

How Pharmacy Networks Could Save Medicare, Medicaid, and Commercial Payers \$115 Billion

Over the past twenty years, pharmacy networks have generated significant savings. Today, there is even greater potential savings available through preferred and limited pharmacy network options:

- **Large number of pharmacies creates competition:** Today, there are more pharmacies in the U.S. than McDonald's, Burger Kings, Pizza Huts, Wendy's, Taco Bells, Kentucky Fried Chickens, Domino's Pizzas, and Dunkin' Donuts combined, creating a highly competitive environment.
- **Greater use of preferred and limited pharmacy networks generates savings:** Greater use of preferred and limited pharmacy networks could save payers an additional \$115 billion over the next ten years. Medicaid could save \$26 billion, Medicare \$35 billion, and the commercial sector \$54 billion.
- **Savings achievable while meeting Medicare's pharmacy access standards:** All payers can achieve these savings while meeting Medicare's pharmacy access standards.

Three Types of Retail Pharmacy Networks and Relative Savings

1. **Open Pharmacy Network:** Plans create a broad network open to virtually all drugstores that agree to offer basic discounts to the plans. A plan's enrollees can use their prescription drug benefits at all network pharmacies for the same copay/cost share. This is currently the most widely used type of retail pharmacy network.
2. **Preferred Pharmacy Network:** Plans create a select group of preferred pharmacies within a broader network of non-preferred drugstores. Preferred pharmacies offer plans better discounts than the non-preferred drugstores, and plans, in turn, lower copays/cost sharing for enrollees that choose them. Use of preferred networks is growing and can lower prescription costs by an estimated 5% compared to open networks while meeting Medicare's pharmacy access standards nationally.
3. **Limited Pharmacy Network:** Plans create a network limited to drugstores that offer deep discounts. Plan enrollees have the same copay at all pharmacies in the network. Compared to open networks, limited networks can lower costs by up to 10% or more.

Public Policies Undermine Preferred and Limited Pharmacy Networks

Many drugstores have an economic incentive to minimize the competition and discounting required to join pharmacy networks and often pursue legislation, regulation, and litigation to undermine the ability of payers to implement preferred and limited pharmacy networks in Medicaid, Medicare, and the commercial sector.

- **"Any Willing Pharmacy" policies:** These are laws and regulations that force plans to contract with pharmacies that don't meet their quality standards or geographic access needs. According to the Federal Trade Commission, such policies discourage competition and limit access to affordable healthcare.
- **Drugstore payments in Medicaid set by political officials, not market forces:** State government officials set pharmacy reimbursement rates for Medicaid that are often higher than those negotiated by health plans in Medicare and the commercial market. When plans are not allowed to negotiate, drugstores have less incentive to offer discounts in exchange for being included in networks.
- **Litigation by independent drugstores:** Independent drugstores have launched a wave of lawsuits aimed at hobbling the ability of Medicaid and Medicare to implement preferred and limited pharmacy networks.