

## **Part D Claims Analysis: Negotiated Pricing Between General Mail Order and Retail Pharmacies**

### **Objective:**

To determine if negotiated prices at mail order pharmacies are lower than the negotiated prices at retail pharmacies for Part D sponsors with both mail order and retail networks.

### **Background:**

CMS recently completed an analysis using one month of prescription drug event (PDE) data to test the hypothesis that preferred network pharmacy negotiated prices are lower than prices in non-preferred network pharmacies<sup>1</sup>. We did not confirm that hypothesis. In fact, negotiated prices are sometimes higher in certain preferred networks—contrary to our expectations. Mail-order prices seemed to be a significant variable. Therefore, we set out to test another hypothesis: that mail order negotiated prices are lower than negotiated prices at retail pharmacies.

### **Methodology:**

An analysis was conducted looking at all prescription drug plans (PDPs) offering mail-order pharmacies (at the contract level) using the same average unit cost (AUC) and weighted unit cost (WUC) drug cost methodology used in the above mentioned study. Specifically, we compared negotiated pricing between mail order and retail pharmacies. The same methodology and data sources used in the analysis of preferred and non-preferred networks were used in this analysis.

We identified a total of 57 PDP contracts with mail order benefits based on data from the Health Plan Management System (HPMS). Data are only shown in this paper for those contracts<sup>2</sup> that have a total of 500 or more mail order and retail claims and where the WUC of drugs at mail exceeded the WUC of drugs at retail for that contract, identified by a mail to retail ratio (M/R) greater than 1. This restriction resulted in a total of 21 contracts for the top 25 brand and 25 generic drugs combined, 7 contracts for the top 25 generic drugs only, and 0 contracts for the top 25 brand drugs only. This group is referred to as ‘Selected PDP Contracts’.

### **Summary of Findings:**

#### Aggregate (including top 25 brand and top 25 generic drugs)

At the contract level, we found that the WUC for the top 25 brand and top 25 generics combined were higher for mail order pharmacies than retail pharmacies for the 21 contracts meeting the criteria described above (Table 1). For these 21 PDP contracts, the WUC of mail order is 1% to 38% higher than the WUC of their retail pharmacies. The range of higher ratios for mail order compared to retail pharmacies’ WUC was as follows:

- 8 contracts were between 1% and 10% higher
- 5 contracts were between 11% and 20% higher; and
- 8 contracts were between 21% and 38% higher, with two PDP sponsors, Contracts N and P, at 38%.

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<sup>1</sup> 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 November 22, 2013.

<sup>2</sup> All PDP Contract identifiers and associated names have been masked in this study. There is no consistency between masked identifiers displayed in this paper and the preferred and non-preferred pharmacy network paper.

Note that the WUC in mail order pharmacies is 8% to 30% lower than the WUC of retail pharmacies for 10 PDP contracts (with 500 or more mail and retail claims). For the remaining contracts, the M/R ratios were less than 1. (Data not shown).

#### Generics (top 25 drugs only)

In general, the patterns for the top 25 brand drugs and the top 25 generic drugs differed. For the top 25 generic drugs, the mail order to retail ratios greater than 1 using the WUC were identified for 7 contracts that met both of the criteria described above (Table 2). For these 7 contracts, the WUC for mail order pharmacy was 3% to 83% higher than retail pharmacies. The 7 PDP sponsors in descending order of M/R ratios are:

- 2 contracts were between 1% and 10% higher
- 3 contracts were between 11% and 20% higher
- 1 contract was between 21% and 30% higher (Contract V at 25%); and
- 1 contract was greater than 30% (Contract T at 83%).

#### Brand (top 25 drugs only)

For the top 25 brand drugs, mail order pharmacies are offering lower negotiated prices than are offered by retail pharmacies for brand drugs. This is indicated by the M/R ratios of less than 1 (range of 1% to 18% under the WUC) for all contracts meeting the criteria described above (Data not shown).

#### **Conclusion:**

In CMS' earlier study, we showed that negotiated prices at preferred retail pharmacies were higher than prices offered by non-preferred pharmacies for some standalone prescription drug plans (PDPs) when both retail and mail order prescriptions were included. In this study, we have limited the sample to only mail order prescriptions but continued to use both the same time period and methodology that we used earlier. Similar to our previous study, this analysis has shown that negotiated pricing for the top 25 brands and 25 generics combined at mail order pharmacies is higher than at retail pharmacies for selected PDPs. When looking at the top 25 generic drugs only, some sponsors' mail order pharmacies are offering negotiated prices that exceed 83 percent more than the prices offered by their retail pharmacies. Thus, our hypothesis that mail order negotiated prices are lower than retail pharmacy negotiated prices was not confirmed. Instead, we are finding higher prices at mail order than at retail pharmacies for some PDPs. CMS continues to be concerned about the impact of these prices on the Part D program.

Table 1: Weighted Unit Costs and Claim Counts for 21 Selected PDP Sponsors for Top 25 Brand and 25 Generic Drugs Combined (Total PDP Sponsors=57, March 2012 PDE data for top 25 brand and top 25 generic drugs only)

Contract Information	Weighted Unit Cost*			Claim Count	
PDP Contract	Mail Order	Retail	Ratio of M/R	Mail Order	Retail
A	\$1.74	\$1.36	1.288	1,689	26,913
B	\$1.58	\$1.44	1.094	5,315	56,701
C	\$1.59	\$1.22	1.296	1,691	34,947
D	\$1.62	\$1.53	1.065	2,947	40,891
E	\$1.79	\$1.59	1.124	12,017	306,293
F	\$1.85	\$1.77	1.045	14,241	1,392,408
G	\$1.88	\$1.76	1.065	12,728	611,335
H	\$1.34	\$1.21	1.101	831	63,006
I	\$1.59	\$1.20	1.318	526	39,886
J	\$1.70	\$1.55	1.099	5,330	443,254
K	\$1.72	\$1.48	1.162	2,321	203,005
L	\$1.72	\$1.38	1.246	641	23,870
M	\$1.41	\$1.17	1.200	1,278	218,149
N	\$1.68	\$1.22	1.376	1,588	18,032
O	\$1.96	\$1.53	1.280	4,677	178,000
P	\$1.85	\$1.35	1.377	7,115	1,070,197
Q	\$1.79	\$1.60	1.119	568	473,733
R	\$1.99	\$1.61	1.236	617	18,114
S	\$1.78	\$1.75	1.018	1,032	122,046
T	\$1.23	\$1.16	1.065	3,610	955,631
U	\$2.06	\$2.04	1.014	1,454	67,305
<b>Overall</b>	<b>\$1.26</b>	<b>\$1.50</b>	<b>0.836</b>	<b>654,272</b>	<b>15,596,161</b>

\*Weighted unit cost is calculated by summing the total ingredient cost and dispensing fee and dividing by the total quantity dispensed across all claims for a given contract.

Table 2: Weighted Unit Costs and Claim Counts for 7 Selected PDP Sponsors for Top 25 Generic Drugs Only (Total PDP Sponsors=57, March 2012 PDE data)

Contract Information	Weighted Unit Cost*			Claim Count	
PDP Contract	Mail Order	Retail	Ratio of M/R	Mail Order	Retail
C	\$0.30	\$0.27	1.112	1,140	25,951
E	\$0.45	\$0.38	1.182	7,683	215,199
J	\$0.20	\$0.19	1.050	3,302	301,417
P	\$0.28	\$0.27	1.028	4,346	779,513
V	\$0.23	\$0.18	1.250	4,400	33,474
S	\$0.43	\$0.38	1.138	654	83,141
T	\$0.34	\$0.19	1.829	2,729	729,381
<b>Overall</b>	<b>\$0.21</b>	<b>\$0.24</b>	<b>0.890</b>	<b>495,468</b>	<b>10,750,071</b>

\*Weighted unit cost is calculated by summing the total ingredient cost and dispensing fee and dividing by the total quantity dispensed across all claims for a given contract.