Medicare Part D member profitability by pharmacy channel

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Preferred networks have become the norm in the Medicare Part D landscape. Members typically have a lower cost-sharing requirement when they use a pharmacy in the preferred network.

Preferred pharmacies expect to receive a greater share of the carrier's business and provide the carrier with greater discounts or direct/indirect remuneration (DIR). We analyzed 2014 Part D plan profitability to determine if specific pharmacy channels are associated with members that may be more or less profitable for a Medicare Part D carrier (Medicare Advantage plan [MAPD] or Medicare Prescription Drug Plan [PDP]). Pharmacies were grouped into six separate channels:

- Big box (e.g., Walmart)
- Grocery store (e.g., Kroger)
- Independent
- Institutional (e.g., Omnicare)
- Retail chain (e.g., CVS)
- Mail order (e.g., Express Scripts)

Our research is from the carrier perspective (i.e., members who are profitable to the Part D carrier, not which members are more profitable to the pharmacy channel) and does indicate that different pharmacy channels are associated with members with differing pharmacy spending characteristics. Medicare Part D plans can consider these results in establishing pharmacy networks.

It is important to realize the underlying assumptions may have a significant impact on the final results and carrier specific assumptions will impact the analysis and the findings. Profitability is calculated as plan revenue (including DIR, premium, and risk-adjusted direct subsidy) minus expenses (claims cost, administrative expenses). Carrier specific contracting terms could greatly influence results. For example, different contracting structures amongst Medicare Part D plans may cause a higher Generic Dispensing Rate (GDR) to not increase member profitability despite lower total costs. Also, note that preferred pharmacy and manufacturer rebates can vary substantially by Part D carrier and has a major impact on profitability.

We also found the impact of income mix to be an important distinction in our work, and observed varying low income (LI) membership percentages by pharmacy channel. As such, we present our results of our analysis stratified by income status. Tables 1 and 2 display the differences in estimated member profitability by pharmacy channel for MAPD and PDP members combined, but split between LI and non-low income (NLI) status. The percentage of income type (% Low Income and % Non-Low Income) in Tables 1 and 2 below are calculated as the percentage of our entire database (i.e., calculated as a percentage of total members in Tables 1 and 2 combined) that are LI and NLI, respectively.

Profit = (Member Premium) + (Risk Adjusted Direct Subsidy) + (Rebates Net of Federal Reinsurance) – (Administrative Costs) – (Total Plan Liability)

Definitions:

Member Premium – Premium amounts paid on behalf of the member monthly, including low income premium subsidies and basic premiums.

Risk Adjusted Direct Subsidy – Fixed fee paid monthly to the plan from Medicare for each enrolled member. This amount is risk adjusted based upon the member's health status.

Rebates Net of Federal Reinsurance – Total rebates (manufacturer rebates and preferred pharmacy network rebates), less rebates allocated back to the federal government for catastrophic reinsurance.

Administrative Costs – The total non-benefit expenses associated with administering the Part D plan. The amounts used were the 50th percentile PMPM amounts for MAPD and PDP separately based upon Milliman's Part D PBM survey.

Total Plan Liability – The total pharmacy costs a defined standard MAPD or PDP plan is responsible for after all benefit subsidy payments, discounts, rebates, and member cost sharing.

The results suggest:

- Member profitability tends to be higher for LI membership, which could be because:
  - The CMS Part D risk adjustment model (RxHCC) changes in recent years (particularly 2014) that increased LI risk scores while decreasing NLI risk scores.
  - LI members have lower overall GDR compared to NLI, which can lead to higher manufacturer rebate revenue for plans.
  - A higher percentage of NLI membership do not utilize medications at all and these individuals were excluded from our analysis.
- Big box pharmacies have the most favorable member profitability profile for carriers, based on lower utilization and PMPM allowed amounts, as well as a higher GDR than other channels.
- Mail order and institutional pharmacies are significantly impacted by patient mix.
  - Mail order pharmacies tend to be used almost exclusively by NLI members, which makes them the least profitable after adjusting for overall patient mix. This is driven by lower-than-average risk scores but relatively high medication utilization among NLI mail utilizers.
  - Institutional pharmacies are used more heavily by LI members, which makes the highly unfavorable NLI results less of a concern.

TABLE 1: MEDICARE PART D PROFITABILITY BY PHARMACY TYPE (2014) PMPM PROFITABILITY INCLUDING SPECIALTY MEDICATIONS – LOW INCOME MEMBERS

PHARMACY TYPE	AVERAGE ALLOWED	AVERAGE SCRIPTS PER MONTH	AVERAGE DAYS PER SCRIPT	GENERIC DISPENSING RATE	AVERAGE RISK SCORE	AVERAGE PROFIT / (LOSS)	% LOW INCOME
Big Box	$338.40	3.8	35.1	85%	1.243	$16.47	38.2%
Grocery Store	$400.76	4.2	33.7	84%	1.285	$12.49	43.1%
Independent	$546.62	5.4	30.8	81%	1.374	$4.13	60.8%
Institutional	$580.84	8.8	22.5	85%	1.635	$6.13	87.9%
Retail Chain	$418.52	4.0	34.6	84%	1.302	$10.08	52.9%
Mail Order	$560.84	3.6	56.9	82%	1.384	$38.73	9.5%
Total for utilizers*	$461.97	4.9	30.9	83%	1.355	$9.15	52.6%

**Total includes all members who received at least one prescription and excludes non-utilizers (members who did not receive any prescriptions).*

TABLE 2: MEDICARE PART D PROFITABILITY BY PHARMACY TYPE (2014) PMPM PROFITABILITY INCLUDING SPECIALTY MEDICATIONS – NON-LOW INCOME MEMBERS

PHARMACY TYPE	AVERAGE ALLOWED	AVERAGE SCRIPTS PER MONTH	AVERAGE DAYS PER SCRIPT	GENERIC DISPENSING RATE	AVERAGE RISK SCORE	AVERAGE PROFIT / (LOSS)	% NON-LOW INCOME
Big Box	$163.18	2.6	43.9	90%	0.831	($1.83)	61.8%
Grocery Store	$185.80	2.7	43.0	89%	0.802	($10.02)	56.9%
Independent	$226.92	3.6	35.0	88%	0.977	($5.47)	39.2%
Institutional	$367.53	7.0	25.2	88%	1.112	($36.74)	12.1%
Retail Chain	$206.74	2.8	42.0	89%	0.860	($9.25)	47.1%
Mail Order	$231.06	2.2	67.7	89%	0.851	($7.59)	90.5%
Total for utilizers*	$204.51	2.9	41.4	89%	0.872	($7.80)	47.4%

**Total includes all members who received at least one prescription and excludes non-utilizers (members who did not receive any prescriptions).*

We note a few key assumptions for this analysis:

- Rebates are a key driver of plan profitability and were set at $50 per brand and $200 per specialty script for PDP plans, and $40 per brand script and $160 per specialty script for MAPD plans. These rebates were applied consistently across all pharmacy channels. These levels are representative of 2014 experience, whereas 2016 rebates are likely substantially higher.

- The results show a more negative view of profitability than in reality, given that members not utilizing any medications (anywhere from 5% to 10% of beneficiaries) could not be assigned to a pharmacy channel and hence were excluded.

Tables 3 and 4 show the same information as Tables 1 and 2, but with the exclusion of specialty medications. In general, specialty medications can vary a lot in terms of utilization by channel and may be contracted on a separate basis. To demonstrate this, we show the results with specialty medications included and excluded. Removing specialty utilization eliminates the highest cost patients and generally (but not in all cases), excludes the least profitable patients for the plan to cover.

TABLE 3: MEDICARE PART D PROFITABILITY BY PHARMACY TYPE (2014): PMPM PROFITABILITY EXCLUDING SPECIALTY MEDICATIONS – LOW INCOME MEMBERS

PHARMACY TYPE	AVERAGE ALLOWED	AVERAGE SCRIPTS PER MONTH	AVERAGE DAYS PER SCRIPT	GENERIC DISPENSING RATE	AVERAGE RISK SCORE	AVERAGE PROFIT / (LOSS)	% LOW INCOME
Big Box	$179.39	3.7	34.7	87%	1.243	$30.55	38.2%
Grocery Store	$211.83	4.1	33.4	87%	1.285	$28.94	43.1%
Independent	$295.85	5.2	30.6	84%	1.374	$27.38	60.8%
Institutional	$417.15	8.7	22.5	86%	1.635	$20.98	87.9%
Retail Chain	$208.64	3.9	34.2	87%	1.302	$29.03	52.9%
Mail	$219.95	3.4	55.7	88%	1.384	$36.38	9.5%
Total for utilizers*	$253.88	4.8	30.7	86%	1.355	$27.80	52.6%

*Total includes all members who received at least one prescription and excludes non-utilizers (members who did not receive any prescriptions).

TABLE 4: MEDICARE PART D PROFITABILITY BY PHARMACY TYPE (2014): PMPM PROFITABILITY EXCLUDING SPECIALTY MEDICATIONS – NON-LOW INCOME MEMBERS

PHARMACY TYPE	AVERAGE ALLOWED	AVERAGE SCRIPTS PER MONTH	AVERAGE DAYS PER SCRIPT	GENERIC DISPENSING RATE	AVERAGE RISK SCORE	AVERAGE PROFIT / (LOSS)	% NON-LOW INCOME
Big Box	$109.77	2.6	43.7	91%	0.831	$5.25	61.8%
Grocery Store	$125.49	2.6	42.8	91%	0.802	($2.11)	56.9%
Independent	$152.40	3.6	34.9	90%	0.977	$3.91	39.2%
Institutional	$302.63	7.0	25.2	88%	1.112	($27.88)	12.1%
Retail Chain	$131.72	2.7	41.7	91%	0.860	($0.05)	47.1%
Mail	$125.71	2.1	67.2	93%	0.851	($1.90)	90.5%
Total for utilizers*	$133.53	2.9	41.2	91%	0.872	$0.64	47.4%

*Total includes all members who received at least one prescription and excludes non-utilizers (members who did not receive any prescriptions).

When specialty medications are excluded from the analysis, pharmacy channels dispensing more specialty medications improve more than channels dispensing fewer specialty products. Note that we also excluded scripts filled at specialty pharmacies (e.g., Accredo) from the analysis. Even when specialty medications are removed, big box pharmacies still have the best member profitability profile.

Tables 5 and 6 display similar information as Tables 1 and 2, but are separated by members in PDP and MAPD plans. The low income percentage by pharmacy channel displayed in each table below is calculated as the % of LI as a part of all members in PDP and MAPD plans in the underlying data sample, respectively. The NLI membership percentage could be calculated by subtracting the LI percentage from 1.00.

TABLE 5: MEDICARE PART D PROFITABILITY BY PHARMACY TYPE (2014): PMPM PROFITABILITY INCLUDING SPECIALTY MEDICATIONS – PDP ONLY

PHARMACY TYPE	AVERAGE ALLOWED	AVERAGE SCRIPTS PER MONTH	AVERAGE DAYS PER SCRIPT	GENERIC DISPENSING RATE	AVERAGE RISK SCORE	AVERAGE PROFIT / (LOSS)	% LOW INCOME
Big Box	$314.75	3.6	35.8	85%	1.116	$6.66	69.9%
Grocery Store	$370.96	3.9	34.1	84%	1.144	$2.10	71.1%
Independent	$528.60	5.2	30.7	81%	1.288	($3.03)	84.1%
Institutional	$572.93	8.8	22.5	85%	1.606	$5.02	92.9%
Retail Chain	$408.21	3.8	34.3	84%	1.193	$1.76	78.8%
Mail	$326.77	2.6	65.0	87%	0.933	($0.96)	14.5%
Total for utilizers*	$440.96	4.7	31.3	84%	1.244	$1.47	78.0%

*Total includes all members who received at least one prescription and excludes non-utilizers (members who did not receive any prescriptions).

TABLE 6: MEDICARE PART D PROFITABILITY BY PHARMACY TYPE (2014): PMPM PROFITABILITY INCLUDING SPECIALTY MEDICATIONS – MAPD ONLY

PHARMACY TYPE	AVERAGE ALLOWED	AVERAGE SCRIPTS PER MONTH	AVERAGE DAYS PER SCRIPT	GENERIC DISPENSING RATE	AVERAGE RISK SCORE	AVERAGE PROFIT / (LOSS)	% LOW INCOME
Big Box	$174.64	2.7	43.2	89%	0.905	$4.17	17.4%
Grocery Store	$204.93	2.8	42.2	89%	0.904	($2.24)	20.9%
Independent	$276.96	4.0	34.5	87%	1.125	$4.96	29.5%
Institutional	$464.29	7.7	24.7	86%	1.399	($19.72)	62.4%
Retail Chain	$234.55	3.0	41.0	88%	1.001	$0.24	28.5%
Mail	$202.10	2.1	67.5	90%	0.872	($5.31)	4.8%
Total for utilizers*	$233.20	3.2	39.6	88%	1.001	$0.74	25.8%

*Total includes all members who received at least one prescription and excludes non-utilizers (members who did not receive any prescriptions).

For this analysis, PDP plans were slightly more profitable on the pharmacy benefit than MAPD plans. This is primarily due to the majority of LI members being enrolled in PDP plans, but could be due to several other reasons:

- MAPD plans have greater incentives to improve medication adherence and thereby increase pharmacy costs, given that medical revenue is tied to adherence through star ratings and increased compliance can reduce medical costs for certain conditions.
- MAPD plans tend to focus on medical benefit profitability more than the pharmacy benefit because pharmacy costs account for a relatively small percentage of overall spend.
- MAPD plans are likely to have a higher percentage of non-utilizers of the pharmacy benefit, as seen through lower risk scores of those members. As discussed, non-utilizers are not included in this analysis and would improve profitability if they were considered.

Methodology and key assumptions

Pharmacies were identified using the National Provider Identifier (NPI) codes and were mapped to the National Council for Prescription Drug Programs (NCPDP) dataQ™ Pharmacy Database. This mapping was then used to group 2014 pharmacy claims from Milliman's proprietary Part D Consolidated Database (PDCD).

Once pharmacy channels were identified, the claims were summarized and member profitability was calculated (see sidebar for profitability definitions). Members were placed into a single pharmacy channel based on the location where the majority of prescriptions were obtained. This was done in a manner that prevented double counting of members between multiple pharmacy channels. Non-utilizers could not be assigned to a pharmacy channel and were excluded from this analysis.

A Milliman Part D pharmacy benefit manager survey was used to inform assumptions on the average administrative costs. We utilized the 50th percentile results for the administrative costs (roughly $16 PMPM for MAPD and $19 PMPM for PDP).

For rebates, we assumed $50 per 30-day brand script and $200 per 30-day specialty script for PDP, and $40 per brand script and $160 per specialty script for MAPD. Rebates were scaled up for 60- and 90-day supplies. Rebates were checked for reasonability based on Milliman internal research and experience with clients in the Part D market.

The plan liability was determined assuming the 2014 Part D defined standard benefit design and inclusive of federal reinsurance dollars. Plans not using the defined standard benefit must use an actuarial equivalent plan design that could impact the analysis by pharmacy channel if the brand and generic mix at a particular pharmacy type was substantially different than the average. For the basic plan premiums, we assumed the Part D national average without further variation by plan or pharmacy channel.

To determine which medications were considered specialty, two methods were used. The first criteria used was the CMS definition of $600 total allowed cost per 30 days and the second criteria used the tier information within the claim. Products satisfying either condition were labeled as specialty.

Future areas of analysis could include:

- Benchmarking specific plan or pharmacy experience relative to the broad channels
- Analyzing the impact of channel-specific specialty utilization
- Looking at member profiles for those using multiple pharmacy channels
- Slicing the information by risk score, GDR band, plan type (basic vs. enhanced), etc.
- Looking at the impact of various mixes of income and plan type on overall profitability
- Modeling the impact of plan designs other than the Medicare Part D defined standard benefit
- Updating the results when 2015 experience becomes available, in particular given that higher rebates are emerging in the Part D market from both preferred pharmacies and manufacturers.

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