



LENGTH OF PRESCRIPTION DRUG PAYMENT TIMES BY MEDICARE PART D PLANS

Executive Summary

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OVERVIEW

Before the implementation of the Medicare Part D program, community pharmacists were concerned about possible reductions in their businesses' cash flow if payments were "low" and/or if payments were "slow." They anticipated the lower payments they would receive once Medicaid dual eligible beneficiaries switched to Medicare Part D plans, but hoped that these plans would honor their contracts and pay within 30 days if not within 2 weeks (the typical payment time by Medicaid).

Quick payment is crucial to community pharmacies since most are required to pay drug wholesalers every 14 days. (The remaining pharmacies pay on a weekly basis, a daily basis, or pre-pay for medications.) During the first months of the Part D program, pharmacists across the nation, especially those from independent pharmacies, began to report cash flow problems as they were struggling to pay their wholesalers while waiting 4 to 6 weeks or more for payments from Medicare Part D plans. Many have reported the need to take out loans or lines of credit to cover their debts to wholesalers, while other pharmacies have had to close their doors permanently.

The Centers for Medicare & Medicaid Services (CMS) and trade organizations have refuted community pharmacists' claims of slow payments. In May 2006, CMS reported that 18 of the top 20 Medicare Part D plans compensate pharmacies for claims twice monthly. Many community pharmacies, however, maintain a different position reporting that they do not routinely receive timely payments for many of their Part D claims. These conflicting reports precipitated the need for an in-depth study using a large database to calculate payment times by plans for Medicare Part D prescription drug claims.

STUDY OBJECTIVE

The objective of this study was to calculate the time between the date of claim adjudication (the date the plan approves the drug claim is usually the dispensing date) and the date the pharmacy receives payment from the Part D plan for prescriptions dispensed between January and December 2006. Data for approximately 3 million Medicare Part D prescription drug claims from 145 independent pharmacies and 17 chain store firms across the United States were obtained. There were over 600,000 independent pharmacy claims and over 2.3 million chain store claims in the dataset. The chain pharmacies were regional chains ranging in size from 10 to over 1,000 stores. The claims in the dataset were all adjudicated in 2006 and paid for by June 2007. The number of claims these pharmacies processed in 2006 that were not paid by June 2007 is unknown, and therefore the findings in this report may underestimate actual payment times when all claims are included.

Payments for all the claims in this database were made via electronic funds transfer (EFT) rather than via mailed checks. Payment times for claims paid by check are longer than those reflected in this report. (How much longer is dependent on check processing and mail delivery times.) Based on an informal survey of pharmacists, pharmacy groups, and managed care firms, it is believed that most community pharmacies receive checks from Part D plans.

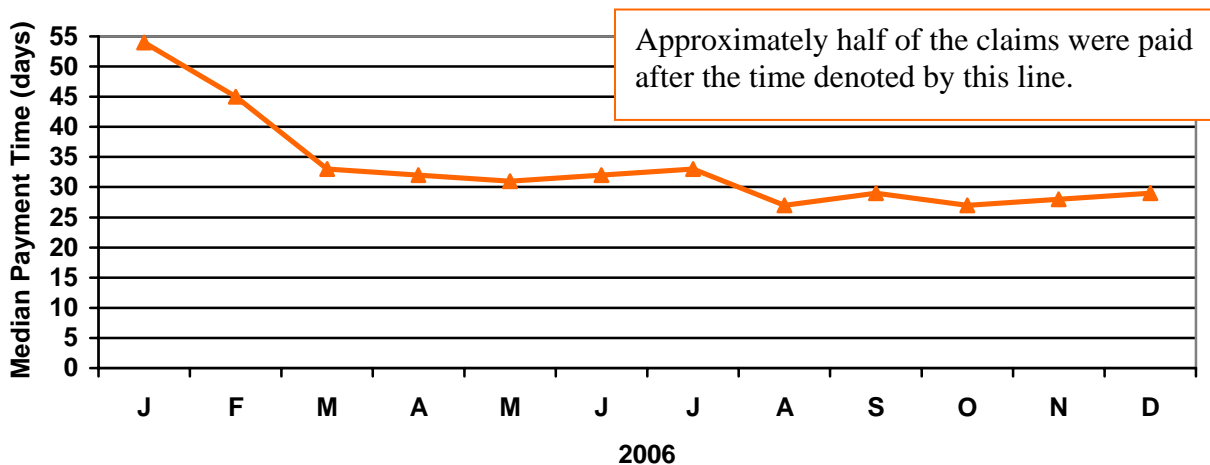
FINDINGS

Payment Times Overall

The overall median time between claim adjudication and Part D plan payment in 2006 was 29 days, regardless of pharmacy type (independent vs. chain). The average (or mean) payment time was 39.1 days (SD = 38.1). Due to variability in the data, however, the median is a more appropriate measure of central tendency. The median represents the 50th percentile case, with an equal number of cases falling above and below it. The data were further segmented by time periods for comparison. In this analysis, pharmacies received payments for 46.8% of their Medicare Part D claims in less than 29 days. They received payments for 48.5% of the claims more than 29 days after processing. A total of 4.7% of claims were paid exactly 29 days after adjudication.

Figure 1 shows that payment times improved during 2006. The median payment time for claims adjudicated in January 2006 was 54 days (nearly 8 weeks), which fell to 45 days (between 6 and 7 weeks) for February claims. For claims processed in March through December, the median payment time was 27 to 33 days (~4 weeks).

Figure 1. Median Days Between Claim Adjudication and Receipt of Payment for All Pharmacies by Month, January through December 2006



Payment Times for Independent vs. Chain Pharmacies

The median payment time was 31 days for independent pharmacies vs. 29 days for chains. A total of 50.0% of independent pharmacy claims were paid in less than 31 days, 46.2% were paid in more than 31 days, and 3.8% were paid at 31 days after adjudication. For chain pharmacies, these proportions were 48.1% in less than 29 days, 47.1% in more than 29 days, and 4.8% at 29 days after adjudication.

There was disparity in median payment times between independent and chain pharmacies from January to April 2006. Figure 2 demonstrates how median payment times for independent pharmacies were more than three times those for chains for January and February claims, and more than twice those for chains for March and April claims. Median payment times for chain pharmacies fluctuated very little over time.

For those claims submitted by independent pharmacies in January and February, 85.5% and 81.5% were still unpaid after 30 days, respectively. Half of all January (49.7%) and February (50.0%) claims were not paid by Medicare Part D plans within 106 days (~15 weeks) and 93 days (~13 weeks) of adjudication. For independent pharmacy claims processed in March and April, approximately half of the claims (49.4% for March, 50.0% for April) were not paid within 54 days—almost 8 weeks. Delayed payments often result in decreased cash flow for pharmacies since payments to wholesalers are required regardless of receipt of payment from Part D plans.

Figure 2. Median Days Between Claim Adjudication and Receipt of Payment for Independent and Chain Pharmacies by Month, January through December 2006

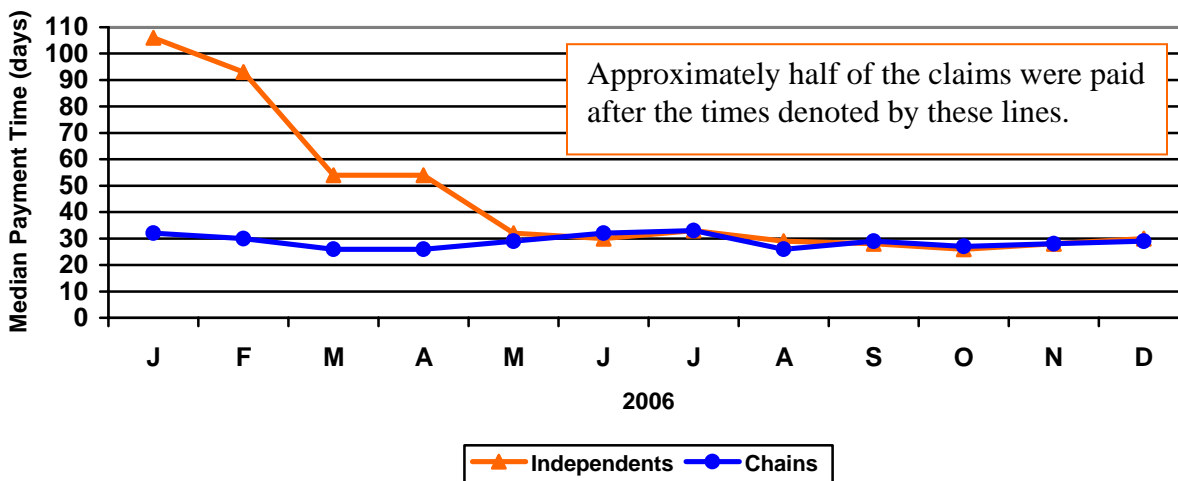
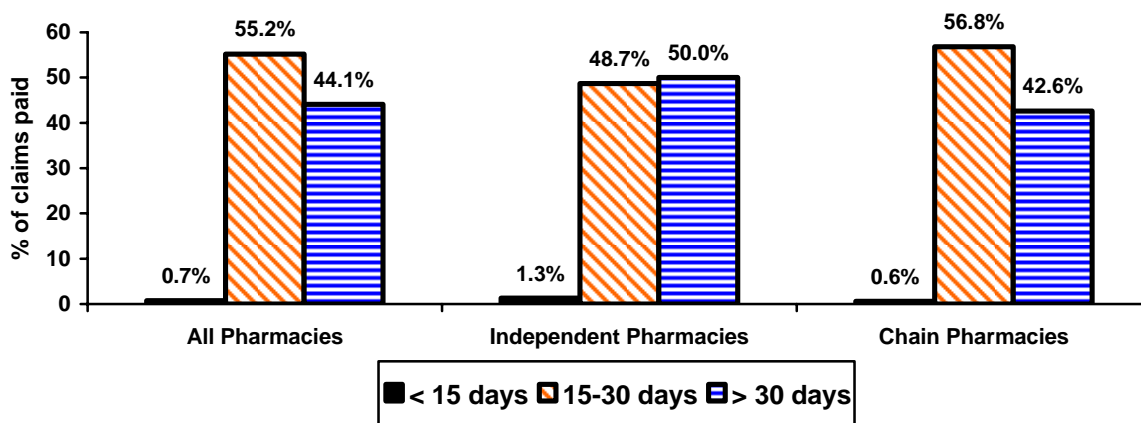


Figure 3 displays the proportions of claims processed in 2006 that were paid for within 14 days, 15 to 30 days, and greater than 30 days of adjudication. These findings are presented overall and then separately for independent and chain pharmacies.

Overall, pharmacies were compensated for only 0.7% of claims within two weeks of adjudication. A total of 55.2% of claims were reimbursed 15 to 30 days after adjudication, while 44.1% of claims were paid more than 30 days after adjudication. Chain pharmacies had not received payment for 42.6% of Medicare Part D claims within 30 days of adjudication. Independent pharmacies waited more than 30 days to receive payment for 50.0% of their Part D claims.

Figure 3. Proportion of Claims by Payment Times Overall and by Pharmacy Type, 2006



Payment Times by Medicare Part D Plan

As might be expected, median payment times varied by Medicare Part D plan. Approximately 85% of the claims in the dataset were associated with 28 plans, with at least 20,000 claims being submitted to each one. Table 1 lists these unidentified plans in ascending order of their median payment times between June and December 2006, allowing for a 5-month “adjustment period.” (Claims adjudicated in January through May were removed from the median calculations.)

In this study, from June to December 2006, 15 of these top 28 plans paid for approximately half of their claims more than 30 days after adjudication. The median payment time for two plans in this group was under 20 days. None of these plans, however, paid for a majority of the claims adjudicated between June and December 2006 within 15 days. Table 1 also shows how payment times changed from the first 5 months to the last 7 months of 2006. The majority of plans (17 of the top 28) had improved payments times after the first 5 months of the programs. Payment times did not change between the two periods for 7 plans, while payment times increased for 4 plans.

Table 1. Median Payment Times for the Top 28 Medicare Part D Plans Ordered by Lowest Median Payment Time Between June and December 2006, and the Change in Median Payment Time Compared to January to May 2006		
Part D Plan Number	Median Payment Time June – December (days)	Change in Median Days from First 5 Months of 2006 (days)[†]
1	18.0	- 45.5
2	19.0	no change
3	20.0	- 26
4	20.0	+1
5	21.0	- 3
6	23.0	- 1
7	24.0	- 2
8	24.0	no change
9	24.0	- 18
10	24.0	- 3
11	25.0	- 5
12	25.0	- 5
13	28.0	no change
14	30.0	no change
15	31.0	- 133
16	31.0	no change
17	31.0	- 243
18	32.0	- 35
19	32.0	no change
20	33.0	- 7
21	33.0	- 11
22	33.0	no change
23	33.0	- 2
24	34.0	+ 1
25	35.0	- 2
26	36.0	- 11
27	39.0	+ 4
28	40.0	+ 11

[†] All plans with more than 20,000 claims from January through December 2006 are included (85% of all claims).

[‡] A negative number indicates that the median payment time was shorter from June to December than from January to May. A positive number indicates that the median payment time was longer from June to December than from January to May.

SUMMARY

This is the first known national study to measure the time between drug claim adjudication and Medicare Part D plan payment receipt by pharmacies. Independent and regional chain pharmacies in this study did not receive payment for approximately 44% of their 2006 Medicare Part D claims within 30 days. Overall, pharmacies waited 8 weeks or more for payment for approximately half of the claims processed in January 2006. Payment times improved in February and especially in the following months. However, approximately 41% of December claims were still unpaid 30 days after adjudication.

Independent pharmacies were extremely hard-hit, with only half of the claims submitted in January paid for within 15 weeks. Though payment times to independent pharmacies improved and nearly equaled those of the regional chains by May 2006, an overall median payment time of 29 days clearly demonstrates that pharmacies were not receiving payments for a substantial proportion of Medicare Part D claims within 30 days of adjudication.

It is possible to provide compensation sooner, as some of the plans in this study demonstrated by paying for approximately half of their claims in less than 20 days. However, independent and regional chain pharmacies in this study are not receiving these more timely payments from most plans—at least not in 2006. The large proportion of pharmacies that receive payments by check, which is not a pharmacy-controlled decision in most cases, will wait even longer while checks are processed and payments make their way through the United States postal system.

Though payment times continue to be a point of contention between community pharmacies and Medicare Part D plans, the results of this empirical study support and quantify community pharmacists' reports of "slow" payments for a large proportion of Medicare Part D claims in 2006. This evidence should be considered by Medicare Part D decision makers.

For a more complete analysis of this study, go to www.pharmacist.com. This peer-reviewed paper was accepted for publication by the Journal of the American Pharmacists Association on August 30, 2007. It became available on-line on September 6, 2007 and will appear in print in the November/December 2007 issue of the journal.