MILLIMAN WHITE PAPER

Impact analysis of a major pharmacy chain's exit from a pharmacy benefit manager's Medicare Part D network

Utilization shifts and volume retention

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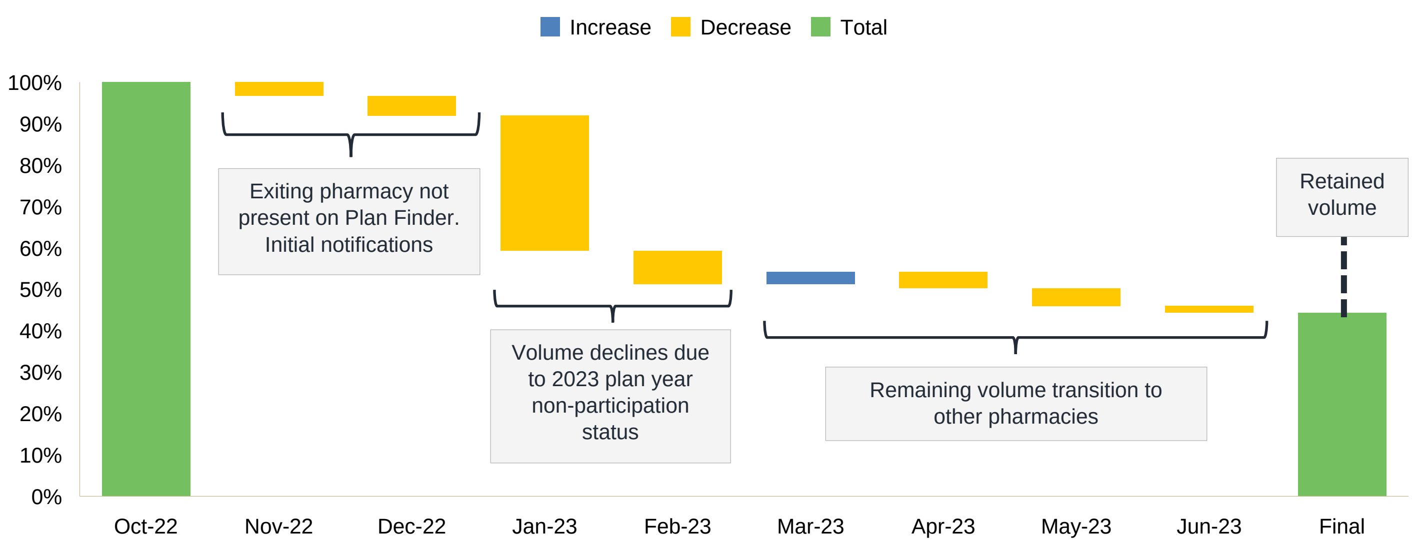
Executive summary

Effective January 1, 2023, a national pharmacy chain (exiting pharmacy) terminated its network participation agreements with a national pharmacy benefit manager (PBM). We analyzed the impact of this network change on the prescription dispensing patterns of affected beneficiaries over a period of nine months—three months prior to and six months post-termination of the exiting pharmacy's participation in the national PBM's Medicare Part D network.

Figure 1 provides a waterfall illustration of total claims filled by the exiting pharmacy through the national PBM in 2022, the change in claim volume at the exiting pharmacy in 2023, and the final volume of claims for the exiting pharmacy at the end of the period. Of the prescriptions filled at the exiting pharmacy in 2022, approximately 44% of the volume was retained post-termination. Thirty-five percent of the 44% volume retention was due to beneficiaries joining a plan not associated with the national PBM, and nearly half (49%) of the retained volume was the result of the exiting pharmacy entering into direct payer contracts with certain plans. To mitigate potential loss of customers, the exiting pharmacy implemented a strategy of numerous communication campaigns to customers to encourage continued store and pharmacy patronage through the process.

This analysis reveals that the pharmacy exit event was disruptive to all parties. In addition to the diminished relationship between PBM and pharmacy, plans were forced to make network choices, and beneficiaries needed to find another pharmacy or choose a different plan. The cause of the pharmacy exit is beyond the scope of this analysis, but we believe it is more efficient for PBMs to ensure pharmacy networks remain intact to mitigate any significant disruption that may ensue. It is in the best interest of all parties that plans and PBMs ensure long-standing strong relationships with network providers to provide beneficiaries with access to and continuity of pharmacy services.

FIGURE 1: EXITING PHARMACY PERCENT OF DAYS SUPPLY RETENTION (OCTOBER 2022 THROUGH JUNE 2023)
VOLUME THREE MONTHS PRIOR TO AND SIX MONTHS POST-DEPARTURE



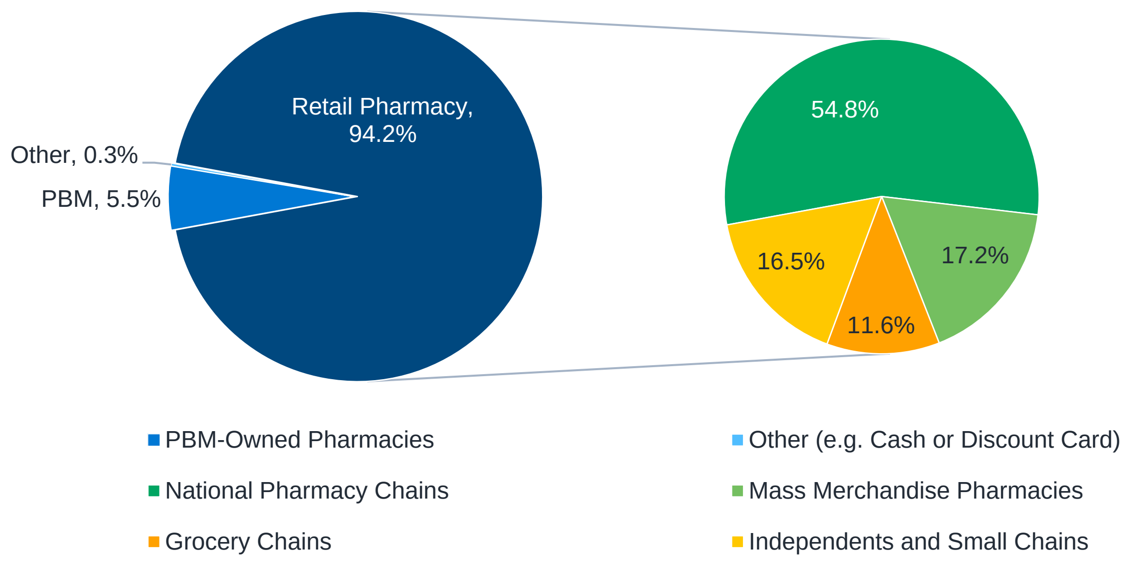
Exiting pharmacy retained approximately 44% of claims volume six months post-network departure.

UTILIZATION SHIFT

We isolated the population of beneficiaries that utilized the exiting pharmacy's locations in 2022 through plans that utilized contracts with the national PBM. We measured the decline in days' supply (utilization) for the following six months after the pharmacy/PBM contract termination, which was effective January 1, 2023. We analyzed this market event and tracked the utilization shifts of beneficiary volume from the exiting pharmacy in Figure 1. Figure 2 displays the relative shift of beneficiary volume to other pharmacy providers six months after the exit event. Figure 3 compares the relative shares of competing retail pharmacy groups before and after the exit event. The view builds upon the retail pharmacy volume shift pie chart shown in Figure 2.

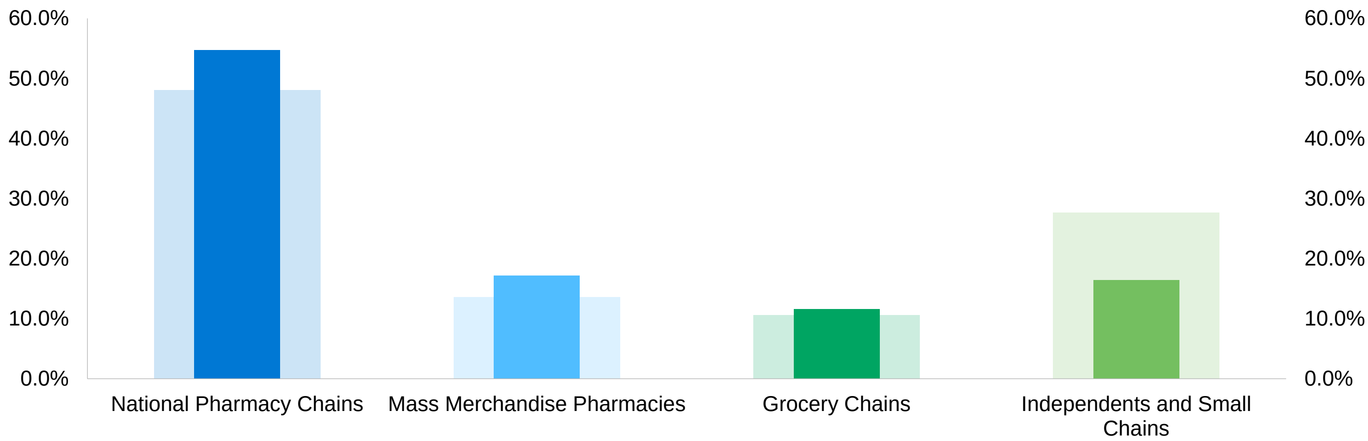
- **2023 open enrollment period.** We observed an initial utilization decline of 3% in November 2022 and 5% in December 2022. We correlate this utilization shifting to announcements by Part D plans regarding the upcoming network termination. We hypothesize that much of the early utilization decline was the result of beneficiaries proactively transitioning their prescriptions to other network pharmacies in advance of the network termination scheduled to take effect on January 1, 2023, or beneficiaries transferring their prescriptions to other pharmacies due to natural migrations, or both. The exiting pharmacy launched several measures to forestall the exodus, including contracting directly with certain plans and organizing numerous customer communications.
- **First two months of 2023.** The most significant claims volume decline occurred in January 2023 and February 2023, where total utilization dropped by nearly 41%. These were the initial months when the exiting pharmacy was no longer listed in plan network directories, not included as participating network providers on Medicare Plan Finder, nor actively participating in the PBM's national Medicare Part D network, except for passive run-out of claims during an expected transition period.
- **Transitional grace period months.** From March 2023 to June 2023, we observed continued utilization declines likely due to beneficiaries leveraging a transition period allowed by the PBM and certain plans for beneficiaries to continue utilizing the pharmacy.
- **Volume retention.** The retained volume bar in Figure 1 shows that approximately 44% of the pre-exit utilization was retained by the exiting pharmacy, which is due primarily to a combination of the exiting pharmacy contracting directly with select plans, plans transitioning to another PBM, and beneficiaries transitioning to another plan.

FIGURE 2: DISPERSION OF CLAIMS VOLUME SIX MONTHS POST-NETWORK DEPARTURE



Competing retail pharmacy locations acquired 94.2% of claims shifted from exiting pharmacy. National pharmacy chain locations received 54.8% of the retail pharmacy claims. Mass merchandise pharmacy locations obtained 17.2%, grocery pharmacy locations obtained 11.6%, and independent and small-chain locations received 16.5% of the retail claims distribution. The national PBM-owned facilities (e.g., mail) obtained 5.5% of the post-exit distribution.

FIGURE 3: DISTRIBUTION OF RETAIL VOLUME SHIFTING BY PHARMACY GROUP WITH COMPARISON TO EXPECTED DISTRIBUTION



Prominent color is actual distribution observed in 2023;
lighter color is expected distribution based on 2022 market share of retail pharmacy volume.

National pharmacy chains obtained almost 55% of redistributed volume from the exiting pharmacy after departure from the national PBM's network. This is almost 14% higher than the expected distribution based on pre-exit retail pharmacy share. Concurrently, independents and small chains received only 16.5% of the shifted claims, which was over 40% lower than expected distribution based on pre-exit retail pharmacy market share.[1]

WHERE DID PART D BENEFICIARIES FROM THE NATIONAL PBM OBTAIN PRESCRIPTIONS IN 2023?

For plans impacted by the network exit, we evaluated the dispensing patterns for beneficiaries by pharmacy group in 2023.[2] From a competitive business perspective, losing pharmacy customers to a competing similar model pharmacy (e.g., one national chain to another national chain pharmacy format) could lead to an adverse impact on nonpharmaceutical sales. The following analysis reveals the 2023 market share shift in comparison to each group's 2022 baseline retail market share.[1]

- Our analysis showed that 54.8% of the Medicare Part D prescriptions that shifted to other retail pharmacies were filled at national pharmacy chains (e.g., Walgreens, CVS, Rite Aid). When comparing to its expected distribution[1] of 48.1%, this group yielded a disproportionate number of transitioned prescriptions.
  - Walgreens received 39.8% of total prescription shift—almost double its expected distribution[1] of 23.3%. Please note, we did not analyze each plan's preferred pharmacy compositions. It is possible that many plans of the national PBM may include Walgreens as preferred cost-sharing pharmacy locations.
  - CVS received 10.5% of total prescriptions shift—less than its expected distribution[1] of 17.9%.
  - Rite Aid received 4.4% of total prescription shift—marginally less than its expected distribution[1] of 6.7%.
  - Depending on reimbursement differences between the exiting pharmacy and each of these national pharmacy chains, these shifts in utilization could cause a meaningful change in cost to a plan's claim costs.
- Mass merchandise pharmacy locations (e.g., Walmart, Costco) obtained 17.2% of the Medicare Part D prescriptions that shifted to other retail pharmacies in 2023, which was also higher than their expected distribution[1] of 13.6%.
- Our analysis also reveals that about 11.6% of prescriptions switched to grocery chain pharmacy providers. This was moderately higher than their expected disribution[1] of 10.6%.
- We observed 16.5% of prescription volume had shifted to independents and small chains. This was significantly less than their expected distribution[1] of 27.7%.
- We observed a 0.3% overall decrease in utilization from 2022 to 2023. This study is comparing volume from fourth quarter 2022 to volume in the first half of 2023. It is typical that volume is higher in the last quarter of a year due to benefit seasonality that may affect volume comparisons.

1. Expected distribution is calculated based on each pharmacy group's 2022 share of retail pharmacy claims for the national PBM.
2. Represent portion of retail non-exiting pharmacy supply increases observed as a result of network exit. These proportions exclude volume no longer in insured data and PBM-owned, as they are not representative of the overall retail market share. See Assumptions and Methodology section, item ii.

Possible additional reasons for the reduction of claims volume for this population are as follows: beneficiaries switch to paying out of pocket (e.g., cash payment), payment processed via discount card outside of the Part D benefit, beneficiary no longer obtaining prescriptions in 2023, seasonal effect of claims volume from year to year due to beneficiaries that have met their deductible in 2022 but are delaying prescriptions in 2023, deceased beneficiaries, or normal random variability.

POSSIBLE PERFORMANCE DECREASE IN PLAN STAR-RATING ADHERENCE MEASURES

While the exit from the PBM pharmacy network directly impacted claims volume for the exiting pharmacy, it may have also impacted performance of Centers for Medicare and Medicaid Services (CMS) Part D adherence measures (star ratings) for plans no longer in the network. The most notable measures that may be impacted are diabetes medication adherence (D08), hypertension medication adherence (D09), and cholesterol medication adherence (D10), which are triple-weighted.

We analyzed the 2022 and 2023 measurement year Part D star ratings for one of the larger plans impacted by the network pharmacy removal and made the following observations:

- For measure D08, we observed that six of the 16 contracts experienced star-rating measure decreases, while only one contract experienced an increase.[3]
- For measure D09, we observed that four of the 17 contracts experienced star-rating measure decreases, while only one contract experienced an increase.[3]
- For measure D10, we observed that five of the 17 contracts experienced star-rating measure decreases, while three contracts experienced an increase.[3]

We did observe significantly more plans experiencing decreases in star ratings than those experiencing increases,[4] which might be attributed to such customer behavior shifts but can also be impacted by other market trends and influences. We do note that overall star ratings irrespective of this study declined for many plans in the 2023 measurement year compared to the 2022 measurement year, which could be attributed to events outside of pharmacy performance.[5] Lastly, we do recognize that the cut points for star measurements vary year to year, which can influence a plan's overall star-rating performance.

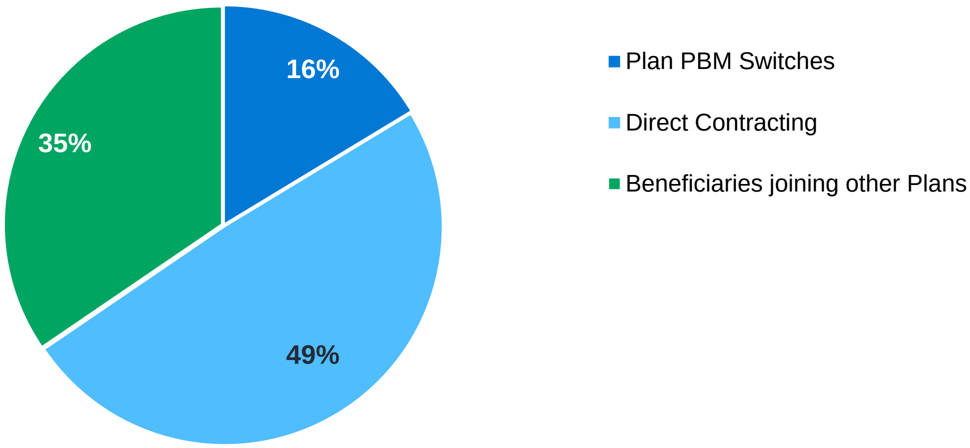
EXITING PHARMACY RETENTION

As beneficiaries transitioned away from exiting pharmacy locations beginning in late 2022 into early 2023, we observed phenomena that allowed the exiting pharmacy to retain approximately 44% of the 2022 claims volume with the national PBM. We have provided a detailed breakdown of the volume labeled Retained volume in Figure 1 and we have highlighted each attributable circumstance in Figure 4.

- **Plan PBM switches.** We identified a large health plan that switched from the national PBM to a competing PBM, where the exiting pharmacy remained in the Medicare Part D pharmacy networks. Sixteen percent of the 44% volume retention was due to a Part D plan sponsor switch of PBM administrators. We could not determine if correlation exists between the exiting pharmacy termination and this market event, although we speculate these two events are mutually exclusive based on our findings.
- **Beneficiaries joining other plans.** We identified membership that switched to different Medicare Part D plans. Thirty-five percent of the 44% volume retention was due to beneficiaries joining a plan not associated with the national PBM and continuing to fill prescriptions with the exiting pharmacy provider. These beneficiaries switched to plans where the exiting pharmacy is participating in the plans' Medicare Part D pharmacy network, and their decision to move plans may or may not be attributable to the network status of the pharmacy provider.
- **Direct contracting.** We identified certain plans where the exiting pharmacy contracted directly or via other mechanisms to obtain direct contract relationships with the plan. This allowed the exiting pharmacy to continue serving beneficiaries of those plans. This accounted for nearly half (49%) of the retained volume by the exiting pharmacy.

3. Obtained by analyzing CMS Part D performance public use files, for experience years 2022 and 2023.
4. Nelson, P., Rogers, H., Smith, M., & Yurkovic, M. (October 30, 2023). The future is now: 2024 Star Ratings release. Milliman White Paper. Retrieved February 24, 2025, from https://www.milliman.com/en/insight/the-future-is-now-2024-star-ratings-release.
5. Rogers, H., Smith, M., & Yurkovic, M. (November 2023). The next stage of Star Ratings evolution: 2025 Proposed Rule and beyond. Milliman White Paper. Retrieved February 24, 2025, from https://edge.sitecorecloud.io/millimaninc5660-milliman6442-prod27d5-0001/media/Milliman/PDFs/2023-Articles/11-27-23_The-Next-Stage-of-Star-Ratings-Evolution.pdf.

FIGURE 4: RETAINED UTILIZATION FROM NATIONAL PBM



The exiting pharmacy was able to retain 44% of their 2022 prescription volume either via plan PBM switches, direct contracting, or beneficiaries joining other plans not serviced by the national PBM. The most impactful of these retention methods was direct contracting, accounting for almost half of the retained volume.

OBSERVED STRATEGIES RESULTING IN VOLUME RETAINMENT

While reviewing the data, we observed three circumstances mentioned in the previous section that allowed the exiting pharmacy to retain significant volume. In some cases, retained volume was achieved through other market forces and beneficiary behavior, but the most impactful strategy for retaining volume was observed through direct contracting with plans and other payers associated with the national PBM.

Direct contracts are agreements between a pharmacy and a plan that bypass the terms and conditions of the PBM that often sit between those two entities. Direct contracts between a plan and pharmacy are prompted by the desire of both entities to continue to conduct business with each other. Both may be motivated to lessen beneficiary disruption and recognize that each party values the other parties continued services to each other. In some instances, the pharmacy and plan may be engaged in other mutually beneficial activities outside of the dispensing service. We acknowledge that an agreement between a plan and a PBM may not allow the plan to engage retail pharmacy providers, without PBM prior approval, to contract directly with a pharmacy; however, it appears that in evaluation of this case study, the exiting pharmacy was successful in obtaining direct agreements with certain plans to retain volume.

CONCLUSION

The retail pharmacy marketplace is becoming increasingly complex, more demanding, and less profitable for many providers. The termination of Part D network participation by a major pharmacy chain on January 1, 2023, serves as a significant case study in understanding the broader implications of such exits. Our analysis over a nine-month period—three months prior to and six months post-termination—revealed notable shifts in prescription dispensing patterns and highlighted strategies employed by the exiting pharmacy to retain a portion of its customer base.

Key findings include a 44% retention of the 2022 claims volume by the exiting pharmacy, achieved primarily through direct contracting with certain plans, beneficiaries joining plans not associated with the national PBM, and plan PBM switches. These strategies highlight the adaptability of the exiting pharmacy in retaining its customer base despite network changes. Competing retail pharmacy locations acquired 94.2% of the claims shifted from the exiting pharmacy, with national pharmacy chains receiving much of this volume.

The study also indicated potential impacts on plan performance, particularly regarding CMS Part D adherence measures, which may have experienced declines due to the disruption in pharmacy access or the result of adherence programs offered by participating pharmacies within the Part D plan’s network. While the exact correlation between the pharmacy's exit and star-rating changes remains complex, the observed trends of plan adherence performance of participating pharmacies in a Part D network warrant further attention from plan sponsors and policy makers.

Marketplace factors have created headlines of sweeping store closures,[6,7,8] access concerns for beneficiaries,[9,10] and potential downstream impacts[11] for Medicare plan sponsors, beneficiaries, and PBMs. Pharmacy reimbursement has diminished to an extent where all categories of retail pharmacies have reported experiencing profitability concerns. Certain pharmacy providers may opt to remove themselves from unprofitable networks if they find the economics untenable under current arrangements.

The dynamics among pharmacies, PBMs, and plan sponsors are evolving, influenced by economic pressures and the need for strategic adaptations. Pharmacies may find it necessary to exit unprofitable networks but can mitigate the impact through direct contracting and other retention strategies. Ensuring stable and economically viable relationships among PBMs, payers, and pharmacies is crucial for maintaining patient access to medications and the financial health of the pharmacy sector. As the market continues to evolve, stakeholders must navigate these challenges to support both pharmacy viability and patient care.

ASSUMPTIONS AND METHODOLOGY

In performing this analysis, we relied on the 2022 and 2023 CMS 100% Research Identifiable datasets, as well as other publicly available information, such as CMS Part D performance data for experience years 2022 and 2023.

Per CMS rules and regulations, we censored any group data that contained 11 or fewer drug days' supply in a particular month. We attempted to minimize censoring by grouping data on relevant fields of the study. The censoring of the data was measured to be <0.01% of total data analyzed.

The main analysis was performed by comparing the total days' supply in the second half of 2022 and first half of 2023 for beneficiaries that filled at least one claim at the exiting pharmacy through the national PBM in the second half of 2022:

i. The exiting pharmacy's percent of days' supply retention (Figure 1) was developed by grouping and analyzing the difference of the exiting pharmacy's claims data by month, between October 2022 and June 2023, under all its national PBMs. We split the volume transition into three groups (i.e., Exiting pharmacy not present on Medicare Plan Finder. Initial Notifications; Volume declines due to plan 2023 non-participation status; and Remaining volume transition to other pharmacies) using market knowledge, deadlines, and announcements publicly available.

ii. In generating results, we have summarized the data of 80 different parent organizations within their respective pharmacy market (Figure 2). These organizations were assigned one of five distinct categories: National Pharmacy Chains, Mass Merchandise Pharmacies, Grocery Chains, PBM-Owned, or Independents and Small Chains. Volume weighting was applied to each category in the aggregation of results.

iii. We measured Beneficiary Volume Dispersion (Figure 2) by comparing the volume of claims increase for every organization within the national PBM between October 2022 and June 2023. The left pie graph shows dispersion between PBM-Owned, Retail, and Other (e.g., cash or discount card). We assumed the difference between total days' supply in October 2022 and June 2023 were claims moving to the Other (e.g., cash or discount card) pharmacy group. The right pie graph shows the dispersion by pharmacy type within the retail category.

6. Gibson, K. (October 15, 2024). Walgreens announces plan to close 1,200 stores over next 3 years. CBS News. Retrieved February 24, 2025, from https://www.cbsnews.com/news/walgreens-store-closings/.

7. Meyersohn, N. (October 17, 2023). CVS, Walgreens and Rite Aid are closing thousands of stores. Here's why. CNN Business. Retrieved February 24, 2025, from https://www.cnn.com/2023/10/16/business/drug-stores-closing-rite-aid-cvs-walgreens/index.html.

8. National Community Pharmacists Association. (February 27, 2024). Local Pharmacies on the Brink, New Survey Reveals. NCPA.org. Retrieved February 24, 2025, from https://www.ncpa.org/newsroom/news-releases/2024/02/27/local-pharmacies-brink-new-survey-reveals.

9. Rebelo, A. (November 19, 2024). Amid Retail Pharmacy Closures, 59% of Americans Fear Losing Easy Access to Essential Medications, Wolters Kluwer survey shows. Wolters Kluwer. Retrieved February 24, 2025, from https://www.wolterskluwer.com/en/news/pharmacy-next-consumer-medication-worries-amid-pharmacy-closures.

10. DePass, D. (November 13, 2024). More Minnesotans face 'pharmacy deserts' with chain drugstore closures. The Minnesota Star Tribune. Retrieved February 24, 2025, from https://www.startribune.com/pharmacies-closing-pharmacy-deserts-growing-health-care-access-walgreens-cvs/601173628.

11. Murphy, A. (November 13, 2024). What retail pharmacy closures spell for healthcare. Becker's Hospital Review. Retrieved February 24, 2025, from https://www.beckershospitalreview.com/pharmacy/what-retail-pharmacy-closures-spell-for-healthcare.html.

v. Figure 3 shows actual dispersion by pharmacy type within the retail category compared against each pharmacy type's expected distribution within the retail category. Expected distribution is calculated based on each pharmacy group's 2022 share of retail pharmacy claims with the National PBM. To ensure an apples-to-apples comparison, the exiting pharmacy was removed from the denominator when calculating each group's 2022 market share.

vi. In measuring the difference in performance of drug adherence, we used the 2024 and 2025 CMS star-rating measures. These measures are reflective of 2022 and 2023 drug experience years, respectively. The performance decrease was determined by a simple average of star measures in adherence categories D08, D09, and D10. These categories were developed by CMS for all contracts to be directly comparable; hence, a simple average would suffice.

vii. We aggregated the exiting pharmacy's total retained volume (Figure 4) by categorizing utilization retention through observed behaviors by either the exiting pharmacy or beneficiaries. These behaviors were summarized as: Direct Contracting, Plan PBM Switches, and Beneficiaries joining other Plans. We utilized our market knowledge and research in developing these three main categories.

viii. We did not adjust for enrollment changes between the 2022 and 2023 periods, nor did we account for benefit plan changes (e.g., deductible amounts or copay values) between the two periods.

CAVEATS AND LIMITATIONS

This information was developed to help recipients understand the migration of beneficiary claims volume upon exit of PBM networks by a pharmacy. This information may not be appropriate, and should not be used, for other purposes. We do not intend this information to benefit any third party, even if we permit the distribution of our work product to such third party.

In preparing this information, we relied on market knowledge and publicly available information and on information obtained from the CMS. We accepted this information without audit but reviewed the information for general reasonableness. Our results and conclusions may not be appropriate if this information is not accurate.

Data underpinning this white paper was provided by Milliman Medicare Market Intelligence (MedIntel). The MedIntel platform is built upon CMS's 100% Research Identifiable Files, highly enriched with supplementary data assets, and curated to address the needs of all Medicare stakeholders (plan sponsors, PBMs, manufacturers, providers, etc.). Data is refreshed with as little as two weeks of lag, offering subscribers near real-time insights to support their business needs.

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