Comparison of the claim percent gross margin earned by Texas community independent pharmacies for dual-eligible beneficiary claims before and after Medicare Part D

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Abstract

Objectives: To describe dual eligibles' claims before and after Medicare Part D and to evaluate the effect that Medicare Part D has had on the claim percent gross margin (CPGM) earned by Texas community independent pharmacies.

Design: Nonexperimental time series study.

Setting: Texas, October 2005 through September 2006.

Participants: 313 community independent pharmacies.

Intervention: Review of more than 150,000 Medicaid and 300,000 Medicare Part D claims acquired from a drug claims processor.

Main outcome measures: CPGM per prescription claim before and after the implementation of Medicare Part D, controlling for generic/brand drug status.

Results: The mean CPGM for prescriptions dispensed before Part D (Medicaid claims) was 26.7%. The mean CPGM for claims dispensed after Part D (Medicare claims) was 17.0% (using ingredient costs in 2006 dollars) or 20.4% (using ingredient costs adjusted to 2005 dollars), a reduction of 36.3% and 23.6%, respectively. Under both Medicaid and Part D, pharmacies earned higher margins for generic drugs (39.9% and 29.5%, respectively) than for brand-name drugs (8.7% and 8.3%, respectively).

Conclusion: These results support community pharmacy assertions of lower reimbursements from Part D payers compared with Medicaid payers. Based on these results, pharmacies can respond to this evolving environment by carefully reviewing their Part D plans' impact on CPGM and taking available steps to increase the proportion of generic drugs dispensed to Medicare beneficiaries.

Keywords: Medicare Part D, pharmacy claims data, community pharmacy, gross margin.

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Anecdotal evidence suggests that since the implementation of Medicare Part D on January 1, 2006, pharmacies have suffered considerable reductions in gross margin for dual-eligible prescription claims as a result of the change in payer from state-based Medicaid programs to independent companies offering prescription drug plans. Despite reports of the negative effect that Medicare Part D has had on pharmacies, government agencies have reported that claims are paid on time and at a competitive rate.[1,2] The conflicting evidence supports the need for a rigorous statistical analysis examining the financial impact of Medicare Part D.

With the implementation of Medicare Part D, pharmacies received payments from Part D sponsors—the private, third-party insurance companies that offer Part D prescription plans. Previous studies have shown that pharmacies received lower reimbursements for prescriptions paid by private, third-party payers than those paid out of pocket or by Medicaid.[3,4] Of all community pharmacies, independent pharmacies are likely to experience the greatest financial impact from decreased reimbursements because they are more dependent on prescription sales than chain, grocery store, or mass merchandise pharmacies. Furthermore, community independent pharmacies have less bargaining power, possibly resulting in lopsided negotiations with Part D sponsors. Finally, pharmacies in rural areas are more likely to be independently owned, and before Part D, rural patients were more likely to pay for their prescriptions with cash or through Medicaid coverage.[5]

The media has reported many pharmacists bemoaning "slow and low" Part D payments.[6,7] One study examined the "slow" and found that although time from claim adjudication to receipt of reimbursement decreased during the program's first year, community independent pharmacies had not received payment for almost 50% of their December 2006 claims within 30 days.[8] Another study looked at the "low" but used a small sample of 600 prescriptions.[9] This study found that the average gross margin per prescription decreased 22.3% (from 24.0% to 18.6%) in the first 2 months after Part D was implemented. Additionally, the National Community Pharmacists Association has stated that the implementation of Part D "played a prominent role" in the closing of 1,152 community independent pharmacies in 2006.[10]

A large-scale empirical study is needed to provide greater insight into the long-term effect that Medicare Part D will have on community independent pharmacies.

At a Glance

Synopsis: Assertions by community independent pharmacists that they are making lower claim percent gross margin (CPGM) for dual-eligible prescription claims are supported by the results of this empirical study, which analyzed more than 150,000 Medicaid and 300,000 Medicare Part D claims from 313 Texas community independent pharmacies. Even after adjusting 2006 claims for inflation (by converting 2006 ingredient costs to 2005 dollars), the mean CPGM for Medicaid claims (26.7%) was significantly higher than that for Part D claims (20.4%; $P < 0.001$). For both Medicaid and Part D, pharmacies earned higher margins for generic (39.9% and 29.5%, respectively) than for brand-name (8.7% and 8.3%, respectively) medications.

Analysis: *With low private third-party reimbursements resulting from the implementation of Medicare Part D, pharmacies may consider taking a stronger stand in establishing contracts with managed care. Unfortunately, however, anecdotal reports claim that Part D plans are not likely to entertain contract negotiations and instead offer pharmacies the option of accepting their plans on a "take it or leave it" basis. Although such evidence is discouraging, other research suggests that rural pharmacies could use pharmacy accessibility requirements as leverage to force negotiation. Although the purpose of reviewing financial and patient implications for each current or potential Part D plan is to increase the awareness of "good" and "bad" plans, pharmacists should avoid steering patients toward plans solely because they are financially lucrative for the pharmacy.*

Objectives

We sought to describe dual eligibles' claims before and after Medicare Part D and to evaluate the effect that Medicare Part D has had on the claim percent gross margin (CPGM) earned by Texas community independent pharmacies.

Methods

The drug claims processor DataRx Management, Inc., provided the 457,611 prescription claims used for this study (152,521 [33.3%] Medicaid claims adjudicated in the fourth quarter of 2005 and 305,090 [66.7%] Medicare Part D claims adjudicated in the second and third quarters of 2006). Prescription claims from the first quarter of 2006 were excluded from this study because Texas Medicaid paid for some prescriptions during this transition period.[11] Claims were submitted by approximately 20% (n = 313) of Texas community independent pharmacies[12] on behalf of 24,576 dual-eligible patients who were 21 years of age or older. The University of Texas Institutional Review Board approved the study.

Financial measures were calculated as follows. Total revenue for each prescription claim was calculated as the sum of patient payment (copayments and/or deductibles) and third-party payment. Claim dollar gross margin equaled the total revenue per claim less the product ingredient cost, which for this study is represented by the estimated acquisition cost (EAC) reported on the prescription claim. CPGM was calculated by taking claim dollar gross margin as a percentage of the total revenue earned per claim.[13] For multiyear comparisons, ingredient costs and reimbursement amounts were adjusted for inflation using the Consumer Price Index for prescription drugs, which was 4.3% between 2005 and 2006.[14]