MAC Pricing Analysis

Prepared for the Senior Care Pharmacy Coalition

November 2015
avalere.com

Analysis Overview

- Data Source:
  - Avalere created a data warehouse to store and aggregate transaction data from 18 independent LTC pharmacies* (6 parent companies)
  - The warehouse includes over 21.4 million individual drug transactions from January 2012 to March 2015**

- Analyses:
  1. Trends in Key Financial Indicators for Generic and Brand-Name Drugs (2013—2015)
  2. MAC Pricing Variability for Top Generic Drugs and Payers (April 2014)
  3. Percent of Drugs Dispensed that Are Generic vs. Brand-Name (2013—2015)
  4. Percent of Generic Drug NDCs with Negative Margin (2013—2015)

LTC: Long-Term Care; MAC: Maximum Allowable Cost; NDC: National Drug Code
* Independent LTC pharmacies refers to non-publicly traded LTC pharmacies.
** A significant percentage of transactions from 2012 and Q1-Q2 2013 are missing data on Cost of Goods Sold, so we have excluded these data from the analyses.

Executive Summary / Findings

- **Analysis #1 –** *Trends in Key Financial Indicators for Generic and Brand-Name Drugs*
  - Generic drugs reimbursed using MAC pricing have negative margins because revenue has remained flat even as total cost has increased
- **Analysis #2 –** *MAC Pricing Variability for Top Generic Drugs and Payers*
  - MAC prices paid for the same generic drug on the same day by different payers can vary considerably
- **Analysis #3 –** *Percent of Drugs Dispensed that Are Generic vs. Brand-Name*
  - The percent of prescriptions and total days supplied by generic drugs has increased
- **Analysis #4 –** *Percent of Generic Drug NDCs with Negative Margin*
  - The percent of generic drugs that, on average, have a negative margin has increased

MAC: Maximum Allowable Cost
COGS: Cost of Goods Sold
NDC: National Drug Code

#1 – Trends in Key Financial Indicators for Generic and Brand-Name Drugs

Overview #1 – Trends in Key Financial Indicators for Generic and Brand-Name Drugs

- Objective: assess the trends of key financial indicators (revenue, cost, and margin) for generic and brand-name drugs
- Methodology:
  1. Determined average total revenue* and average COGS per 30-day supply for all generic and brand-name drugs, all Medicare Part D payers (Q3 2013 to Q1 2015)
  2. Calculated total cost by adding COGS to a fixed cost to dispense**
  3. Calculated the margin by subtracting total cost from total revenue
  4. Segmented the results for:
     a. Generic drugs reimbursed using MAC pricing
     b. Generic drugs reimbursed using a method other than MAC pricing
     c. Brand-name drugs reimbursed using all methods
     d. Generic and brand-name drugs reimbursed using all methods
- Finding:
  - Generic drugs reimbursed using MAC pricing have negative margins because revenue has remained flat even as total cost has increased

MAC: Maximum Allowable Cost; COGS: Cost of Goods Sold
* Total revenue includes reimbursement for ingredient costs plus dispensing fees, but does not include manufacturer rebates (if any).
** This analysis uses a fixed $13.54 for cost to dispense. The value is the median cost to dispense a 30-day supply of a prescription as determined by researchers with Virginia Commonwealth University and Midwestern University. Source: Carroll, N.V., Rupp, M.T. & Holdford, D.A. Analysis of costs to dispense prescriptions in independently owned, closed-door long-term care pharmacies. *J Manag Care Spec Pharm.* 20: 291-320, (2014).

Financial Indicators for Generic Drugs Reimbursed Using MAC Pricing

Average Total Revenue, Total Cost, and Margin for All Generic Drugs Reimbursed Using MAC Pricing, All Medicare Part D Payers, 30-Day Supply, 2013—2015

$25
$20
$15
$10
$5
$0
-$5

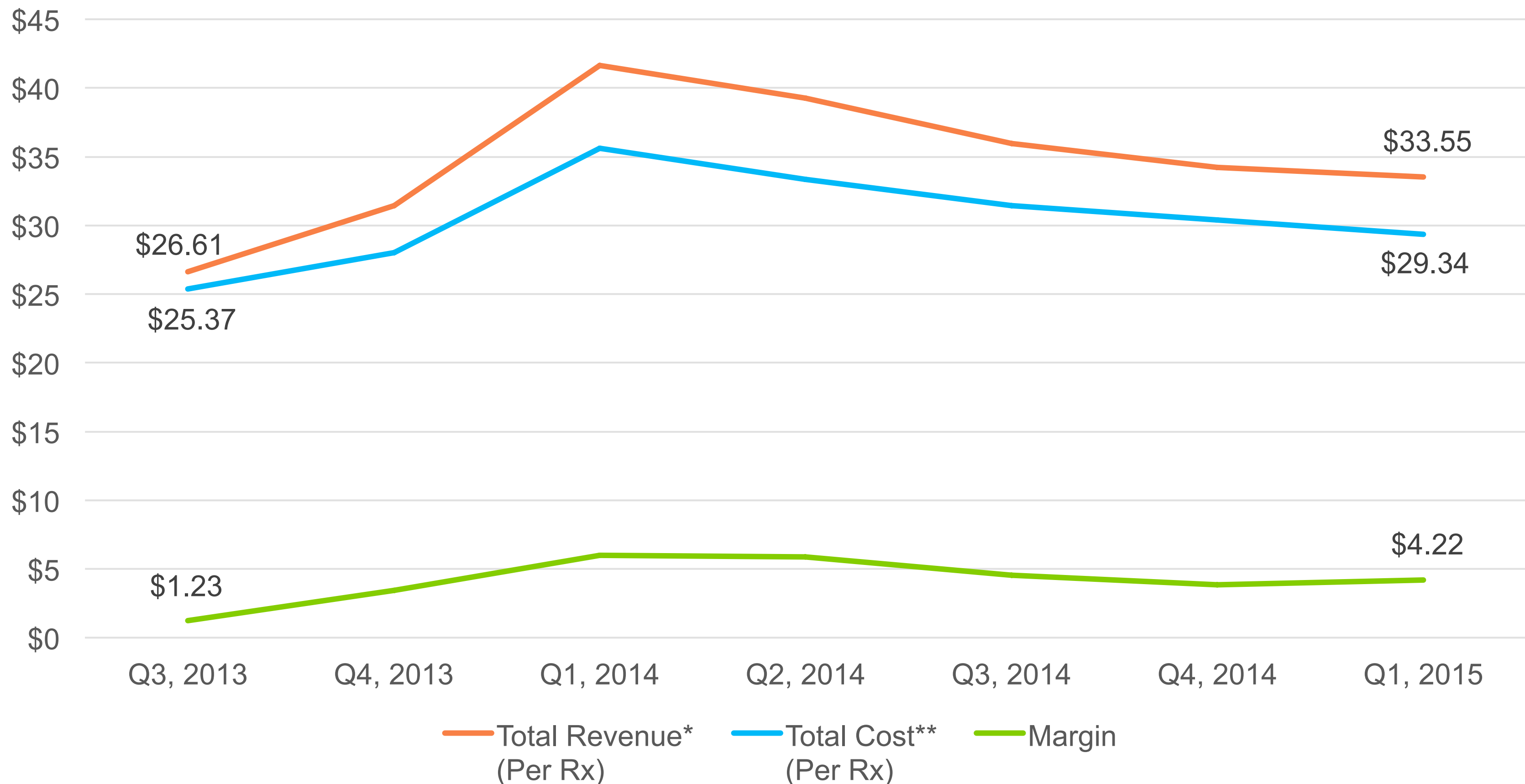
$21.88
$20.58
$1.30
$23.23
$22.33
$(0.90)

Q3, 2013 | Q4, 2013 | Q1, 2014 | Q2, 2014 | Q3, 2014 | Q4, 2014 | Q1, 2015

Total Revenue* (Per Rx) | Total Cost** (Per Rx) | Margin

MAC: Maximum Allowable Cost
* Total revenue includes reimbursement for ingredient costs plus dispensing fees, but does not include manufacturer rebates (if any).
** Total cost is cost of goods sold plus cost to dispense. This analysis uses a fixed $13.54 for cost to dispense. The value is the median cost to dispense a 30-day supply of a prescription as determined by researchers with Virginia Commonwealth University and Midwestern University. Source: Carroll, N.V., Rupp, M.T. & Holdford, D.A. Analysis of costs to dispense prescriptions in independently owned, closed-door long-term care pharmacies. *J Manag Care Spec Pharm.* 20: 291-320, (2014).

Financial Indicators for Generic Drugs Reimbursed Using a Method Other Than MAC Pricing

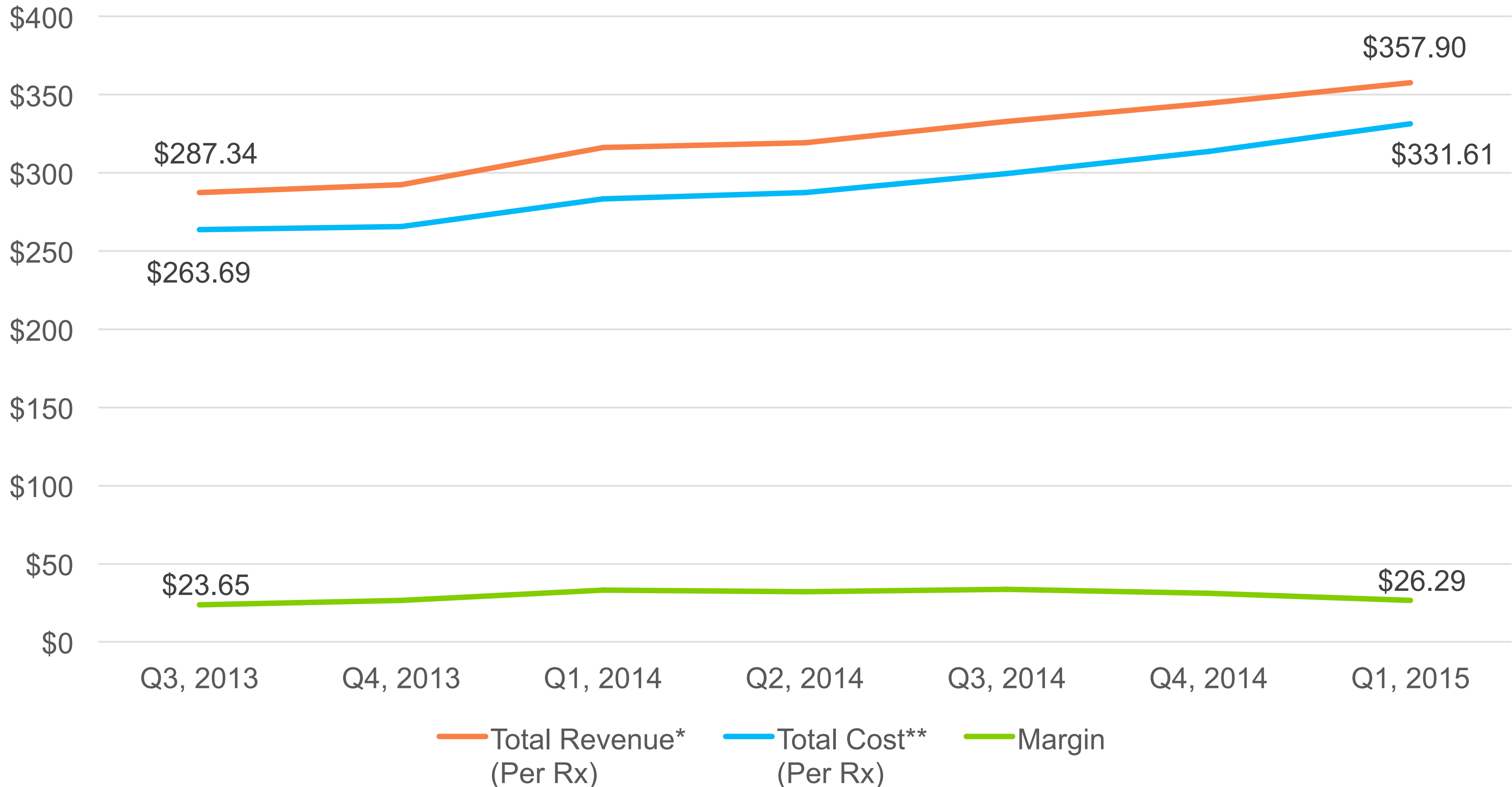


MAC: Maximum Allowable Cost

* Total revenue includes reimbursement for ingredient costs plus dispensing fees, but does not include manufacturer rebates (if any).

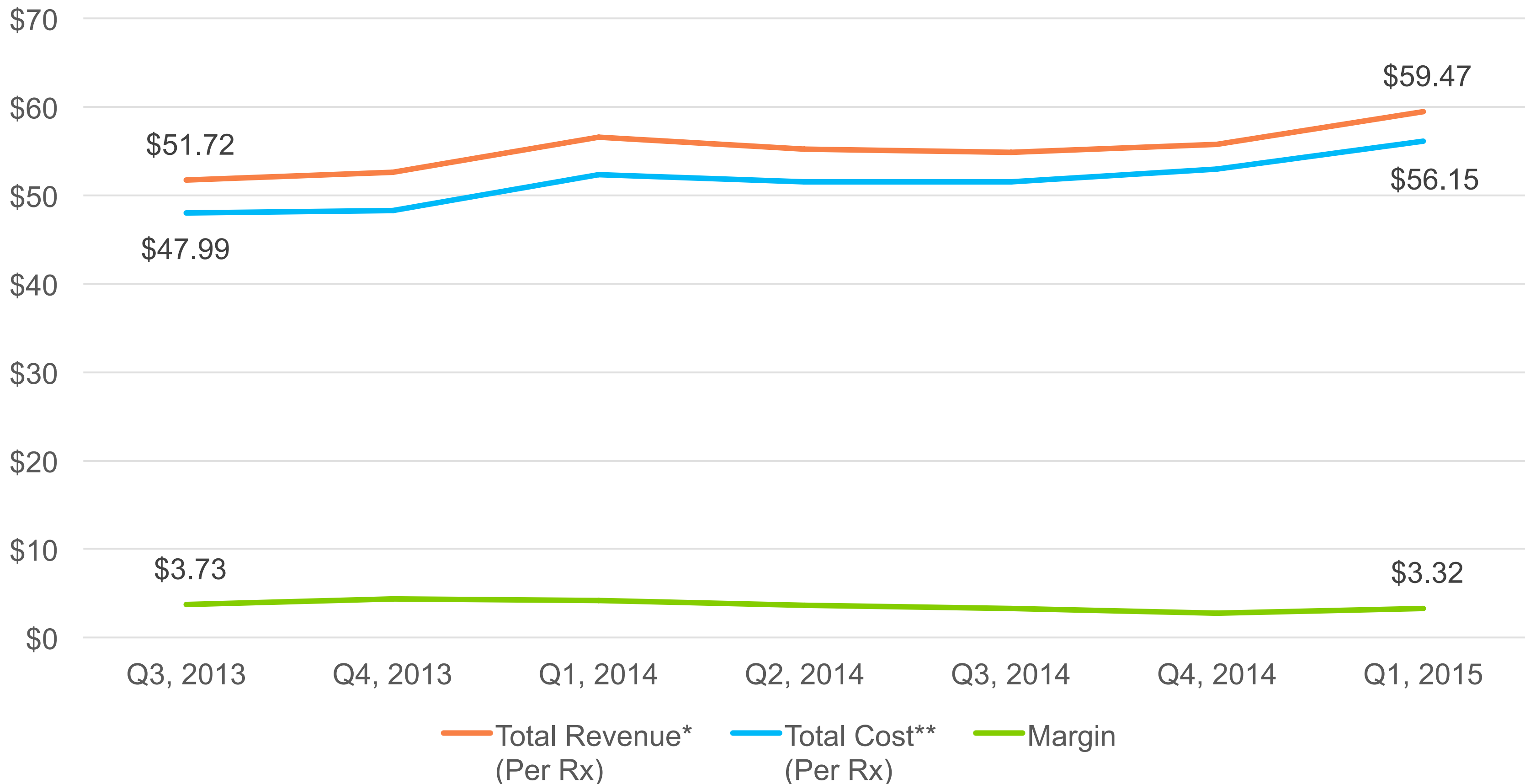
** Total cost is cost of goods sold plus cost to dispense. This analysis uses a fixed $13.54 for cost to dispense. The value is the median cost to dispense a 30-day supply of a prescription as determined by researchers with Virginia Commonwealth University and Midwestern University. Source: Carroll, N.V., Rupp, M.T. & Holdford, D.A. Analysis of costs to dispense prescriptions in independently owned, closed-door long-term care pharmacies. *J Manag Care Spec Pharm.* 20: 291-320, (2014).

Financial Indicators for Brand-Name Drugs



* Total revenue includes reimbursement for ingredient costs plus dispensing fees, but does not include manufacturer rebates (if any).
** Total cost is cost of goods sold plus cost to dispense. This analysis uses a fixed $13.54 for cost to dispense. The value is the median cost to dispense a 30-day supply of a prescription as determined by researchers with Virginia Commonwealth University and Midwestern University. Source: Carroll, N.V., Rupp, M.T. & Holdford, D.A. Analysis of costs to dispense prescriptions in independently owned, closed-door long-term care pharmacies. *J Manag Care Spec Pharm.* 20: 291-320, (2014).

Financial Indicators for All Drugs



* Total revenue includes reimbursement for ingredient costs plus dispensing fees, but does not include manufacturer rebates (if any).
** Total cost is cost of goods sold plus cost to dispense. This analysis uses a fixed $13.54 for cost to dispense. The value is the median cost to dispense a 30-day supply of a prescription as determined by researchers with Virginia Commonwealth University and Midwestern University. Source: Carroll, N.V., Rupp, M.T. & Holdford, D.A. Analysis of costs to dispense prescriptions in independently owned, closed-door long-term care pharmacies. *J Manag Care Spec Pharm.* 20: 291-320, (2014).

#2 – MAC Pricing Variability for Top Generic Drugs and Payers

Overview #2 - MAC Pricing Variability for Top Generic Drugs and Payers

- Objective: evaluate the change in MAC pricing over the course of a month for a single drug and individual payers
- Methodology:
  1. Determined the top-5 Medicare Part D payers by total volume*
  2. Determined the top-3 generic drugs by total volume,* all Medicare Part D payers
  3. Calculated the daily average MAC reimbursement per unit** of each drug by each payer in April 2014
  4. Calculated the daily average COGS per unit of each drug for the top-5 payers in April 2014
- Finding:
  - MAC prices paid for the same generic drug on the same day by different payers can vary considerably

* Volume defined as total days supply dispensed
** For example, the MAC reimbursement for a single pill of the particular drug.
MAC: Maximum Allowable Cost; COGS: Cost of Goods Sold

MAC Variability for Omeprazole

MAC Reimbursement per Unit of Omeprazole* by Top-5 Medicare Part D Payers, April 2014

$1.40
$1.20
$1.00
$0.80
$0.60
$0.40
$0.20
$0.00

4/1/2014 4/2/2014 4/3/2014 4/4/2014 4/5/2014 4/6/2014 4/7/2014 4/8/2014 4/9/2014 4/10/2014 4/11/2014 4/12/2014 4/13/2014 4/14/2014 4/15/2014 4/16/2014 4/17/2014 4/18/2014 4/19/2014 4/20/2014 4/21/2014 4/22/2014 4/23/2014 4/24/2014 4/25/2014 4/26/2014 4/27/2014 4/28/2014 4/29/2014 4/30/2014

Argus (015581)
Caremark (004336)
Express Scripts (003858)
Medco ESRX (610014)
OptumRx (610097)

* NDC = 60505006501
MAC: Maximum Allowable Cost; COGS: Cost of Goods Sold; NDC: National Drug Code
Notes: top-5 payers identified based on total days supply dispensed, listed alphabetically. Weighted average MAC reimbursement provided for each payer daily. COGS is the weighted average for all payers, daily. Gaps in the trend line indicate that no data is available for that payer for this drug on that day.

MAC Variability for Potassium Chloride

MAC Reimbursement per Unit of Potassium Chloride* by Top-5 Medicare Part D Payers, April 2014

$0.60
$0.50
$0.40
$0.30
$0.20
$0.10
$0.00

4/1/2014
4/2/2014
4/3/2014
4/4/2014
4/5/2014
4/6/2014
4/7/2014
4/8/2014
4/9/2014
4/10/2014
4/11/2014
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4/27/2014
4/28/2014
4/29/2014
4/30/2014

Argus (015581)
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Medco ESRX (610014)
OptumRx (610097)

* NDC = 62037099910
MAC: Maximum Allowable Cost; COGS: Cost of Goods Sold; NDC: National Drug Code
Notes: top-5 payers identified based on total days supply dispensed, listed alphabetically. Weighted average MAC reimbursement provided for each payer daily. COGS is the weighted average for all payers, daily. Gaps in the trend line indicate that no data is available for that payer for this drug on that day.

MAC Variability for Polyethylene Glycol

MAC Reimbursement per Unit of Polyethylene Glycol* by Top-5 Medicare Part D Payers, April 2014

$0.06
$0.05
$0.04
$0.03
$0.02
$0.01
$0.00

4/1/2014 4/2/2014 4/3/2014 4/4/2014 4/5/2014 4/6/2014 4/7/2014 4/8/2014 4/9/2014 4/10/2014 4/11/2014 4/12/2014 4/13/2014 4/14/2014 4/15/2014 4/16/2014 4/17/2014 4/18/2014 4/19/2014 4/20/2014 4/21/2014 4/22/2014 4/23/2014 4/24/2014 4/25/2014 4/26/2014 4/27/2014 4/28/2014 4/29/2014 4/30/2014

Argus (015581)
Caremark (004336)
Express Scripts (003858)
Medco ESRX (610014)
OptumRx (610097)

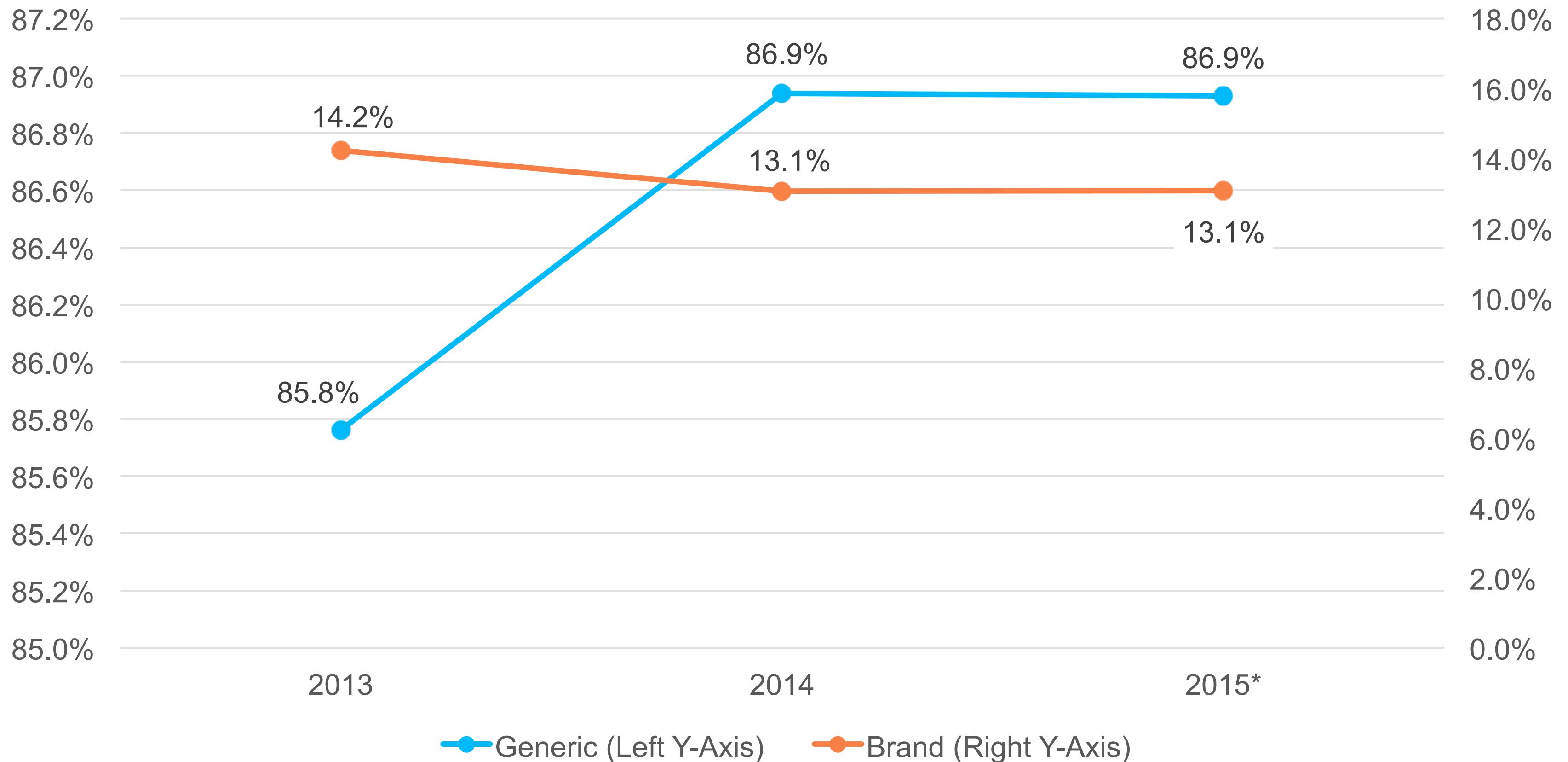
* NDC = 51991045757
MAC: Maximum Allowable Cost; COGS: Cost of Goods Sold; NDC: National Drug Code
Notes: top-5 payers identified based on total days supply dispensed, listed alphabetically. Weighted average MAC reimbursement provided for each payer daily. COGS is the weighted average for all payers, daily. Gaps in the trend line indicate that no data is available for that payer for this drug on that day.

#3 – Percent of Drugs Dispensed that Are Generic vs. Brand-Name

Overview #3 – Percent of Drugs Dispensed that Are Generic vs. Brand-Name

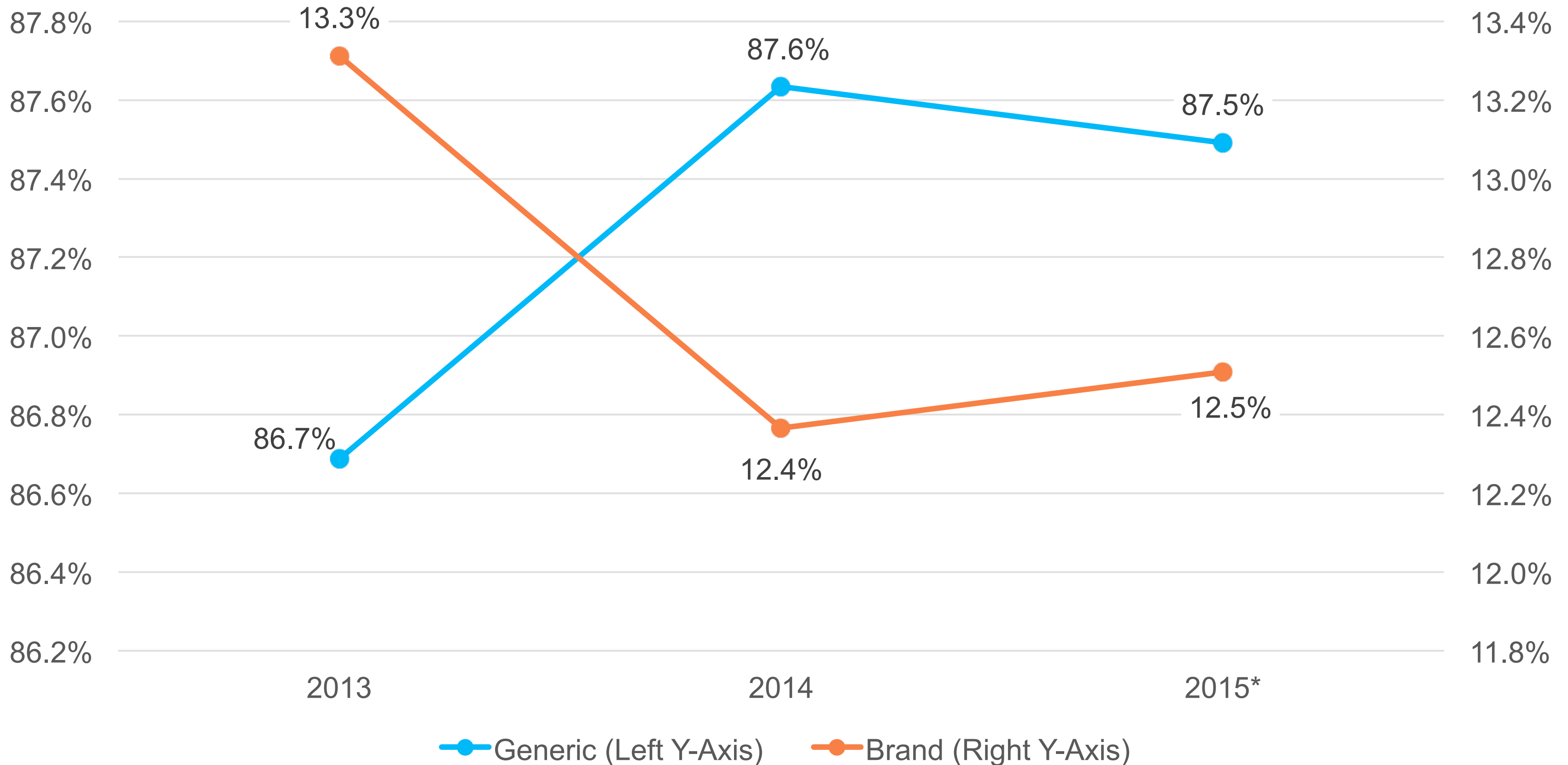
- Objective: assess whether generic drugs represent an increasing share of total drugs dispensed
- Methodology:
  1. Determined the percent of Medicare Part D drugs dispensed that are generic versus brand-name from 2013—2015. Segmented the results by:
     a. Number of prescriptions
     b. Number of days supplied
- Finding:
  - The percent of prescriptions and total days supplied by generic drugs has increased

Prescriptions for Generics vs. Brands



* Includes data from Q1.

Days Supplied by Generics vs. Brands



* Includes data from Q1.

#4 – Percent of Generic Drug NDCs with Negative Margins

Overview #4 - Percent of Generic Drug NDCs with Negative Margins

- Objective: estimate the percentage of generic drugs that have a negative margin, and determine whether that percentage has increased
- Methodology:
  1. Calculated the percent of Medicare Part D generic drugs with a negative margin: Average Revenue – (Average COGS + Cost to Dispense) < 0
     a. Average revenue is equal to average ingredient cost plus average dispensing fee*
     b. Cost-to-dispense is fixed for a 30-day supply of a drug**
  2. Segmented the results for each quarter from Q3 2013 to Q1 2015
- Finding:
  - The percent of generic drugs that, on average, have a negative margin has increased

COGS: Cost of Goods Sold; NDC: National Drug Code
* Revenue does not include manufacturer rebates (if any).
** This analysis uses $13.54 for cost to dispense. The value is the median cost to dispense a 30-day supply of a prescription as determined by researchers with Virginia Commonwealth University and Midwestern University. Source: Carroll, N.V., Rupp, M.T. & Holdford, D.A. Analysis of costs to dispense prescriptions in independently owned, closed-door long-term care pharmacies. *J Manag Care Spec Pharm.* 20: 291-320, (2014).

Percent of Generic Drug NDCs with Negative Margins

Percent of Generic Drugs (by NDC) with a Negative Margin,* on Average, Q3 2013—Q1 2015

65%
64%
63%
62%
61%
60%
59%
58%
57%
56%

59.0%
61.2%

Q3, 2013 | Q4, 2013 | Q1, 2014 | Q2, 2014 | Q3, 2014 | Q4, 2014 | Q1, 2015

NDC: National Drug Code
* Defined as: *Average Revenue – (Average COGS + Cost to Dispense) < 0.* Revenue includes reimbursement for ingredient costs plus dispensing fees, but does not include manufacturer rebates (if any). This analysis uses $13.54 for cost to dispense. The value is the median cost to dispense a 30-day supply of a prescription as determined by researchers with Virginia Commonwealth University and Midwestern University. Source: Carroll, N.V., Rupp, M.T. & Holdford, D.A. Analysis of costs to dispense prescriptions in independently owned, closed-door long-term care pharmacies. *J Manag Care Spec Pharm.* 20: 291-320, (2014).

Avalere

of Tennessee

1 Cameron Hill Circle
Chattanooga, TN 37402
bcbst.com

May [redacted] 2014

Dear Member:

We want you to know about an important change to your BlueCross BlueShield of Tennessee (BlueCross) pharmacy plan. Beginning June 2, 2014, compounded medicines made from bulk powders and select bulk chemicals will no longer be covered on your BlueCross pharmacy plan's drug list due to safety concerns.

What are compounded medicines and bulk powders?
In most cases, your prescriptions are already packaged (i.e., tablets, capsules, liquids), allowing a pharmacist to dispense them quickly. However, there are times when your doctor might prescribe a compounded medicine (a drug that a pharmacist must mix).

The main reason we will no longer cover compounded medicine is because it contains a bulk powder (raw ingredients in a powder form) or select bulk chemical that does not have FDA-approval. We also do not have any clinical studies that show compounded medicine is better for you than pre-packaged medicine. You may have even seen recent news coverage about the safety of these compounded drugs.

Please note that certain compounded medications made without bulk powders will remain covered.

Your doctor can appeal for you
There are many safe, effective and more affordable options besides compounded medicine. We encourage you to speak with your doctor about other options that might be right for you. If your doctor has a clinical reason for you to keep receiving this type of medicine, your doctor may appeal the denial by sending a fax to 1-888-343-4232.

Call us if you have questions
Our goal is to provide you with coverage for high-quality, affordable and convenient medicine. If you have questions, please call us at the Member Service number on the back of your member ID card. We're here Monday through Friday from 8 a.m. to 5:15 p.m. ET.

Best in health,

Elaine Manieri

Elaine Manieri
Vice President, Pharmacy Management
BlueCross BlueShield of Tennessee

EXAMPLE OF PBM ABUSE

This is just one of many examples of PBM's abusing the system and forcing pharmacies to sell their products and services below their cost.

In July of 2015, I submitted a claim which was adjudicated as a paid claim showing that the amount the PBM was approving and paying for the claim was $70.23 below my invoiced cost. Amount paid was $169.76. My invoiced amount for that medication was $239.99. That's bad enough, but not the worst part. Later I discovered that the PBM charged me a DIR FEE of $109.00 for that same prescription. Total amount lost on that one prescription was $179.23. These DIR FEES are charged on the backend with the pharmacy not knowing what they are until recouped by the PBM's.

Through the month of July 2015 I had approximately $6500 in DIR FEES charged back to me by one PBM. I don't even know how much from other PBM's because those figures are not readily available. These DIR FEES are in addition to the losses shown on the adjudications at the time of sale.

If something is not done quickly to stop this outrageous misuse of the system by PBM's there will be many independent pharmacies closing their doors permanently within the next 12 months.

Sincerely,

[redacted]
[redacted]
[redacted] Pharmacy, Inc.

October 8, 2015

IMPORTANT REMINDER INFORMATION REGARDING
NO MAILING COVERED PRESCRIPTIONS SERVICES

REMINDER!

RE: NO MAILING COVERED PRESCRIPTIONS SERVICES ON A "RETAIL" PHARMACY NETWORK AGREEMENT

As a reminder, your pharmacy participates in the OptumRx retail network. You are receiving this reminder notice that pharmacies contracted directly or indirectly on a retail Pharmacy Network Agreement ("Agreement") shall not solicit Members for mail delivery or mail any Covered Prescription Services to Members. The Agreement and as further defined in the Pharmacy Manual clearly prohibits a pharmacy from sending Covered Prescriptions Services through the US mail, shipping via any common carrier (e.g. FedEx, UPS, DHL) or via delivery by any type of courier to Members ("Mailing"). Mailing Covered Prescription Services is a violation of the Agreement and subjects the pharmacy to termination from OptumRx's networks.

If there are extenuating circumstances, e.g. patient on vacation, in which there is a limited need to mail a specific prescription there would not be ramifications related to such a single event. Otherwise, mailing shall be deemed non-compliance with the Agreement unless permission is expressly provided by OptumRx.

OptumRx maintains a separate Mail Order Pharmacy network. Pharmacies authorized or contracted specifically to mail Covered Prescription Services must comply with all applicable states' licensing and registration laws. Mail Order Pharmacies do not qualify for participation in OptumRx's separate retail network, which serves walk-in members only. Mail Order pharmacies may seek to apply to the OptumRx mail order network by contacting pharmacycontracts@optum.com.

Sincerely,

OptumRx

OptumRx phone numbers:
Pharmacy Contract Department via email at pharmacycontracts@optum.com or at (800) 613-3591, option 7, Monday through Friday from 8:00 a.m. to 4:00 p.m. PT.

2015 Pharmacy Manual is now available on-line at http://learn.optumrx.com/pharmacymanual

Thank you for your continued support. Please distribute to all affiliated pharmacies immediately.

OPTUMRx™

17900 Von Karman, Suite 125
Mail Stop: CA016-0302
Irvine, CA 92614
www.optum.com

Important plan information.

October [redacted] 2015

Dear Member

As a normal administrative function OptumRx ("ORX") conducts reviews of services provided by pharmacies that serve its members. We want to ensure that you receive the prescriptions that were billed and paid under your health benefit plan.

We ask that you respond to this request to help ensure that you obtained appropriate prescription benefits. If the prescription you received differs from the information listed (such as drug name, quantity or strength), please note the differences in the comments section below.

We have provided you a postage paid envelope for your convenience. If you have any questions, please contact OptumRx at 1-855-856-0540 Ext. 85939, TTY 1-800-498-5428, 8 a.m. to 4 p.m. PST, Monday through Friday.

Thank You