



## POLICY ALERT

### Payer and PBMs Profit From Obscure Pharmacy Fees, While Seniors See No Relief In Prescription Costs

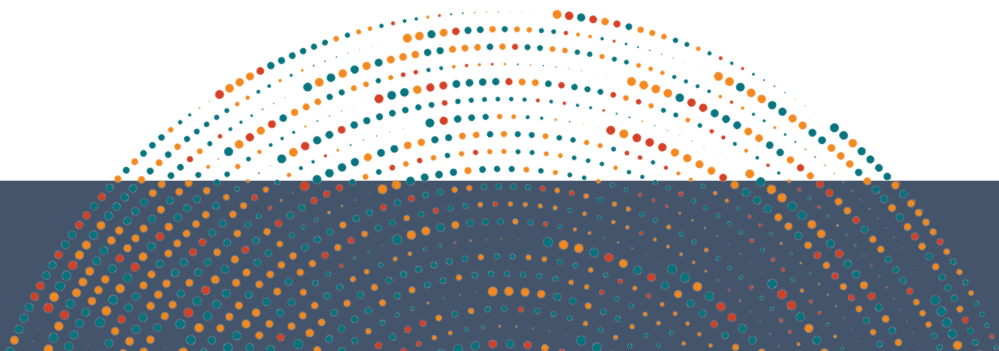
A new analysis of CMS data shows that payers and Pharmacy Benefit Managers (PBMs) are profiting from obscure pharmacy fees at a rate in excess of 500% per prescription as compared to the average PBM administration fee.

Direct and Indirect Remuneration (DIR) pharmacy fees are post point of sale transaction fees paid by pharmacies to health plans and PBMs for participation in Medicare Part D pharmacy networks. DIR pharmacy fees overall have skyrocketed by 1,600% in the last five years, totaling \$8.5B since 2013. <sup>1,2,3,4,5,6</sup> These fees are collected by PBMs and health plans and shared with Medicare.

However, a loophole in the program allows health plans and PBMs to pocket an excessive amount of pharmacy DIR fees rather than offset prescription costs for seniors.<sup>1,8</sup> Many seniors struggle to afford their medication, but they do not experience any benefit from these discounts to reduce the cost of prescriptions at the pharmacy counter.

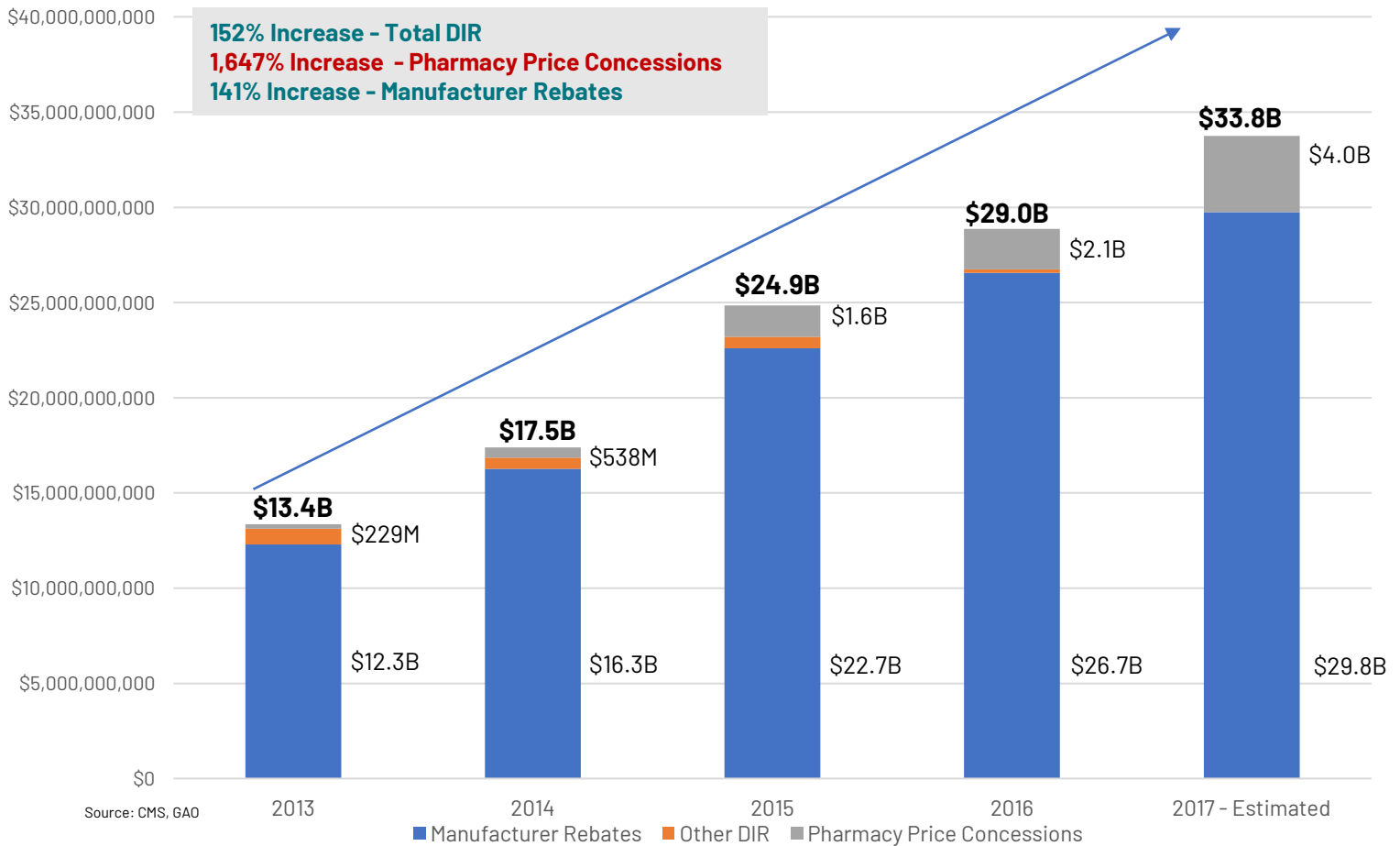
DIR pharmacy fees are also taking a toll on access to pharmacies across the nation. Many pharmacies cite these fees as the number one threat to staying in business. The impact is real.

During the 12 months between June and July of 2018/19, over 2,200 pharmacies went out of business.<sup>17</sup> Many of these pharmacies say DIR fees drove them to close, reducing medication access. This reduced access has especially impacted rural areas of the country.





## DIR - Pharmacy Price Concessions, Manufacturer Rebates & Other DIR 2013 - 2017



### > Key Insights

- DIR are post point of sale discounts that do not get passed on to Med D Enrollees. Includes: pharmacy price concessions & manufacturer rebates.
- DIR is growing at a rate 3x higher than Total Med D Gross Drug Cost.
- Pharmacies price concession DIR has shown the highest growth at 1,600% from 2013 to 2017.
- A kickback loophole allows payers to keep a significant portion of these fees/discounts in excess of 500% per prescription.



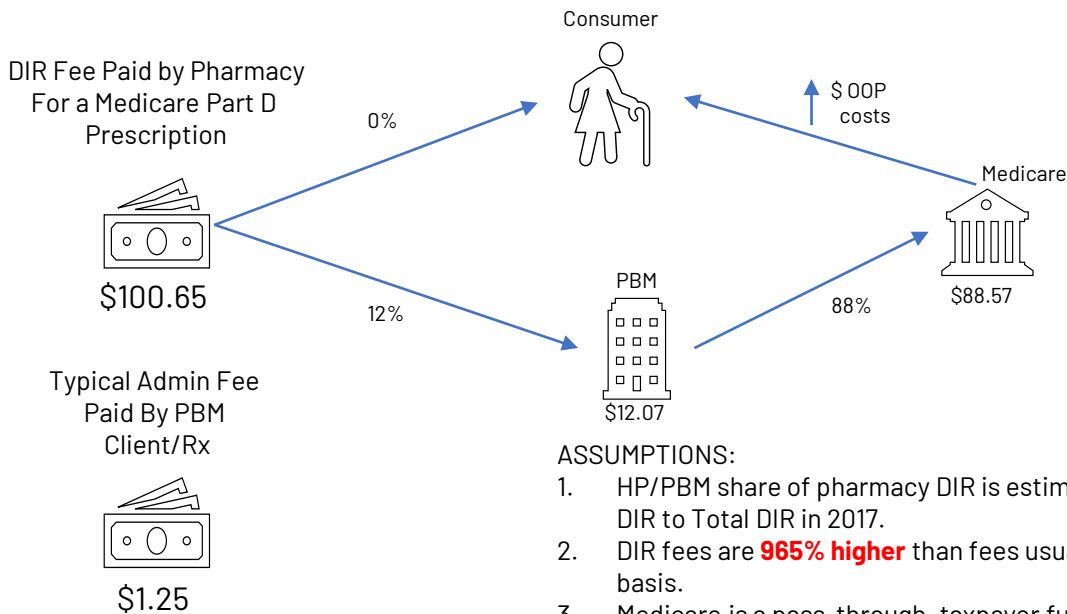
## Excessive DIR Pharmacy Fees Kept by PBMs

Health plans and PBMs are keeping a portion of DIR pharmacy fees per claim due to a loophole in the Medicare Part D program.<sup>1,8</sup> To illustrate, DIR pharmacy fees captured by PBMs are compared to the typical administrative fees that are received by PBMs from their clients.

In the following example, the PBM collects a DIR pharmacy transaction fee of \$100.65 from the pharmacy for a single prescription.<sup>7</sup> The PBM will keep \$12.07 of the amount collected.<sup>1,2,3,4,5,6,7</sup> When compared to the typical admin fee per prescription collected by PBMs from clients at \$1.25/Rx, the increase in fees that a PBM keeps represents an increase of 965% per claim. On average, the DIR fee per prescription is \$10 and affects millions of Medicare claims totaling over \$8B since the loophole was first utilized.

## DIR Pharmacy Price Concession

Follow the Money: Medicare DIR Fees  
**Increase PBM Fee per Rx by 965%**  
An example based on actual Rx for Rexulti 1M



**THE MATH**  
DIR Keep divided by  
normal admin fee=  
 $\$12.07 / \$1.25 = 9.6x$  or  
**965%**

### ASSUMPTIONS:

1. HP/PBM share of pharmacy DIR is estimated at 12% based ratio of Pharmacy DIR to Total DIR in 2017.
2. DIR fees are **965% higher** than fees usually billed to PBM client on a per script basis.
3. Medicare is a pass-through, taxpayer funded program that only allows admin fees, not spread pricing.
4. Med D Preferred networks, that carry this DIR fee per script, account for ~85% of all Med D transactions
5. Why are taxpayers giving PBMs excess profits?

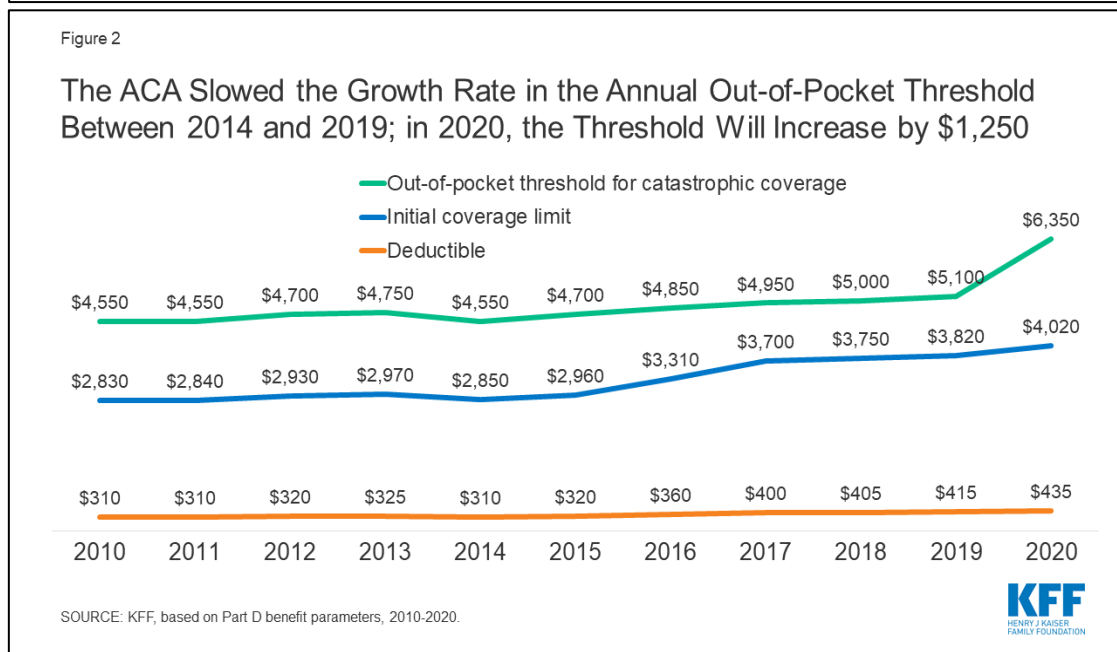
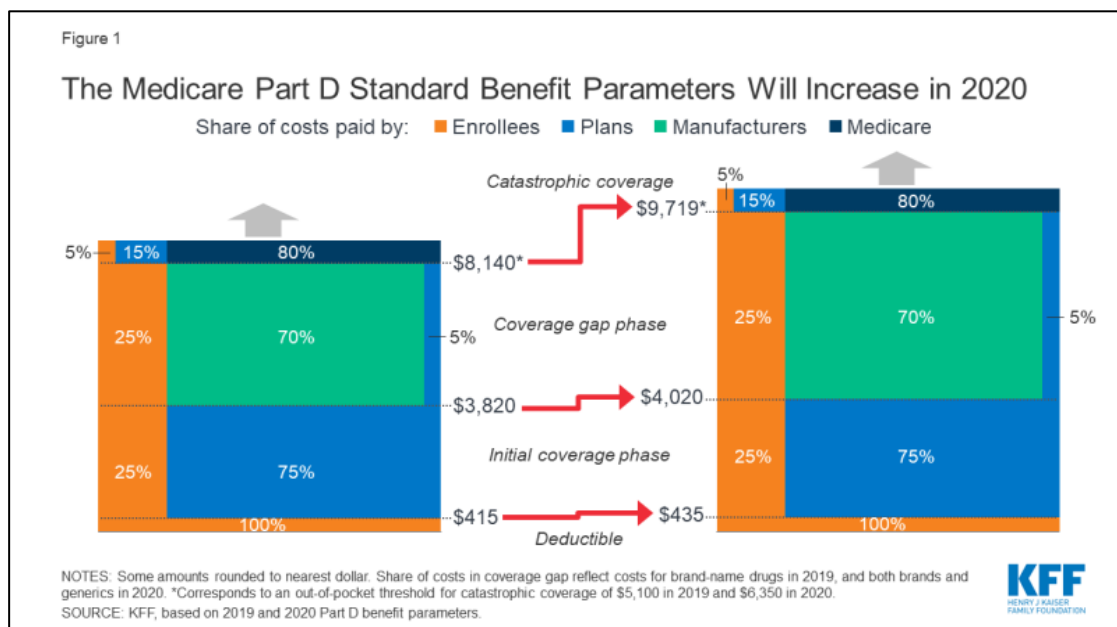
Source: 1. CMS Nov, 2018 Proposed Rule, 2. GAO PBM Report July 2019  
3. 2019 Annual Medicare Trustee Report, 4. 2014 CMS Rebate Summary Dashboard,  
5. CMS DIR Fact Sheet 2017, 6. CMS Chronic Conditions Warehouse 2008-2017  
7. Actual DIR claim data from a regional chain pharmacy 2019



## Senior Impact

The intention of the taxpayer funded Medicare Part D benefit is to increase medication access, improve adherence and lessen out of pocket cost to seniors. Medicare originated as a pass-through program, meaning that all prescription discounts and fees are intended to be passed through to seniors at the pharmacy counter. But that isn't happening.<sup>1,8, 9,10</sup>

## Medicare Part D Out Of Pocket Drug Costs Higher Than Commercial



## Key Insights

- In 2020, Med D beneficiaries will experience more increases in out of pocket drug costs.
- As you can see in the visuals from Kaiser Family Foundation, all phases of the defined standard benefit will increase in 2020.
- The total annual out of pocket threshold for Med D beneficiaries will increase by \$1,250.

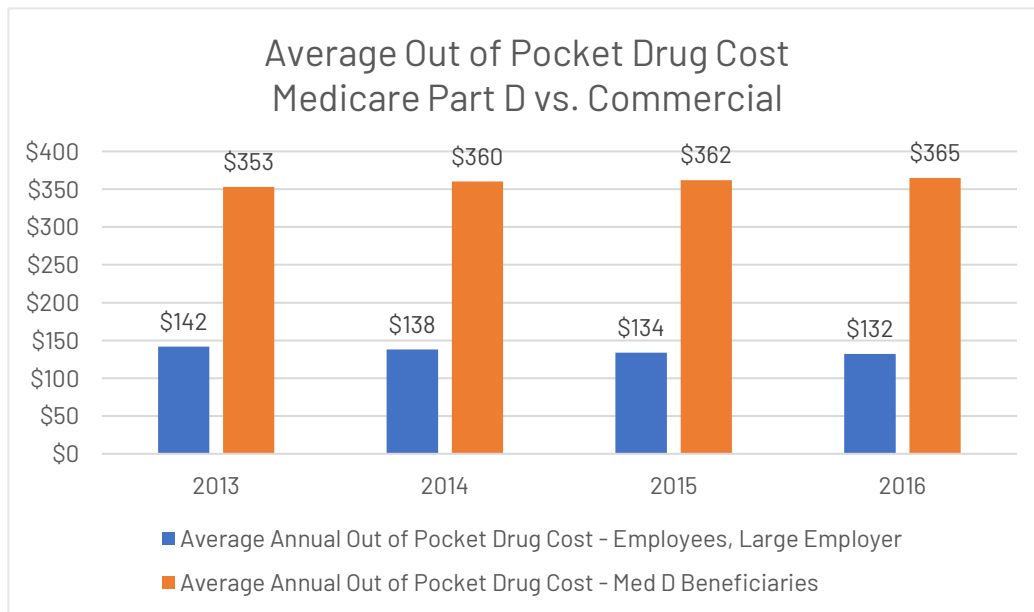
Source: 12. Juliette Cubanski, Tricia Neumann, "How Will The Medicare Part D Benefit Change Under Current Law & Leading Proposals?", Kaiser Family Foundation, October 11, 2019. <https://www.kff.org/medicare/issue-brief/how-will-the-medicare-part-d-benefit-change-under-current-law-and-leading-proposals/>



Seniors are being bypassed for DIR pharmacy discounts, while at the same time, struggle to afford their prescriptions. Here are some facts:

- Seniors' out of pocket Medicare prescription expenses are 2.5 times higher compared to commercial plans.<sup>11</sup>
- 53% of seriously ill Medicare beneficiaries experience financial hardships while trying to get care. The number one challenge: paying for prescriptions.<sup>12</sup>
- Despite having the Medicare prescription benefit, seniors are looking at other ways to save money on prescriptions. This includes obtaining their medications from Canada.

### Medicare Part D Out Of Pocket Drug Costs Higher Than Commercial



#### Key Insights

- Med D OOP drug cost is over 2.5x higher than that of large commercial employer groups.
- Commercial plan beneficiary costs decreased during this same time period.

Currently, four states have passed laws to allow Canadian importation and additional states have pending legislation.<sup>13,14,15</sup>

- In 2020, out of pocket prescription costs will continue to increase for seniors, as the total out of pocket threshold will increase by an additional \$1,250 in 2020.<sup>15</sup>

### Pharmacy Impact

Since 2013, when Medicare Part D DIR pharmacy fees took hold, their impact on pharmacies has been devastating. Aggressive PBM reimbursements along with DIR pharmacy fees impact all pharmacy business models: big box chain, grocer, mass merchant, specialty and independent. This is reflected in the number of pharmacy closures on the next page.

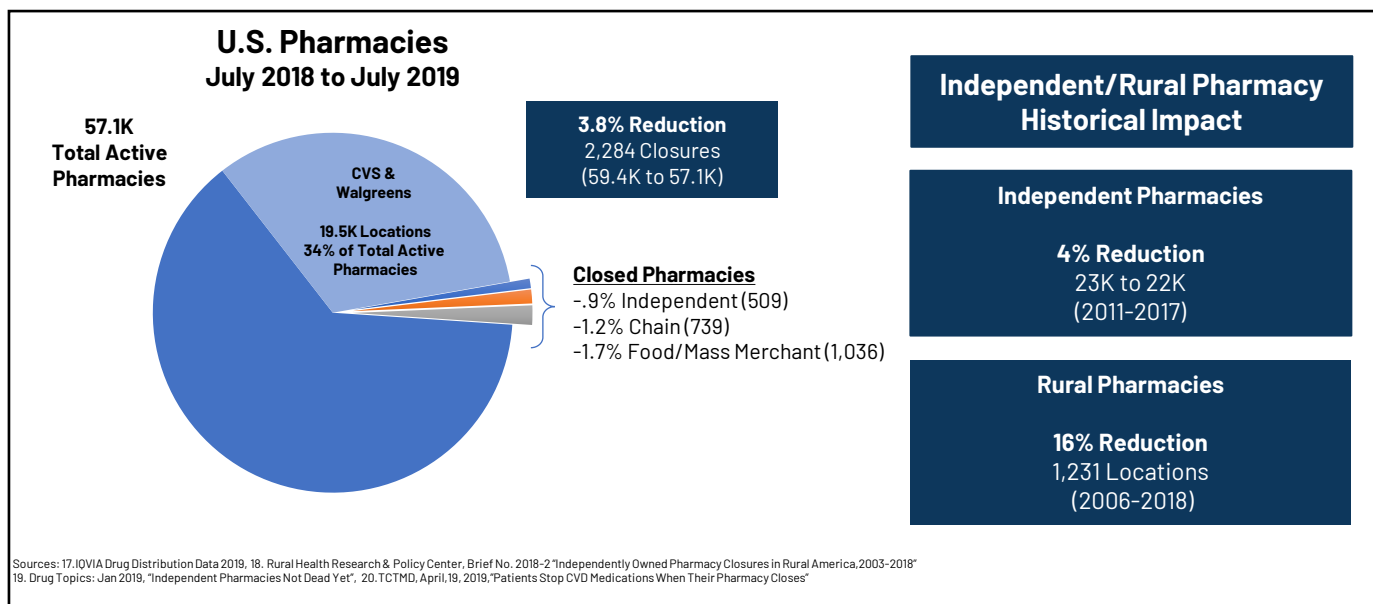


From July 2018 to July 2019, the number of pharmacies nationally have decreased by 3.8% nationally (2,284 closures).<sup>17</sup> Rural pharmacies have been impacted tremendously with a 16% (1,231 closures) reduction since the introduction of the Medicare Part D program. 51% percent of these rural communities are now considered pharmacy deserts.<sup>18</sup> Less pharmacies lead to significant access and convenience issues for seniors who may live in areas with closures.

## 2019 Notable Pharmacy Impact

Jan 2019	Shopko sells over 80 locations to Walgreens, Rite-Aid, CVS and Albertsons. <sup>28</sup>
July 2019	Walmart reduces senior pharmacists by 40%. <sup>21</sup>
August 2019	Walgreens closes 200 stores. Cites "reimbursement pressure" in 2019 Earnings Call. <sup>22,27</sup>
September 2019	Fred's Pharmacy files for bankruptcy. <sup>23</sup>
September 2019	U.S. Bureau of Labor Statistics projects a 0% growth in pharmacist jobs in the next 10 years. <sup>24</sup>
November 2019	Raley's closed 27 pharmacies. <sup>25</sup>
November 2019	Diplomat Gross Profit down 32%, cites "reimbursement pressures" in 3Q19 earnings call. <sup>26</sup>

## Retail Pharmacy Assault





## > Key Insights

- The U.S. pharmacy market is shrinking, impacting pharmacies in all formats.
- Pharmacy choice & access for Medicare enrollees impacted in both urban & rural areas.
- Rural pharmacy impact has been significant since the start of Med D with 1,231 pharmacies closing. 51% of these communities are now considered pharmacy deserts.<sup>18</sup>
- According to a 2019 JAMA study, a 6% decline in patient adherence is experienced when a pharmacy closes.<sup>20</sup>
- Due to the market decline, U.S. Bureau of Labor Statistics projects 0% growth in pharmacist jobs over the next 10 years.<sup>24</sup>
- PBM reimbursement & preferred narrow network proliferation has been consistently attributed to pharmacy challenges.

### Recommendation DIR Pharmacy Fees – Oversight and Change in Policy

With the advent of DIR Pharmacy fees, and the loophole that allows these fees to flourish, health plans and PBMs are making significant profits on the backs of taxpayers, pharmacies, and seniors. Oversight and change is necessary to ensure that these fees are passed on to seniors instead of lining health plan and PBM pockets. Without a policy intervention, seniors will continue to struggle with the high price of drugs, pharmacies will continue to close and rural markets will be particularly devastated – losing access to critical medications and jobs.





## Sources

1. Department of Health & Human Services, CMS, November 2018, 2020 Proposed Ruling: "Modernizing Part D and Medicare Advantage to Lower Drug Prices and Reduce Out of Pocket Spending".
2. U.S. Government Accountability Office, July 2019, "Use of Pharmacy Benefit Managers and Efforts to Manage Drug Expenditures and Utilization."
3. 2019 Annual Report of the Boards of Trustees of the Federal Hospital Insurance & Federal Supplementary Medical Insurance Fund.
4. CMS, 2014 Part D Rebate Summary Dashboard for All Brand Name Drugs
5. CMS, Jan. 2017, "Medicare Part D – Direct and Indirect Remuneration" Fact Sheet
6. CMS Chronic Conditions Warehouse "Medicare Part D Prescription Drug Cost for 2008-2017" Medicare Tables & Reports
7. Regional Pharmacy Chain, 2019, DIR Prescription Claims Data
8. Social Security Administration, Risk Corridor Provision Provider of the Social Security Act, Section 1860D-15 (e)(1)(B)
9. CMS, Medicare Prescription Drug Manual – Chapter 5, Definition of Negotiated Price
10. HHS, Centers for Medicare & Medicaid Services, Federal Register, HHS 423.100 Definition of Negotiated Prices
11. [Juliette Cubanski](#), [Matthew Rae](#), Katherine Young, and Anthony Damico, "How Does Prescription Drug Spending & Use Compare Across Large Employer Plans, Med D & Medicaid?", Kaiser Family Foundation, May 20, 2019. <https://www.kff.org/medicare/issue-brief/how-does-prescription-drug-spending-and-use-compare-across-large-employer-plans-medicare-part-d-and-medicaid/>
12. Juliette Cubanski, Tricia Neumann, "How Will The Medicare Part D Benefit Change Under Current Law & Leading Proposals?", Kaiser Family Foundation, October 11, 2019. <https://www.kff.org/medicare/issue-brief/how-will-the-medicare-part-d-benefit-change-under-current-law-and-leading-proposals/>
13. National Academy for State Health Policy, Rx Legislative Tracker 2019
14. Consumer Reports, Aug 2019, "Looking for Cheaper Meds from Canada? Not So Fast."
15. Campaign for Personal Prescription Importation, 2019 Second Annual Survey: Cost & Safety Primary Reasons for Importation from Canada.
16. Health Affairs, November 2019, "1 in 2 Seriously Ill Medicare Enrollees Struggles with Bills"
17. IQVIA Drug Distribution Data 2019
18. Rural Health Research & Policy Center, Brief No. 2018-2 "Independently Owned Pharmacy Closures in Rural America, 2003-2018"
19. Drug Topics: Jan 2019, "Independent Pharmacies Not Dead Yet",
20. TCTMD, April, 19, 2019, "Patients Stop CVD Medications When Their Pharmacy Closes"
21. Bloomberg, June 26, 2019, "Walmart Trims Pharmacy Jobs as Company Mulls Health Strategy"
22. Fast Company, Aug 7, 2019, "[Walgreens is closing 200 stores across America](#)"
23. ABC News, Sept 9, 2019, "Fred's Files for Bankruptcy, closing retail stores"
24. U.S Bureau of Labor Statistics, Occupational Outlook Handbook, Sept 2019
25. Progressive Grocer, October 28, 2019, "Raley's Closing 27 Stores"
26. Diplomat Pharmacy, Inc., November 12, 2019, 2019 Q3 – Results – Earnings Call Presentation
27. Walgreens Boots Alliance, Inc. 2019 Q2 – Results – Earnings Call Slides
28. Retail Dive, January 2019, "Walgreens scoops up 63 Shopko pharmacies at Ch.11 auction"

