One Year In:
Sole Community Rural Independent Pharmacies and Medicare Part D

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OVERVIEW

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) established funding to allow up to 43 million Medicare beneficiaries to enroll in plans providing comprehensive outpatient prescription drug coverage, beginning in January 2006. The new Medicare Part D program changed the means by which Medicare beneficiaries purchase prescription drugs, which affects the business operations of pharmacies. This brief describes the experiences of a random sample of 51 rural independently-owned pharmacies one year after program implementation to determine whether initial financial and administrative problems were resolved over time, focusing on pharmacies that are the sole providers in their community. These pharmacies typically have lower prescription volume than urban and chain retail pharmacies and may consequently have less leverage to negotiate prices with wholesalers. Independently-owned pharmacies are also highly dependent on drug sales as their major source of revenue, making them especially vulnerable to changes in reimbursement. As independents represent approximately half of all retail pharmacies in rural areas, it is of particular importance to understand the impact of Part D on these providers.

KEY FINDINGS

- Interacting with Part D plans (PDPs) and patients during open enrollment resulted in decreased time spent in patient counseling and other clinical activities for 29 percent (n=15) of respondents.
- Seventy-five percent (n=38) of respondents said the burden this year was less than in the previous year, but 73 percent (n=37) said the general administration of Part D is more burden some than for other payer types.
- Pharmacists and their staff spent an average of four and a half hours per day dealing with Part D enrollment and formulary issues.
- Areas of concern identified continue to be the same as in 2006 and include reimbursement levels, complexity and dealing with multiple plans, and timeliness of payments.
- PDPs were consistently identified as one of the lowest payers, paying less than two sources previously used by many beneficiaries, Medicaid and self-pay.
- Twenty of the 23 respondents (87 percent) who were able to report their gross margin per prescription for Medicare Part D said it was lower than the gross margin they needed to stay in business.
- Thirteen respondents raised concerns about their ability to sell their stores upon retirement.

STUDY RESULTS

Administrative Effort During Open Enrollment

During the most recent enrollment period, November 5 through December 31 of 2006, pharmacists and other staff averaged approximately four and a half hours per day dealing with Medicare Part D enrollment or formulary issues. In half of the pharmacies surveyed (n=25), the pharmacists took on the majority of this administrative work themselves. Eighty percent (n=41) of respondents said the administrative tasks associated with Medicare Part D open enrollment displaced activities such as patient counseling, reading information about new medications, filling prescriptions, ordering, stocking shelves, merchandising and cleaning. Many pharmacists were also unable to keep up with bookkeeping and got behind in making bank deposits, reconciling payments, and paying bills. Pharmacists reported that they were one of the main sources of assistance for their patients who changed plans after initial enrollment. Sixty-one percent (n=31) reported that at least 10 percent of their Medicare customers changed plans for 2007.

Respondents also expressed frustration over dealing with multiple drug plans' formularies and discussed the substantial amount of time they spend on obtaining prior authorizations and identifying the most appropriate drugs for their patients, given the formulary limitations of the various Medicare Part D plans. When asked to compare the burden of this year's open enrollment to last year's, 75 percent (n=38) of respondents said this year was less burdensome than last year, but 73 percent (n=37) said that the general administration of Part D is more burdensome than for other payer types.

Financial Profile and Part D

Respondents described their pharmacies' overall financial position as follows:

- 31 percent (n=16) were good, strong or excellent;
- 47 percent (n=24) were stable, average or fair; and
- 22 percent (n=11) were poor, declining or unstable.

When comparing their current financial position to six months previous, responses were as follows::

- 53 percent (n=27) were the same;
- 37 percent (n=19) saw a decline; and
- 10 percent (n=5) saw an improvement.

Seventy-eight percent (n=40) of the pharmacists interviewed reported that revenue from prescription sales accounted for at least 85 percent of total retail revenue. For half (n=26) of respondents, Medicare Part D accounted for the largest portion of their total prescription revenue; 43 percent (n=22) of respondents reported that their largest source of revenue came from third-party/commercial insurers. For the remaining three pharmacies, their largest source of revenue was cash sales. For all but one of the 49 respondents who rank ordered sources of payment, cash was ranked as the best payer, followed by Medicaid as the second best payer. With the exception of that same pharmacy, Medicare PDPs were consistently identified as one of the two lowest payers along with third-party/commercial insurers.

Part D Contracts

Eighty-four percent (n=43) of respondents had not dropped any plans with which they had previously contracted. However, five of those pharmacists said they are strongly considering doing so in the future.

Among the 16 percent (n=8) of respondents who had dropped plans, six reported low reimbursement rates as the primary reason. Other reasons for ending contracts included difficulties working with the plan, slow payment, and changes in contract terms.

90-Day Prescriptions

Fifty-five percent (n=28) of respondents reported offering a 90-day supply of medications. The most common reasons pharmacists gave for offering a 90-day supply were that patients requested it and that it was necessary in order to be competitive with mail-order pharmacies. However, a few respondents stated that they had agreed to fill prescriptions for 90 days only with contracts that offered reasonable reimbursement rates (i.e. the same as or only slightly lower than what would be received by filling three 30-day prescriptions). Among the 45 percent (n=23) of respondents who said they do not offer 90-day prescriptions, 19 cited low reimbursement rates as a major reason for not offering this service.

Medication Therapy Management

Medication Therapy Management (MTM) is a reimbursable service in Medicare Part D meant to optimize therapeutic outcomes for individual patients. Ninety-two percent (n=47) of all respondents were familiar with MTM, but many did not know how many of their Part D contracts provided reimbursement for these services. Half of the respondents (n=26) reported that they were offering MTM to some of their Medicare Part D patients. Of these 26 pharmacists, over three quarters (n=20) reported having joined all available programs. The 45 percent (n=23) of respondents who reported not participating in any MTM programs listed a wide range of reasons for their decision, including time or staffing constraints, the need to have another pharmacist solely to provide MTM while the store was open, lack of a private space to conduct MTM as required by the Part D providers and insufficient time to participate in the mandatory training/certification.

Respondents' Additional Comments and Suggestions

At the conclusion of the interview, pharmacists were given the opportunity to share additional comments and recommendations. While the comments varied broadly, several key issues emerged. One area of concern mentioned by 13 pharmacists centered on the ability to sell their stores upon their retirement; they were worried that decreasing profitability could make the idea of owning an independent pharmacy less enticing to potential buyers. Another area of concern mentioned by six of the respondents was the potential negative financial effect that the new Medicaid Drug Payment Rule may have when it is enacted. Additional financial concerns mentioned by nine respondents focused on the low reimbursement rates of Medicare Part D plans and the excessive amount of time it can take plans to send out payments. Pharmacists noted that the reimbursement rates of some PDPs were too low to make a profit and that it can take between 30 and 90 days to get reimbursed for Medicare prescriptions, leading to cash flow problems.

Final areas of concern that were mentioned frequently are the need to simplify the Part D program and improve communication. Respondents mentioned difficulty in communicating with PDPs about formulary and benefit issues. Pharmacists noted that some PDP help desks were inaccessible and unresponsive. They recommended that plans improve customer support services and better inform their enrollees about their benefit levels. Furthermore, respondents recommended that the plans that participate in Part D be streamlined and standardized in order to simplify the program for both pharmacists and beneficiaries.

POLICY/PROGRAM CONSIDERATIONS

The findings from this study, along with specific suggestions made by pharmacists during the interviews, suggest actions that can be taken to address the challenges faced by rural independent pharmacies who are the sole provider in their communities.

- To ease administrative burden, technical and perhaps financial assistance (to purchase appropriate information systems and train in their use) could be provided to improve efficiencies in dealing with multiple plans.
- The administrative burden on sole community pharmacists could also be lessened during the open enrollment period by increasing patients' access to other community resources that provide assistance in sorting through plan options. CMS should continue its efforts to enlist "partners," especially in isolated rural communities, to help seniors work through their Part D options.
- To ensure full choice for rural Medicare beneficiaries and full access to pharmaceuticals through the ongoing presence of a local pharmacy, a mechanism ensuring that reimbursement for prescriptions covers drug acquisition costs, related overhead and a reasonable profit margin could be developed. Such a policy could be targeted towards a subset of pharmacies that are essential for local access.

STUDY METHODS

The semi-structured interview protocol used in this study was informed by input from academic experts and responses from pharmacists and representatives from state pharmacy associations who participated in a 2006 study of rural independent pharmacies. The final interview protocol included questions covering the domains reported in this *Findings Brief*.

To be included in the study, pharmacies had to be independently owned, located 10 miles or more from the next closest pharmacy, and the owner could not own more than three pharmacies. A subset of pharmacies likely to meet these study criteria were identified using data from the National Council for Prescription Drug Programs, Inc. Using this dataset, pharmacies with the following characteristics were identified: the only pharmacy within its ZIP code, independently owned (including franchise licenses), operating as a community retail pharmacy, and physically located in a non-metropolitan ZIP code. The 1,422 rural independent pharmacies that met these criteria were randomly ordered, and an initial sample of 250 pharmacies was generated. The study goal was to complete 50 interviews. Of the 103 pharmacies that were successfully contacted, 27 did not meet the study criteria. Of the remaining 76, 25 declined to participate and 51 participated, for a response rate of 67 percent (51/76). For those who declined to participate, the primary reasons given were lack of time and being short staffed. The survey respondents were located in 27 of the 50 states and in eight of the nine census divisions.

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