Initial findings from MedPAC’s analysis of Part D data on drug rebates and discounts

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Consolidated Appropriations Act, 2021, provides Commission with access to two sets of data:

- Post-sale rebates and fees (direct and indirect remuneration (DIR) data) for Part D outpatient drugs
- Pricing data for provider-administered drugs under Part B and drugs covered under Medicaid:
  - Average sales price (ASP)
  - Average manufacturer price (AMP)
  - Best price (BP)

Data subject to disclosure limitations defined by statute.
Gross drug prices at the pharmacy do not reflect post-sale rebates and pharmacy fees.
DIR amounts are post-sale price concessions to plan sponsors that decrease a plan’s costs

- Used by CMS to “true-up” Medicare’s prospective payments to plans with final costs of providing benefits
- Sponsors submit two separate DIR reports for each plan
  - Summary report shows categories of DIR
  - Detailed report shows DIR allocated to specific drugs
- CMS provided the Commission with both sets of plan reports for 2010-2020
Manufacturer rebates and pharmacy payments accounted for nearly all Part D DIR, 2010-2020

- Total DIR grew from 11% of gross Part D spending in 2010 to about 27% in 2020
- Pharmacy DIR’s share of total DIR grew from <0.1% in 2010 to nearly 18% in 2020

**Note:** Data are preliminary and subject to change. DIR (direct and indirect remuneration). Totals include minor amounts of all other DIR.

**Source:** MedPAC analysis of plan sponsors’ summary DIR reports to CMS.
DIR amounts provided to the Commission appear to be complete and consistent with other sources:

- Reflect reports from nearly all Part D plans
- Consistent with previously published DIR totals
- Amounts in plan summary reports are consistent with data in detailed reports
- Amounts in plan summary reports are largely consistent with amounts used to reconcile Medicare’s plan payments

Note: DIR (direct and indirect remuneration).
Largest plan sponsors received proportionately more DIR

Top 10 plan sponsors ranked by enrollment

<table>
<thead>
<tr>
<th>Year</th>
<th>Share of enrollment</th>
<th>Share of DIR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>69%</td>
<td>78%</td>
</tr>
<tr>
<td>2015</td>
<td>79%</td>
<td>87%</td>
</tr>
<tr>
<td>2020</td>
<td>84%</td>
<td>88%</td>
</tr>
</tbody>
</table>

Average DIR as a percentage of gross spending

<table>
<thead>
<tr>
<th>Year</th>
<th>Top 10 sponsors</th>
<th>All other sponsors</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>28%</td>
<td>23%</td>
</tr>
<tr>
<td>2012</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>8%</td>
<td></td>
</tr>
</tbody>
</table>

Note: Data are preliminary and subject to change. DIR (direct and indirect remuneration). Includes each parent organization’s combined stand-alone prescription drug plan and Medicare Advantage prescription drug plan enrollment as of July of each year. DIR includes manufacturer rebates, pharmacy fees, and all other price concessions that decrease the cost of providing Part D benefits.

Source: MedPAC analysis of enrollment data, prescription drug event data, and plan sponsors’ summary DIR reports to CMS.
Gross spending and spending net of DIR both have important effects on stakeholders

- **Gross spending affects:**
  - Coinsurance paid by enrollees and Part D’s low-income cost-sharing subsidies
  - How quickly enrollees reach the OOP threshold

- **Spending net of DIR affects:**
  - Plan bids for basic benefits and enrollee premiums
  - Medicare’s spending on capitated payments, low-income premium subsidies, and reinsurance

Note: OOP (out-of-pocket), DIR (direct and indirect remuneration).
Net of manufacturer rebates, Part D prices for brand-name drugs more than doubled between 2010 and 2020

Index of cumulative price growth

- Rebates on specific drugs vary widely depending on the degree of therapeutic competition
- Index reflects overall mix of brand-name drugs used

Single-source brand-name drugs
Average annual growth of 10.2%

Net of rebates
Average annual growth of 7.5%

Note: Data are preliminary and subject to change. Assumes plan sponsors’ reports of how they allocated rebates by active ingredient are complete and accurate. Assumes plans’ annual rebate amounts are distributed uniformly across each year’s quarters.

Source: Acumen LLC for MedPAC.
Rankings of therapeutic categories with and without manufacturer rebates in 2019

- Same categories made the top 15 list based on gross and net spending
- Manufacturer rebates affected the rankings for 10 categories
- Ranking based on net spending:
  - Fell for categories with higher average rebates (e.g., anticoagulants)
  - Rose for categories with lower average rebates (e.g., antineoplastics)
- Seven categories (out of 15) were in “protected” classes with a broad coverage requirement*
  - May limit plans’ ability to negotiate rebates with manufacturers

Note: Data are preliminary and subject to change. *Under Part D, plan formularies must include “all or substantially all” drugs in six protected classes (anticonvulsants, antidepressants, antipsychotics, immunosuppressants, antiretrovirals, and antineoplastics). Three of the seven therapeutic categories were antineoplastics, which is one of the six protected classes.
Source: MedPAC analysis of Part D prescription drug event and direct and indirect remuneration data.
Gross and net spending for high-priced drugs grew rapidly, 2010-2020

Note: Data are preliminary and subject to change. Net spending is gross spending accounting for manufacturer rebates. Source: MedPAC analysis of Part D prescription drug event and direct and indirect remuneration data.
In 2020, a disproportionate share of manufacturer rebates was for drugs with prices below $700

- **Rebates totaled** $43 billion, up from $8.5 billion in 2010
- **Brand drugs priced**
  - **At or above $700:**
    - 53% of gross spending
    - 21% of rebates
  - **Below $700:**
    - 47% of gross spending
    - 79% of rebates

Note: Data are preliminary and subject to change. Gross spending is the amount paid for drugs at the pharmacy, excluding dispensing fees and sales tax, and before accounting for postsale rebates or discounts.

Source: MedPAC analysis of Part D prescription drug event and direct and indirect remuneration data.
Fewer and proportionately smaller rebates among drug products with the highest prices

### Rebates for brand-name drugs, 2020

<table>
<thead>
<tr>
<th>Price category*</th>
<th>Number of unique products</th>
<th>Share of products with any rebate</th>
<th>Mean price</th>
<th>Rebate as a share of gross spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $400</td>
<td>911</td>
<td>55%</td>
<td>$251</td>
<td>51%</td>
</tr>
<tr>
<td>$400-$699</td>
<td>353</td>
<td>58</td>
<td>486</td>
<td>44</td>
</tr>
<tr>
<td>$700-$2,499</td>
<td>400</td>
<td>33</td>
<td>972</td>
<td>32</td>
</tr>
<tr>
<td>$2,500-$9,999</td>
<td>273</td>
<td>31</td>
<td>4,745</td>
<td>15</td>
</tr>
<tr>
<td>≥ $10,000</td>
<td>242</td>
<td>15</td>
<td>13,830</td>
<td>11</td>
</tr>
</tbody>
</table>

Note: Data are preliminary and subject to change. *Based on the median price for a standardized prescription before postsale rebates or discounts.
Source: MedPAC analysis of Part D prescription drug event and direct and indirect remuneration data.
Summary

- DIR amounts provided to the Commission appear to be complete and consistent with other published totals.
- Largest plan sponsors received proportionately more DIR.
- In 2019, same therapeutic categories had highest gross and net spending, but rebates affected rank order.
- Net of rebates, between 2010 and 2020:
  - Prices for brand-name drugs more than doubled in Part D.
  - Spending for high-priced drugs grew rapidly.
- In 2020, higher-priced drugs had fewer and proportionately smaller rebates:
  - May reflect lack of therapeutic competition.
  - But some high-priced drugs had larger rebates.

Note: DIR (direct and indirect remuneration).
Next steps

- Explore the relationship between therapeutic competition and manufacturer rebates
- Examine patterns in plans’ reporting of DIR
- Questions or comments on the direction of future work?