

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**ACCURACY OF PART D PLANS'  
DRUG PRICES ON THE  
MEDICARE PRESCRIPTION DRUG  
PLAN FINDER**



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Inspector General

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# *Office of Inspector General*

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## OBJECTIVE

To determine whether selected Part D plans' drug prices displayed on the Medicare Prescription Drug Plan Finder (Plan Finder) accurately reflect actual drug costs on Part D claims.

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## BACKGROUND

The Medicare prescription drug program, known as Medicare Part D, provides an optional prescription drug benefit for all Medicare beneficiaries. Many of the beneficiaries who choose to enroll in Part D drug plans must pay premiums; deductibles; prescription drug copayments; and, during the coverage gap phase of the benefit, total prescription drug costs. Therefore, plans' drug prices are a significant factor to beneficiaries selecting a plan. Drug prices on Plan Finder that do not reflect actual drug costs may cause beneficiaries to enroll in a plan based on incorrect information, incur unexpected costs, or decline to enroll in a Part D plan altogether.

The Centers for Medicare & Medicaid Services (CMS) developed Plan Finder as an online tool to help beneficiaries compare and select Part D plans. Beneficiaries may view estimated plan and drug costs for individual plans by entering information about the prescription drugs that they take. After entering this information in Plan Finder, beneficiaries may conduct a general search to find the least expensive plan for their needs. Beneficiaries may also elect to view estimated plan and drug cost information for the specific pharmacy where they plan to fill their prescriptions. For this review, we conducted general rather than pharmacy-specific searches in Plan Finder. At the time of our review, both CMS and AARP (formerly the American Association of Retired Persons) recommended that conducting a general search rather than a pharmacy-specific search could improve a beneficiary's ability to find the least expensive plan.

To determine whether Part D plans' drug prices displayed on Plan Finder accurately reflect actual drug costs, we compared plans' retail drug prices listed on Plan Finder for 10 drugs commonly used by seniors to drug costs on corresponding prescription drug event (PDE) claims for the same period. In this report, "actual drug costs" represent the sum of the "Ingredient Cost Paid" and "Dispensing Fee Paid" fields on PDE claims. We collected drug prices on Plan Finder between September 24

and October 7, 2007. We obtained PDE claims with dates of service for this period in March 2008.

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## FINDING

**Drug prices posted on Plan Finder generally exceeded actual drug costs, frequently by large amounts.** Plan Finder indicates on the plan drug details screen that “drug costs displayed are only estimates” and that “actual costs at the pharmacy may vary slightly.” However, Plan Finder drug prices were 28 percent (or \$18) higher than actual drug costs at the median for the 10 drugs included in our review.

Drug prices posted on Plan Finder were higher than actual drug costs on corresponding PDE claims for 92 percent of all claims in our review. For 19 percent of these claims, Plan Finder prices were more than 100 percent higher than actual drug costs. Plan Finder prices were 50 to 100 percent higher than actual drug costs for another 30 percent of claims.

Drug prices posted on Plan Finder were less than actual drug costs on corresponding PDE claims for 7 percent of all claims in our review. For 68 percent of these claims, Plan Finder drug prices were within 10 percent of the actual costs on corresponding PDE records. Plan Finder prices equaled actual drug costs for 1 percent of the claims reviewed.

Percentage differences between Plan Finder prices and actual costs were generally greater for the generic drugs in our review, while dollar differences were greater for the brand-name drugs.

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## RECOMMENDATIONS

Medicare beneficiaries use Plan Finder to compare and select Part D plans that best fit their prescription drug needs as well as their health care budgets. The monthly prescription drug cost estimates that Plan Finder displays make up part of the estimated annual cost of a Part D plan, along with deductible and premium costs. For Plan Finder to serve its intended purpose, the prescription drug price information should closely reflect beneficiaries’ actual drug costs. However, our finding suggests that when using a general search to find the least expensive plan, beneficiaries may not have the most accurate drug price information on which to base their selection of a Part D plan.

## E X E C U T I V E   S U M M A R Y

In an April 2008 memorandum to Part D plans, CMS outlined a detailed list of quality assurance checks that it performs and that it expects plans to perform on the data that plans submit for posting on Plan Finder. The application of these data checks to plans' drug price data may have increased the accuracy of prices displayed on Plan Finder since the period of our review. However, the list of data checks that CMS provided did not include comparing plans' drug prices to actual costs on prescription drug claims.

To ensure that drug prices displayed on Plan Finder are reasonably accurate estimates of beneficiaries' actual drug costs, we recommend that CMS:

**Ensure that plans' drug prices displayed on Plan Finder accurately reflect actual drug costs on Part D claims.** CMS may want to consider using PDE claims to monitor the accuracy of a sample of Part D plans' drug prices displayed on Plan Finder at regular intervals during the coverage year.

As an immediate measure to ensure that beneficiaries are aware of potential significant discrepancies between plans' drug prices displayed on Plan Finder and actual drug costs, we recommend that CMS:

**Add a disclaimer to the Plan Finder plan search results screen indicating that drug cost estimates may differ more than "slightly" from actual drug costs.**

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### AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

CMS concurred with the Office of Inspector General's recommendation that it ensure that Part D plans' drug prices displayed on Plan Finder accurately reflect actual drug costs. CMS did not concur with OIG's recommendation that it add a disclaimer to the Plan Finder plan search results screen indicating that drug cost estimates may differ more than "slightly" from actual drug costs.

CMS stated that OIG should have used pharmacy-specific Plan Finder prices and compared these prices to drug costs on PDE claims because the drug prices and dispensing fees that plans negotiate with individual pharmacies can vary widely. CMS, therefore, stated that OIG's methodology is flawed, that OIG's findings are false and misleading, and that the OIG report substantially overestimates the variation between point-of-sale drug prices and prices displayed on Plan Finder because OIG conducted a general search rather than a

## E X E C U T I V E   S U M M A R Y

pharmacy-specific search in Plan Finder. According to CMS, its analysis using a pharmacy-specific search found that 39 percent of claims did not match the pharmacy-specific Plan Finder prices and 20 percent of claims differed from corresponding Plan Finder prices by more than 5 percent.

By choosing to conduct a general search in Plan Finder, we employed the same method that beneficiaries using Plan Finder would have employed to find the least expensive plan for their needs. At the time of our review, CMS did not advise or recommend to beneficiaries that they conduct pharmacy-specific searches in Plan Finder.

While CMS did not concur with the recommendation to add a disclaimer on Plan Finder, it indicated that it will revise language on the Plan Finder Web site “to encourage beneficiaries to select the pharmacy they currently use in order to get more precise [point-of-sale] pricing.” In doing so, CMS acknowledged that Plan Finder drug price estimates displayed from a general search, rather than a pharmacy-specific search, may not be as accurate. The revised language addresses, in part, our concerns about raising beneficiaries’ awareness of potential significant discrepancies between drug prices displayed on Plan Finder and actual drug costs.



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## OBJECTIVE

To determine whether selected Part D plans' drug prices displayed on the Medicare Prescription Drug Plan Finder (Plan Finder) accurately reflect actual drug costs on Part D claims.

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## BACKGROUND

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) established Medicare Part D to provide an optional prescription drug benefit for all Medicare beneficiaries. Private sponsors administer the benefit through Part D drug plans. Prescription drug prices are a significant factor to beneficiaries choosing a Part D plan. Inaccurate drug prices on Plan Finder may cause beneficiaries to enroll in a plan based on incorrect information, incur unexpected costs, or decline to enroll in a Part D plan altogether.

The Centers for Medicare & Medicaid Services (CMS) developed Plan Finder as an online tool to help beneficiaries compare and select Part D plans. Beneficiaries may view estimated plan and drug costs for individual plans by entering information about the prescription drugs that they take. After entering this information in Plan Finder, beneficiaries may conduct a general search to find the least expensive plan for their needs. Beneficiaries may also elect to view estimated plan and drug cost information for only the specific pharmacy where they plan to fill their prescriptions. For this review, we conducted general rather than pharmacy-specific searches in Plan Finder.

### **Part D Benefit Structure and Costs**

Medicare beneficiaries may enroll in either a standalone prescription drug plan (PDP) or a Medicare Advantage plan that provides a prescription drug benefit as well as other health care benefits. As of September 2008, 26 million beneficiaries were enrolled in Part D plans. Two-thirds of these beneficiaries were enrolled in PDPs.<sup>1</sup>

Beneficiaries' costs and benefits under Medicare Part D vary by drug plan. Drug plan sponsors are permitted to offer plans with alternative benefits that are actuarially equivalent to the standard Part D benefit. Part D plans may also offer enhanced plan benefit packages.

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<sup>1</sup> CMS, "Monthly Contract and Enrollment Summary Report," September 2008. Available online at <http://www.cms.hhs.gov/MCRAdvPartDEnrolData/>. Accessed on October 6, 2008.



The standard annual Part D drug benefit in 2008 required beneficiaries to pay a \$275 deductible and 25-percent coinsurance until drug spending by both the drug plan and beneficiary totaled \$2,510. At that point, beneficiaries entered a “coverage gap.” During the coverage gap phase, beneficiaries paid 100 percent of their drug costs. The catastrophic coverage phase began when beneficiaries’ out-of-pocket costs reached \$4,050. Once that threshold was reached, beneficiaries paid 5 percent of their drug costs as coinsurance.

### **Part D Drug Prices**

Prescription drug prices vary across plans and pharmacies because plan sponsors individually negotiate with pharmacies to set pharmacy reimbursement amounts and with drug manufacturers to obtain rebates or other discounts. The MMA requires sponsors to provide their enrollees access to negotiated prices. Pursuant to 42 CFR § 423.100, negotiated prices mean prices for covered Part D drugs that: (1) are available to beneficiaries at the point of sale at network pharmacies; (2) are reduced by those discounts, direct or indirect subsidies, rebates, other price concessions, and direct or indirect remunerations that the Part D sponsor has elected to pass through to Part D enrollees at the point of sale; and (3) include any dispensing fees.

Part D plans’ drug prices may have a significant impact on the cost of the Part D benefit to beneficiaries. Plans’ drug prices significantly affect beneficiaries’ out-of-pocket expenses in the deductible and coverage gap phases of the benefit because during those phases, beneficiaries are responsible for the full costs (i.e., negotiated prices) of their drugs. In addition, these prices affect how quickly beneficiaries meet plan deductibles and reach the Part D coverage gap and catastrophic coverage phases. Plans’ drug prices also affect beneficiaries’ expenses when copayments are a percentage of prescription costs rather than a flat fee. As drug prices rise, these copayments also rise.

### **Medicare Prescription Drug Plan Finder**

Pursuant to 42 CFR §§ 423.48 and 423.505(f)(2), Part D plans must submit information that enables CMS to provide current and prospective beneficiaries with the information that they need to choose a Part D plan. The public may access this information using CMS’s Plan Finder on the Medicare Web site. Plan Finder is an online tool to assist beneficiaries and others, such as family members and State Health Insurance Assistance Program counselors, to compare Part D drug plans. Plan Finder displays information about prescription drug coverage and estimated costs under individual plans.

Users may access Plan Finder on the Medicare Web site at <http://www.medicare.gov/>. Users follow a series of steps in Plan Finder to personalize their drug plan search by entering information such as ZIP Codes and answering questions about drug and health coverage. Users may view estimated plan and drug costs for individual plans by entering information about the prescription drugs that they take, including drug names, dosage amounts, and monthly quantities. Beneficiaries may also elect to view estimated plan and drug costs for only the specific pharmacy where they plan to fill their prescriptions. However, both CMS and AARP (formerly the American Association of Retired Persons) recommended conducting a general search, rather than a pharmacy-specific search, to improve a beneficiary's ability to find the least expensive plan.

Based on information entered by the user, Plan Finder will generate a list of plans in the user's area. By default, the list of plans is ordered by the estimated annual cost of each plan, which includes prescription drug costs. This list displays the name of each plan, its identification number, estimated annual cost, monthly drug premium, annual deductible, coverage gap information, and number of network pharmacies.

Users may view more details about each plan on the list by clicking on the name of an individual plan. For each of the prescription drugs that the user entered, Plan Finder displays details such as monthly drug costs for preferred retail and mail-order pharmacies.<sup>2</sup> Plan Finder includes disclaimers on the plan details screen that "the drug costs displayed are only estimates" and that "actual costs at the pharmacy may vary slightly."

#### **Data for Plan Finder**

CMS currently requires Part D plans to submit updated drug price data to a CMS contractor every 2 weeks for posting on Plan Finder. Plans must submit files that contain prices for all drugs included on plans' CMS-approved formularies. CMS identifies a formulary reference national drug code (NDC), or proxy NDC, for each unique drug/dosage combination and requires plans to submit Plan Finder prices for the proxy NDCs only.

The CMS contractor receives plans' drug price files, processes the files, and uploads the files to Plan Finder every 2 weeks. If no price updates

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<sup>2</sup> Individual drug plans' drug prices displayed on Plan Finder do not include sales tax.

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occur for a 2-week period, plans may electronically certify that there are no updates, and the previous drug price data are maintained. If plans do not submit pricing for a specific drug, Plan Finder will display average wholesale prices (AWP) minus 10 percent for brand-name drugs and AWP minus 30 percent for generic drugs plus a standard dispensing fee.<sup>3</sup> If CMS finds errors with the data that a plan submits for Plan Finder, it will suppress the plan's pricing data from display until the plan submits corrected data.<sup>4</sup>

CMS issued a memorandum to all Part D plan sponsors in April 2008 regarding the importance of accurate Plan Finder data. CMS noted that the "submission of accurate data [is] critically important to ensure that Medicare beneficiaries obtain correct and complete information . . . to make the most informed choices." The memorandum provided a detailed list of the quality assurance checks that CMS performs and expects plans to perform on the data that plans submit for posting on Plan Finder. The quality assurance checks of drug price data include identifying missing files and values, comparing brand-name to generic prices for the same drug, and comparing drug prices to multiples of AWP.<sup>5</sup> The list of quality assurance checks does not include comparing the drug prices that plans submit for posting on Plan Finder to drug costs on prescription drug claims.

### **Prescription Drug Event Data**

Part D plans are required to submit electronic records for all covered prescriptions filled by their enrollees to CMS. Each record, called a prescription drug event (PDE) record, contains drug cost and payment data that enable CMS to administer the Part D benefit. CMS also uses PDE records for quality oversight and Medicare program integrity activities.

In 2007, the PDE record contained 39 required data fields, including identification data for the beneficiary, plan, pharmacy, and prescribing

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<sup>3</sup> AWP are listed in commercial publications, derived from manufacturer-reported data for both brand-name and generic drugs, and not defined in law or regulation.

<sup>4</sup> "2008 Plan Year Pricing Data Requirements." Available online at <http://www.cms.hhs.gov/PrescriptionDrugCovContra/Downloads/MPDPFDDataRequirementsSubmissionGuidelines.pdf>. Accessed on October 6, 2008.

<sup>5</sup> "Quality Assurance Checks for Data Submitted for Posting on the Medicare Prescription Drug Plan Finder Tool." Available online at <http://www.cms.hhs.gov/PrescriptionDrugCovContra/HPMSGH/list.asp>. Accessed on June 9, 2008. As specified in this memorandum, CMS identifies "NDC unit costs that are priced at 25 times greater than [the] highest AWP" and "NDC unit costs that are priced at 25 times less than [the] lowest AWP."

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physician; as well as prescription drug data, such as the NDC, quantity dispensed, number of days supplied, and date filled. The sum of two payment information fields on the PDE record, “Ingredient Cost Paid” and “Dispensing Fee Paid,” is the amount paid to the pharmacy for the drug and for dispensing the medication.

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## METHODOLOGY

To determine whether selected Part D plans’ drug prices displayed on Plan Finder reflect actual drug costs on Part D claims, we compared the retail prices listed on Plan Finder to drug costs on corresponding PDE claims for the same period.<sup>6</sup> Plans update the drug prices that they submit for Plan Finder every 2 weeks. We collected drug prices on Plan Finder for the period September 24 to October 7, 2007. In March 2008, we obtained PDE claims with dates of service from September 24 to October 7, 2007.

### Data Collection

Plan Finder drug prices. We used 2005 Pennsylvania Pharmaceutical Assistance Contract for the Elderly (PACE) data to select the five most commonly used single-source brand-name drugs and the five most commonly used generic drugs among seniors.<sup>7</sup> Table 1 contains the names and strengths for the 10 prescription drugs we selected.

**Table 1: Prescription Drugs Selected for Plan Finder Searches**

Generic Drug and Strength		Brand-Name Drug and Strength	
Amlodipine besylate	5 mg	Fosamax	70 mg
Furosemide	40 mg	Lipitor	10 mg
Hydrochlorothiazide	25 mg	Nexium	40 mg
Metoprolol tartrate	50 mg	Plavix	75 mg
Simvastatin	20 mg	Protonix	40 mg

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<sup>6</sup> In this report, “actual drug costs” represent the sum of the “Ingredient Cost Paid” and “Dispensing Fee Paid” fields on PDE claims.

<sup>7</sup> The PACE program was implemented in Pennsylvania in 1984 to help qualified residents aged 65 and older pay for prescription drugs. A June 2006 Families USA report entitled “Big Dollars, Little Sense: Rising Medicare Prescription Drug Prices” states that “Because of the [PACE] program’s size and the abundance of claims data, it is commonly used to estimate prescription drug use among older Americans.”

Users must enter a ZIP Code to begin a Plan Finder plan search. We selected two ZIP Codes from each of 34 PDP regions, for a total of 68 ZIP Codes to enter into Plan Finder.<sup>8</sup> A detailed description of the ZIP Code selection process is provided in Appendix A.

Using the 68 ZIP Codes and drug and dosage information for the 10 prescription drugs, we conducted general plan searches for drug prices on Plan Finder. We did not conduct pharmacy-specific searches. We identified and recorded preferred retail pharmacy prices for the 10 selected drugs for every Part D plan in each ZIP Code.<sup>9</sup> Plan Finder displayed from 45 to 66 different plans for each ZIP Code we entered for the plan searches. We collected 37,300 unique drug prices.

*Actual drug costs on prescription drug event claims.* We obtained PDE claims processed from September 2007 through December 2007 from CMS and created a file of all standalone PDP drug claims with dates of service from September 24 to October 7, 2007. This file contained 29 million claims. We limited the PDE data file to ensure that PDE drug claims corresponded to the Plan Finder drug price information we collected. A detailed description of the process we used to identify the PDE claims for our analysis is provided in Appendix B.

After identifying the PDE claims for our review, we matched these PDE claims to plans' drug prices posted on Plan Finder using the following data: ZIP Code, Part D plan contract number, Part D plan benefit package number, and drug name and dosage amount. We identified 19,628 PDE claims that corresponded to 5,337 unique drug prices collected from Plan Finder.

### **Analysis of Plan Finder Prices and Actual Drug Costs**

We determined whether and to what extent preferred retail pharmacy drug prices collected from Plan Finder differed from actual drug costs on corresponding PDE claims. We summed the "Ingredient Cost Paid" and "Dispensing Fee Paid" fields on each PDE claim to calculate actual drug costs.<sup>10</sup> We calculated the dollar and percentage differences between

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<sup>8</sup> There are 39 standalone drug plan regions. Five of these regions include one U.S. territory. We excluded the U.S. territories from our review.

<sup>9</sup> The Plan Finder displays drug prices available at plans' preferred network pharmacies by default if the user does not select a specific pharmacy. As specified in 42 CFR § 423.100, "Preferred pharmacy means a network pharmacy that offers covered Part D drugs at negotiated prices to Part D enrollees at lower levels of cost-sharing than apply at a non-preferred pharmacy under its pharmacy network contract with a Part D plan."

<sup>10</sup> We did not include sales tax in our calculation of actual drug costs on PDE claims because plans' drug prices displayed on Plan Finder do not include sales tax.

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the Plan Finder drug price and the actual drug cost for each PDE claim. We calculated an overall median dollar difference and overall median percentage difference between Plan Finder prices and actual drug costs. We examined the magnitude and direction of these differences and reviewed dollar and percentage differences by drug and drug type. Selected drug, price, and cost fields from two of the claims in our analysis are presented in Table 2.

Plan ID	Drug Name	National Drug Code	Plan Finder Price	Actual Drug Cost	Dollar Difference (Price – Cost)	Percentage Difference
S####-###	Fosamax	00006003144	\$88.44	\$83.27	\$5.17	6%
S####-###	Hydrochlorothiazide	00172208380	\$5.44	\$10.77	-\$5.33	-49%

Source: Office of Inspector General (OIG) review of selected Plan Finder drug prices and actual drug costs on corresponding PDE claims.

To determine whether prices displayed on Plan Finder would accurately reflect actual drug costs for the reference NDCs that plans must use to submit drug prices to CMS, we repeated our analysis of Plan Finder prices and actual costs using only PDE claims for the reference NDCs for the 10 drugs in our review.

**Review of Average Wholesale Prices for 10 Drugs**

The data checks that CMS performs on the drug price files that Part D plans submit for posting on Plan Finder include comparing drug prices to multiples of AWP.11 We examined quarterly AWP for the 10 drugs in our review to determine whether prices for these drugs were particularly volatile in 2007. We identified quarterly AWP reported in the Red Book for NDCs for the 10 drugs and determined whether and to what extent AWP for these NDCs fluctuated during 2007. Our review revealed that AWP for these NDCs were not volatile in 2007. The AWP for 87 percent of NDCs remained constant. The AWP for 13 percent of NDCs changed once during 2007. All of the AWP that changed were for brand-name drug NDCs, and all but one of the changes

<sup>11</sup> “Quality Assurance Checks for Data Submitted for Posting on the Medicare Prescription Drug Plan Finder Tool.” Available online at <http://www.cms.hhs.gov/PrescriptionDrugCovContra/HPMSGH/list.asp>. Accessed on June 9, 2008. As specified in this memorandum, CMS identifies “NDC unit costs that are priced at 25 times greater than [the] highest AWP” and “NDC unit costs that are priced at 25 times less than [the] lowest AWP.”

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reflected an increase in the value of the AWP. The median of percentage changes in AWP for these NDCs was 3 percent.

### **Limitations**

We did not review Part D plans' premiums, copayments, or other price information displayed on Plan Finder. We did not verify the accuracy or completeness of CMS's drug claims data with CMS or Part D plan sponsors. The results presented in the Findings section of the report are limited to the Plan Finder prices and PDE claims that we reviewed.

### **Standards**

This study was conducted in accordance with the "Quality Standards for Inspections" issued by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency.

► F I N D I N G

**Drug prices posted on Plan Finder generally exceeded actual drug costs, frequently by large amounts**

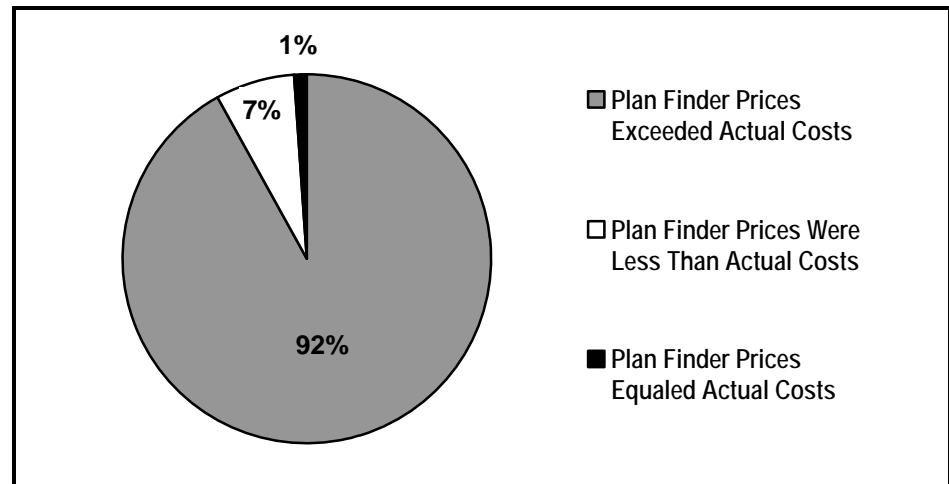
Part D plans' drug prices posted on Plan Finder were a median of 28 percent (or \$18) higher than actual costs on PDE claims for the

10 drugs in our review. Although Plan Finder indicates that "drug costs displayed are only estimates" and that "actual costs at the pharmacy may vary slightly," our comparison revealed that Plan Finder prices were not accurate estimates of actual drug costs for the majority of the claims in our review.

Plan Finder prices differed from actual drug costs for 99 percent of the claims reviewed and equaled actual drug costs for 1 percent of the claims reviewed. When we confined our analysis to PDE claims for just the reference or proxy NDCs for the 10 drugs, Plan Finder prices differed from actual costs for 98 percent of claims. Plans' drug prices displayed on Plan Finder were a median of 22 percent (or \$17) higher than actual costs on PDE claims for the reference NDCs.

As shown in Chart 1 below, drug prices posted on Plan Finder exceeded actual drug costs for 92 percent of the claims in our review and were less than actual drug costs for 7 percent of claims. Percentage differences between Plan Finder prices and actual costs were generally greater for the generic drugs in our review, while dollar differences were greater for the brand-name drugs reviewed.

Chart 1. Percentage of Claims on Which Plan Finder Prices Differed From Actual Drug Costs



**Plan Finder prices exceeded actual costs for 92 percent of drug claims**

Drug prices posted on Plan Finder were higher than actual drug costs on corresponding PDE claims for 92 percent of all claims in our review.



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Plan Finder prices were a median of 40 percent (or \$27) higher than actual drug costs for these claims. Plan Finder prices ranged from a minimum of less than 1 percent higher than actual drug costs to a maximum of 3,157 percent higher than actual drug costs on a corresponding PDE claim. In dollar terms, Plan Finder prices ranged from a minimum of less than \$1 higher than actual drug costs to a maximum of \$201 higher than actual drug costs.

For 19 percent of the claims on which Plan Finder prices exceeded actual costs, Plan Finder prices were more than double actual drug costs. Plan Finder prices for claims in this group were 365 percent (or \$84) higher than actual drug costs at the median. Plan Finder prices were 50 to 100 percent higher than actual drug costs for another 30 percent of claims.

As shown in Table 3, percentage differences between Plan Finder prices and actual drug costs were much greater for claims on which Plan Finder prices exceeded actual drug costs than for claims on which Plan Finder prices were less than actual drug costs. For example, for 49 percent of claims on which Plan Finder prices exceeded actual drug costs, prices were greater by more than 50 percent. In contrast, for only 2 percent of claims on which Plan Finder prices were less than actual drug costs, prices were lower by more than 50 percent.

**Table 3: Magnitude and Direction of Percent Differences Between Plan Finder Prices and Actual Drug Costs**

	Within 10 Percent Difference	10.01 to 20 Percent Difference	20.01 to 30 Percent Difference	30.01 to 50 Percent Difference	50.01 to 100 Percent Difference	More than 100 Percent Difference
Percentage of Claims on Which Plan Finder Price Exceeded Actual Drug Cost <sup>1</sup>	8%	13%	27%	4%	30%	19%
Percentage of Claims on Which Plan Finder Price Was Less Than Actual Drug Cost	68%	15%	3%	12%	2%	0%

<sup>1</sup>The percentages displayed in this row sum to more than 100 percent because of rounding.

Source: OIG review of selected Plan Finder drug prices and actual drug costs on corresponding PDE claims.

### **Plan Finder prices were less than actual costs for 7 percent of drug claims**

Drug prices posted on Plan Finder were less than actual drug costs on corresponding PDE claims for 7 percent of all claims in our review. Plan Finder prices were a median of 5 percent (or \$1.60) less than actual drug costs for these claims. Plan Finder prices ranged from less than

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1 percent below actual drug costs to 93 percent below actual drug costs on a corresponding PDE claim. In dollar terms, Plan Finder prices ranged from less than \$1 to \$126 lower than actual drug costs on a corresponding PDE claim.

Table 3 on the previous page shows that for 68 percent of the claims on which Plan Finder prices were less than actual drug costs, Plan Finder drug prices were within 10 percent of the actual costs on corresponding PDE records. For another 15 percent of these claims, Plan Finder prices were 10 to 20 percent less than actual drug costs.

Generic drugs account for 40 percent of all claims in our review, but these drugs account for 71 percent of claims on which Plan Finder prices were less than actual drug costs. The remaining 29 percent of claims in this group were for brand-name drugs.

### **Overall, percentage differences between Plan Finder prices and actual costs were greater for generics, while dollar differences were greater for brand-name drugs**

Forty percent of all claims in our review were for five generic drugs: amlodipine besylate, furosemide, hydrochlorothiazide, metoprolol tartrate, and simvastatin. Plan Finder prices exceeded actual costs for this group of drugs by 80 percent (or \$4) at the median.

Medians of the percentage differences between Plan Finder prices and actual drug costs on corresponding PDE claims for the individual generic drugs we reviewed ranged from 37 to 472 percent, as shown in Table 4 on the next page. For four of the five generic drugs reviewed, median dollar differences between Plan Finder prices and actual drug costs ranged from \$2 to \$13.

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<b>Table 4: Percentage and Dollar Differences Between Plan Finder Prices and Actual Costs for 10 Drugs</b>			
<b>Drug Type</b>	<b>Drug Name</b>	<b>Median of Percentage Differences for Claims of Each Type</b>	<b>Median of Dollar Differences for Claims of Each Type</b>
Generic Drugs	Hydrochlorothiazide	37%	\$2
	Amlodipine besylate	50%	\$13
	Furosemide	70%	\$3
	Metoprolol tartrate	217%	\$9
	Simvastatin	472%	\$90
Brand Drugs	Fosamax	11%	\$9
	Lipitor	21%	\$16
	Protonix	24%	\$28
	Nexium	26%	\$37
	Plavix	66%	\$83

Source: OIG review of selected Plan Finder drug prices and actual drug costs on corresponding PDE claims.

Median percentage and dollar differences between prices posted on Plan Finder and actual costs on corresponding drug claims were both substantially greater for the remaining generic drug, simvastatin. Plan Finder prices for simvastatin exceeded actual drug costs by a median of 472 percent, or \$90.

Sixty percent of all claims reviewed were for five brand-name drugs: Fosamax, Lipitor, Nexium, Plavix, and Protonix. Prices posted on Plan Finder were 25 percent (or \$35) higher than actual costs for these brand-name drugs at the median.

For four of the five brand-name drugs in our review, medians of the percentage differences between prices posted on Plan Finder and actual drug costs ranged from 11 to 26 percent. The median percentage difference between Plan Finder prices and actual costs for the remaining brand-name drug, Plavix, exceeded this range, with a median of 66 percent. Medians of the dollar differences between Plan Finder prices and actual drug costs for the individual brand-name drugs in our review ranged from \$9 to \$83.

Medicare beneficiaries use Plan Finder to compare and select Part D plans that best fit their prescription drug needs as well as their health care budgets. The monthly prescription drug cost estimates that Plan Finder displays make up part of the estimated annual cost of a Part D plan, along with deductible and premium costs. For Plan Finder to serve its intended purpose, the prescription drug price information should closely reflect beneficiaries' actual drug costs.

Our comparison of selected Part D plans' drug prices displayed on Plan Finder to actual drug costs on corresponding PDE claims revealed that Plan Finder prices were not accurate estimates of actual drug costs for the majority of claims in our review. Plan Finder prices were overestimates of actual drug costs for most of these claims. In cases like this, beneficiaries may be pleased to find that their prescription costs at the pharmacy are lower than the drug cost estimates that they viewed on Plan Finder. However, our finding suggests that when using a general search to identify the least expensive plan, beneficiaries may not have the most accurate drug price information on which to base their selection of a Part D plan.

In an April 2008 memorandum to Part D plans, CMS outlined a detailed list of quality assurance checks that it performs and expects plans to perform on the data that plans submit for posting on Plan Finder. The application of these data checks to plans' drug price data may have increased the accuracy of prices displayed on Plan Finder since our review. However, the list of data checks that CMS provided did not include comparing plans' drug prices to actual costs on prescription drug claims.

To ensure that drug prices displayed on Plan Finder are reasonably accurate estimates of beneficiaries' actual drug costs, we recommend that CMS:

**Ensure That Plans' Drug Prices Displayed on Plan Finder Accurately Reflect Actual Drug Costs on Part D Claims**

CMS may want to consider using PDE claims to monitor the accuracy of a sample of Part D plans' drug prices displayed on Plan Finder at regular intervals during the coverage year.

As an immediate measure to ensure that beneficiaries are aware of potential significant discrepancies between plans' drug prices displayed on Plan Finder and actual drug costs, we recommend that CMS:

**Add a Disclaimer to the Plan Finder Plan Search Results Screen Indicating That Drug Cost Estimates May Differ More Than "Slightly" From Actual Drug Costs**

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## AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

CMS concurred with OIG's recommendation that it ensure that Part D plans' drug prices displayed on Plan Finder accurately reflect actual drug costs. CMS did not concur with OIG's recommendation that it add a disclaimer to the Plan Finder plan search results screen indicating that drug cost estimates may differ more than "slightly" from actual drug costs.

CMS stated that OIG should have used pharmacy-specific Plan Finder prices and compared these prices to drug costs on PDE claims because the drug prices and dispensing fees that plans negotiate with individual pharmacies can vary widely. CMS, therefore, stated that OIG's methodology is flawed, that OIG's findings are false and misleading, and that the OIG report substantially overestimates the variation between point-of-sale drug prices and prices displayed on Plan Finder. The full text of CMS's comments is provided in Appendix C.

OIG does not agree that our methodology is flawed or that our findings are false, misleading, or inflated. By choosing to conduct a general search in Plan Finder, we employed the same method that beneficiaries using Plan Finder were advised to employ to find the least expensive plan for their needs. Our findings generate concerns about the accuracy of the plan and drug cost information provided to beneficiaries who choose to conduct a general search rather than a pharmacy-specific search in Plan Finder. CMS's comments about the wide variation in negotiated drug prices and dispensing fees across pharmacies underscore these concerns.

At the time of our review, CMS did not advise or recommend to beneficiaries that they conduct pharmacy-specific searches in Plan Finder. Both CMS and AARP recommended conducting a general search rather than a pharmacy-specific search to improve a beneficiary's ability to find the least expensive plan. Guidance on the Plan Finder Web site stated that "you may not find the least expensive plan if you select a preferred pharmacy or pharmacies." A Plan Finder step-by-step search guide on AARP's Web site also advised against selecting a specific pharmacy because doing so "may prevent you from finding the plans that are least expensive for your needs."

In its comments on the draft report, CMS stated that it routinely ensures that Plan Finder prices closely reflect PDE costs by conducting "in-depth quality assurance checks and other longitudinal analyses." However, all

## R E C O M M E N D A T I O N S

of these quality assurance checks focus on reviewing pharmacy-specific data and do not address the issue of the accuracy of drug prices displayed on Plan Finder when a general search is conducted. CMS described its own analysis of a sample of PDE claims from 2007 in which CMS compared PDE drug costs to Plan Finder prices. CMS matched “the pharmacy for which the PDE was filled to the pharmacy for which the [Plan Finder] price was displayed.” In this pharmacy-specific review, CMS found that PDE drug costs did not match Plan Finder price data for 39 percent of claims reviewed. CMS also reported that, for 20 percent of claims reviewed, PDE costs differed from corresponding Plan Finder prices by more than 5 percent. These results indicate that additional quality assurance checks may be necessary to ensure that prices displayed on Plan Finder closely correlate to the prices paid by beneficiaries at the point of sale.

CMS also stated that the OIG report did not take into account that pharmacies often provide drugs at the lower of the negotiated price or the customary price at their pharmacy. CMS raised the issue of retail pharmacies’ “special low pricing”—like the Wal-Mart \$4 Prescriptions Program—and suggested that these prices, offered at the point of sale, may account for many of the claims on which Plan Finder prices exceeded actual drug costs for generic drugs. We understand that pharmacies such as Wal-Mart may provide special low pricing, such as \$4 generic prescriptions. However, these programs do not appear to explain the variation that we identified in our analysis. For the five generic drugs in our review, we analyzed the PDE claims on which actual drug costs did not match Plan Finder prices. We found that less than 3 percent of the PDE claims had prescription costs as low as \$4.

Finally, while CMS did not concur with the recommendation to add a disclaimer on Plan Finder, it indicated that it will revise language on the Plan Finder Web site “to encourage beneficiaries to select the pharmacy they currently use in order to get more precise [point-of-sale] pricing.” CMS deleted the language that advised Plan Finder users that they may not find the least expensive plan if they select a specific pharmacy when conducting their plan search. The revised language includes the statement, “If you don’t pick a pharmacy, the cost that you see may be different from the cost at your pharmacy.” With this statement, CMS acknowledged that Plan Finder drug price estimates displayed from a general search, rather than a pharmacy-specific search, may not be as accurate. The revised language addresses, in part, our concerns about raising beneficiaries’ awareness of potential significant discrepancies between drug prices displayed on Plan Finder and actual drug costs.

### **Methodology for Selecting ZIP Codes for Medicare Prescription Drug Plan Finder Searches**

Users must enter a ZIP Code into the online Medicare Prescription Drug Plan Finder tool to generate a list of Part D plans and prescription drug prices for those plans. We selected two ZIP Codes from each of 34 of the 39 Prescription Drug Plan (PDP) regions, for a total of 68 ZIP Codes to enter into Plan Finder. Part D plans are offered across 39 standalone PDP regions. Of the 39 regions, 25 include one State each, 6 include two States each, 3 include more than two States each, and the remaining 5 include one U.S. territory each. We excluded the U.S. territories from our review.

We used information contained in a 2006 Prescription Drug Event (PDE) data file and a ZIP Code database to select the 68 ZIP Codes. First, we accessed a data file that contained approximately 1 percent of PDE data for January to October 2006. We summarized the number of PDE claims by ZIP Code to determine the distribution of drug claims across ZIP Codes. We then used a database from CD Light to obtain a list of all U.S. ZIP Codes.<sup>12</sup> We grouped the ZIP Codes by State, then by PDP region.

For each of the 25 single-State PDP regions, we selected the ZIP Code with the highest number of PDE claims and randomly selected another ZIP Code from the pool of all other ZIP Codes in the region.

For each of the six PDP regions with two States, we selected the ZIP Code with the highest number of PDE claims from each of the two States.

For each of the three PDP regions with more than two States, we randomly chose two States and selected the ZIP Code with the highest number of PDE claims from each of the two States. Using this approach, we did not select any ZIP Codes from the following eight States located in these regions: Massachusetts, Vermont, Maryland, Iowa, Minnesota, North Dakota, South Dakota, and Wyoming.

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<sup>12</sup> CD Light, LLC, can be found online at <http://www.zipinfo.com>. Accessed on December 11, 2008.

### Methodology for Selecting Prescription Drug Event Data for Analysis

We obtained Prescription Drug Event (PDE) claims processed from September through December 2007 from CMS and created a file of all standalone Prescription Drug Plan (PDP) drug claims with dates of service from September 24 to October 7, 2007. This file contained 29 million claims.

We limited the PDE data file to ensure that PDE drug claims corresponded to the Plan Finder drug price information we collected, as follows:

- We compiled a list of National Drug Codes (NDC) for the 10 selected drug/dosage combinations from Red Book and First Data Bank drug compendia. We used this list of NDCs to identify all PDE claims for the 10 selected drugs. PDE claims for these NDCs accounted for 9 percent of all PDE claims with dates of service from September 24 to October 7, 2007.
- We obtained the Centers for Medicare & Medicaid Services' Part D Pharmacy Network File to identify the status and type of pharmacies on PDE claims. We used data from this file to include only PDE claims for drugs purchased at preferred retail pharmacies in our review.
- We included all PDE claims on which the beneficiaries' ZIP Codes matched the 68 ZIP Codes we used to conduct our Plan Finder searches.
- If a PDE claim was submitted in a nonstandard format, such as a beneficiary-filed claim, the "Ingredient Cost Paid" and "Dispensing Fee Paid" fields may not be populated correctly.<sup>13</sup> Approximately 1.5 percent of all PDP drug claims for the 2-week period of our review were submitted in a nonstandard format. We excluded PDE claims that were submitted in a nonstandard format using the "Non-Standard Data Format Code" field.

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<sup>13</sup> "Updated Instructions: Requirements for Submitting Prescription Drug Event Data (PDE)," pp. 18–19. Available online at [http://www.cms.hhs.gov/DrugCoverageClaimsData/01\\_PDEGuidance.asp](http://www.cms.hhs.gov/DrugCoverageClaimsData/01_PDEGuidance.asp). Accessed on July 3, 2008.



## A P P E N D I X ~ B

- Plan Finder displays preferred retail pharmacy prices for a 1-month supply of a drug. We included PDE claims on which the “Days Supply” field reflected a 1-month supply and the “Quantity Dispensed” field equaled 30, except for claims for the drug Fosamax. This drug is taken once per week, rather than once per day. We included PDE claims for Fosamax on which the “Days Supply” field reflected a 1-month supply and the “Quantity Dispensed” field equaled four.

▶ A P P E N D I X ~ C

Agency Comments



DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

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GENERAL

**DATE:** APR 20 2009  
**TO:** Daniel R. Levinson  
Inspector General  
**FROM:** *Charlene Frizzera*  
Charlene Frizzera  
Acting Administrator  
**SUBJECT:** Office of Inspector General (OIG) Draft Report: "Accuracy of Part D Plans' Drug Prices on the Medicare Prescription Drug Plan Finder," OEI-03-07-00600

Thank you for the opportunity to comment on the OIG draft report that compares drug prices displayed on the Medicare Prescription Drug Plan Finder to actual drug costs on Part D claims, or Prescription Drug Events (PDE). After a thorough review, the Centers for Medicare & Medicaid Services (CMS) continue to have concern regarding the study's methodologies, findings, and consequent recommendations.

It is important to note that the key objective for the Medicare Prescription Drug Plan Finder (MPDPF) is to provide beneficiaries with a comparison among Medicare drug plans. One element of that comparison is the estimated annual cost for the drugs that a beneficiary currently takes. CMS strives to ensure that cost comparisons are conducted fairly across Part D plans by requiring sponsors to submit pricing for a reference National Drug Code (NDC), and by providing drug pricing associated with pharmacies' specific negotiated costs. While the MPDPF was never intended to provide a guaranteed point of sale (POS) price, CMS' internal analysis described below demonstrates that MPDPF does provide price information that is generally close to POS prices. CMS contends that although MPDPF provides estimated drug costs, the OIG report substantially overestimates the level of variation between POS prices and MPDPF.

The CMS has repeatedly expressed strong concerns to OIG that the study's methodology has serious limitations regarding the relationship between prices displayed on MPDPF and prices charged at POS. Despite responding to some of our concerns, the final report's methodology remains substantially flawed, and consequently, OIG's findings of frequent price differences between MPDPF and PDE data are false and misleading. The following discussion highlights the errors found in OIG's methodology.

The main error in OIG's analysis is that pharmacy-specific PDE data were compared to non-pharmacy-specific MPDPF prices. In order to be consistent with the data structure used for MPDPF, OIG must match pharmacy-specific drug prices for comparison because pharmacy-specific dispensing fees can vary widely, as can negotiated prices. The average

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minimum/maximum dispensing fees is \$0.75 - \$10.83 for brand name drugs and \$0.84 - \$11.01 for generic drugs. OIG found the largest percentage difference in generic drugs. This is not surprising given that generic drugs have a lower total cost, thus a greater impact from the variance in dispensing fees. For example, for four of the five generic drugs listed in the report, OIG found the median dollar difference to range from \$2 - \$13. This is to be expected, given the average dispensing fee difference of over \$10.00 between pharmacies within a plan for a generic drug.

A Part D sponsor's drug pricing can also vary by pharmacy. The drug plans submit multiple drug pricing files. The pharmacy network files submitted by the drug plans are associated with a specific drug pricing file. The variance in pharmacy-specific negotiated prices is lost when using pharmacy-specific PDE data that are not affiliated with pharmacy-specific MPDPF pricing. For example, the OIG report shows a median percent difference for the generic drug furosemide (40 mg) of 70 percent and a median dollar difference of \$3. CMS finds that one Part D sponsor's costs for this drug can vary across its pharmacy network by a range of \$1.077 to \$3.984. This cost range would be equated to a variance of 270 percent with an absolute cost difference of \$2.91 based solely on whether the pharmacy selected was associated with the lowest or the highest negotiated cost for this Part D sponsor.

In addition, the OIG report did not take into account that pharmacies often provide drugs at the lesser of the negotiated price or the customary price at their pharmacy. Over the past several years, many retail pharmacy chains have begun to offer special low pricing for certain generic products. Wal-Mart, one of the first retail pharmacy chains to market this type of program, maintains that their \$4 Prescriptions Program represents up to 95 percent of the prescriptions written in the majority of therapeutic categories. OIG's findings that the PDE data more often showed the beneficiary receiving lower pricing than was displayed on the MPDPF may be consistent with the availability of savings offered directly by pharmacies. Cost differences that are attributed to such pharmacy programs should not be construed as MPDPF data errors.

#### **OIG Recommendation**

The CMS ensures that plans' drug prices displayed on Plan Finder accurately reflect actual drug costs on Part D claims.

#### **CMS Recommendation**

The CMS concurs with this recommendation. CMS routinely ensures that MPDPF prices closely reflect PDE costs. As discussed earlier, the purpose of the MPDPF is to provide estimates of beneficiaries' annual costs in the Part D program for plan selection and enrollment. CMS' in-depth quality assurance (QA) checks and other longitudinal analyses have proven that plans' estimates closely correlate to the prices paid by beneficiaries at the point-of-sale. However, CMS recognizes that the availability of final action claims as a limitation to comparing MPDPF prices to PDE costs as a regular QA check. That is, CMS would not have the data necessary on a concurrent basis to determine that MPDPF prices were accurately reflected in PDE data. To circumvent this limitation, CMS instead evaluates and ranks the similarity of MPDPF to PDE prices as one measure of the plan ratings. Introduced by CMS in the fall of 2006 as an MPDPF

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enhancement, Plan Ratings enable Medicare beneficiaries to complete side-by-side comparisons of plan cost, coverage, and quality for plan selection and enrollment. CMS also uses the plan ratings for oversight and monitoring purposes to ensure plan quality. Specifically in the drug pricing and patient safety category, for the measure named “How similar a Drug Plan’s estimated prices on the Medicare website are to prices members pay at the pharmacy,” CMS evaluated PDE claims for drugs in the classes of clinical concern against the corresponding price displayed on MPDPF. CMS’ rating identified instances where the costs submitted on PDE claims were higher than the prices displayed on the MPDPF. Therefore, plans received lower star ratings when enrollees were charged higher costs than they had viewed on MPDPF. The average star rating for PDPs and MA-PDs was three stars, equivalent to good performance. Organizations that received one or two stars received additional oversight and monitoring actions by CMS. CMS believes that this measure increases the Sponsors’ level of accountability for submitting accurate drug cost estimates for Plan Finder.

#### **OIG Recommendation**

The CMS adds a disclaimer to the Plan Finder plan search results screen indicating that drug cost estimates may differ more than “slightly” from actual drug costs.

#### **CMS Response**

The CMS does not concur with this recommendation due to the OIG report’s faulty methodology that incorrectly looks at the variation between MDPDF and PDE. When OIG’s analysis was limited to PDE claims for reference NDCs, the report found, “Plan Finder prices differed from actual costs for 98 percent of claims. Plans’ drug prices displayed on Plan Finder were a median of 22 percent (or \$17) higher than actual costs on PDE claims...” CMS analyzed a sample of over 6.9 million PDE claims from 2007, and applied MPDPF data layout and relationships, specifically matching the pharmacy for which the PDE was filled to the pharmacy for which the MPDPF price was displayed, to compare differences between MPDPF prices and PDE costs. The results of CMS’ analysis were significantly different from the OIG report’s findings. Of the claims studied, 61 percent listed drug costs equal to the corresponding MPDPF price when compared to the 1/1000 of one dollar. CMS found that for claims with drug costs not equal to MPDPF prices, 13 percent of claims had drug costs less than MPDPF cost, and 26 percent of claims had drug costs greater than MPDPF cost. In terms of the magnitude of price differences, 19 percent of claims had differences of 5 percent or less to the corresponding MPDPF price. Only 20 percent of claims had differences greater than 5 percent from the corresponding MPDPF price which, on average, equated to cost differences that ranged from \$0.08-\$1.28. Based on these results, CMS asserts that the current disclaimer on MPDPF indicating that drug cost estimates may differ slightly from actual drug costs is sound, and that OIG’s recommended modification to the disclaimer is unwarranted.

However, in order to ensure that beneficiaries view pricing for a specific pharmacy location, the current language will be revised to encourage beneficiaries to select the pharmacy they currently use in order to get more precise POS pricing.

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*Current MPDPF language: Different pharmacies may charge different prices for the same drug. As a result, you may not find the least expensive plan if you select a preferred pharmacy or pharmacies.*

*Modified MPDPF language: Different pharmacies can charge different prices for the same drug. To get an estimate of how much your prescription will cost at your pharmacy, select your pharmacy from the list below. You can pick up to two pharmacies. If you don't pick a pharmacy, the cost that you see may be different from the cost at your pharmacy. If your pharmacy isn't in the plan's network, the cost you will see is the full price of the drug with no insurance coverage.*

Thank you for the opportunity to review and comment on this draft report.

## A C K N O W L E D G M E N T S

This report was prepared under the direction of Robert A. Vito, Regional Inspector General for Evaluation and Inspections in the Philadelphia regional office, and Linda M. Ragone, Deputy Regional Inspector General.

Amy Sernyak served as the team leader for this study. Other principal Office of Evaluation and Inspections staff from the Philadelphia regional office who contributed to this report include Tara Bernabe, Isabelle Buonocore, Nancy Molyneaux, Emily Multari, and Chetra Yean; central office staff who contributed include Linda Abbott, Eddie Baker, Jr., David Graf, and Rita Wurm.