

## Senate Finance Committee's Proposals on Pharmacy DIR Will Increase Premiums and Taxpayer Costs

*The Senate Finance Committee's Prescription Drug Pricing Reduction and Health and Human Services Improvement Act (S. 2543), as revised after mark-up, includes a provision related to the treatment of performance-based pharmacy price concessions negotiated by Medicare Part D plan sponsors with pharmacies. The bill would require plan sponsors to pay pharmacy claims at the lowest possible amount, including at point of service any possible price concessions a pharmacy owed to the plan sponsor and/or its pharmacy benefit manager (PBM), concessions which often are included in what is referred to as Direct and Indirect Remuneration (DIR).*

### **PBMs and Part D plan sponsors use pharmacy DIR to create high-quality pharmacy networks, improve enrollee health outcomes through increased adherence, promote other patient outcomes, and reduce out-of-pocket costs through lower premiums.**

- PBMs, working on behalf of Medicare Part D plan sponsors, may enter into value-based network agreements with pharmacies where PBMs either pay bonuses (“incentive payments”) to, or collect overpaid monies (“price concessions”) from, a pharmacy based on their performance.
- Often these network agreements assume that pharmacies will meet or exceed their performance standards, thus resulting in either no change in reimbursement or bonuses paid to the pharmacy. When they do not, pharmacies return the overpaid monies to the PBM and plan sponsor.
- Pharmacies have access to online tools to view and manage their status on DIR measures, which may help them track their performance on these agreed-upon quality metrics.

### **Through value-based network contracting, PBMs and Part D plans reward high-performing pharmacies and promote quality access for enrollees.**

- For the 2020 Medicare Part D Star Ratings, plan ratings include five Pharmacy Quality Alliance measures, including measures relating to medication adherence and medication therapy management program completion.<sup>i</sup> Benchmarks for pharmacy DIR often reflect Star Ratings and other value-based, patient-centered quality measures, such as a specified percent of prescriptions dispensed as a generic (instead of a costlier brand), provision of counseling services to patients, and opioid dispensing oversight.
- It is in everyone's best interest—including beneficiaries, the Medicare program, and PBMs—for pharmacies to perform well on these agreed-upon measures as it promotes: alignment with the Star Ratings program; an improved patient care experience; and a value-driven partnership between pharmacies and PBMs.
- Pharmacy price concessions are a key tool to reward pharmacies that improve adherence, increase generic dispensing, and improve overall patient access to care.

### **Medicare Part D and enrollees have benefited from plan designs with value-based preferred pharmacy networks.**

- Plans with preferred networks have lower premiums than those that don't.<sup>ii</sup> CMS rules require that preferred network pharmacies charge lower cost sharing than standard pharmacies under each plan.
- Independent government reports have pointed to pharmacy DIR and other PBM-negotiated price concessions as a reason that Part D net spending growth has remained flat.<sup>iii,iv,v</sup>
- For plan year 2020, 92% of Part D enrollees chose PDPs with preferred pharmacy networks—an increase from 88% in 2019.<sup>vi</sup> In a survey, 85% of older Americans reported satisfaction with their preferred network Part D plan, and nearly 80% said they would be disappointed if their plan was eliminated.<sup>vii</sup>

## Pharmacy pay-for-performance is an important part of the transition to value-based care.

Pharmacy pay-for-performance is part of the overall national strategy to transition to value-based health care. Pharmacy DIR is a nominal portion—2.6%—of total Part D plan payments to pharmacies in 2017, which is well within a reasonable at-risk amount for pay-for-performance strategies.<sup>viii</sup> PBMs and plans, as well as hospitals and providers, also are held to pay-for-performance standards, including Medicare Star Ratings.

## The presence of pharmacy DIR in Medicare Part D is not restricting the growth of independent pharmacies.

Between 2010 and 2017, the number of independent pharmacies nationwide increased by 2,562 (a 13% increase).

## Reflecting these price concessions in reimbursement to pharmacies at point of service will increase Part D premiums and taxpayer costs, according to a Centers for Medicare & Medicaid Services analysis when the agency proposed it for the 2020 plan year.<sup>ix</sup>

- Because pharmacies are paid the contractual amount for the ingredient cost and the dispensing fee at the *point of service*, such performance-based reimbursement adjustments—whether a bonus or a concession—are *retrospectively reconciled* based on pharmacies' actual performance on the agreed-upon, value-based benchmarks.
- It is not possible to know whether a pharmacy will meet its performance benchmarks ahead of time. Thus, requiring pharmacy DIR to be included in a *point of service* claim is not possible and likely will result in PBMs and Part D plans having to negotiate even lower pharmacy reimbursement, with less regard to pay-for-performance and pharmacy quality currently encouraged by DIR.
- The net result could be a reduction in value-based pharmacy networks leading to higher beneficiary cost sharing, higher premiums, higher government spending, and greater risk to pharmacy business models.

## Rather, Congress should improve pharmacy DIR by requiring that:

- Pharmacies have consistent DIR measures through use of standard DIR measures developed as consensus measures from the Pharmacy Quality Alliance and similar standard-setting organizations;
- Pharmacy Administrative Service Organizations (PSAOs) that contract on behalf of pharmacies ensure that their represented pharmacies understand the DIR-related quality measures the PSAOs negotiate; and
- PBMs and Part D plans provide pharmacies with updates on their status in meeting the quality metrics so they can judge their standing on the measures they agreed to.

<sup>i</sup> Pharmacy Quality Alliance. PQA Measures Use in CMS' Part D Quality Programs: Medicare Part D Star Ratings. <https://www.pqaalliance.org/medicare-part-d>.

<sup>ii</sup> Avalere Health. 2014 Premiums and Star Ratings for Medicare Part D Prescription Drug Plans with Preferred Pharmacy Networks. December 2013. [https://www.pcmagnet.org/wp-content/uploads/2016/09/Avalere\\_Premium\\_and\\_Stars\\_Analysis.pdf](https://www.pcmagnet.org/wp-content/uploads/2016/09/Avalere_Premium_and_Stars_Analysis.pdf)

<sup>iii</sup> Boards of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds. 2019 Annual Report of the Boards of Trustees. April 22, 2019. <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2019.pdf>

<sup>iv</sup> Health and Human Services Office of Inspector General. Rebates for Brand Name Drugs in Part D Substantially Reduced the Growth in Spending from 2011 to 2015. Report OEI-03-19-00010. September 13, 2019. <https://oig.hhs.gov/oei/reports/oei-03-19-00010.asp>

<sup>v</sup> Government Accountability Office (GAO). Medicare Part D: Use of Pharmacy Benefit Managers and Efforts to Manage Drug Expenditures and Utilization. July 2019. <https://www.gao.gov/assets/710/700259.pdf>

<sup>vi</sup> Drug Channels. New Part D Enrollment Data for 2020 Preferred Pharmacy Networks: CVS Holds Steady, Walmart Rebounds, and Walgreens Tanks. February 4, 2020. <https://www.drugchannels.net/2020/02/new-part-d-enrollment-data-for-2020.html>

<sup>vii</sup> Hart Research Associates. A Survey of Seniors About Their Medicare Part D Preferred Pharmacy Network Plan. May 2013. <https://www.pcmagnet.org/wp-content/uploads/2016/08/pr-dated-05-20-13-hart-research-preferred-networks-pp.pdf>

<sup>viii</sup> CMS. Medicare Part D Grand Totals and Overall Averages CY2017. <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Medicare-Provider-Charge-Data/PartD2017G>. For 2016 data, see Government Accountability Office (GAO). Medicare Part D: Use of Pharmacy Benefit Managers and Efforts to Manage Drug Expenditures and Utilization. July 2019. <https://www.gao.gov/assets/710/700259.pdf>

<sup>ix</sup> Centers for Medicare & Medicaid Services. Modernizing Part D and Medicare Advantage to Lower Drug Prices and Reduce Out-of-Pocket Expenses. 83 FR 62152. November 30, 2018. <https://www.federalregister.gov/documents/2018/11/30/2018-25945/modernizing-part-d-and-medicare-advantage-to-lower-drug-prices-and-reduce-out-of-pocket-expenses>