



**Medicare Part D Plans Provide
the Average Beneficiary Convenient Access to
Preferred Pharmacies with Significant Savings**

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Executive Summary

Medicare prescription drug plans typically include nearly all available pharmacies in their networks.¹ For national plans, this means beneficiaries can use their insurance at some 64,000 pharmacies across the country.

In 2015, nearly 9 out of 10 Medicare Part D prescription drug plans will also give beneficiaries the option of using a “preferred pharmacy” to lower their out-of-pocket costs. Beneficiaries enrolled in these plans can still get their prescriptions filled at virtually any pharmacy but also have the option of using a lower-cost preferred pharmacy.

As the Centers for Medicare and Medicaid Services (CMS) and other policymakers consider pharmacy access, the Pharmaceutical Care Management Association (PCMA) commissioned Visante to examine how close Medicare beneficiaries live to preferred pharmacies and how much they can save by using them. To do this, Visante relied on geospatial data supplied by Quest Analytics, whose software is widely used to evaluate pharmacy network adequacy. Visante also used Part D data published by CMS, the Kaiser Family Foundation, and major actuarial firms.

Major Findings

- In urban and suburban areas, the average Medicare beneficiary need only travel about one extra mile to use a preferred retail pharmacy to save \$20-\$40 on monthly cost sharing or can save even more with no travel by using a mail-service pharmacy.
- In rural areas, the average Medicare beneficiary can travel about 4 miles to use their closest pharmacy or, at their option, can travel an additional 4 miles to use a preferred pharmacy and save \$20-\$40 per month on copays or can avoid travel and save more by using mail order.
- Medicare beneficiaries can use their insurance at nearly all independent pharmacies, nearly all chain pharmacies, and nearly all pharmacies located in supermarkets, big-box retailers, and wholesale clubs.

Preferred and mail-service pharmacies not only reduce out-of-pocket expenses for beneficiaries, other research indicates that overall average prescriptions costs are less through preferred pharmacies and that Part D plans offering preferred pharmacy options have lower average premiums.

In short, Medicare beneficiaries typically have access to nearly all pharmacies as well as the option of using a convenient preferred retail pharmacy or a mail-service pharmacy to save themselves and the Medicare program money.

¹ Data on the number of in-network pharmacies available by plan: AARP/UnitedHealth Group/Optum > 64,000 pharmacies at http://www.uhc.com/pharmacy/pharmacy_networks.htm); Aetna > 65,000 pharmacies at (http://www.aetnamedicare.com/plan_choices/rx_filling_prescriptions.jsp); CVS Health > 64,000 pharmacies at (http://www2.caremark.com/ers/template_2h.asp?id=content/CMS-2-009048); Express Scripts > 64,000 pharmacies at (<http://phx.corporate-ir.net/phoenix.zhtml?c=69641&p=irol-newsArticle&ID=1716372>)

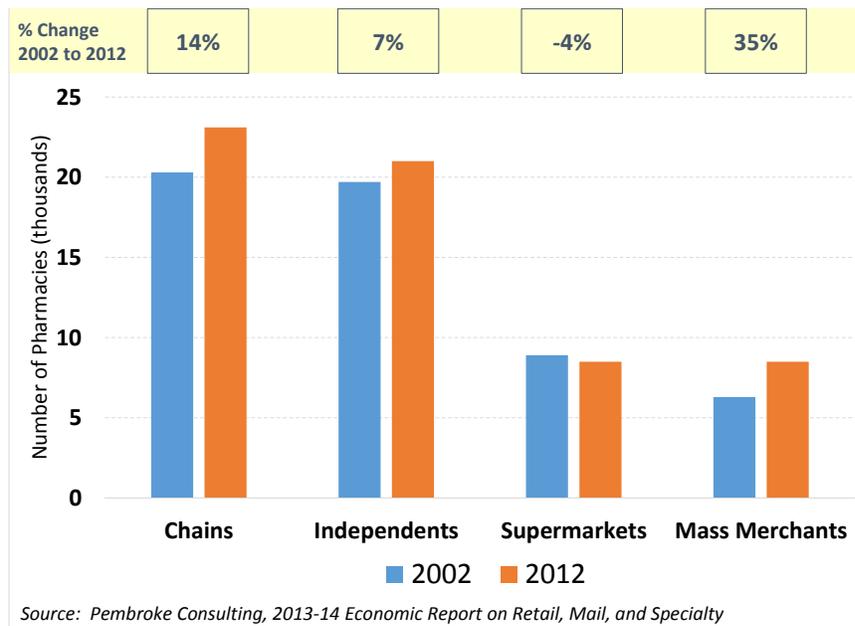
I. Discussion

Consumers Have Many Pharmacy Choices

According to data from the CMS National Provider Identifier (NPI) Registry, there are currently 66,814 community/retail pharmacies in U.S. Most PBM national networks contain more than 64,000 pharmacies, or approximately 96% of all pharmacies.² This is consistent with other research finding that most PDPs contract with at least 95% of all available pharmacies.³

Consumers have many pharmacy choices to consider. The four major types of community/retail pharmacies include chains (e.g., CVS, Walgreens), independents, supermarkets, and mass merchandisers (e.g., Wal-Mart, Target, Costco). This variety of community/retail pharmacy options is augmented by additional dispensing options for consumers, such as mail-service pharmacies, specialty pharmacies, and hospital outpatient pharmacies. Furthermore, the total number of pharmacies continues to increase nationwide, including an increase in the number of independent pharmacies.⁴

Chart 1: Total Number of Pharmacies Increased 11 Percent, 2002 to 2012



² AARP/UnitedHealth Group/Optum > 64,000 pharmacies (http://www.uhc.com/pharmacy/pharmacy_networks.htm); Aetna > 65,000 pharmacies (http://www.aetnamedicare.com/plan_choices/rx_filling_prescriptions.jsp); CVS Health > 64,000 pharmacies (http://www2.caremark.com/ers/template_2h.asp?id=content/CMS-2-009048); Express Scripts > 64,000 pharmacies (<http://phx.corporate-ir.net/phoenix.zhtml?c=69641&p=irol-newsArticle&ID=1716372>)

³ Hoadley et al., "Medicare Part D in Its Ninth Year: The 2014 Marketplace and Key Trends, 2006-2014," Kaiser Family Foundation, August 2014.

⁴ Pembroke Consulting, 2013-14 Economic Report on Retail, Mail, and Specialty, January 2014.

Medicare Beneficiaries Have Excellent Access to Pharmacies

Visante has completed an analysis of pharmacy access for Medicare Part D beneficiaries based on data from Quest Analytics, whose software is widely used to evaluate pharmacy network adequacy. Visante evaluated data from Quest measuring average travel distance to retail/community pharmacies for the top 10 Medicare PDPs by enrollment that offer preferred pharmacy options.

For purposes of measuring pharmacy access, CMS breaks Medicare beneficiaries into three geographic categories: Urban, Suburban, and Rural. According to the data from Quest Analytics, the approximate share of Medicare beneficiaries in each of these three categories is:

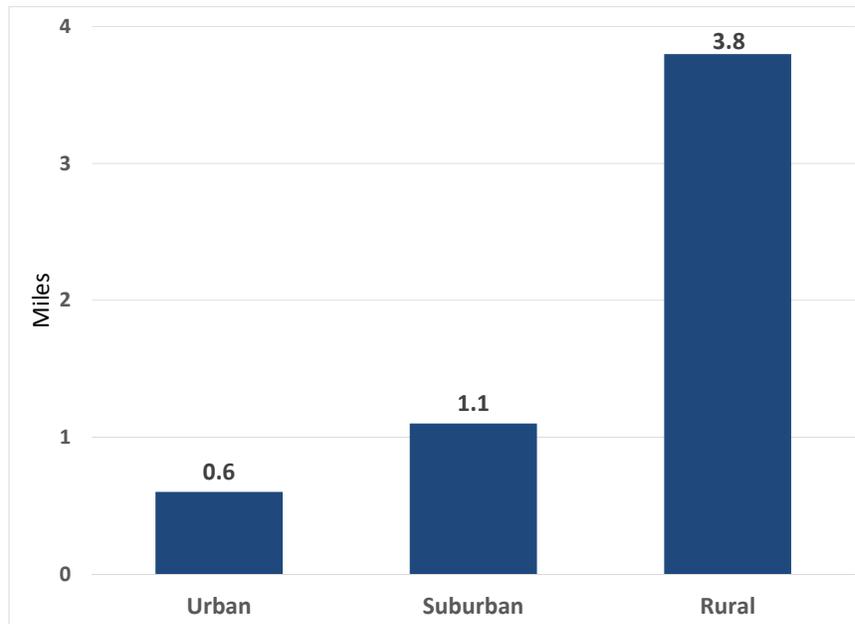
| Category | Percent of Beneficiaries |
|----------|--------------------------|
| Urban | 30% |
| Suburban | 20% |
| Rural | 50% |

Based on Quest Analytics data, Visante calculated that the average traveling distance for Medicare beneficiaries to their nearest pharmacy is about 2.2 miles across all geographic categories.

Visante then looked at the average driving distance for the three standard groupings of beneficiaries that CMS uses to measure pharmacy access for Medicare Part D plans (i.e., urban, suburban, rural), and found the following:

- *Urban beneficiaries:* The average Medicare beneficiary living in an urban area travels an average of 0.6 miles to reach the nearest pharmacy.
- *Suburban beneficiaries:* The average Medicare beneficiary living in a suburban area travels an average of 1.1 miles to reach the nearest pharmacy.
- *Rural beneficiaries:* The average Medicare beneficiary living in a rural area travels an average of 3.8 miles to reach the nearest pharmacy.

Chart 2: Average Traveling Distance for Medicare Beneficiaries to their Closest Pharmacy



Preferred Pharmacies Offer Beneficiaries a Savings Option

Plans with preferred pharmacy options first appeared in Medicare Part D in 2011. With preferred pharmacy options, beneficiaries can still use virtually any pharmacy in their area, but are able to reduce their copay if they use a preferred pharmacy.

- Preferred pharmacies offer lower copays/cost sharing than other network pharmacies.
- While copay savings at preferred pharmacies varies by the type of prescription, on average a beneficiary can save \$5–\$10 on each of their monthly prescriptions.⁵
- The average Medicare beneficiary takes about four prescriptions per month, therefore can save about \$20–\$40 on their monthly copays by using a preferred pharmacy.

⁵ \$5 copay savings at preferred pharmacies is median copay differential as reported by Hoadley et al. Medicare Part D in Its Ninth Year: The 2014 Marketplace and Key Trends, 2006-2014. Kaiser Family Foundation, August 2014. \$10 copay savings at preferred pharmacies is approximate mean copay differential as calculated by Visante based on Medicare Plan Finder data. Because a high proportion of prescriptions are generic, the median copay differential is much lower than the mean differential.

Preferred Pharmacies Generate Overall Savings for Medicare

CMS released an analysis of preferred pharmacies in Medicare Part D Prescription Drug Plans (PDPs) in July 2013. CMS examined March 2012 claims from thirteen Medicare Part D Prescription Drug Plans (PDPs) with preferred pharmacies. On average, preferred pharmacies had average weighted unit costs that were about 6% less expensive than other network pharmacies. The four biggest plans, accounting for 93% of claims, had average unit cost savings of 8% at preferred pharmacies.^{6,7}

Preferred Pharmacies are Close and Convenient

Visante examined the average traveling distance to preferred pharmacies for the top 10 PDP's (based on 2014 enrollment) that offered preferred pharmacy options. Visante calculated the average distance to the closest pharmacy—for all Medicare beneficiaries and all preferred pharmacies nationwide—and found the average distance for Medicare beneficiaries to their nearest preferred pharmacy is about 4.85 miles.

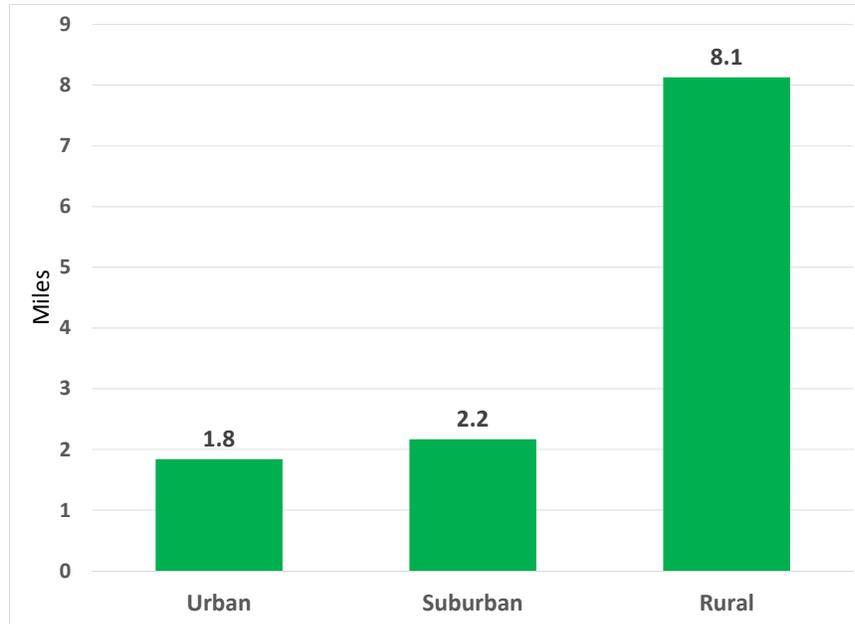
Visante then looked at the average distance for the three standard groupings of beneficiaries (i.e., urban, suburban, rural), and found the following:

- *Urban beneficiaries:* The average Medicare beneficiary living in an urban area travels 1.8 miles to reach the nearest preferred pharmacy.
- *Suburban beneficiaries:* The average Medicare beneficiary living in a suburban area travels 2.2 miles to reach the nearest preferred pharmacy.
- *Rural beneficiaries:* The average Medicare beneficiary living in a rural area travels 8.1 miles to reach the nearest preferred pharmacy.

⁶ CMS Part D Claims Analysis: Negotiated Pricing Between Preferred and Non-Preferred Pharmacy Networks. Published April 30, 2013. <http://www.cms.gov/Medicare/Prescription-Drug-Coverage/PrescriptionDrugCovGenIn/Downloads/PharmacyNetwork.pdf>

⁷ New CMS Study: Preferred Pharmacy Networks are Cheaper. Drug Channels, July 11, 2013. http://www.drugchannels.net/2013/07/new-cms-study-preferred-pharmacy_11.html

**Chart 3: Average Traveling Distance for Medicare Beneficiaries
To their Closest Preferred Pharmacy**



Mail-Service Pharmacies Provide Home Delivery at Reduced Cost Sharing

Along with preferred retail pharmacies, most Medicare beneficiaries have the option of using a mail-service pharmacy to reduce their copay and have their prescriptions delivered to the home. Most plans offer mail-order prescriptions at copays comparable to or lower than copays at preferred retail pharmacies. In this way, beneficiaries can both reduce their out-of-pocket costs and avoid traveling altogether.

II. Methodology

1. Data analysis to calculate total number of pharmacies

- a. We used the list of community/retail pharmacies registered with National Provider Identifiers (NPI) available from CMS, and removed any duplicates such that each pharmacy is only counted once (e.g., a pharmacy may sometimes be listed in NPI registry more than once, with the same street address).

2. Data analysis to calculate average travel distance

- a. Quest Analytics used their geospatial software and sample of 2.5 million Medicare beneficiaries (which is designed to represent geographic distribution of the all Medicare Part D beneficiaries and is routinely used to measure pharmacy access for Part D plans) to compute average beneficiary travel distances to preferred and other network pharmacies.
- b. Since an average of 96% of pharmacies are in national PBM networks, we used all pharmacies in the NPI database as a reasonable proxy for a typical Part D plan's national pharmacy network.
- c. We identified pharmacies with preferred cost sharing based on analysis by Pembroke Consulting.⁸
- d. Based on data supplied by Quest Analytics, we calculated average travel distances to all network pharmacies as well as to pharmacies with preferred cost sharing for the top 10 PDPs offering preferred pharmacy options based on 2014 enrollment.⁹ Unweighted mean travel distances to all network and preferred pharmacies were calculated across the following top 10 plans:
 1. AARP MedicareRx Preferred
 2. Humana Preferred Rx Plan
 3. Humana Enhanced
 4. AARP MedicareRx Saver Plus
 5. WellCare Classic
 6. Cigna Medicare Rx Secure
 7. Aetna/CVS Pharmacy Prescription Drug Plan
 8. First Health Part D Value Plus
 9. First Health Part D Essentials
 10. Humana Walmart Rx Plan

⁸ Drug Channels, October 17 2013. <http://www.drugchannels.net/2013/10/walmart-plays-to-win-in-2014-part-d.html>

⁹ Drug Channels, January 17 2014. <http://www.drugchannels.net/2014/01/for-2014-3-out-of-4-seniors-choose.html>

3. Data analysis to calculate average monthly cost share savings for Medicare beneficiaries

- a. We collected data on prescription cost sharing amounts for brand and generic prescriptions (tiers 1-4) for the Top 10 2014 PDP by enrollment that offer preferred pharmacy options.¹⁰
- b. For plans with coinsurance instead of fixed dollar copays, we converted coinsurance percentages to average cost sharing amounts by multiplying coinsurance percentages by average prescription costs of \$24 for generics (tiers 1 and 2) and \$184 for brands (tier 3 and 4).¹¹ Because specialty pharmacies and clinics are often used for tier 5 products, tier 5 cost sharing was not considered.
- c. We used average cost sharing per prescription to calculate to average monthly cost sharing per beneficiary during the initial Part D coverage period based on the average beneficiary taking 4.3 prescriptions per beneficiary per month,¹² 85% of which would be generic and 15% of which would be brand.¹³
- d. We calculated average copays and out-of-pocket costs (unweighted) for Top 10 PDP's, then calculated savings by comparing monthly cost sharing costs during the initial coverage period at:
 - i. preferred retail pharmacies vs. other network pharmacies for 30-day prescriptions
 - ii. mail-service vs. other network pharmacies for 90-day prescriptions (these figures were converted to monthly averages by dividing by 3).

Average Cost Share Per Prescription and Savings at Preferred Pharmacies

| | Tier 1: Preferred Generic | Tier 2: Non-preferred Generic | Tier 3: Preferred Brand | Tier 4: Non-preferred Brand |
|--------------------------------------|--|--|--|--|
| Preferred pharmacy | \$1 | \$5 | \$40 | \$77 |
| Other network pharmacy | <u>\$6</u> | <u>\$14</u> | <u>\$47</u> | <u>\$86</u> |
| Savings at preferred pharmacy | \$5 | \$10 | \$7 | \$9 |
| Mail (90-day) | \$1 | \$6 | \$83 | \$149 |
| Other network pharmacy (90-day)* | <u>\$17</u> | <u>\$42</u> | <u>\$107</u> | <u>\$179</u> |
| Savings at mail | \$16 | \$36 | \$25 | \$30 |

*Network pharmacies other than preferred retail pharmacies

¹⁰ Medicare Part D cost sharing data as reported on a plan-by-plan basis by HealthPocket www.healthpocket.com

¹¹ Express Scripts 2013 Drug Trend Report, published April 2014.

¹² MedPAC (Medicare Payment Advisory Commission), Health care spending and the Medicare program, June 2014.

¹³ Express Scripts 2013 Drug Trend Report, published April 2014.

Average Monthly Cost Sharing & Beneficiary Savings at Preferred Pharmacies

| | Preferred Generic and Brand Drugs | Non-preferred Generic and Brand Drugs |
|--------------------------------------|--|--|
| Preferred pharmacy | \$30 | \$67 |
| Other network pharmacy | <u>\$51</u> | <u>\$108</u> |
| Savings at preferred pharmacy | \$21 | \$41 |
| Mail (90-day) | \$18 | \$40 |
| Other network pharmacy (90-day)* | <u>\$44</u> | <u>\$90</u> |
| Savings at mail | \$25 | \$51 |

*Network pharmacies other than preferred retail pharmacies