

## Medicare Part D Preferred Networks

### Frequently Asked Questions

**Q: What is a Part D preferred pharmacy network?**

CMS regulations currently permit Medicare Part D plans to establish networks of “preferred pharmacies.” These networks generally are limited to a smaller number of select pharmacies and/or pharmacy chains. These pharmacies provide lower co-pays to beneficiaries in exchange for lower reimbursement to the pharmacy. In theory, pharmacies participating in the preferred network benefit by increased volume from preferred network patients.

**Q: How did preferred pharmacy networks come into existence?**

Preferred pharmacy networks have been contemplated within the Medicare Part D program since 2006. However, it wasn’t until more recently that plans implemented preferred networks. In 2012, there were several large national Part D plans that featured preferred pharmacy networks, and the trend will likely continue in 2013.

**Q: What retail pharmacy access standards must plans meet in order to participate in the Medicare Part D program, and how do these standards apply to preferred networks?**

The Medicare Modernization Act (MMA) includes requirements to assure that Medicare beneficiaries will have access to retail pharmacies close to their homes. To receive approval to participate as a Medicare Part D plan, a plan must meet the TRICARE standards access for retail pharmacies. This means that in an urban area, at least 90% of Medicare beneficiaries in the Part D service area, on average, must live within 2 miles of a retail pharmacy that is part of the plan’s network. In suburban areas, at least 90% of Medicare beneficiaries in the Part D service area, on average, must live within 5 miles of a retail pharmacy that is part of the plan’s network. And, in rural areas, at least 70% of Medicare beneficiaries in the Part D service area, on average, must live within 15 miles of a retail pharmacy that is part of the plan’s network. However, these standards only apply to the plan’s primary pharmacy network. Plans are not required to meet these same standards when establishing preferred pharmacy networks.

**Q: Why don't federal and state Any Willing Provider laws apply to preferred networks?**

CMS interprets the MMA’s Any Willing Provider provision as not applying to nor prohibiting preferred pharmacy networks.<sup>1</sup> As a result, plans may deny pharmacies from participating in a Part D plan’s preferred pharmacy network. Based on the current rules, this does not violate the Any Willing Provider provision because that provision does not require that all Part D plans give the same terms and conditions to all pharmacies for all networks. Part D plans with preferred networks still allow non-preferred pharmacies to participate in the plan, but not on the same terms and conditions. In other words, any pharmacy can still provide Part D drugs to patients in a plan with a preferred pharmacy network, but the reimbursement may be different and the cost-sharing may be different than for a patient that has his or her prescription filled at a preferred pharmacy. Lastly, state Any Willing Provider laws generally do not apply because the federal MMA supersedes state laws.

**Q: Is there a cost for pharmacies to participate in a preferred network?**

In some cases, a PBM may charge a pharmacy a fee to be part of the preferred network. In most cases, the fee will be charged on a “per claim” basis for each claim submitted.

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<sup>1</sup> Currently, there are at least two federal lawsuits challenging this interpretation and the legality of preferred networks in the Medicare Part D program.

**Q: What can be done to tighten the framework of preferred networks within Medicare Part D?**

One strategy is to lobby Members of Congress to restructure the Any Willing Provider provision in the Medicare statute to prohibit Part D plans from setting up preferred networks or require them to offer the same terms and conditions for all participating pharmacies. In other words, all pharmacies could be offered the opportunity to participate in the preferred network, or develop standards for preferred networks that would assure more equitable access.

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