

**Part D Claims Analysis: Negotiated Pricing Between Preferred and Non-Preferred Pharmacy Networks  
(April 30, 2013)**

**Objective:**

To determine if negotiated prices at preferred retail pharmacies are lower than the negotiated prices at non-preferred retail pharmacies for Part D sponsors with both preferred and non-preferred networks.

**Background:**

In order to be compliant with requirements under §423.120(a)(9), sponsors must ensure the offering of lower cost sharing at preferred pharmacies does not result in increased payments to plans. Although CMS has not issued detailed guidance on what constitutes “increased payments to plans”, our general understanding has been this means preferred network pharmacies should be offering lower negotiated prices than are offered by non-preferred network pharmacies. Our assumption has been that sponsors would only offer reduced cost sharing to incentivize shifts in pharmacy market share if that shift resulted in lower drug costs and thus a competitive advantage in lower bids. Since we were aware of individual complaints about some drug costs being higher in preferred pharmacies, we set out to test our hypothesis that preferred network pharmacy negotiated prices are lower than prices in non-preferred network pharmacies.

**Methodology:**

To determine applicable plan networks--We conducted a pilot study using 1 month (March 2012) of Prescription Drug Event (PDE) data to review Part D drug costs in contracts with preferred pharmacy networks. We excluded EGWPs and contracts located in the territories. We limited the study to standalone prescription drug plans (PDPs). PDPs were identified as having both a preferred and non-preferred network through the Health Plan Management System (HPMS) plan benefit package (PBP) submissions. The PDPs were rolled-up to the contract level and a total of 14 applicable PDP contracts were identified.<sup>1</sup> This pilot study utilized 13 of the 14 PDP contracts. One PDP contract was excluded because the sponsor did not submit information for their preferred retail pharmacies in the month of March for Medicare Plan Finder pharmacy pricing files.

To identify preferred versus non preferred pharmacies--We used Medicare Plan Finder data to determine whether the pharmacy reported on the PDE was a retail or mail order pharmacy and whether it was preferred or non-preferred. All mail order pharmacies were treated as preferred. (We understand that it is industry practice to treat the sponsor’s or PBM’s own mail-order pharmacy as preferred, and any other mail-order pharmacies admitted to the plan’s network due to the any willing pharmacy terms and conditions as non-preferred.) An October 2012 Medi-Span Master Drug Database (MDDB) extract was used to generate a drug list of the top 25 brand and top 25 generic drugs based on the most common strength of that drug. In this analysis, a drug is defined based on the combination of brand/generic name, dosage form, and strength associated with the National Drug Code (NDC) reported in PDE data.

To compare costs on an equitable basis--We used various formulas (shown below) to derive an average unit cost (AUC) as well as a weighted unit cost (WUC) for the preferred and non- preferred network within each contract. The WUC aims to properly adjust the cost comparisons for differences in total quantities dispensed for each drug. We started with determining the negotiated price, where the ingredient cost and the dispensing fee were generated from PDE data. The quantity dispensed also came from PDE data. Unit cost is simply defined as the negotiated price divided by the quantity dispensed, which standardizes costs to an equivalent unit- the cost per pill, for example. The AUC calculation (Formulas 1 and 2) is a simple average that sums the unit costs and divides by the number of claims

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<sup>1</sup> All PDP Contract identifiers and associated names have been masked in this study.

observed. In this calculation, all drugs contribute to the average the same way, regardless of the level of utilization and total cost. Formulas 3 and 4 show the calculation for the WUC in this analysis, which weight drugs with larger total costs and quantities more.

The following formulas were used:

**Calculation of simple Average Unit Cost (AUC) for drug j:**

$$1) AUC_j = \frac{\sum_i (C_{ij}/Q_{ij})}{N_j},$$

where

$C_{ij}$  = Negotiated Price (ingredient cost + dispensing fee) for claim  $i$ , for drug  $j$ ,

$Q_{ij}$  = Quantity Dispensed for claim  $i$ , for drug  $j$ ,

$N_j$  = Total number of claims for drug  $j$

**To aggregate AUC to contract  $k$ , we use the following formula:**

$$2) AUC_k = \frac{\sum_j \sum_i (C_{ij}/Q_{ij})}{N_k},$$

where

$N_k$  = Total number of claims for contract  $k$

**Calculation of Weighted Unit Cost (WUC) for drug j:**

$$3) WUC_j = \frac{\sum_i C_{ij}}{\sum_i Q_{ij}},$$

where

$\sum_i C_{ij}$  = Sum of Negotiated Prices for all claims  $i$ , for drug  $j$ ,

$\sum_i Q_{ij}$  = Sum of Quantity Dispensed for all claims  $i$ , for drug  $j$

**To aggregate WUC to contract  $k$ , we use the following formula:**

$$4) WUC_k = \frac{\sum_j \sum_i (C_{ij})}{\sum_j \sum_i (Q_{ij})},$$

where

$\sum_j \sum_i (C_{ij})$  = Sum of Negotiated Prices for all claims  $i$ , for all drugs  $j$

$\sum_j \sum_i (Q_{ij})$  = Sum of Quantity Dispensed for all claims  $i$ , for all drugs  $j$

To determine the relative relationship of costs in the preferred to the non-preferred networks—We then used the ratio of preferred to non-preferred WUCs to identify contracts where the WUC of drugs at the preferred network exceeded the WUC of drugs at the non-preferred network for that contract, identified by a ratio of greater than 1. We also looked at the results at the contract and drug level for the top 25 brands and 25 generics dispensed in retail and mail order pharmacies. (We analyzed the drug level data to determine if any particular drug prices were influencing the results.) We then shared our methodology with the sponsors that had networks with ratios greater than 1 in order to confirm that our methodology was sound.

**Findings:**

**Preferred vs. Non-preferred Retail Pharmacy Results**

At the contract level (excluding mail order), we find that aggregate unit costs weighted by utilization were lower in preferred networks for the majority of sponsors with this type of network. The relative “savings” ranged from 24.2 to 0.1% lower. Conversely, aggregate unit costs weighted by utilization were higher in preferred networks than in non-preferred networks for 4 of the 13 PDP contracts (Table 1). For these 4

contracts, the WUC in preferred networks is 2% to 11% higher than in non-preferred networks. The four PDP sponsors are:

- 1) PDP Contract D
- 2) PDP Contract J
- 3) PDP Contract L
- 4) PDP Contract M

After including mail order claims, aggregate unit costs weighted by utilization were again lower in preferred networks for the majority of sponsors with this type of network. The relative “savings” ranged from 24.1 to 3.5% lower. Conversely, aggregate unit costs weighted by utilization were higher in preferred networks than in non-preferred networks for 5 of the 13 PDP contracts (Table 1). For these 5 contracts, the WUC in preferred networks is 2% to 12% higher than in non-preferred networks. The five PDP sponsors are:

- 1) PDP Contract B
- 2) PDP Contract D
- 3) PDP Contract F
- 4) PDP Contract L
- 5) PDP Contract M

We found that with the inclusion of mail order, the WUC in preferred networks remained higher than in non-preferred networks for 3 of the 4 PDP sponsors listed under the exclusion of mail order.

#### ***Individual Drug Level Findings:***

At the individual drug level, using the top 25 brand and generic drugs, we found that preferred retail pharmacies are offering lower negotiated prices than are offered by non-preferred network pharmacies. This is observed in Table 2 where the ratio for the WUC for preferred pharmacies to non-preferred pharmacies is less than 1 (Table 2).

#### ***PDP Contract Confirmation of CMS Methodology:***

The 5 PDP contracts designated as outliers were provided the opportunity to confirm whether CMS’ methodology was correct. Table 3 repeats the same findings from Table 1. Based on this validation, 3 out of the 5 PDP Contracts confirmed CMS initial results (Table 4). For these 3 PDP Contracts, the WUC in preferred networks is 4% to 5% higher than in non-preferred networks. This is seen where the WUC ratios for preferred to non-preferred networks, (P/NP) are greater than 1.

There were some discrepancies in the sponsors’ findings compared to those of CMS (Table 5). Our results showed higher WUCs (between 7 and 14 percent greater) for 3 of the 5 sponsors than they did for themselves. However, the discrepancy between CMS and sponsor-reported applicable claim counts in

these preferred networks ranged from 73 percent fewer to 194 percent more claims. These discrepancies raise significant questions about whether the sponsors used a different classification to identify preferred pharmacies and claim costs for this exercise than they did when officially identifying these pharmacies to CMS and the public.

#### **Conclusion:**

Based on a one-month sample, negotiated pricing for the top 25 brands and 25 generics in the Part D program at preferred retail pharmacies is lower than at non-preferred network pharmacies. However, there are different results between sponsors once we include mail-order pharmacy costs. When both mail and retail pharmacy costs are included, some sponsors’ preferred network pharmacies are offering somewhat higher negotiated prices than are offered by their non-preferred network pharmacies. Thus, our

hypothesis that preferred network pharmacy negotiated prices are lower than non-preferred network pharmacy negotiated prices was not confirmed.

We shared our methodology with the five sponsors that had network cost ratios greater than 1.0 in order to confirm that our methodology was sound. They confirmed our methodology, but submitted results yielding different claim counts and somewhat different numerical results. Nonetheless, all the sponsors confirmed the validity of our methodology, and three of the five confirmed ratios greater than 1.0. One of those three formally acknowledged an “anomaly” that resulted in some generics prices higher in the preferred network than in the non-preferred network. One of the two sponsors that reported their own ratios to be less than 1.0 suggested in verbal communications that they relied upon price concessions other than negotiated prices at point-of-sale to meet the regulatory requirement not to increase payments to the plans.

Thus, we have determined that negotiated prices are sometimes higher in certain preferred networks—contrary to our expectations. In March 2012, only about 11 percent of the beneficiaries in standalone Part D plans were enrolled in contracts that we identified as having higher preferred than non-preferred prices. However, between 2012 and 2013, the enrolled population in PDPs with a preferred network has doubled. Thus, we believe the impact of higher preferred network prices on the program as a whole is likely to become increasingly significant. Since we believe higher negotiated prices in network pharmacies violate the intent of § 1860D-4 (b)(1)(B), we are considering options for clarifying our requirements in future rulemaking.

Table 1: Weighted Unit Costs and Claim Counts For the Top 25 Brand and Top 25 Generic Drugs for PDP Sponsors With Preferred and Non-Preferred Pharmacy Networks for Retail Only and for Mail Order and Retail Prescriptions, (March 2012 PDE data for top 25 brand and top 25 generic drugs only)

Contract Information	Weighted Unit Cost* Retail Only			Weighted Unit Cost* Mail Order and Retail			Claim Count Retail Only		Claim Count Mail Order and Retail	
	PDP Contract	Preferred	Non-Preferred	Ratio of P/NP	Preferred	Non-Preferred	Ratio of P/NP	Preferred	Non-Preferred	Preferred
<b>A</b>	\$1.46	\$1.54	0.946	\$1.47	\$1.54	0.950	33,405	8,628	33,725	8,628
<b>B</b>	\$1.32	\$1.37	0.962	\$1.43	\$1.37	1.044	8,982	17,931	10,671	17,931
<b>C</b>	\$1.40	\$1.80	0.778	\$1.42	\$1.80	0.785	536	2,338	540	2,338
<b>D</b>	\$1.73	\$1.56	1.108	\$1.63	\$1.56	1.041	27,263	15,586	30,116	15,586
<b>E</b>	\$0.91	\$0.94	0.965	\$0.91	\$0.94	0.965	1,976	1,166	1,976	1,166
<b>F</b>	\$1.58	\$1.58	0.999	\$1.66	\$1.58	1.046	13,764	29,692	18,238	29,692
<b>G</b>	\$1.43	\$1.69	0.847	\$1.44	\$1.69	0.852	154,009	48,996	156,330	48,996
<b>H</b>	\$0.72	\$0.82	0.881	\$0.72	\$0.82	0.881	171,425	62,055	171,425	62,055
<b>I</b>	\$1.36	\$1.80	0.758	\$1.36	\$1.80	0.759	66,374	274,347	69,907	274,347
<b>J</b>	\$1.31	\$1.27	1.026	\$1.22	\$1.27	0.954	1,265,365	550,384	1,464,240	550,384
<b>K</b>	\$1.44	\$1.45	0.987	\$1.30	\$1.45	0.897	13,762	23,271	18,628	23,271
<b>L</b>	\$2.09	\$2.04	1.022	\$2.08	\$2.04	1.017	1,227	3,785	1,265	3,785
<b>M</b>	\$1.44	\$1.33	1.078	\$1.49	\$1.33	1.120	827	1,901	954	1,901
<b>Overall</b>	<b>\$1.40</b>	<b>\$1.48</b>	<b>0.946</b>	<b>\$1.39</b>	<b>\$1.48</b>	<b>0.939</b>	<b>1,758,915</b>	<b>1,040,080</b>	<b>1,978,015</b>	<b>1,040,080</b>

\*Weighted unit cost is calculated by summing the total ingredient cost and dispensing fee and dividing by the total quantity dispensed across all claims for a given contract.

Table 2: Weighted Unit Costs and Claim Counts for PDP Sponsors With Preferred and Non-Preferred Pharmacy Networks for Mail Order and Retail Prescriptions for Top 25 Brand and Top 25 Generic Drugs Only (March 2012 PDE Data)

Rank	Top 25 Brand Drug Names	Weighted Unit Cost*	Claim Count		Top 25 Generic Drug Names	Weighted Unit Cost*	Claim Count	
		Ratio of P/NP	Preferred	Non-Preferred		Ratio of P/NP	Preferred	Non-Preferred
1	PLAVIX	0.989	88,146	46,892	OMEPRAZOLE	0.958	131,343	81,306
2	NEXIUM	0.991	40,727	17,356	SIMVASTATIN	0.816	103,688	46,776
3	LIPITOR	1.015	6,324	2,295	AMLODIPINE BESYLATE	0.772	103,922	45,249
4	SINGULAIR	0.984	21,957	18,400	HYDROCHLOROTHIAZIDE	0.907	80,205	37,217
5	LANTUS	0.985	23,192	19,230	FUROSEMIDE	0.867	74,363	40,710
6	SPIRIVA HANDIHALER	0.989	29,935	17,886	METFORMIN HCL	0.780	65,533	37,377
7	PROAIR HFA	0.988	27,820	27,522	LISINOPRIL	0.813	69,613	32,977
8	NAMENDA	0.970	25,370	16,502	ALENDRONATE SODIUM	0.895	53,184	27,057
9	ADVAIR DISKUS	0.990	23,220	15,174	HYDROCODONE BIT/ACETAMINOPHEN	0.987	62,645	42,781
10	ZETIA	0.985	19,013	8,766	TAMSULOSIN HCL	0.873	59,881	29,510
11	CRESTOR	0.987	23,674	12,292	METOPROLOL TARTRATE	0.813	49,879	24,681
12	DIOVAN	0.987	14,620	8,593	ATENOLOL	0.869	40,790	18,162
13	CYMBALTA	0.988	20,430	14,760	TRAMADOL HCL	0.773	66,835	43,356
14	CELEBREX	0.985	18,394	5,165	ZOLPIDEM TARTRATE	0.956	59,898	34,696
15	LEXAPRO	0.974	4,886	3,950	GABAPENTIN	0.902	45,272	28,858
16	KLOR-CON 10	0.993	11,890	5,383	LEVOTHYROXINE SODIUM	0.764	47,682	21,809
17	VENTOLIN HFA	0.988	17,737	13,457	METOPROLOL SUCCINATE	0.945	51,539	19,006
18	TRICOR	0.986	13,592	7,686	PRAVASTATIN SODIUM	0.807	51,033	17,178
19	JANUVIA	0.986	12,201	8,609	FLUTICASON PROPIONATE	0.987	47,841	26,374
20	TRAVATAN Z	0.983	11,333	7,367	WARFARIN SODIUM	0.743	41,866	15,231
21	EVISTA	0.982	13,715	4,170	CITALOPRAM HYDROBROMIDE	0.691	35,903	21,206
22	COMBIVENT	0.994	8,433	4,569	DONEPEZIL HCL	0.469	24,915	16,090
23	ACTOS	0.989	6,640	4,716	AZITHROMYCIN	0.989	52,731	28,747
24	AVODART	0.983	10,027	4,472	PANTOPRAZOLE SODIUM	0.713	35,118	27,684
25	LOVAZA	0.986	9,962	7,378	LOVASTATIN	0.898	20,789	8,399
<b>Overall</b>		<b>0.967</b>	<b>503,238</b>	<b>302,590</b>	<b>Overall</b>	<b>0.890</b>	<b>1,476,468</b>	<b>772,437</b>

\*Weighted unit cost is calculated by summing the total ingredient cost and dispensing fee and dividing by the total quantity dispensed across all claims for a given drug.

**CMS Analysis Results (Results Match Table 1 for Mail Order and Retail Prescriptions):**

Table 3: Weighted Unit Costs and Claim Counts For the Top 25 Brand and Top 25 Generic Drugs for PDP Sponsors With a Ratio of P/NP Greater Than 1.0 for Mail Order and Retail Prescriptions, (March 2012 PDE data for top 25 brand and top 25 generic drugs)

Contract Information	Average Unit Cost*			Weighted Unit Cost**			Claim Count	
	PDP Contract	Preferred	Non-Preferred	Ratio of P/NP	Preferred	Non-Preferred	Ratio of P/NP	Preferred
B	\$2.00	\$2.09	0.955	\$1.43	\$1.37	1.044	10,671	17,931
D	\$2.43	\$2.32	1.045	\$1.63	\$1.56	1.041	30,116	15,586
F	\$2.25	\$2.34	0.961	\$1.66	\$1.58	1.046	18,238	29,692
L	\$2.84	\$2.74	1.037	\$2.08	\$2.04	1.017	1,265	3,785
M	\$2.39	\$2.49	0.960	\$1.49	\$1.33	1.120	954	1,901

\*Average unit cost is calculated by summing the unit cost on each of the claims for a given contract and dividing by the number of claims.

\*\*Weighted unit cost is calculated by summing the total ingredient cost and dispensing fee and dividing by the total quantity dispensed across all claims for a given contract.

**PDP Contract Confirmation of CMS Results:**

Table 4: Sponsor Report Weighted Unit Costs and Claim Counts for the Top 25 Brand and Top 25 Generic Drugs for PDP Sponsors with a Ratio of P/NP Greater Than 1.0 for Mail Order and Retail Prescriptions

Contract Information	Average Unit Cost*			Weighted Unit Cost**			Claim Count	
	PDP Contract	Preferred	Non-Preferred	Ratio of P/NP	Preferred	Non-Preferred	Ratio of P/NP	Preferred
B	\$1.83	\$2.09	0.873	\$1.46	\$1.38	1.057	3,631	25,017
D	\$1.94	\$2.00	0.970	\$1.61	\$1.65	0.976	31,305	16,942
F	\$3.33	\$6.05	0.551	\$1.25	\$1.35	0.921	68,791	119,237
L	\$4.46	\$4.25	1.050	\$3.03	\$2.88	1.054	2,732	1,429
M	\$2.55	\$2.79	0.916	\$1.44	\$1.38	1.040	828	2,051

\*Average unit cost is calculated by summing the unit cost on each of the claims for a given contract and dividing by the number of claims.

\*\*Weighted unit cost is calculated by summing the total ingredient cost and dispensing fee and dividing by the total quantity dispensed across all claims for a given contract.

Table 5: Ratio of CMS Results Compared to PDP Sponsor Results for Weighted Unit Costs and Claim Counts (Table 3 Compared to Table 4)

Contract Information	Average Unit Cost			Weighted Unit Cost			Claim Count	
	PDP Contract	Preferred	Non-Preferred	Ratio of P/NP	Preferred	Non-Preferred	Ratio of P/NP	Preferred
B	1.09	1.00	0.83	0.97	0.99	0.99	2.94	0.72
D	1.25	1.16	1.08	1.01	0.95	1.07	0.96	0.92
F	0.68	0.39	1.74	1.33	1.17	1.14	0.27	2.49
L	0.64	0.65	0.99	0.69	0.71	0.97	0.46	2.65
M	0.94	0.89	1.05	1.04	0.96	1.08	1.15	0.93