4. PBM Compensation by Plan Sponsors 183
 - 5.4.1. Spread Pricing 184
 - 5.4.2. Pass-Through Pricing 188
- Chapter 6: Consumer Copayments and Coinsurance 190**
 - 6.1. Cost Sharing in Pharmacy Benefit Design 190
 - 6.1.1. Employer-Sponsored Health Plans 191
 - 6.1.2. Health Insurance Marketplace Plans 198
 - 6.1.3. Medicare Part D 201
 - 6.1.4. Medicaid 207

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

- 6.2. Manufacturer Out-of-Pocket Payment Support and Plan Sponsor Strategies 208
 - 6.2.1. Copayment Offset Programs and Patient Assistance Programs 209
 - 6.2.2. Copay Accumulator Adjustment and Copay Maximizers 215
 - 6.2.3. Alternative Funding Programs 223
- 6.3. Out-of-Pocket Expenses 225
 - 6.3.1. Actual Patient Out-of-Pocket Spending on Prescriptions 225
 - 6.3.2. Consequences of Pharmacy Benefit Designs 229
- Chapter 7: Narrow Pharmacy Networks..... 237**
 - 7.1. Overview of Pharmacy Benefit Network Models..... 237
 - 7.1.1. Network Options..... 237
 - 7.1.2. The Economics of Narrow Pharmacy Networks..... 239
 - 7.1.3. Legal and Regulatory Restrictions on Network Design 241
 - 7.2. Retail Pharmacy Networks 242
 - 7.2.1. Preferred Retail Networks in Medicare Part D 242
 - 7.2.2. Narrow Retail Networks in Commercial and Other Plans..... 250
 - 7.2.3. Narrow Networks for Maintenance Prescriptions 253
 - 7.3. Payer-Defined Specialty Dispensing Networks 255
 - 7.3.1. Commercial Health Plans 255
 - 7.3.2. Specialty Pharmacies’ Role in Buy-and-Bill and Gene Therapy Channels..... 257
- SECTION III: DRUG CHANNEL ECONOMICS AND OUTLOOK 266**
- Chapter 8: Prescription Reimbursement by Third-Party Payers..... 267**
 - 8.1. The Basics of Prescription Reimbursement 267
 - 8.1.1. Estimated Acquisition Cost (EAC)..... 267
 - 8.1.2. Dispensing Fees..... 269
 - 8.1.3. Service and Data Fees 271
 - 8.2. Reimbursement for Brand-Name and Specialty Prescriptions 271
 - 8.2.1. Wholesale Acquisition Cost (WAC) and Average Wholesale Price (AWP) List Prices 271
 - 8.2.2. AWP Discounts for Pharmacy Reimbursement in 2023..... 272
 - 8.2.3. Why Mail Pharmacies Accept Lower Reimbursements 275
 - 8.3. Reimbursement for Generic Prescriptions..... 276
 - 8.3.1. AWP Discounts for Generic Prescriptions in 2023 276

8.3.2. Maximum Allowable Cost (MAC) Limits and Generic Effective Rate (GER)	277
8.3.3. Regulations and Laws Regarding MAC Limits	278
8.3.4. Medicaid and Federal Upper Limits	279
8.4. Acquisition Cost Reimbursement.....	280
8.4.1. Fee-for-Service Medicaid	280
8.4.2. Commercial Payers and Cash-Pay Pharmacies	283
Chapter 9: Drug Pricing, Rebates, and Payer Costs	285
9.1. Rebates to Third-Party Payers.....	285
9.1.1. How Commercial Payers Access Rebates.....	285
9.1.2. Rebates, DIR, and Coverage Gap Discounts in Medicare Part D.....	292
9.1.3. The Medicaid Drug Rebate Program.....	296
9.1.4. Department of Veterans Affairs.....	301
9.2. Gross and Net Drug Pricing	302
9.2.1. List vs. Net Drug Prices.....	302
9.2.2. The Gross-to-Net Bubble in 2023.....	307
9.3. Issues with the Rebate System	311
9.3.1. How Plan Sponsors Use Rebates.....	311
9.3.2. Point-of-Sale (POS) Rebates.....	313
9.3.3. Controversies over Rebates and Rebate Reform.....	315
9.4. How Prescription Reimbursement, Formulary Rebates, Consumer Copayments, and PBM Expenses Affect Plan Sponsor Costs	319
Chapter 10: Relationships with Pharmaceutical Wholesalers	325
10.1. Overview of Wholesale Drug Channels.....	325
10.1.1. Industry Participants	325
10.1.2. Product Distribution.....	326
10.1.3. Financial Intermediation	327
10.1.4. Other Services for Pharmacies, Providers, and Manufacturers.....	328
10.1.5. Impact on Pharmacy Reimbursement	329
10.2. Determinants of Pharmacies' Acquisition Costs	330
10.2.1. Wholesaler Pricing of Brand-Name Drugs to Pharmacies	330
10.2.2. Pharmacy Group Purchasing Organizations.....	331

10.2.3. Generic Sourcing Relationships Between Wholesalers and Large Pharmacies 334

Chapter 11: Pharmacy and Prescription Profitability 337

11.1. Overall Drugstore Gross Margins 337

11.1.1. Industry Averages 337

11.1.2. Chain Drugstores 339

11.2. Pharmacy Per-Prescription Profits 340

11.2.1. Sources of Per-Prescription Profits 340

11.2.2. Average Per-Prescription Profits for Pharmacies 342

11.2.3. PBM Gross Profits from Network and PBM-Owned Pharmacies 344

11.2.4. The Impact of Brand-Name Inflation on Prescription Profits 347

11.3. Life Cycle Profitability for Generic Prescriptions 349

11.4. Pharmacy DIR Fees in Medicare Part D Networks 353

11.4.1. Computation of Pharmacy DIR Fees 353

11.4.2. Financial Impact of Pharmacy DIR Fees 355

11.4.3. The Current Status and Future of Pharmacy DIR Fees 357

11.5. Pharmacy Profits from the 340B Drug Pricing Program 358

11.5.1. Overview of the 340B Program and Drug Prices 359

11.5.2. Companies Participating as 340B Contract Pharmacies 361

11.5.3. Flow of Funds for a 340B Contract Pharmacy Network 365

11.5.4. Third-Party Administrators of 340B Contract Pharmacy Services 366

11.5.5. Pharmacy and Covered Entity Profits from 340B Prescriptions 368

Chapter 12: Outlook and Emerging Trends 373

12.1. Drug Prices and Payment 373

12.1.1. The Outlook for Brand-Name List Drug Prices 373

12.1.2. The Outlook for Generic Drug Prices 377

12.1.3. Spending and Payment Projections for Outpatient Prescription Drugs to 2028 380

12.2. The Outlook for Specialty Drugs 382

12.2.1. 2023 Update on the Biosimilar Market 382

12.2.2. Biosimilars Under the Pharmacy Benefit 384

12.2.3. The Growth of Specialty Generic Drugs 388

12.2.4. The Outlook for Pharmacy Revenues to 2028 391

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

- 12.3. Emerging Trends 394
 - 12.3.1. Vertical Integration of Insurers, PBMs, Specialty Pharmacies, and Providers..... 394
 - 12.3.2. Importation From Canada..... 399
 - 12.3.3. State Legislation of the Drug Channel..... 402
 - 12.3.4. Implications of Acquisition Cost Reimbursement for Pharmacies..... 405
 - 12.3.5. Controversy Over 340B Contract Pharmacies..... 408
 - 12.3.6. Shakeout and Consolidation in Retail Pharmacy 414
- 12.4. New Entrants and Potential Pharmacy Market Disruption..... 417
 - 12.4.1. Update on Amazon’s Pharmacy Strategy 417
 - 12.4.2. Venture-Backed Digital Pharmacies..... 419
 - 12.4.3. Patient-Paid Prescriptions Within Pharmacy Benefits..... 422
- 12.5. The Inflation Reduction Act of 2022 424
 - 12.5.1. Key Provisions of the IRA for Medicare Parts B and D..... 424
 - 12.5.2. Drug Channel Implications of the IRA..... 428
- Acronyms and Abbreviations..... 439**
- Endnotes 440**

LIST OF EXHIBITS

Exhibit 1: Timeline of DSCSA Requirements for Pharmacies (Dispensers), 2013 to 2024	16
Exhibit 2: Unbranded and Branded Generics, Share of U.S. Prescriptions, 2003 to 2023	19
Exhibit 3: Variation in State Generic Substitution Policies	20
Exhibit 4: Dispense As Written (DAW) Product Selection Codes	20
Exhibit 5: Top Traditional Therapy Categories, Generic Drugs as a Share of Prescriptions and Spending, 2023	21
Exhibit 6: Specialty Prescriptions, Number and Share of Total, 2018 to 2023	22
Exhibit 7: Specialty Drugs as a Share of Net Spending, by Therapeutic Class, 2020.....	23
Exhibit 8: Formulary Agreement on Specialty Drug Classification, by PBM, 2023	24
Exhibit 9: Top Therapy Categories, Share of Non-Discounted Purchases and Average Brand-Name and Generic Prescription Costs, 2023	26
Exhibit 10: Average Annual Number of Prescriptions per Pharmacy, by Retail Dispensing Format, 2023	30
Exhibit 11: Average Wait Time for Prescription Pickup, by Retail Dispensing Format, 2020	30
Exhibit 12: Average Annual Prescription Revenue per Pharmacy Outlet, by Retail Dispensing Format, 2023	31
Exhibit 13: Top Four Reasons for Pharmacy Selection, by Dispensing Format.....	31
Exhibit 14: Average Number of Retail Pharmacies per County, by Dispensing Format and Degree of Urbanization, 2020	32
Exhibit 15: Pharmacist Work Activities, by Practice Setting, 2022	33
Exhibit 16: Customer Satisfaction with Pharmacies, by Dispensing Format and Company, 2023	33
Exhibit 17: Pharmacist Employment and Salary, by Practice Setting, 2022	34
Exhibit 18: Share of Pharmacist Employment, by Industry, 2013 to 2032	35
Exhibit 19: Pharmacists and Healthcare Workers, Change in Annual Average Salary, by Employer, 2014 to 2022 ...	36
Exhibit 20: Coverage for Retail Clinics by Employer-Sponsored Plans, 2010 to 2023	38
Exhibit 21: Providers of Medication Therapy Management Services, Medicare Part D.....	42
Exhibit 22: Completion Rate of Medication Therapy Management Services, Medicare Part D, by Plan Type, 2021 to 2023	43
Exhibit 23: Current Procedural Terminology (CPT) Codes Used by Pharmacists	44
Exhibit 24: Consumers' Level of Trust in Pharmacists to Perform Various Healthcare Services, 2021	45
Exhibit 25: CPESN Networks and Pharmacies, 2018 to 2023.....	46
Exhibit 26: Adult Influenza Vaccines Administered, Pharmacies vs. Physician Offices, 2019–20 to 2023–24 Seasons	47
Exhibit 27: Share of COVID-19 Vaccine Doses Administered at Retail Pharmacies, by Company, 2021 to 2023	49
Exhibit 28: Total U.S. Pharmacy Industry Prescription Revenues, Prescriptions, and Locations, by Dispensing Format, 2023	51
Exhibit 29: Prescriptions, Annual Total and Growth, 2019 to 2023	52
Exhibit 30: 30-Day Equivalent Prescriptions, Annual Total and Growth, 2019 to 2023	52
Exhibit 31: 90-Day Prescriptions as a Percentage of Total Prescriptions, by Dispensing Format, 2017 to 2023	53

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

Exhibit 32: Pharmacy Industry Prescription Revenues, Annual Total and Growth, 2019 to 202354

Exhibit 33: Largest 15 U.S. Pharmacies, by Total Prescription Revenues, 202355

Exhibit 34: Total Change in 30-Day Equivalent Prescriptions Dispensed and Prescription Revenues, by Pharmacy Type, 2013 vs. 202357

Exhibit 35: 30-Day Equivalent Prescriptions Dispensed per Location, by Dispensing Format, 2010 to 202358

Exhibit 36: Number of 30-Day Equivalent Prescriptions, by Dispensing Format, 2022 vs. 202359

Exhibit 37: Prescription Dispensing Revenues, by Dispensing Format, 2022 vs. 202359

Exhibit 38: Year-over-Year Change in Same-Store Prescription Count, by Chain, 2019 to 202361

Exhibit 39: Largest Regional Chain Drugstores, by Total Prescription Revenues, 202366

Exhibit 40: Number of Independent Pharmacies, 2001 to 202367

Exhibit 41: Wholesaler-Owned Pharmacy Franchise and Marketing Groups, 202368

Exhibit 42: U.S. Pharmacy Franchise Locations, by Company, 2015 to 202368

Exhibit 43: Customer Satisfaction with Mail Pharmacies, by Company, 202371

Exhibit 44: Share of Mail Pharmacy Dispensing Revenues, by Company, 202373

Exhibit 45: Importance of Specialty Pharmacy Services to Patients, 202076

Exhibit 46: Specialty Prescription Dispensing Revenues, Annual Total and Growth, 2019 to 202380

Exhibit 47: Specialty Prescription Dispensing Revenues as a Percentage of Total, 2013 to 202380

Exhibit 48: Specialty Drugs as a Percentage of Payers’ Pharmacy Benefit Spending, by PBM, 2021 vs. 202281

Exhibit 49: Number of Pharmacy Locations with Specialty Pharmacy Accreditation, by Organization, 2015 to 2023 82

Exhibit 50: Locations with URAC Specialty Pharmacy Accreditation, 2008 to 202383

Exhibit 51: Prescription Revenues and Market Share from Specialty Pharmaceuticals, by Company, 202384

Exhibit 52: Merger and Acquisition Transactions, Specialty Pharmacy and Infusion Services, 2014 to 202385

Exhibit 53: Pharmacy Locations with Specialty Pharmacy Accreditation, by Corporate Ownership, 202386

Exhibit 54: Specialty Drug Prescription Revenues, by Dispensing Format, 202388

Exhibit 55: Number of Private Specialty Pharmacy and Infusion Companies Ranked on *Inc.* 5000 List, 2012 to 202394

Exhibit 56: Retail Companies with Specialty Pharmacy Businesses, 202395

Exhibit 57: Hospitals with a Specialty Pharmacy, by Number of Staffed Beds, 2015 to 2023E97

Exhibit 58: Hospital and Clinic Share of Oral Oncology Market, 2017 to 202399

Exhibit 59: Hospitals’ Perceived Barriers to Accessing Specialty Pharmacy Networks, 2020 vs. 2022100

Exhibit 60: Physician Employment, by Practice Ownership, 2012 vs. 2022101

Exhibit 61: Share of Oncologists in Practices with Medically Integrated Dispensing, by Practice Setting, 2010 to 2022103

Exhibit 62: Specialty Pharmacy Network Size, by Number of Pharmacies, 2024108

Exhibit 63: Specialty Pharmacy Networks, Participation Rate by Company, 2024109

Exhibit 64: Participation in Exclusive Specialty Pharmacy Networks, by Company, 2024109

Exhibit 65: Frequency of Manufacturer Contracting for Specialty Pharmacy Services, by Type of Service113

Exhibit 66: Example of Specialty Hub Workflow114

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

Exhibit 67: Leading Specialty Hub Services Providers and Ownership, 2023115

Exhibit 68: Chapter Coverage of Flows in the U.S. Distribution and Reimbursement System117

Exhibit 69: Comprehensive Health Insurance Enrollment, by Payer, 2020 to 2022118

Exhibit 70: Medicaid Enrollment, 2005 to 2024E119

Exhibit 71: Change in Membership, Commercial vs. Managed Medicaid vs. Medicare Advantage, by Company, Dec. 2019 to Dec. 2023.....120

Exhibit 72: Share of U.S. National Health Expenditures, by Category, 2022121

Exhibit 73: Share of U.S. National Health Expenditures, by Major Spending Category, 1982 to 2022.....122

Exhibit 74: Growth Rate in U.S. National Health Expenditures, by Major Spending Category, 2010 to 2022123

Exhibit 75: Outpatient Prescription Drug Expenditures, by Source of Payment, 2022123

Exhibit 76: Outpatient Prescription Drugs as a Share of Payer’s Total Health Expenditures, by Payer, 2005 to 2022124

Exhibit 77: Share of Outpatient Prescription Drug Dispensing, by Source of Payment, 2022125

Exhibit 78: Prescription Expenses per Person, by Age, 2021.....125

Exhibit 79: Prescription Drug Utilization Among Seniors, 1988 to 2018126

Exhibit 80: Change in Net Spending for Outpatient Prescription Drugs, by Payer, 2021 vs. 2022.....127

Exhibit 81: Total Expenditures and Consumer Out-of-Pocket Spending for Hospital Care vs. Prescription Drugs, 2022128

Exhibit 82: Change in Commercial Payer Net Drug Spending, Traditional vs. Specialty Drugs, 2014 to 2022129

Exhibit 83: Change in Commercial Payer Net Drug Spending, Traditional vs. Specialty Drugs, by PBM, 2022130

Exhibit 84: Components of Change in Outpatient Prescription Drug Spending, 2018 to 2022131

Exhibit 85: Components of Change in Commercial Payer Net Specialty Drug Spending, by PBM, 2022131

Exhibit 86: Cash-Pay Prescriptions as a Share of Total Prescriptions, 2017 to 2023133

Exhibit 87: Usual & Customary Cash Prescription Prices vs. Pharmacy Acquisition Costs, Generic and Brand-Name Drugs, 2014 vs. 2019.....134

Exhibit 88: Cash-Pay Pharmacies, Estimates of Total Prescription Savings vs. Medicare Part D, 2017 to 2022.....136

Exhibit 89: Discount Card Claims as Share of Total Equivalent Prescriptions, by Vendor, 2017 to 2023138

Exhibit 90: Share of Discount Card Claims vs. Overall Prescription Share, by Dispensing Format, 2023139

Exhibit 91: Pharmacy Distribution and Reimbursement System for Outpatient Generic Drugs with a Discount Card140

Exhibit 92: Prescription Economics with a Discount Card—Traditional Generic Drug Example.....142

Exhibit 93: Share of Patients with One or More Discount Card Adjudications, 2021.....142

Exhibit 94: GoodRx, Prescription Revenues and Consumer Out-of-Pocket Cost, 2016 to 2023.....144

Exhibit 95: Pharmacy Benefit Management Contracting Approach, by Company Size, 2023E148

Exhibit 96: Adoption of PBM National Formulary, by Type of Plan Sponsor, 2023151

Exhibit 97: Number of Unique Products on PBM Formulary Exclusion Lists, Single-Source vs. Multiple-Source, 2014 to 2022.....152

Exhibit 98: Number of Products on PBM Formulary Exclusion Lists, by PBM, 2012 to 2024153

Exhibit 99: Formulary Coverage for Humira and Its Biosimilars, by PBM, 2024155

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

Exhibit 100: Prevalence of Utilization Management Tools, Commercial Plan Sponsors, 2014 vs. 2023159

Exhibit 101: Use of Prior Authorization and Step Therapy for Single-Source Brand-Name Drugs, by Therapeutic Class, 2020160

Exhibit 102: Prevalence of Utilization Management Tools, Medicare Part D Plans, 2023161

Exhibit 103: Prevalence of Utilization Management Tools, by Type of Oncology Drug, Medicare Part D Plans, 2020161

Exhibit 104: PBM Market Share, by Total Equivalent Prescription Claims Managed, 2023163

Exhibit 105: Express Scripts, Quarterly Prescription Claims, by Channel, 2019 to 2023166

Exhibit 106: Plan Sponsors’ Satisfaction with PBM Transparency, by PBM Size, 2023174

Exhibit 107: PBM-Owned Purchasing Groups and Participation, 2024176

Exhibit 108: Largest Pharmacy Services Administrative Organizations, by Membership and Ownership, 2023181

Exhibit 109: Key Components of PBM Compensation183

Exhibit 110: Share of Employers Using Retail Pharmacy Network Spread Pricing in PBM Contracts, 2015 to 2023 184

Exhibit 111: Average PBM Network Spread in Medicaid Managed Care, by State, 2018 to 2019186

Exhibit 112: Imatinib Mesylate, Fee-for-Service and Managed Medicaid Payments vs. Pharmacy Acquisition Cost, 2017 to 2023.....186

Exhibit 113: Common Pharmacy Benefit Plan Designs191

Exhibit 114: Share of Employees Covered by a High-Deductible Health Plan, 2006 to 2023192

Exhibit 115: Distribution of Cost Sharing Formulas for Prescription Drug Benefits in Employer-Sponsored Plans, by Plan Type, 2023192

Exhibit 116: Type of Cost Sharing for Prescription Drug Benefits, Employer-Sponsored Plans Without High Deductibles, by Benefit Tier, 2023.....193

Exhibit 117: Type of Cost Sharing for Prescription Drug Benefits, Employer-Sponsored Plans with High Deductibles, by Benefit Tier, 2023194

Exhibit 118: Average Cost Sharing by Prescription Drug Tier, Employer-Sponsored Plans, 2023194

Exhibit 119: Number of Specialty Drug Cost-Sharing Tiers, by Type of Plan Sponsor, 2022195

Exhibit 120: Distribution of Coinsurance Structures for Prescription Drug Benefits, Employer-Sponsored Plans, Fourth and Specialty Tiers, 2023196

Exhibit 121: Percentage of Covered Workers with No Prescription Drug Coverage Before Annual Deductible, by Plan Type, 2019 vs. 2023197

Exhibit 122: Percentage of Covered Workers with Pharmacy Benefit Deductibles, Employer-Sponsored Plans, 2005 to 2023.....198

Exhibit 123: Enrollment in Individual Insurance Market, by Source of Plan, 2015 to 2023199

Exhibit 124: Type of Cost Sharing for Prescription Drug Benefits, Silver Health Insurance Marketplace Plans, 2023199

Exhibit 125: Average Cost Sharing by Prescription Drug Tier, Silver Health Insurance Marketplace Plans, 2023.....200

Exhibit 126: Presence of Separate Prescription Drug Deductibles in Silver Plans on Health Insurance Marketplaces, 2014 to 2023.....200

Exhibit 127: Medicare Part D Enrollment, by Type of Plan, 2010 to 2023202

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

Exhibit 128: Standard Medicare Prescription Drug Benefit, 2023203

Exhibit 129: Type of Cost Sharing for Prescription Drug Benefits, Medicare Part D Plans, 2023204

Exhibit 130: Median Cost Sharing by Prescription Drug Tier, Medicare Part D PDPs, 2023205

Exhibit 131: Median Cost Sharing by Prescription Drug Tier, Medicare Advantage Plans, 2023205

Exhibit 132: Distribution of Coinsurance Rates for Specialty Drugs, Medicare Part D Plans, 2023206

Exhibit 133: Median Cost Sharing Amounts for 16 Largest Medicare Part D Plans, 2023206

Exhibit 134: Summary of Plan Sponsors’ Tools for Accessing Manufacturer Patient Support Funds to Offset Drug Spending208

Exhibit 135: Prevalence of Copayment Offset Programs for Specialty Drugs, 2018 vs. 2023209

Exhibit 136: Value of Manufacturer Copayment Offset Programs, 2016 to 2023210

Exhibit 137: Share of Prescriptions Using Manufacturer Cost Sharing Assistance for Brand-Name Specialty Drugs, by Therapeutic Class, 2023210

Exhibit 138: Distribution of Annual Value of Manufacturer Copay Offset Programs, 2023211

Exhibit 139: Commercial Plan Sponsor Views on Specialty Copayment Assistance Programs, 2018 vs. 2022212

Exhibit 140: Pharmacist Views on Copayment Assistance Programs, 2020213

Exhibit 141: Pharmaceutical Manufacturer Charitable Foundations, by Total Giving, 2022214

Exhibit 142: Prescription Economics for Copay Accumulators, Maximizers, and Alternative Funding Programs— Specialty Brand-Name Drug Example217

Exhibit 143: Copay Accumulator Adjustment and Copay Maximizers, Prevalence and Use in Commercial Insurance, 2018 to 2023218

Exhibit 144: Share of Patients with Copay Accumulator Adjustment and Copay Maximizers Applied to Benefit, by Therapeutic Class, 2019 vs. 2022219

Exhibit 145: Total Value of Patient Support Funds Directed to Drug Cost Offset Tools, 2023219

Exhibit 146: Use of Alternative Funding Programs (AFPs) in Commercial Insurance, 2021 vs. 2022224

Exhibit 147: Consumers’ Out-of-Pocket Spending Share of Outpatient Prescription Drug Expenditures, 1962 to 2022225

Exhibit 148: Per Capita Out-of-Pocket Spending on Outpatient Prescription Drugs, 2010 to 2022226

Exhibit 149: Average Per-Prescription Patient Out-of-Pocket Costs, by Type of Prescription, 2015 vs. 2022227

Exhibit 150: Distribution of Annual Patient Out-of-Pocket Spending, by Type of Health Plan, 2022227

Exhibit 151: Share of Employees with Cost Sharing Reduced or Waived for Medications to Treat Chronic Conditions, by Company Size, 2023229

Exhibit 152: Products with Cost Sharing Waived in High-Deductible Employer-Sponsored Health Plans, by Medication Class, 2021229

Exhibit 153: Type of Cost Sharing for Out-of-Pocket Spending on Brand-Name Prescriptions, 2015 vs. 2023230

Exhibit 154: Share of Prescriptions vs. Final Out-of-Pocket Spending, by Type of Cost Sharing and Therapy, 2021231

Exhibit 155: Average Out-of-Pocket Spending on Prescription Drugs for Medicare Part D Beneficiaries, by LIS Status, 2007 to 2022232

Exhibit 156: Number of Medicare Part D Beneficiaries with Out-of-Pocket Obligations Above the Catastrophic Threshold, 2007 to 2022232

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

Exhibit 157: Highest Average Annual Out-of-Pocket Part D Spending, by Medical Condition, 2021233

Exhibit 158: New-to-Product Prescription Abandonment, by Patient Out-of-Pocket Cost, 2022234

Exhibit 159: Consumer Understanding of Health Insurance Terms, by Racial/Ethnic Group235

Exhibit 160: CVS Health, Quarterly Retail/LTC Prescription Revenues, 2017 to 2023.....236

Exhibit 161: Summary of Pharmacy Benefit Network Design Options238

Exhibit 162: Driving Distance to Nearest Retail Pharmacy, by Degree of Urbanization, 2020239

Exhibit 163: Medicare Part D PDPs with Preferred Pharmacy Networks, 2011 to 2024243

Exhibit 164: Retail Pharmacy Network Size in Medicare Part D Plans, Preferred vs. Total, 2022243

Exhibit 165: Medicare Advantage Prescription Drug (MA-PD) Plans with Preferred Pharmacy Networks, by Plan Type, 2024244

Exhibit 166: Participation as a Preferred Cost Sharing Pharmacy in Selected Medicare Part D PDPs, by Retail Chain, 2024246

Exhibit 167: Enrollment in Medicare Part D PDPs with Preferred Cost Sharing Networks, by Pharmacy Chain, 2022 to 2024247

Exhibit 168: Participation as a Preferred Cost Sharing Pharmacy in Selected Medicare Part D PDPs, by PSAO, 2024249

Exhibit 169: Share of Employer-Sponsored Plans with a Preferred Retail Pharmacy Network, 2013 to 2023.....251

Exhibit 170: Health Systems’ Requirements for Employee Use of an In-House Pharmacy, 2022252

Exhibit 171: Mandatory Mail Pharmacy Utilization for Maintenance Medications, Employer-Sponsored Plans, 2013 to 2023.....253

Exhibit 172: TRICARE, Share of Net Spending on Outpatient Prescriptions, by Dispensing Outlet, 2012 to 2022254

Exhibit 173: Payer’s Perceived Lowest-Cost Site of Care for Specialty Dispensing, 2018 vs. 2022255

Exhibit 174: Share of Large Employers with Restricted Specialty Pharmacy Network, by Network Size, 2011 to 2023256

Exhibit 175: Health Systems’ Requirements for Employee Use of Internal Specialty Pharmacies, 2022257

Exhibit 176: White Bagging Approach for Distribution and Reimbursement of Provider-Administered Outpatient Drugs.....259

Exhibit 177: UnitedHealthcare, White Bagging Requirements for Hospital Outpatient Providers, by Specialty Pharmacy, 2024260

Exhibit 178: Drug Sourcing for Infused Oncology Therapies, by Practice Type and Source, 2019 vs. 2023261

Exhibit 179: Payer Reimbursement and Patient Out-of-Pocket Obligation for Oncology Drugs, White Bagging vs. Buy-and-Bill, 2020.....263

Exhibit 180: Share of Hospitals Permitting Pharmacy Sourcing of Infused Drugs, by Source, 2020 vs. 2022264

Exhibit 181: Payer Methodologies for Computing a Pharmacy’s Estimated Acquisition Cost269

Exhibit 182: Distribution of Retail Pharmacy Dispensing Fees, 2020270

Exhibit 183: Pharmacy AWP Reimbursement and Copayments for Brand-Name Prescriptions, by Dispensing Format, 2023272

Exhibit 184: AWP Reimbursement Difference, Retail vs. Mail Pharmacies, 2009 to 2023.....274

Exhibit 185: Plan Sponsor Tactics to Increase Use of 90-day Prescriptions, by Dispensing Channel, 2023274

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

Exhibit 186: AWP Reimbursement and Copayments for Generic Prescriptions, by Dispensing Format, 2023276

Exhibit 187: Basis of Retail Pharmacy Reimbursement for Generic Drug Prescriptions, by Method, 2020277

Exhibit 188: Pharmacy Reimbursement in Medicaid, Fee-for-Service vs. Managed Medicaid280

Exhibit 189: Pharmacy Reimbursement Methodology and Dispensing Fee, Largest Fee-for-Service State Medicaid Programs, 2023.....282

Exhibit 190: Share of Employers Receiving Rebates for Traditional and Specialty Drugs, 2014 vs. 2023286

Exhibit 191: PBM Rebate Arrangements for Traditional and Specialty Medications in Employer-Sponsored Plans, 2014 vs. 2023.....286

Exhibit 192: Use of Manufacturers’ Rebate and Other Payments to PBMs, Texas, 2016 to 2022289

Exhibit 193: Administrative Fees as a Percentage of WAC, by PBM, 2019.....290

Exhibit 194: Value of Direct and Indirect Remuneration (DIR) in Medicare Part D, 2012 to 2023293

Exhibit 195: Medicare Part D, Value of Direct and Indirect Remuneration (DIR), by Source and Type of Drug, 2021294

Exhibit 196: Value of Manufacturers’ Coverage Gap Discounts in Medicare Part D, 2014 to 2023295

Exhibit 197: Medicaid Program, Gross Prescription Spending and Prescriptions, Fee-for-Service vs. Managed Care, 2022299

Exhibit 198: Medicaid, Gross vs. Net Spending on Outpatient Drugs, 2015 to 2022301

Exhibit 199: Brand-Name Drugs, Change in Average List and Net Prices, 2014 to 2023303

Exhibit 200: Change in List vs. Net Price, by Manufacturer, 2022304

Exhibit 201: Average Difference Between List and Net Prices, by Therapeutic Area, 2012 to 2023.....306

Exhibit 202: Total Value of Pharmaceutical Manufacturers’ Gross-to-Net Reductions for All Brand-Name Drugs, 2019 to 2023.....307

Exhibit 203: Components of Pharmaceutical Manufacturers’ Gross-to-Net Gap for All Brand-Name Drugs, by Source, 2023309

Exhibit 204: Components of Gross-to-Net Bubble, Brand-Name Insulin Products, 2012 vs. 2022310

Exhibit 205: Components of Gross-to-Net Bubble, Johnson & Johnson Innovative Medicines, 2022311

Exhibit 206: Application of Pharmacy Benefit Rebates in Employer-Sponsored Healthcare Plans, 2023312

Exhibit 207: Prescription Economics for a Third-Party Payer—Traditional Brand-Name Drug Example.....319

Exhibit 208: Prescription Economics for a Third-Party Payer—Traditional Brand-Name Drug Example in a High-Deductible Health Plan321

Exhibit 209: Prescription Economics for a Third-Party Payer—Traditional Brand-Name Drug Example in High-Deductible Health Plan with Point-of-Sale Rebates322

Exhibit 210: Prescription Economics for a Third-Party Payer—Specialty Brand-Name Drug Example.....323

Exhibit 211: U.S. Drug Distribution and Related Revenues at Big Three Wholesalers, 2023325

Exhibit 212: Determination of a Pharmacy’s Brand-Name Drug Acquisition Cost from a Wholesaler331

Exhibit 213: Pharmacy Buying Groups and Primary/Preferred Wholesaler Relationships, by Number of Pharmacies, 2023.....333

Exhibit 214: Share of U.S. Generic Purchasing Volume, by Organization, 2023.....335

Exhibit 215: Overall Gross Margins for Chain and Independent Drugstores, 2006 to 2022.....338

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

Exhibit 216: Total Gross Profits for Chain and Independent Drugstores, 2018 to 2022338

Exhibit 217: Overall Gross Margins for Chain and Independent Drugstores, by Company, 2023339

Exhibit 218: Prescriptions as a Percentage of Revenues, by Company, 2013 to 2023340

Exhibit 219: Components of a Pharmacy’s Cost of Nonspecialty Dispensing, by State341

Exhibit 220: Example of Brand-Name Prescription Economics for a Retail Pharmacy342

Exhibit 221: Independent Pharmacies, Average Per-Prescription Gross Profits and Margins, 2018 to 2022343

Exhibit 222: BrightSpring Health Services, Average Per-Prescription Gross Profits and Margins, 2020 to 2023344

Exhibit 223: Top Three PBMs, Sources of Gross Profit, 2023345

Exhibit 224: Effect of Brand-Name List Price Increases on a Prescription’s Gross Profit348

Exhibit 225: Median Generic Price Relative to Brand Price Before Generic Entry, by Number of Manufacturers ...350

Exhibit 226: Life Cycle of Per-Prescription Gross Profits, Brand vs. Multisource Generic350

Exhibit 227: Median AWP Discount for Generic Drugs Sold to Retail Pharmacies, by Number of Manufacturers, 2023352

Exhibit 228: Types of Pharmacy Performance Metrics Used by Payers, by Plan Type355

Exhibit 229: Net Value of Pharmacy DIR Fees in Medicare Part D, 2012 to 2023356

Exhibit 230: 340B Drug Pricing Program, Purchases by Covered Entities, 2015 to 2023360

Exhibit 231: Estimated 340B Discounts on Brand-Name Drugs, by Therapeutic Class, 2018.....361

Exhibit 232: 340B Contract Pharmacy Locations, 2010 to 2023362

Exhibit 233: 340B Contract Pharmacy Locations and Agreements, by Company, 2023.....363

Exhibit 234: Growth in Value of 340B vs. Non-340B Purchases, by Channel, 2017 to 2022364

Exhibit 235: 340B Covered Entities, by Number of Contract Pharmacies, 2023365

Exhibit 236: Flow of Funds and Product for a 340B Contract Pharmacy Network365

Exhibit 237: 340B Software Vendors with Drug Channel Ownership, 2023367

Exhibit 238: 340B Prescription Economics for a Covered Entity, a Contract Pharmacy, and a Patient—Specialty Brand-Name Drug Example370

Exhibit 239: Total Gross Profits from 340B Contract Pharmacy, by Company, 2019 to 2023372

Exhibit 240: Summary of List Price Reductions for Insulin Products, January 2024375

Exhibit 241: Pharmacy Reimbursement and Patient Out-of-Pocket Costs, Low- vs. High-List-Price PCSK9i Products376

Exhibit 242: Average Year-over-Year Change in Pricing of Mature Generic Drugs, Oral vs. Injectable, 2015 to 2023378

Exhibit 243: Generic Drug Approvals, FDA, 2014 to 2023379

Exhibit 244: Actual and Projected Growth Rates in National Health and Outpatient Prescription Drug Expenditures, 2018 to 2028.....380

Exhibit 245: Source of Payment for Outpatient Prescription Drug Expenditures, 2028.....381

Exhibit 246: Number of U.S. Biosimilar Approvals, by Product Type, 2015 to 2023383

Exhibit 247: Insulin Glargine, Share of New-to-Brand Prescriptions Written vs. Dispensed, 2023386

Exhibit 248: Physician Perceptions of Biosimilars, by Specialty, 2023.....388

The 2024 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers

Exhibit 249: Top Specialty Therapy Categories, Generic Drugs as a Share of Prescriptions and Net Spending, 2023389

Exhibit 250: Nonbiological Specialty Drugs, Pharmacy Acquisition Cost per Unit for Brand-Name vs. Generic Version, 2024.....390

Exhibit 251: Imatinib Mesylate, Medicare Part D Prescription Reimbursement vs. Pharmacy Acquisition Cost, 2017 to 2023.....391

Exhibit 252: Total Brand Revenues Lost to Generic and Biosimilar Launches, by Product Type, 2018 to 2028.....392

Exhibit 253: Pharmacy Industry Prescription Revenues, Traditional vs. Specialty Drugs, 2018 to 2028.....393

Exhibit 254: Vertical Business Relationships Among Insurers, PBMs, Specialty Pharmacies, and Providers, 2024 ..394

Exhibit 255: Cigna Healthcare, Number of Specialty Drugs Subject to Site-of-Care Medical Policy, 2018 to 2023 ..398

Exhibit 256: Annual Change in Value of 340B Purchases, by Channel, 2018 to 2022411

Exhibit 257: Pharmacy Locations Acquired, by Company, 2010 to 2023414

Exhibit 258: U.S. Retail Pharmacy Store Count, CVS vs. Walgreens, 2014 to 2023416

Exhibit 259: Venture Capital-Backed Digital Pharmacies and Total Funding, 2023.....420

Exhibit 260: Standard Medicare Prescription Drug Benefit, 2024 vs. 2025.....426

Exhibit 261: Products Selected for Medicare Drug Price Negotiation Program, by Total and Out-of-Pocket Spending, 2023428

Exhibit 262: Medicare Part D, Share of Liability for Spending, by Source, 2010 to 2025432