

PRESCRIPTION DRUG PAYMENT TIMES BY MEDICARE PART D PLANS

Executive Summary

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OVERVIEW

Before the implementation of the Medicare Part D program, community pharmacists were concerned about possible reductions in their businesses' cash flow if payments were "low" and/or if payments were "slow." They anticipated the lower payments they would receive once Medicaid dual eligible beneficiaries switched to Medicare Part D plans, but hoped that these plans would honor their contracts and pay within 30 days if not within 2 weeks (the typical payment time by Medicaid).

Quick payment is crucial to community pharmacies since most are required to pay drug wholesalers every 14 days. (The remaining pharmacies pay on a weekly basis, a daily basis, or pre-pay for medications.) During the first months of the Part D program, pharmacists across the nation, especially those from independent pharmacies, began to report cash flow problems as they were struggling to pay their wholesalers while waiting 4 to 6 weeks or more for payments from Medicare Part D plans. Many have reported the need to take out loans or lines of credit to cover their debts to wholesalers, while other pharmacies have had to close their doors permanently.

The Centers for Medicare & Medicaid Services (CMS) and trade organizations have refuted community pharmacists' claims of slow payments. In May 2006, CMS reported that 18 of the top 20 Medicare Part D plans compensate pharmacies for claims twice monthly. Many community pharmacies, however, maintain a different position reporting that they do not routinely receive timely payments for many of their Part D claims. These conflicting reports precipitated the need for an in-depth study using a large database to calculate payment times by plans for Medicare Part D prescription drug claims.

STUDY OBJECTIVE

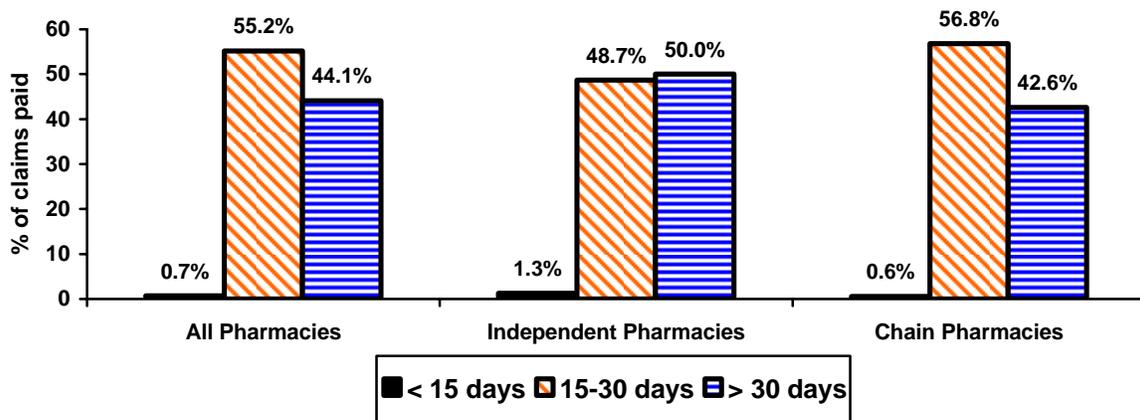
The objective of this study was to calculate the time between the date of claim adjudication (the date the plan approves the drug claim is usually the dispensing date) and the date the pharmacy receives payment from the Part D plan for prescriptions dispensed between January and December 2006. Data for approximately 3 million Medicare Part D prescription drug claims from 145 independent pharmacies and 17 chain store firms across the United States were obtained. There were over 600,000 independent pharmacy claims and over 2.3 million chain store claims in the dataset. The chain pharmacies were regional chains ranging in size from 10 to over 1,000 stores. The claims in the dataset were all adjudicated in 2006 and paid for by June 2007. The number of claims these pharmacies processed in 2006 that were not paid by June 2007 is unknown, and therefore the findings in this report may underestimate actual payment times when all claims are included.

Payments for all the claims in this database were made via electronic funds transfer (EFT) rather than via mailed checks. Payment times for claims paid by check are longer than those reflected in this report. (How much longer is dependent on check processing and mail delivery times.) Based on an informal survey of pharmacists, pharmacy groups, and managed care firms, it is believed that most community pharmacies receive checks from Part D plans.

FINDINGS

Figure 1 displays the proportions of Medicare Part D prescription drug claims processed in 2006 in which community pharmacies received payment within 14 days, 15 to 30 days, and greater than 30 days of adjudication. These findings are presented overall and then separately for independent and chain pharmacies.

Figure 1. Proportion of Claims by Payment Times Overall and by Pharmacy Type, 2006



Independent pharmacies were compensated for only 1.3% of claims within two weeks of adjudication, while 50.0% of claims were paid more than 30 days after adjudication. In fact, independent pharmacies received payment for 17.1% of claims more than 60 days after adjudication.

For those claims submitted by independent pharmacies in January and February of 2006, 85.5% and 81.5% were still unpaid after 30 days, respectively. Half of all January (49.7%) and February (50.0%) claims were not paid within 106 days (~15 weeks) and 93 days (~13 weeks) of adjudication, respectively. For independent pharmacy claims processed in March and April, approximately half of the claims (49.4% for March, 50.0% for April) were not paid within 54 days—almost 8 weeks. Even for December 2006 claims, pharmacies had not received payment for 49.5% within 30 days. Delayed payments often result in decreased cash flow for pharmacies since payments to wholesalers are required regardless of receipt of payment from Part D plans.

Chain pharmacies had not received payment for 42.6% of Medicare Part D claims within 30 days of adjudication, with 7.6% not being paid within 60 days.

Overall, all pharmacies in this study were compensated for only 0.7% of claims within two weeks of adjudication, while 44.1% of claims were paid more than 30 days after adjudication.

SUMMARY

This is the first known national study to measure the time between drug claim adjudication and Medicare Part D plan payment receipt by pharmacies. Independent and regional chain pharmacies in this study did not receive payment for approximately 44% of their 2006 Medicare Part D claims within 30 days. Though payment times improved over time, a substantial proportion

of claims (~41%) of December claims were still unpaid 30 days after adjudication. For independent pharmacies, this proportion was 49.5%.

It is important to remember that the prescription drug claims in this study were paid by electronic transfer of funds. If these claims had been paid by check, pharmacies would have waited even longer to receive payment while checks are processed and have to make their way through the United States postal system. It is our understanding that most independent pharmacies receive payment for Medicare Part D claims by check.

Though payment times continue to be a point of contention between community pharmacies and Medicare Part D plans, the results of this empirical study support and quantify community pharmacists' reports of "slow" payments for a large proportion of Medicare Part D claims in 2006. This evidence should be considered by Medicare Part D decision makers.