INDUSTRY TRENDS IN PHARMACY REIMBURSEMENT

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Disclosure

- We have no relationships with commercial interests relevant to the content of the presentation.
Objectives

Describe the four trends that are creating challenges in third-party pharmacy reimbursement today.

Identify at least four strategies that your organization can implement to improve your financial performance and eliminate risk.

Describe three scenarios that can cause a negative impact to your pharmacy business.
Top 10 trends in pharmacy

1. Continues to grow with 4.4 Billion prescriptions in 2014, $305B

2. Government payers are growing with 36% of total spending

3. Generic prescription profitability facing pressure

4. Payers and manufacturers are exerting more control, narrow networks are an example

5. Specialty is re-shaping the market structure
Top 10 trends in pharmacy

6. Independent pharmacies are surviving with wholesaler / PSAO support services

7. Consolidation and new alliances are blurring traditional boundaries

8. Pharmacies are diversifying away from pure dispensing

9. The regulatory environment continues to challenge the industry

10. The shift to value-based healthcare is visible and growing
Generic price inflation is challenging

Low cost generic marketing strategies and the ability to manage MAC rates coming from payers

- Average Generic Price = $10-25
- Generic prices increase 4.9% in 2014
- GER contracts are growing and requiring true-ups
- MAC Appeals make a material difference on non-GER contracts
- “MAC transparency” lobbying
- Low cost generic marketing strategies and the ability to manage MAC rates coming from payers
Generic price inflation

The price inflation offers pharmacies higher top-line growth but also possible complications in bottom-line profitability and resistance from consumers and plan payers.

- Decisions about $4 marketing programs
- Decisions about GER contract terms
- Decisions about MAC appeal management

Source: Drug Store News (01/20/15), Wall Street Journal (01/26/2015)
Walgreens Boots Alliance said,

"Overall increases in the amounts we pay to procure generic drugs could have a significant adverse effect on our profitability. In addition, our gross profit margins would be adversely affected by continued generic inflation to the extent we are not able to offset such cost increases."
Powerful payers

Narrow Networks dominate Part D and are penetrating commercial plans.

- **Open**: The consumer’s out-of-pocket costs are the same at all pharmacies in a payer’s retail network.
- **Preferred**: The consumer’s out-of-pocket costs are lower when the consumer uses a pharmacy that (1) reduces the payer's costs, or (2) increases the payer’s control. More than 60,000 total; 5,000 to 25,000 preferred.
- **Limited**: The consumer must use the specific pharmacies or dispensing formats that the payer designates. Less than 20,000 total.

*Source: This chart appears as Exhibit 97 in the 2014-2015 Economic Report on Retail, Mail and Specialty Pharmacies, Drug Channels Institute*
Impact of narrow networks

- Express Scripts stated that 15-20% of their claim volume now goes through a narrow network
- Narrow pharmacy networks are here to stay. They are growing in importance to payers and participation helps pharmacies ensure continued access to patients
  - Industry shift from fee-for-service reimbursement to fee-for-performance
  - Network participation means reimbursement on prescriptions may be lower but network participants should see higher traffic
# Getting access & specialty dispensing

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Examples</th>
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<tbody>
<tr>
<td>Pharmacy Benefit Managers</td>
<td>accredo</td>
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<tr>
<td></td>
<td>CVS Caremark Specialty Pharmacy</td>
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<td></td>
<td>briovaRx</td>
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<td>Drugstore Chains</td>
<td>Walgreens</td>
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<td>Walmart</td>
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<td>Target Specialty Pharmacy</td>
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<td>Health Plans</td>
<td>OPTUMRx</td>
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<td>aetna</td>
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<td>RightSource Specialty</td>
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<td>Wholesalers</td>
<td>US Bioservices</td>
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<td>ACS Advanced Care Services</td>
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<td>OncologyRx Care Advantage</td>
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<td>Physician Practices</td>
<td>Rx To Go</td>
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<td>RainTree</td>
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<td>Texas Oncology</td>
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<td>Hospital Systems and Group Purchasing Organizations</td>
<td>FAIRVIEW</td>
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<td>COMMERCARE Specialty Pharmacy</td>
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<td>excelera</td>
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<td>Regional/Independent Specialty Pharmacies</td>
<td>DIPLOMATA</td>
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<td></td>
<td>Avella Specialty Pharmacy</td>
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<td>Biologics</td>
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<tr>
<td>Independent Retail Pharmacy Networks</td>
<td>ASPN</td>
</tr>
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<td></td>
<td>CSPN</td>
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Source: Pembroke Consulting research
Pharmacies revenues from specialty pharmacy

Express Scripts, $17.6 (28%)
CVS Caremark, $16.0 (25%)

- All other retail, mail, and specialty pharmacies $20.1 (32%)
- Avella $0.6 (1%)
- Omnicare $1.2 (2%)
- Diplomat $1.4 (2%)
- Walgreens $6.3 (10%)

Revenues in billions. Totals may not sum due to rounding. Includes revenues from retail, specialty, and mail pharmacies. Excludes revenues from network pharmacies of PBM-owned specialty pharmacies.
Source: Pembroke Consulting estimates
Note: This chart appears as Exhibit 14 in the 2013-14 Economic Report on Retail, Mail and Specialty Pharmacies, Drug Channels Institute, January 2014. (http://drugchannelsinstitute.com/products/industry_report/pharmacy/)
Build-Buy-Partner: Options to compete in specialty pharmacy

**Build**
Focus on a therapeutic area and build a niche in that space
$20-$30M minimum and 24 months

**Buy**
Specialty pharmacy is a rapidly merging market
~$100M

**Partner**
Provide retailer with services, drugs, lives or combination
Build team and gain knowledge
## Retailers requirements to fill capability gaps

<table>
<thead>
<tr>
<th>Pharmacy</th>
<th>Clinical Outcomes</th>
<th>Reimbursement</th>
<th>Data Analytics</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Drug dispensing</td>
<td>• Disease Specific Care Protocols</td>
<td>• Benefit Investigation</td>
<td>• Data Aggregation Services</td>
<td>• Call Center</td>
</tr>
<tr>
<td>• Submit claims to payors</td>
<td>• Adherence support</td>
<td>• Prior Authorization</td>
<td>• Routine metric reporting</td>
<td>• Billing and Coding</td>
</tr>
<tr>
<td>• Collect copays</td>
<td>• Rigorous patient education</td>
<td>• Copay Assistance</td>
<td>• Service metrics</td>
<td>• Market Preparation Support</td>
</tr>
<tr>
<td>• Inventory management</td>
<td>• Routine follow-up</td>
<td>• Patient Assistance management</td>
<td>• Physician Web Portal</td>
<td>• Drug Manufacturer solutions</td>
</tr>
<tr>
<td>• Minimal patient counseling</td>
<td></td>
<td>• Alternative funding</td>
<td>• Novel outcomes metrics</td>
<td>• Payer solutions</td>
</tr>
</tbody>
</table>

### Current scope of most retail pharmacy

Specialty Pharmacy Differentiators

(required for Limited Distribution Drugs and Narrow Network Access)
### Specialty at retail: Market basket

**Grocery, Specialty, Non-Specialty Customer Buys**

<table>
<thead>
<tr>
<th>Average Per Month Specialty Patient Spend</th>
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<tbody>
<tr>
<td>Specialty Script</td>
</tr>
<tr>
<td>3 Non-Specialty Scripts</td>
</tr>
<tr>
<td>Total Patient Spend</td>
</tr>
</tbody>
</table>

- Typical grocery consumer spends $28 per visit and goes 2.1 times per week =
  - $240 per household per month

**Risk or Opportunity?**
- Approximately $2,500 Spent in Store Per Month Per Specialty Customer
HHS has set a goal of tying 30 percent of traditional, or fee-for-service, Medicare payments to quality or value through alternative payment models, such as Accountable Care Organizations (ACOs) or bundled payment arrangements by the end of 2016, and tying 50 percent of payments to these models by the end of 2018.

--HHS Secretary Sylvia M. Burwell
Quality initiatives are driving expansion of pharmacy-based healthcare offerings to create a sustainable business model

- Pharmacy Quality Measures
  - Medication Safety
  - Medication Therapy Management
  - Specialty Pharmacy (in development)
  - Adult Immunizations (in development)
  - Adherence and Persistence (PDC and PMN)
  - Appropriate Medication Use

- Primary Care in the Pharmacy

- Next – Narrow Networks evolving into Performance Networks
Strategies needed in your reconciliation processes
Deliver continuous improvement through strong reimbursement exceptions management

1. Pre & post edits / Dispensing controls
2. 100% claims level reconciliation to chase exceptions
3. Follow-up on no-pays, partial pays and denials
4. Incorporate learnings from exceptions and rates into iterative dispensing process improvement
5. Incorporate reimbursement rate data into purchasing decisions & pricing decisions
Price optimization that meets regulatory guidelines, attracts consumers & maximizes reimbursement

**Meets Regulatory Guidelines**
- Qui Tam - the failure of the pharmacy to use the discounted pricing as the “usual and customary” price in Medicaid and Medicare Part D billings resulted in falsely inflated claims to those programs.
- A generic drug (GCN or GPI) must be priced the same in the same store on the same day to all customers.

**Attracts Consumers**
- Prices are Public Info
- Consumers are price sensitive
- A $1 patient pay increase, reduces adherence by 0.4%

**Maximizes Reimbursement**
- Do you know the cost benefit of your $4 program?
- Do you know PBM reimbursements by drug – the expectations and the outliers?
- Do you know your front of store sales lift from your back of store pharmacy volume?
Payer Management

Payer fee tracking, management and negotiation practices requires comprehensive view of DIR, transaction and discount card fees

• Direct and Indirect Remuneration (DIR) / Medicare Part D
  – Includes discounts, charge backs, rebates, cash discounts, free goods contingent on purchase agreement, up-front payments, coupons, goods in kind, free or reduced-price services, grants, or other price concessions or similar benefits offered to some or all purchasers.

• Transaction Fees

• Complete data provides visibility to negotiate most favorable agreements
Strategies needed in your pharmacy operations
Patient engagement

"Drugs don’t work in patients who don’t take them.” -- late former U.S. surgeon general C. Everett Koop

Costs an estimated $200-300 billion a year

25% of patients prescribed medications for a new illness fail to fill

Half of patients taking maintenance meds for a chronic disease stop taking their medications within a year of starting therapy

Opportunity for pharmacy to make a difference

Health benefit design is changing to give patients a subsidy, then they make all the decisions about how to spend

Payments will be based on outcomes. We are moving to a value based healthcare system

Avoidable Costs

Critical to continued business success

Source: NEHI and IMS
The patient decision to be adherent is unique for each medication and is driven by three factors:

- **Clinical need**: The perceived need for the medication (related to their understanding of the disease and therapy/drug regimen).

- **Concern for safety**: The perceived concerns about the medication (related to side-effects and safety).

- **Cost**: The perceived medication affordability.

### Table 1: Predictive strength of consumer-related variables (from the literature)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Predictive Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patient demographics (age, sex, race, etc.)</td>
<td>Weak</td>
</tr>
<tr>
<td>Relationship between patient and providers</td>
<td>Moderate</td>
</tr>
<tr>
<td>Regimen characteristics</td>
<td></td>
</tr>
<tr>
<td>Patient clinical status</td>
<td></td>
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<tr>
<td>Patient health services use</td>
<td></td>
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<tr>
<td>Health system characteristics</td>
<td></td>
</tr>
<tr>
<td>Time since initiation of medication</td>
<td>Strong</td>
</tr>
<tr>
<td>Past non-adherence</td>
<td></td>
</tr>
</tbody>
</table>

From Benner, Josh, URAC-PQA Medication Adherence Summit 2011 (presentation)
Adherence decreases by 0.4 percent for every $1 increase in co-pay

Figure 2  Relationship between changes in patient cost sharing (copays) and medication adherence.

Source: NCBI (National Center for Biotechnology Information)
Inmar’s pharmacy-centric approach strengthens your ability to meet patient and shopper needs

1. E-script delivered to the pharmacy.
2. a) Patient wants information and help.  
   b) Adherence messaging delivered to pharmacist.
3. • Patient picks up script.  
   • Pharmacist has informed conversation regarding patient adherence.  
   • Delivers co-pay card if eligible.
4.a. Patient Not Opt-In  
   • Adherence vendor management  
   • Medication reconciliation
4.b. Patient Opt In  
   • Inmar adherence solutions—digital newsletter  
     - Front of store CPG and OTC offers  
     - Pharma offers  
     - Health and wellness information  
   • Adherence vendor management  
   • Pharmacy mobile app reminders
5. Patient comes back to refill script on time (adherence improves).
6. Patient shops using offers in front of store (basket increases).
## Quality measurement

<table>
<thead>
<tr>
<th></th>
<th>PMN – Primary Medication Non-adherence</th>
<th>What is your PMN rate?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Did the patient ever come pick up the first fill?</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>PDC – Proportion of Days Covered</th>
<th>What is your PDC rate?</th>
</tr>
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<tbody>
<tr>
<td>2</td>
<td>Did the patient regularly pick up their refills?</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Education</th>
<th>What is your educational rate?</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Do your customers understand their medicines and why they need to take them?</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Medication Reconciliation</th>
<th>What is your reconciliation rate?</th>
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<tbody>
<tr>
<td>4</td>
<td>Do you partner with ACOs, Payers, Health Systems and the healthcare community for completing the quality loop</td>
<td></td>
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<table>
<thead>
<tr>
<th></th>
<th>Healthy Foods</th>
<th>What is your HF rate?</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Do your customers know what foods are healthy in your stores?</td>
<td></td>
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</tbody>
</table>
Metrics that drive success

**Financial**
- Margin metrics
- DSO
- Sales / Rx
- Aging % over 60 days
- Write-offs

**Operational**
- Volume per pharmacy
- Rx / patient
- Payment exception %
- Audit rates
- PMN & PDC rates

**Contracting**
- Access
- Rates
- Fees
- GER / BER True-ups
- MAC Appeals
Strategies needed in contract management processes
Success With contract management

- Accurate billing by identifying necessary dispensing system correction.
- Purchasing by negotiating generic cost savings.
- Fee Management by comprehensive view of DIR, transaction and discount card fees.
- Corrected Pharmacy Operations when not dispensing preferred drug.
- Pricing decisions through U&C strategy and discount drug list management.
- Contract negotiations with visibility into payer trends and benchmarking, discount drug programs and more.
- Benchmarking reimbursement rates to the industry to identify opportunities.
- Reimbursement exceptions through MAC appeals, generic inflation control and carrier system corrections.
Accuracy in contract databases

CONNECTED – Your contract data needs to interact with transactional data so that it becomes analytical.

Single location to house all of contracts (Data and Images)

Ability to enter all information about a contract
Growing contracts

Creativity in growing the number of contracts you can participate in, including specialty.

Adherence Programs - Demonstration of Improved Patient Outcomes
• Reimbursement for achieving desired results
• Quality and other performance measures
• Counseling Services

Targeting Disease States
• Become an expert in areas such as medication management of chronic conditions
  – Refill reminders, online refills, dose packaging (various ways to improve adherence and medication related positive outcomes)

Know Your Numbers
• How you rate on pharmacy-related measures that impact a health plan’s star ratings and reimbursement
  – Potential impact to your inclusion in future networks
Auditing to contract

- Generic Reimbursement Exceptions
- Brand Reimbursement Exceptions
- Profitability Analysis
5

Risks to minimize
Data integrity

The accuracy of the claim data leaving your pharmacy and being adjudicated to the third party payers is critical if you hope to be paid in full, in a timely manner.

Develop a strategy in enhancing claims quality control and oversight activities

Implement quality control auditing through pre-payment auditing reviews impact

Create a comprehensive oversight and monitoring reporting system

Continue to define or redefine claims adjudication policies and procedures, and data management

Increase auto-adjudication by complete set-up of pre-processing and routing logic. This results in higher first-pass rates and reduction in manual handling, which provide significant savings in operating costs

Implement processes that monitor end-to-end claims adjudication

The accuracy of the claim data leaving your pharmacy and being adjudicated to the third party payers is critical if you hope to be paid in full, in a timely manner.
Billing, reimbursement and audit

• Qui Tam prevention with appropriate billing practices

• In the Fraud Enforcement & Recovery Act of 2009 (FERA)
  – Medicare and Medicaid providers face potential FCA liability if they knowingly retain an overpayment after the due date for any corresponding cost report, or more than 60 days after identification of the overpayment, whichever is later

• Payers are making pharmacy audits their business because they believe 10% of the claims they pay are discrepant with fraud, waste and abuse
Liabilities

Sophisticated reconciliation tools and processes must be in place, so that organizations can efficiently identify liabilities. Being over paid on claims, specifically by government payers and not responding quickly to those liabilities can lead to:

• Monetary fines
• Multi-year claims reviews known as “corporate integrity agreements”
• Removal from government programs
Patient pay information

- Medicare Part B is an example of a process change opportunity
- Specialty is an example where a solid patient pay process is critical to your success


1. Includes Children’s Health Insurance Program (Titles XIX and XXI), Department of Defense, Department of Veterans Affairs, worksite healthcare, deferral programs, Substance Abuse and Mental Health Services Administration, other state and local programs, and school health.
2. Out-of-pocket expenditures equal cash-pay prescriptions plus copayments and coinsurance.
To receive credit for...

*Industry Trends in Pharmacy Reimbursement*

- Click Login
- Use the email that they have provided upon registration and a generic password of **unc123**
- *Note: change password once you have logged in*

- ACPE #0046-9999-15-059-L04-P
- .75 CEUs
THANK YOU!

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