

DEPARTMENT OF HEALTH & HUMAN SERVICES  
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Center for Beneficiary Choices  
Medicare Plan Payment Group

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**Date:** May 4, 2007

**To:** All Part D Plan Sponsors

**From:** Tom Hutchinson, Director  
Medicare Plan Payment Group

**Subject:** Q&A Addressing Incentive Payments for Dispensing Activities

In response to questions concerning the reporting of incentive payments to pharmacies for dispensing activities, CMS is releasing the attached Question and Answer. This Q&A provides guidance explaining how these incentive payments should be reported to CMS.

Further Information

If you have questions about this Q&A, please contact Meghan Elrington at (410) 786-8675.

## Q&A

**Question:** How should Part D plan sponsors report to CMS the cost of incentive payments that Part D plan sponsors may make to pharmacies for dispensing activities such as the dispensing of generic drugs?

**Answer:** Incentive payments made to pharmacies for dispensing activities associated with ensuring that possession of the appropriate covered Part D drug is transferred to a Part D enrollee, such as the dispensing of generic drugs, are part of the dispensing fee component of gross covered prescription drug cost, defined in the Social Security Act as amended by the Medicare Modernization Act §1860D-15(b)(3), codified at 42 CFR 423.308. Therefore, if a Part D plan sponsor makes the incentive payment to the pharmacy at the point of sale (POS) as part of the dispensing fee, the sponsor or its third party submitter must report this cost in the PDE field Dispensing Fee Paid. If the sponsor arranges to pay the pharmacy after POS, for example based on a target amount of generic dispensing over a period of time, the sponsor should report any post-POS payment or recouping as direct and indirect remuneration (DIR) on the annual DIR Report for Reconciliation. Specifically, if the plan pays the pharmacy a prospective dispensing fee per event but recoups some of the cost if the pharmacy does not meet a target dispensing rate, the amount recouped by the plan must be reported to CMS as positive DIR that reduced the cost of the drug to the plan sponsor. Conversely, if the plan pays the pharmacy more than the prospective amount based on meeting or exceeding a target, the plan should report the retrospective payment to the pharmacy as negative DIR that increased the cost of the drug.

Plans must report any such DIR on the annual DIR Report for Reconciliation. DIR for incentive payments related to generic dispensing must be reported on a line item specific to generic dispensing incentive payments, which CMS will add to the format of annual DIR Report for Reconciliation. DIR for incentive payments related to all other dispensing activities must be reported in the line item “All Other DIR” of the annual DIR Report for Reconciliation. As with all DIR, these line items will be subject to audit.

If a plan does not employ a target or other retrospective payment methodology and simply pays the dispensing fee per event at the point of sale, the dispensing fee can only be reported on the PDE and it cannot be considered DIR. Although CMS will allow plans to set dispensing targets and report the final adjustment to drug cost on the DIR report, all payments made at the point of sale must be reported on the PDE.