

Does a Medicare Part D vendor - like Humana - makes extra money and/or charges the government for requiring a prior authorization because of the extra time involved by their staff

Do Medicare Part D Vendors Like Humana Make Extra Money or Charge the Government for Prior Authorization?

Key Points

- **Medicare Part D plans, such as those offered by Humana, do not receive extra payments from the government specifically for requiring prior authorization or for the administrative time involved in processing these requests.**
- **Prior authorization is used as a cost-control measure by Part D plans, not as a direct revenue stream.**

How Prior Authorization Works in Medicare Part D

- Prior authorization is a process where the plan requires approval before certain prescriptions are covered, typically for high-cost or high-risk medications[1][2][3].
- The process is designed to ensure that drugs are used appropriately, that lower-cost alternatives are considered, and that medications are prescribed for medically accepted indications[1][2][4].
- Both the prescriber and the plan member can initiate a prior authorization request, and the plan is required to respond within a set timeframe (usually 72 hours for standard requests)[4][1].

Payment and Reimbursement

- Medicare Part D plans are paid by the government through a combination of direct subsidies, reinsurance, and risk-adjusted payments based on the enrollee population—not on the number of prior authorizations processed[5][6].
- There is **no additional reimbursement from Medicare to the plan for the administrative work involved in prior authorization**[5][6].
- The administrative costs of prior authorization (estimated at \$11–\$33 per request) are absorbed by the plan and are considered part of the overall operating expenses. These costs are offset by the savings the plan achieves by reducing unnecessary or inappropriate drug spending[6].

Why Do Plans Use Prior Authorization?

- The primary motivation for requiring prior authorization is to **reduce overall drug spending** and ensure appropriate use of medications, not to generate extra revenue from administrative fees[6][4][2].
- Studies show that the savings from prior authorization programs far exceed their administrative costs—by about a factor of 10—making them a net cost-saving strategy for the plan[6].

Summary Table

Aspect	Medicare Part D Plan (e.g., Humana)
Extra payment for prior auth	No[5][6]
Administrative fee billed to CMS	No[5][6]
Who pays for admin costs	The plan (absorbed as operating expense)[6]
Why require prior auth	Cost control, appropriate use[4][1][6]

Conclusion

Medicare Part D vendors like Humana do ****not**** make extra money or charge the government for the additional administrative time involved in processing prior authorizations. Instead, they use prior authorization as a cost-control tool to help manage drug spending. The administrative costs are borne by the plan and are justified by the overall savings achieved through reduced drug expenditures[6][5][4].

[1] <https://www.humana.com/pharmacy/prescription-coverages/prior-authorization-medication-approvals>

[2] <https://www.aarp.org/medicare/faq/medicare-part-d-restrictions/>

[3] <https://www.healthline.com/health/medicare/medicare-prior-authorization>

[4]

<https://www.forbes.com/sites/dianeomdahl/2025/05/06/seven-things-to-know-about-medicare-part-d-and-prior-authorization/>

[5]

<https://www.cms.gov/medicare/prescription-drug-coverage/prescriptiondrugcovcontra/downloads/part-d-benefits-manual-chapter-6.pdf>

[6] <https://www.aei.org/health-care/prior-authorization-reduces-net-costs-of-medicare-part-d/>

[7]

<https://www.cms.gov/data-research/monitoring-programs/medicare-fee-service-compliance-programs/prior-authorization-and-pre-claim-review-initiatives>

[8] <https://medicareadvocacy.org/prior-authorization/>

[9] <https://www.humana.com/member/member-rights/medical-pharmacy-preauthorizations>

[10] <https://www.medicalnewstoday.com/articles/medicare-authorization>

[11]

<https://www.cmadoes.org/newsroom/news/view/ArticleId/50549/CMS-signals-additional-prior-authorization-reforms-for-Medicare-Advantage-prescription-drugs>

[12] <https://www.aafp.org/pubs/fpm/issues/2023/1100/prior-authorization.pdf>

[13] <https://www.medicare.gov/health-drug-plans/part-d/what-plans-cover/plan-rules>

[14] <https://pharmacy.uconn.edu/course/medicare/>

[15] <https://www.cms.gov/medicare/appeals-grievances/prescription-drug/coverage-determinations>

So as an example Humana Part D is requiring a PA on a Rx medication that has a total cost of \$2.07 and the pt has been taking the medication for years and all of a sudden they are requiring a PA. With the estimated cost to facilitate a PA of estimated at \$11–\$33 per request makes financial sense?

Does It Make Financial Sense for Humana Part D to Require Prior Authorization on a \$2.07 Medication?

Key Points

- ****Requiring prior authorization (PA) on a very low-cost medication (e.g., \$2.07) rarely makes financial sense for the plan, given the administrative costs involved.****
- ****Administrative costs to process a single PA request are estimated at \$11–\$33, which far exceeds the total cost of the medication in your example****[1][2].
- ****The original intent of prior authorization is to manage high-cost or high-risk medications, not low-cost generics or long-standing therapies****[3][4].

Why Would a Plan Require PA on a Low-Cost Drug?

- ****Cost Control:**** PA is typically used to ensure appropriate use of expensive or high-risk medications, but in recent years, some plans have expanded PA requirements to include even inexpensive generics or long-standing therapies[1][5].

- **Formulary Management:** Sometimes, PA is implemented to encourage use of preferred drugs or to comply with regulatory requirements, but this is less justifiable for very low-cost drugs[3][6].
- **Errors or Policy Changes:** Sudden PA requirements for long-term medications may be due to changes in formulary, contract negotiations, or administrative errors[4].

Financial Analysis

Item	Estimated Cost
Medication Cost	\$2.07
PA Administrative Cost (per request)	\$11–\$33[1][2]
Net Impact	Administrative cost far exceeds medication cost

- **For every PA processed for a \$2.07 drug, the plan spends at least 5–15 times the cost of the drug itself just on administrative work**[1][2].
- **This is not a cost-saving measure for the plan and may actually increase overall costs**[1][2].

Broader Impacts

- **Provider and Patient Burden:** Requiring PA for low-cost, long-standing medications increases administrative burden for providers and can delay patient care, often leading to frustration and potential non-adherence[1][2].
- **Questionable Value:** Studies and professional organizations (such as the AMA) have criticized the expansion of PA to low-cost drugs, emphasizing that it does not lower costs and may even increase total healthcare spending due to administrative overhead and downstream effects[1][2].

Conclusion

Requiring prior authorization for a \$2.07 medication does **not** make financial sense, as the administrative cost to process the PA request dramatically exceeds the cost of the medication itself[1][2]. This practice is generally viewed as inefficient and counterproductive, especially for patients who have been stable on the same medication for years.

If you or your patients encounter this situation, it may be worth contacting the plan to request an exception or clarification, as such policies are often subject to review and change[6][4].

- [1] <https://www.ama-assn.org/practice-management/prior-authorization/don-t-fall-these-myths-prior-authorization>
- [2] <https://www.nihcr.org/wp-content/uploads/Altarum-Prior-Authorization-Review-November-2019.pdf>
- [3] <https://www.humana.com/pharmacy/prior-authorization-medication-approvals>
- [4] <https://www.humana.com/member/member-rights/medical-pharmacy-preauthorizations>
- [5] <https://www.healthaffairs.org/doi/10.1377/hlthaff.2023.00999>
- [6] <https://www.medicare.gov/health-drug-plans/part-d/what-plans-cover/plan-rules>
- [7] <https://pmc.ncbi.nlm.nih.gov/articles/PMC10391030/>
- [8] <https://www.amcp.org/concepts-managed-care-pharmacy/prior-authorization>
- [9] <https://www.goodrx.com/insurance/health-insurance/prior-authorization-what-you-need-to-know>
- [10] <https://pubmed.ncbi.nlm.nih.gov/37121255/>

Could the number of PA a Part D requires over a year period of time, could it be incorporated in the Part D's request for how much the Part D program is reimbursed. Doesn't the Feds reimburse part D programs on a so many \$\$\$ per pt per month and thus the Part D's cost for handling PA's could influence the \$\$\$ the Part D asked for from the feds - due to their average cost per pt - which could be inflated substantially by increasing the number of PA the Part D program needed to require each year?

Can the Number of Prior Authorizations (PAs) Affect Medicare Part D Plan Reimbursement?

Overview

Medicare Part D plans are reimbursed by the federal government based on a competitive bidding process. The reimbursement is generally a fixed amount per member per month, adjusted for risk and other factors—not directly by the number of prior authorizations (PAs) processed. However, the administrative costs associated with PAs can be incorporated into the plan's bid, which may influence the overall payment rate.

How Medicare Part D Reimbursement Works

- **Annual Bid Submission:** Each Part D plan submits an annual bid to CMS (Centers for Medicare & Medicaid Services) estimating the expected costs of providing drug coverage for an average beneficiary. This bid includes projected drug costs and administrative expenses (such as processing PAs)[1][2][3].
- **Per Member Per Month Payment:** The government pays plans a monthly amount per enrollee, based on the approved bid. This payment is risk-adjusted for each beneficiary's health status and other factors[1][2][3].
- **Administrative Costs:** Plans can include all anticipated administrative costs in their bid, such as staff time and resources needed to process PAs[3][4].

Can PA Volume Affect Plan Reimbursement?

- **Indirect Influence:** While CMS does not reimburse plans directly for each PA processed, the total administrative burden—including the cost of handling PAs—can be factored into the plan's annual bid[3][4].
- **Bid Justification:** If a plan expects to require more PAs, it may project higher administrative costs and thus submit a higher bid. If CMS accepts this bid as reasonable compared to other plans, the government will pay more per member per month[3][4].
- **CMS Review:** CMS reviews bids for reasonableness, including administrative cost projections. Excessive or unjustified increases in administrative costs (such as from unnecessary PAs) may be questioned or negotiated down by CMS[4][5].

Could Plans Inflate Bids by Increasing PA Volume?

- **Theoretical Possibility:** In theory, if a plan increases the number of PAs required, its administrative costs could rise, and it could request higher reimbursement from CMS.
- **Practical Limitations:**
 - CMS scrutinizes administrative costs and compares bids across plans, making it difficult to justify inflated costs without clear evidence[4][5].
 - Plans must certify that their bids are accurate and reasonable, and actuaries must validate the pricing assumptions[4][5].
 - Excessive use of PAs that is not clinically justified could trigger regulatory review or sanctions.

Summary Table

Factor	Impact on Reimbursement
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Number of PAs	Not directly reimbursed; affects admin costs in bid[3][4]
Admin costs in bid	Included; must be justified and reasonable[3][4][5]
CMS oversight	Reviews and may negotiate down excessive costs[4][5]
Risk of inflation	High scrutiny; unjustified increases are unlikely to succeed[4][5]

Conclusion

The number of prior authorizations a Medicare Part D plan requires can indirectly influence the plan's reimbursement from the federal government, but only as part of the overall administrative cost included in the annual bid. CMS reviews these costs for reasonableness and compares them across plans, so plans cannot easily inflate their reimbursement by simply increasing the number of PAs. Any increase in administrative costs must be justified and will be subject to regulatory scrutiny[3][4][5].

[1] https://www.medpac.gov/wp-content/uploads/2021/11/medpac_payment_basics_21_partd_final_sec.pdf

[2] <https://www.healthmine.com/resources/improve-plan-performance-cms-bid>

[3] <https://bgrdc.com/wp-content/uploads/2024/07/2024.07.31-Policy-Update-2025-Part-D-Announcement.pdf>

[4] <https://www.reginfo.gov/public/do/DownloadDocument?objectID=114599401>

[5] <https://www.cms.gov/files/document/final-cy-2024-part-d-bidding-instructions.pdf>

[6]

[https://resdac.org/sites/datadocumentation.resdac.org/files/CMS%20Part%20D%20Payment%20Standardization%20Methodology%20\(updated%20November%202024\).pdf](https://resdac.org/sites/datadocumentation.resdac.org/files/CMS%20Part%20D%20Payment%20Standardization%20Methodology%20(updated%20November%202024).pdf)

[7] <https://www.cms.gov/files/document/macra-2020-cmft-part-d-standardization.pdf>

[8] <https://www.cms.gov/newsroom/fact-sheets/medicare-part-d-direct-and-indirect-remuneration-dir>

[9]

[https://resdac.org/sites/datadocumentation.resdac.org/files/CMS%20Part%20D%20Payment%20Standardization%20Methodology%20\(updated%20December%202023\).pdf](https://resdac.org/sites/datadocumentation.resdac.org/files/CMS%20Part%20D%20Payment%20Standardization%20Methodology%20(updated%20December%202023).pdf)

[10] <https://www.aei.org/health-care/prior-authorization-reduces-net-costs-of-medicare-part-d/>

[11]

https://www.medpac.gov/wp-content/uploads/2024/10/MedPAC_Payment_Basics_24_PartD_FINAL_SEC.pdf

[12]

<https://www.cms.gov/medicare/prescription-drug-coverage/prescriptiondrugcovcontra/downloads/part-d-benefits-manual-chapter-6.pdf>

[13] <https://www.cms.gov/files/document/july-29-2024-parts-c-d-announcement.pdf>

[14]

<https://www.kff.org/medicare/issue-brief/a-current-snapshot-of-the-medicare-part-d-prescription-drug-benefit/>

[15]

<https://www.cms.gov/newsroom/fact-sheets/cms-releases-2025-medicare-part-d-bid-information-and-announces-premium-stabilization-demonstration>