

Policy Alert

Payers 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.

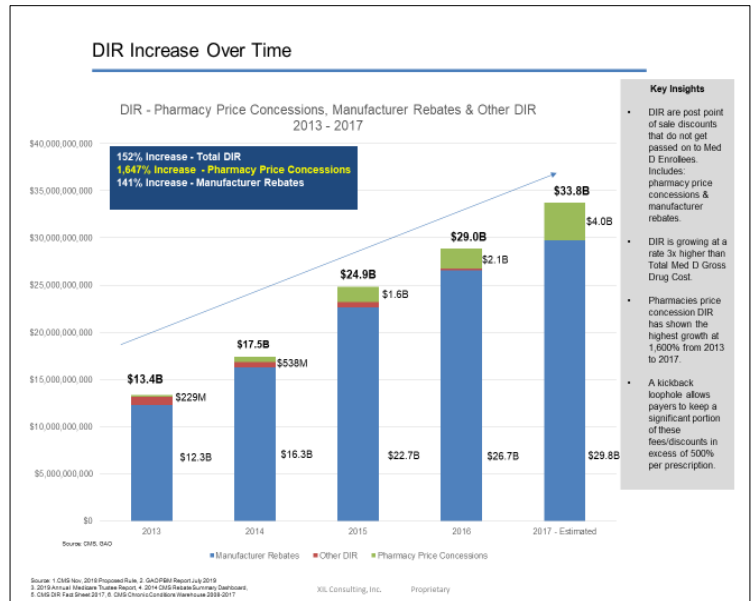
Direct and Indirect Remuneration (DIR) pharmacy fees are post point of sale transaction fees paid by pharmacies to health plans and PBMs for participation in Medicare Part D pharmacy networks. DIR pharmacy fees overall have skyrocketed by 1,600% in the last five years, totaling \$8.5B since 2013.^{1,2,3,4,5,6} 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.^{1,8} 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.¹⁷ 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.



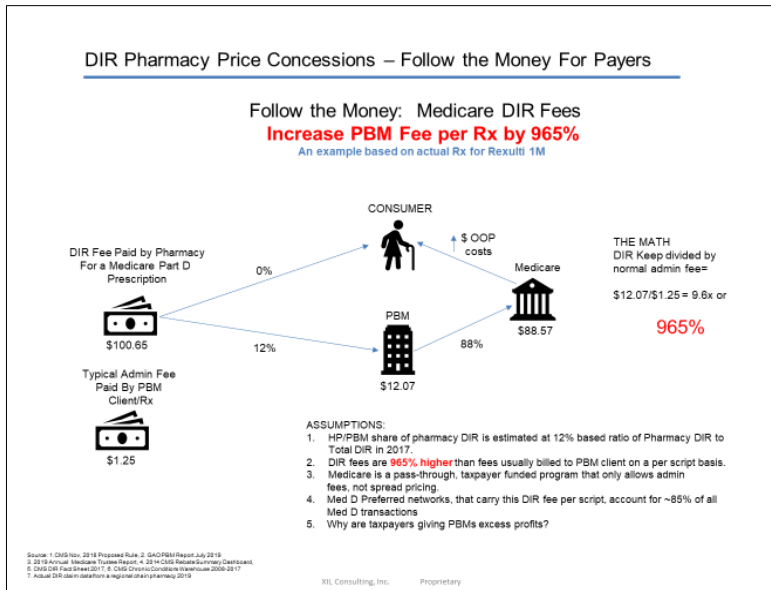
Excessive DIR Pharmacy Fees Kept by PBMs

Health plans and PBMs are keeping a portion of DIR pharmacy fees per claim due to a loophole in the Medicare Part D program.^{1,8} 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.⁷ The PBM will keep \$12.07 of the amount collected.^{1,2,3,4,5,6,7} 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.

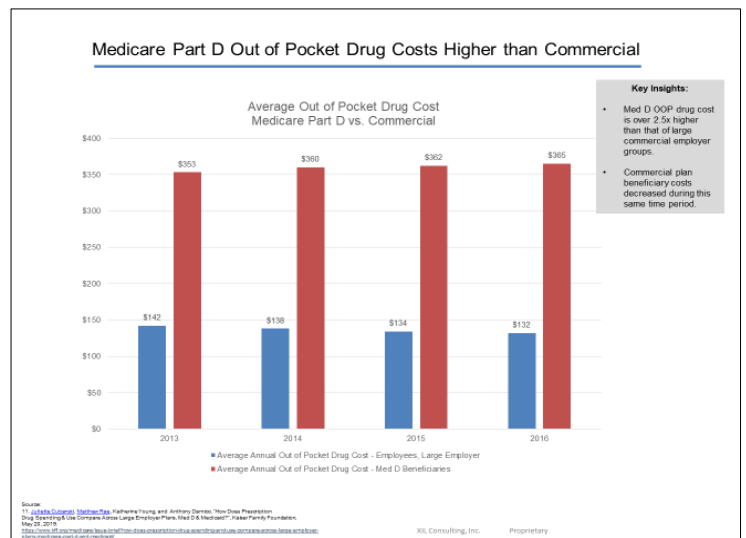
discounts, while at the same time, struggle to afford their prescriptions. Here are some facts:



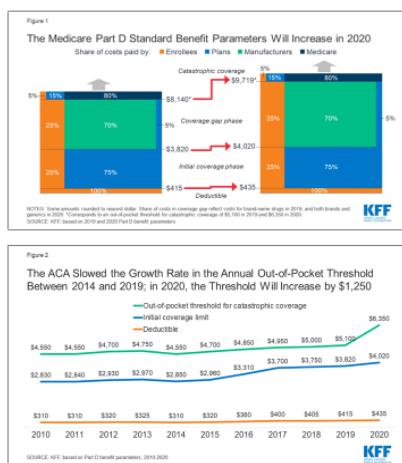
- Seniors' out of pocket Medicare prescription expenses are 2.5 times higher compared to commercial plans¹¹
- 53% of seriously ill Medicare beneficiaries experience financial hardships while trying to get care. The number one challenge: paying for prescriptions.¹⁶
- Despite having the Medicare prescription benefit, seniors are looking at other ways to save money on prescriptions. This includes obtaining their medications from Canada.

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.^{1,8, 9,10} Seniors are being bypassed for DIR pharmacy



Medicare Part D Defined Benefit Trend 2020



Currently, four states have passed laws to allow Canadian importation and additional states have pending legislation.^{13,14,15}

- 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 2020.¹²

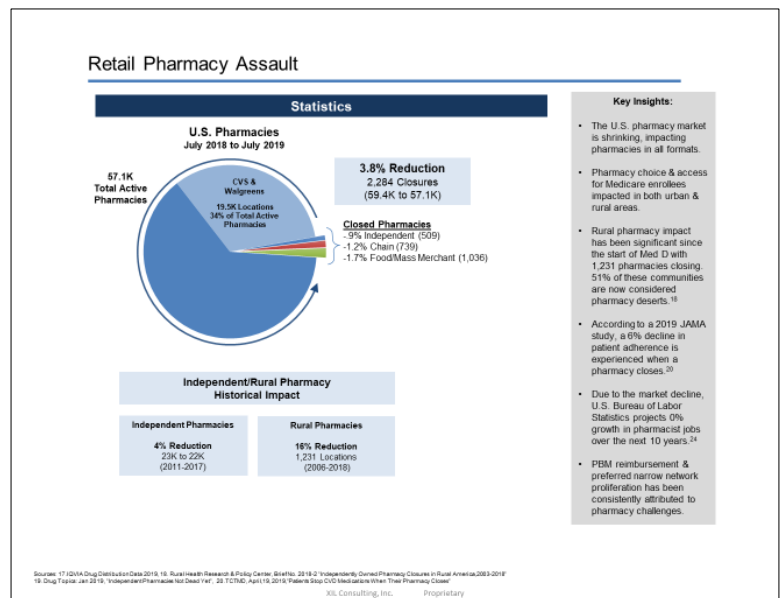
Pharmacy Impact

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 below.

From July 2018 to July 2019, the number of pharmacies nationally have decreased by 3.8% nationally (2,284 closures).¹⁷ 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.¹⁸ 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.²⁸
- July 2019: Walmart reduces senior pharmacists by 40%.²¹
- Aug. 2019: Walgreens closes 200 stores.
Cites “reimbursement pressure” in 2Q19 Earnings Call.^{22,27}
- Sept. 2019: Fred’s Pharmacy files for bankruptcy.²³
- Sept. 2019: U.S. Bureau of Labor Statistics projects a 0% growth in pharmacist jobs in next 10 years.²⁴
- Nov. 2019: Raley’s closed 27 pharmacies.²⁵
- Nov. 2019: Diplomat Gross Profit down 32%,
Cites “reimbursement pressures” in 3Q19 Earnings Call.²⁶



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 also jobs.

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