

NCPA[®]



NATIONAL COMMUNITY
PHARMACISTS ASSOCIATION

Understanding Mail Order



Community pharmacists provide a valuable service desired by patients.

Very rarely are mail order and community pharmacies allowed to compete on an even playing field.

There is very strong reason to believe, that given an even playing field, patients will choose their community pharmacy.



6 Key Mail Order Facts



1.) Mail Order Pharmacies Can Set Their Own Prices.

Average Wholesale Price (AWP) is commonly used as a benchmark for setting payment rates in private insurance plans.

Because each AWP is tied to a National Dispensing Code (NDC), and multiple NDCs exist per prescription, there is typically more than one AWP for each drug.

Multiple AWP means that the mail order pharmacy can select their own AWP for billing payers, by simply repackaging drugs to create new NDC numbers with much higher AWP.



Practical AWP Example



The patient wants to fill a prescription of Lipitor 20mg #30

Patient goes to a community pharmacy:

The pharmacist orders Lipitor 20mg #30 from their wholesaler, which comes with an AWP of \$124.80

The patient pays, AWP – 14% which is calculated as

$$\$124.80 - (\$124.80 \times 14\%) = \$107.33$$

The community pharmacist then counsels the patient on how to use the drug appropriately, possible interactions with other drugs, and the importance of adherence.

Patient goes to a mail order pharmacy:

The mail order pharmacist orders Lipitor 20mg #30 from a wholesaler, which comes with an AWP of \$124.80

Due to the large volume of drugs purchased by the mail order pharmacy, they can start “repackaging” drugs. In doing so they can create a new package size with a much higher AWP.

The mail order pharmacy then sells the patient Lipitor 20mg #30 with an AWP of \$204.30. At AWP – 22% the patient will pay

$$\$204.30 - (\$204.30 \times 22\%) = \$159.35.$$

This scenario is based on actual AWP's for Lipitor 20mg #30 from the 2007 Red Book. In this example the patient pays \$52.02 more through a mail order pharmacy.



PBMs and MAC Lists



2.) PBMs rarely use Maximum Allowable Cost (MAC) lists to keep generic drug prices under control at their mail order pharmacies.

PBMs often implement MAC lists to control spending at community pharmacies for generic prescription drugs.

These MAC lists represent the highest payment that can be made for a drug that is designated on that list.

As a practical example, on the next slide assume that the community pharmacy is paid AWP – 40%, and the mail order AWP – 50% for generic drugs, and assume no mail order repackaging.



Practical MAC Example



The patient wants to purchase a generic drug with an AWP of \$5

Patient goes to a community pharmacy:
The pharmacist purchases the generic drug from a wholesaler at an AWP of \$5.

Patient goes to a mail order pharmacy:
The mail order pharmacist purchases the drug from a manufacturer at an AWP of \$5

The PBM enforces a MAC list which includes the generic drug the patient wants. Under the MAC list the PBM pays the Pharmacy \$2 for the drug.

The mail order pharmacist charges the patient AWP – 50% which equals
 $\$5 - (\$5 \times 50\%) = \$2.50$

The patient pays 25% more because the PBM in this case only enforces MAC lists with the retail pharmacy.

The same situation can occur if the PBM uses different MAC lists between the two pharmacies.

PBMs Can Prevent Competition



- 3.) PBMs have an incentive to shield their mail order pharmacies from having to compete with community pharmacies.
- Pharmacy benefit managers are the only companies that are allowed to process transactions for their rivals, set prices for their rivals, and determine how their rivals will compete.
 - Since PBMs set the rates that plan sponsors will be billed and the copayment rates to patients for using a retail pharmacy, the PBM can always construct contracts to favor their own mail order pharmacies.
 - A practical example follows on the next slide highlighting the importance of spread pricing;



PBMs Can Prevent Competition



Patient Purchases a Drug with an AWP of \$100

If patient goes to a retail pharmacy, the PBM will reimburse the pharmacy at $AWP - 20\% = \$80$

If a patient goes to a mail order pharmacy, the PBM will reimburse the pharmacy at, $AWP - 20\% = \$80$

The plan sponsor will be billed by the PBM at $AWP - 16\%$ to penalize the sponsor for using a retail pharmacy. Hence the plan is billed \$84

The plan sponsor will be billed for this prescription drug at $AWP - 20\%$ based upon contractual agreements. Hence the plan is billed \$80

In the retail example, the additional \$4 billed to the plan that is not paid to the pharmacist is called the “spread,” and is pocketed by the PBM.

Since the PBM writes the contracts, they can prevent retail and mail order pharmacies from competing on price by adjusting the “spread” on community pharmacy.

PBMs Can Prevent Competition



- There has never been a single study published in a peer-reviewed journal to justify the grand claims made by PBMs regarding the cost-savings potential of mail order pharmacies.
- One literature review has concluded, that without available published research regarding mail order pharmacies,
“we are left to hypothesize that savings commonly attributed to the mail order component may be more a by-product of the pharmacy benefit design (e.g., co-payment levels or days-supply) rather than mail order efficiencies, in particular.”*
- One expert has testified that spread pricing is responsible for 5% of prescription drug costs.**

*Johnsrud M. “Will a Mandatory Mail Order Pharmacy Benefit Save Payers Money? Investigating the Evidence.” The center for Pharmacoeconomic Studies, The University of Texas at Austin, January 2006.

**Testimony of Susan A. Hayes For Committee on Oversight and Government Reform, Subcommittee on Federal Workforce. June 24, 2009.



Bulk Purchasing Creates Waste



- 4.) Purchasing in bulk creates greater prescription drug waste.
- Mail order pharmacies profit from 90 day fills because it allows the PBM to move product faster by dispensing larger volumes. This can create problems as;
 - The physician may change the patient to a new script before they are done with their 90 day supply.
 - The patient may decide to use a different prescription due to an adverse drug event or other complication.
 - If a patient is simply non-adherent, purchasing in bulk means purchasing a product that the patient will never use.
 - Mandatory mail order plans create 3.3 times more prescription drug waste than non-mandatory mail order plans.*

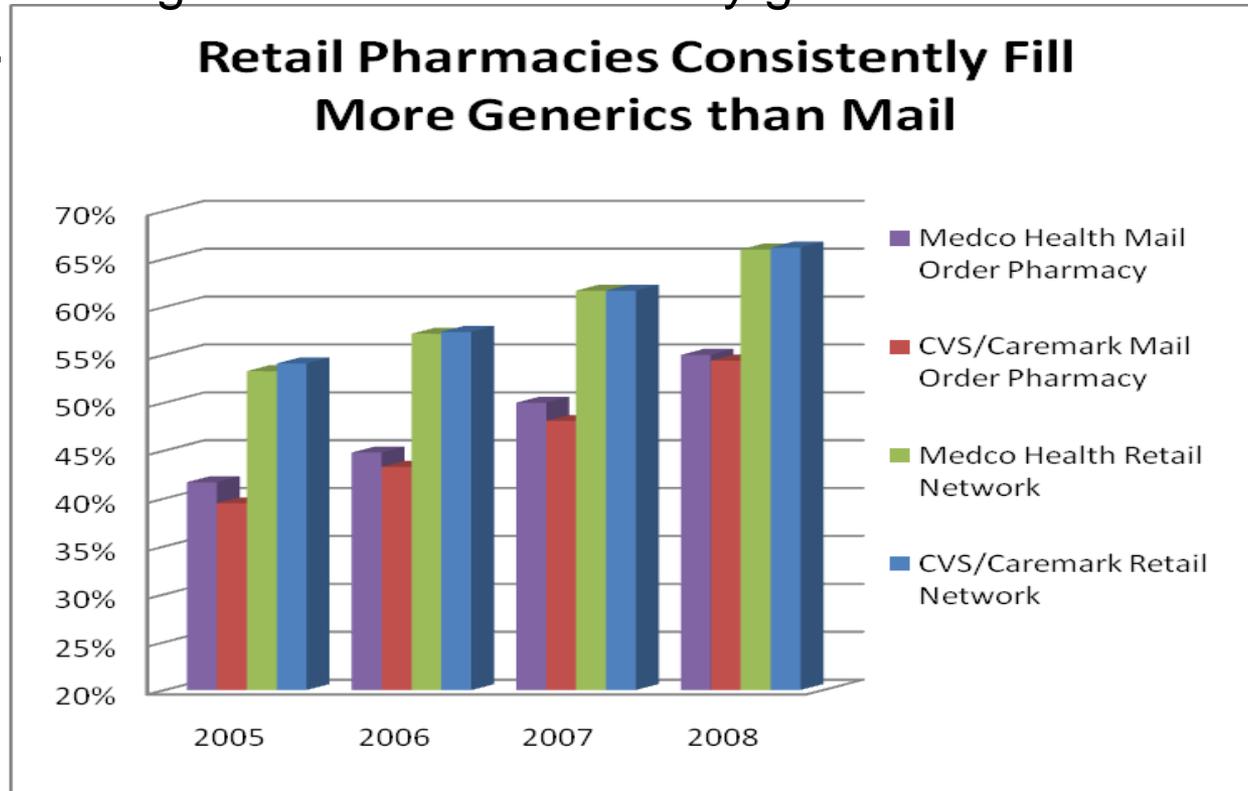
*Daniel Halberg, Erin Smith, and Kevin Sedlacek. "Effect of Mail-Order Pharmacy Incentives on Prescription Plan Costs", University of Arkansas Medical Sciences College of Pharmacy, October 2000.



Generics Matter



- 5.) PBMs receive rebates from pharmaceutical manufacturers for driving brand name market share.
- This provides an incentive for PBMs to dispense more expensive brand name drugs even when less costly generic alternatives are available.





Pharmacists Matter



- 6.) Community pharmacists are highly trained medication experts that provide a quality service that can help patients lower their overall health care costs.
- Medication therapy management (MTM) programs are designed to help patients optimize their medication regimens, to improve health while lowering overall health care costs.
 - According to a recent study by Mirixa;
 - MTM interventions performed by a community pharmacist provide average savings of **\$35**
 - MTM interventions performed over the phone provide average savings of \$17
 - MTM interventions performed through the mail provide average savings of \$1
 - Community pharmacists provide a service that just can't be beat!