

# Unpacking the Facts on Distributor Bona Fide Service Fees

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When you go to pick up a prescription at the pharmacy counter, you don't often think of the journey that product took to get there. In fact, behind each delivery is a range of significant services HDA-member distributors conduct for their 1,500 manufacturer partners — and ultimately, patients.

As the critical link ensuring that 10 million pharmaceuticals are delivered safely to approximately 330,000 sites of care, distributors — in their role as logistics experts — take on transporting, securing, warehousing, handling and record-keeping on behalf of pharmaceutical manufacturers.

## What Are Bona Fide Service Fees and What Do They Cover?

Bona fide service fees are paid by a manufacturer to an entity like HDA-member distributors for the fair market value of an itemized service performed on a manufacturer's behalf. These fees must meet the Centers for Medicare & Medicaid Services' (CMS) four-prong test for reimbursement.



### Passing the Test

**Distribution service fees must meet CMS' four-prong test** to be bona fide — and excluded from the average sales price, average manufacturer price and best price reported under the Medicare Drug Rebate Program.

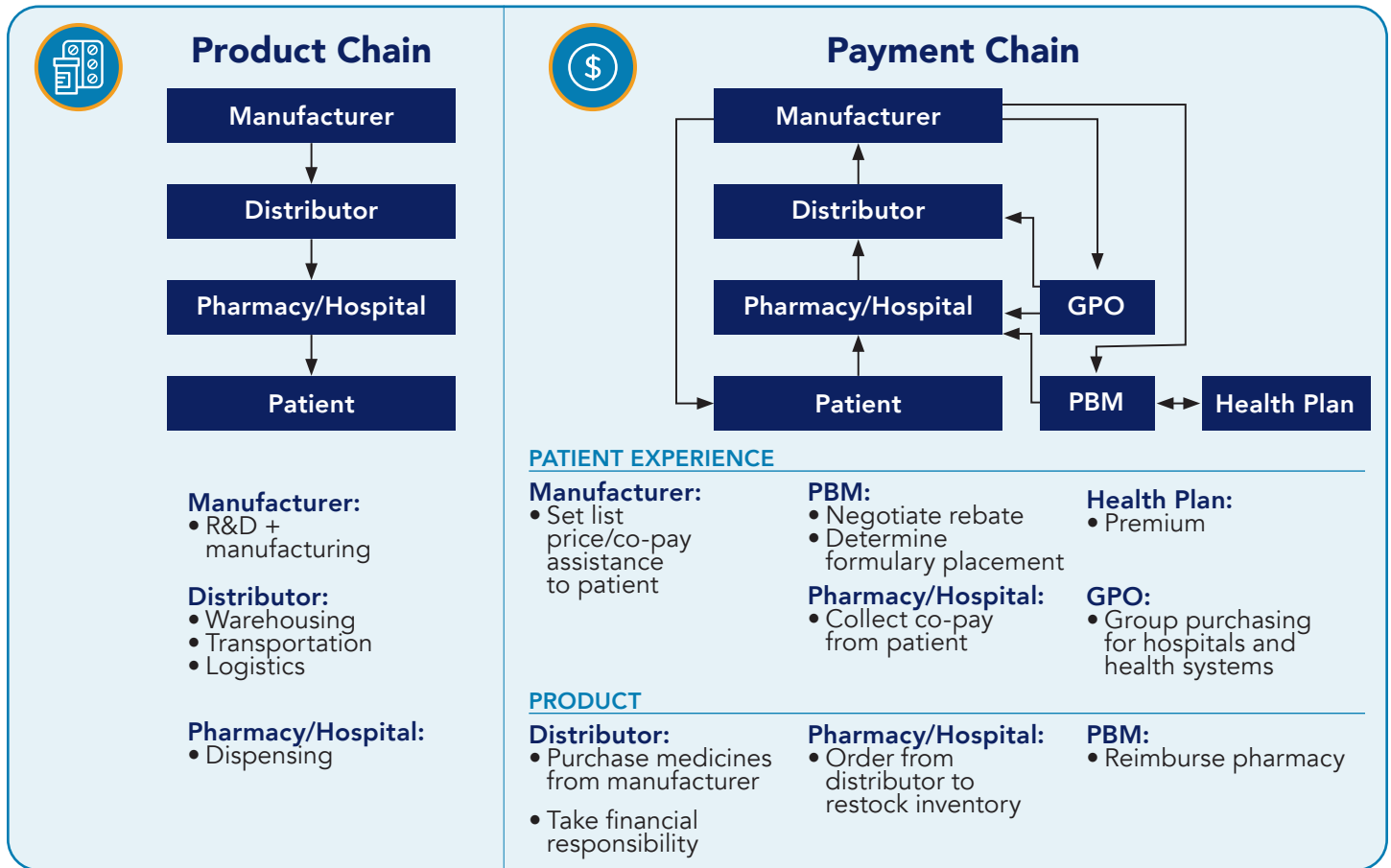
The term **bona fide service fee** means a fee paid by the manufacturer to an entity that:

1. represents fair market value for a bona fide service that,
2. is performed on behalf of the manufacturer; and,
3. the manufacturer would otherwise perform (or contract for) in the absence of the service arrangement; and,
4. is not passed on in whole or in part to a client or customer of the entity whether or not the entity takes title to the drug or biological.

As payment for providing critical, core services to ensure pharmaceuticals are delivered safely and reliably, bona fide service fees do not raise the cost of a drug. They are already embedded in the manufacturer's cost of moving products to hundreds of thousands of pharmacies, providers and other sites of care.

# The Product Chain Versus the Payment Chain

In contrast to payment chain entities such as pharmacy benefit managers (PBMs), group purchasing organizations (GPOs) and payors, healthcare distributors are primarily responsible for the physical handling and logistics of medicines and healthcare products.



Sources: [Drug Channels, 2021](#); [USC Schaeffer, 2017](#)

The key difference in bona fide service fees paid by manufacturers to distributors versus the **fees associated with PBMs** is they underwrite the physical movement of products through the pharmaceutical supply chain. Importantly, bona fide service fees paid by manufacturers to distributors are considered bona fide because they meet the CMS four-prong test and pay for the industry to physically move products to points of administration.

**Distributor fees make it possible for the industry to support both ends of the pharmaceutical supply chain. Learn about our industry's commitment at [HDA.org/healthcare-affordability](https://HDA.org/healthcare-affordability).**

## About the Healthcare Distribution Alliance

The Healthcare Distribution Alliance (HDA) represents primary pharmaceutical distributors — the vital link between the nation's pharmaceutical manufacturers and pharmacies, hospitals, long-term care facilities, clinics and others nationwide. Since 1876, HDA has helped members navigate regulations and innovations to get the right medicines to the right patients at the right time, safely and efficiently. The HDA Research Foundation, HDA's nonprofit charitable foundation, serves the healthcare industry by providing research and education focused on priority healthcare supply chain issues.