Preferred Pharmacy Networks for Medicare Part D Beneficiaries

Recent findings by the Centers for Medicare and Medicaid Services (CMS) and studies by private organizations suggest that Medicare beneficiaries save money when they enroll in preferred pharmacy networks under Medicare Part D. AMCP supports preferred pharmacy networks as a tool that prescription drug plans (PDPs) and Medicare Advantage Prescription Drug plans (MA-PDs) may utilize in their Medicare Part D plan offerings.

Background

Generally, preferred pharmacy networks represent a win-win for Medicare Part D beneficiaries and for the government by lowering prescription drug costs. Under preferred pharmacy network arrangements, plans reduce negotiated prices for Medicare Part D drugs to certain retail pharmacies. In exchange for beneficiaries' utilization of these pharmacies, they receive reduced monthly premiums, and co-payments and co-insurance is generally reduced—thus creating a win for the government and for beneficiaries. *Consumer Reports Magazine* recently recommended preferred pharmacy networks as one way for consumers to save money on prescription drug costs.[1] In 2013, more than 40% of all Medicare beneficiaries enrolled in PDPs chose plans with preferred networks[2] and nearly 85% of 400 beneficiaries recently surveyed are satisfied with these plans.[3]

Recent analyses suggest the following advantages when using preferred pharmacy networks:

- Plan offerings with the lowest monthly premiums for Medicare Part D include preferred pharmacy networks. Seven of the top 10 plans with the lowest monthly premiums include preferred pharmacy networks.[4]
- Preferred network plans may lower premiums substantially, thus lowering costs for both beneficiaries and for the government, particularly in payments for low-income subsidies.[5] Preferred pharmacy networks have contributed to year-to-year premium reductions since introduced in 2011.[6]
- Pharmacy generic dispensing rates are 2.7% higher in preferred pharmacy networks[7], thus helping to contribute to overall lower costs for the government and beneficiaries by encouraging the use of lower cost generics in lieu of high cost brand name medications.

Preferred Pharmacy Networks May Help to Improve Pharmacy Performance Measures

- Preferred pharmacy networks may be leveraged to help improve overall outcomes and quality measures. First, risk-sharing arrangements with pharmacy networks and incentives to increase generic utilization rates increases pharmacist and pharmacy participation in patient health care management and may help to improve medication adherence and utilization by ensuring that patients receive the appropriate medications at a reasonable cost. Second, preferred pharmacy networks may also incorporate pharmacists patient care services and interventions into accountable care arrangements and other integrated care delivery to achieve better health outcomes at a lower cost. Pharmacies and pharmacy chains that help to achieve better health outcomes should receive incentives to continue these practices through preferred network arrangements.

---

[1] *Surprising Ways to Cut Your Drug Costs: Even with Insurance You Might be Paying too Much.* ConsumerReports.org. August 2013. http://www.consumerreports.org/cro/magazine/2013/09/how-to-cut-drug-costs-save-on-prescription-drugs-consumer-reports/index.htm. Accessed August 19, 2013.

[2] *Final 2013 Part D Data: Preferred Pharmacy Networks Still Win Big, But CMS is Concerned.* DrugChannels.net. February 20, 2013. http://www.drugchannels.net/2013/02/final-2013-part-d-data-preferred.html. Accessed August 19, 2013.

[3] Hart Research Associates. A Survey of Seniors about their Medicare Part D Preferred Pharmacy Network Plan. May 2013.

[4] Avalere Health analysis of CMS June 2013 landscape file, including plan-level enrollment-weighted average premiums for 2013.

[5] *Ibid.*

[6] *Ibid.*

[7] CMS. Part D Claims Analysis: Negotiated Pricing Between Preferred and Non-Preferred Pharmacy Networks. April 30, 2013. http://www.cms.gov/Medicare/Prescription-Drug-Coverage/PrescriptionDrugCovGenIn/Downloads/PharmacyNetwork.pdf. Accessed August 19, 2013.

CMS Analysis
On April 30, 2013, CMS announced plans to consider options for clarifying CMS requirements in future rulemaking with regard to preferred networks. In this announcement, CMS cited findings from a recent analysis regarding whether preferred network pharmacy negotiated prices are lower than non-preferred network pharmacy negotiated prices.[8]

To determine the validity of the hypothesis that preferred networks save costs, CMS conducted a 1-month pilot study conducted using prescription drug event data (PDE) during March 2012. CMS found that negotiated pricing for the top 25 brands and 25 generics in the Part D program at preferred retail pharmacies is lower than at non-preferred network pharmacies. However, CMS found different results between sponsors once mail-order pharmacy costs were included. Accordingly CMS found that negotiated prices are sometimes higher in certain preferred networks-contrary to expectations.[9]

In response to this finding, the Pharmaceutical Care Management Association (PCMA)[10] and PDP plan sponsors analyzed the flaws in the methodology used by CMS and raised some of the following as examples of the flawed methodology:

- CMS did not use point of sale price concessions reported as direct and indirect remuneration (DIR), including rebates paid after the point of sale. These rebates often reduce unit cost of drugs.
- CMS did not consider the improvement in generic dispensing rates.
- CMS assumed mail-order pharmacies to be preferred which may not always be the case.
- The drug mix may not have been accurate. For example, lower unit-cost averages at preferred network pharmacies may not be reflected in weighted averages if more high-cost medications are filled at preferred pharmacies. A properly constructed methodology should normalize the drug mix by applying cost per drug at preferred pharmacies to the mix at non-preferred pharmacies and then compare the result to the average unit cost at preferred pharmacies.
- Three of the 5 Part D plans with preferred networks had compliance issues and may have ceased operations; thus CMS should exclude these PDPs from comparison studies.[11]

Companies that sponsor Medicare Part D plans also submitted similar comments. AMCP encourages CMS to consider these comments related to the methodology and consider them in conjunction with the potential cost savings of preferred networks in Medicare Part D – $35 billion over 10 years – according to a study released by PCMA in January 2013[12] and improvements to patient outcome measures to support preferred pharmacy networks.

August 2013

The Academy of Managed Care Pharmacy (AMCP) is a national professional association of pharmacists and other health care practitioners who serve society by the application of sound medication management principles and strategies to assist patients in achieving positive therapeutic outcomes. The Academy's nearly 7,000 members develop and provide a diversified range of clinical, educational and business management services and strategies on behalf of the more than 20 million Americans covered by a managed care pharmacy benefit. More news and information about AMCP can be obtained on its website, at www.amcp.org.

---

[8] CMS. Part D Claims Analysis: Negotiated Pricing Between Preferred and Non-Preferred Pharmacy Networks. April 30, 2013. http://www.cms.gov/Medicare/Prescription-Drug-Coverage/PrescriptionDrugCovGenIn/Downloads/PharmacyNetwork.pdf. Accessed August 19, 2013.
[9] *Ibid.*
[10] PCMA. Study Design and Methodological Issues in CMS Study Entitled, *Negotiated Pricing Between Preferred and Non-Preferred Pharmacy Networks* August 2013.
[11] PCMA. Study Design and Methodological Issues in CMS Study Entitled, *Negotiated Pricing Between Preferred and Non-Preferred Pharmacy Networks* August 2013.
[12] Vistante for PCMA. How Pharmacy Networks Could Save Medicare, Medicaid, and Commercial Payers $115 Billion. January 2013. http://www.pcmanet.org/images/stories/uploads/2013/visante-pcma%20pharmacy%20networks%20study%201-24-13%20final.pdf. Accessed August 19, 2013.