

# Generic drug pricing under Part D

Tara Hayes, Pamina Mejia, and Shinobu Suzuki

April 12, 2024

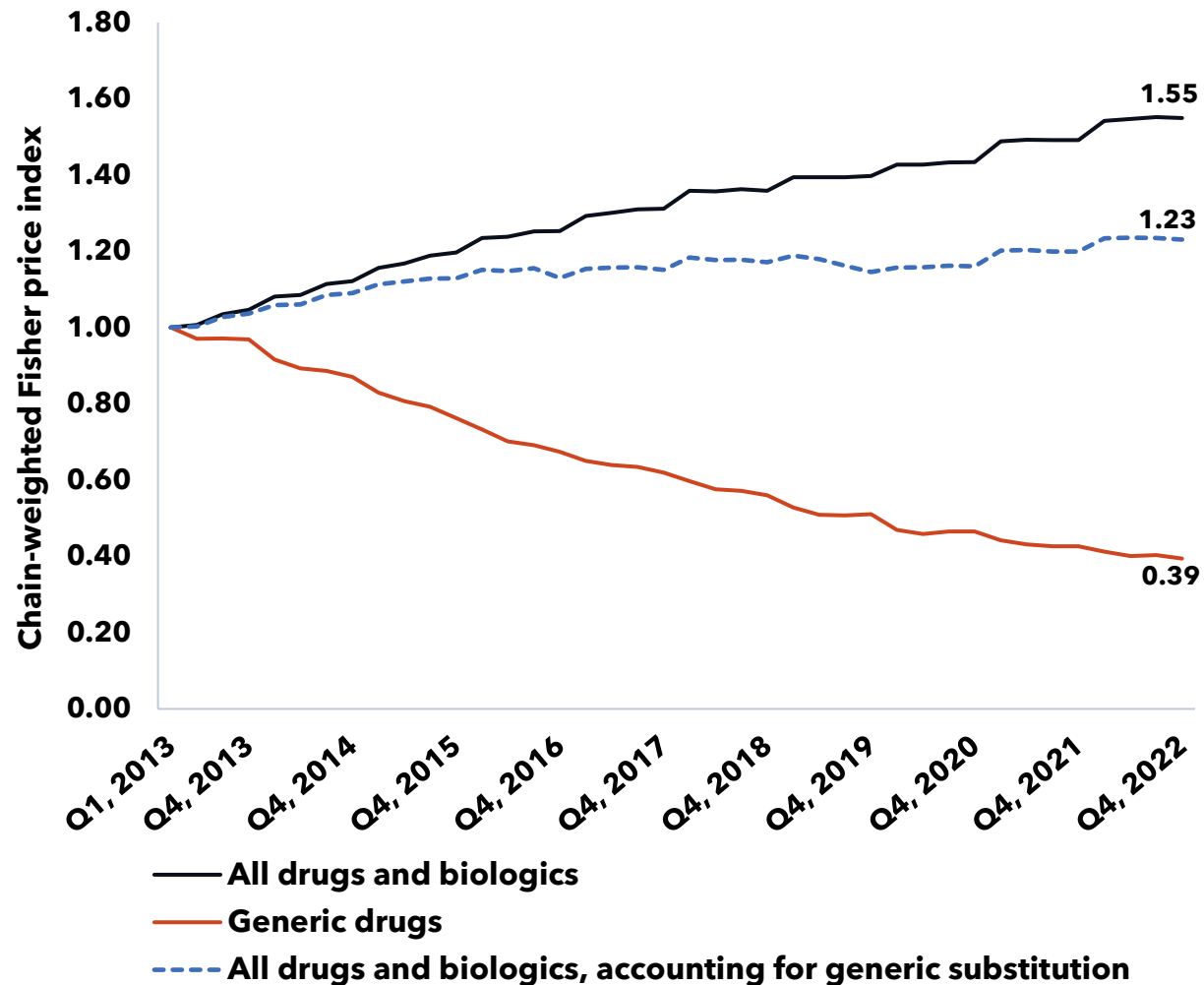
# Presentation roadmap

- 1 Background
- 2 Studies examining Part D's prices for generic drugs
- 3 Analysis of generic price variation in Part D
- 4 Key takeaways from stakeholder interviews
- 5 Discussion



# Background

# Decrease in generic prices has slowed in recent years, 2013-2022



- Generic drugs account for **90%** of prescriptions but less than **20%** of gross spending in Part D
- Generic drugs have played an important role in moderating the growth in Part D spending
- Slower decrease in generic prices has likely contributed to uptick in overall Part D prices

**Note:** Q1 (first quarter), Q4 (fourth quarter). Price indexes reflect total amounts paid to pharmacies and do not reflect retrospective rebates or discounts from manufacturers and pharmacies.

**Source:** Acumen LLC analysis of Part D prescription drug event data from CMS for MedPAC.

# Different definitions of Part D prices for generic drugs

---

- Pharmacies are reimbursed by the patient and their plan sponsor
- Components of pharmacy reimbursement\*
  - A. Payments for ingredient cost**
  - B. Dispensing fee**
  - C. Pharmacy fee** (postsale net payments from pharmacies to plans)^
- Gross (point-of-sale) price: **A** or **A + B**
- Net price: **A + B +/- C**
- Both **A** and **B** are available on the prescription drug event data, **C** is reported to CMS but not publicly available

**Note:**

\*Pharmacy reimbursements may also include sales tax. In 2021, sales tax averaged about \$0.02 per claim for generic prescriptions.

^As of January 1, 2024, the pharmacy reimbursement at the point of sale (POS) must reflect the lowest possible payment a pharmacy may receive for a given drug, including pharmacy fees. Because our analysis is based on 2021 data, when pharmacy fees were paid after the POS, we refer to these fees as "postsale pharmacy fees."



# External studies examining prices for generic drugs

# Studies find that generic POS prices in Part D are often higher than cash prices and can vary widely

---

- Evidence of relatively high and varying prices in Part D compared to discount retailers (such as Costco or MCCPDP) and cash prices
- Numerous factors associated with wide price variation
  - E.g., where drug is purchased (type of pharmacy), when it is purchased, dosage form and strength, and plan sponsor/PBM
- However, these studies examined POS prices, which do not include postsale pharmacy fees
  - Postsale pharmacy fees for generic drugs increased more than 30% per year on average, from \$0.5 billion in 2015 to \$3.5 billion in 2022
  - Gross Part D spending for generic drugs, in contrast, grew by less than 3% per year on average during the same period

**Note:** POS (point-of-sale), MCCPDP (Mark Cuban Cost Plus Drug Program), PBM (pharmacy benefit manager).  
**Source:** MedPAC analysis of Part D prescription drug event and direct and indirect remuneration data from CMS.

# How might high or wide variation in generic prices affect Medicare and Part D enrollees?

---

- Potential cost and access concerns:
  - Are plans and beneficiaries overpaying for generic drugs?
  - Is cost sharing affected by variation in POS price?
- In Part D, POS prices may not directly affect enrollee and Medicare costs:
  - Most generic prescriptions used by Part D enrollees are on formulary tiers with no cost sharing or copay\*
  - Most of the benefit costs for generic drugs occur when the beneficiary is below the catastrophic threshold and costs are covered by capitated payments

**Note:**

POS (point-of-sale).

\*Analysis was limited to plans that use formulary tiers, which accounted for just under 80% of the generic prescriptions dispensed in 2021. Plans that do not have formulary tiers use defined standard benefit with a deductible and a 25% coinsurance until an individual reached the annual out-of-pocket threshold. The vast majority of these plans are special needs plans that serve beneficiaries who receive Part D's low-income subsidy (LIS), which covers most of the cost-sharing liability on behalf of LIS beneficiaries.





# MedPAC analysis of generic price variation in Part D

# Analysis of the Part D data

---

- To better understand generic price variation in Part D
- Generic drugs\* selected from 2021 Part D data based on highest total number of annual fills and/or gross spending
  - 108 unique chemical molecules
    - About 570 PEPs with different dosage forms and strengths
    - About 5,900 unique NDCs
- Selected drugs accounted for about 60% of total gross spending on generic drugs in 2021

**Note:** PEP (pharmaceutically equivalent product), NDC (national drug code).

\*A generic drug may include products with different dosage forms and strengths (PEP). An NDC uniquely identifies the drug, its labeler, dosage form, strength, and package size.

**Source :** Acumen LLC analysis of 2021 Part D prescription drug event data for MedPAC.

# Part D data analysis: Generic price variability depends on how drug and price are defined

---

- Lower variation when a drug is defined more narrowly (NDC vs. PEP)
- Higher variation when price includes dispensing fees (POS price) and postsale pharmacy fees (net price)
  - CMS data for pharmacy fees are aggregated across claims for each NDC, which may be masking even greater variation
- Effects of including dispensing fees and pharmacy fees were greater for lower-priced drugs
  - Dispensing fees are typically a fixed dollar amount (e.g., \$1), so they account for a larger share of lower prices

**Note:** NDC (national drug code), PEP (pharmaceutically equivalent product), POS (point-of-sale). We measured price variation using a relative standard deviation, where the standard deviation of each drug's price distribution is expressed relative to the median value of that distribution.

**Source:** Acumen LLC analysis of 2021 Part D prescription drug event and direct and indirect remuneration data for MedPAC.

# Part D data analysis: Complex interactions among factors affecting price variability

---

- Lower-priced products tended to have higher variability
  - Small fluctuations in price can translate into large percentage changes
  - However, relationship between price and variability was not linear
- Price variability exhibited different patterns across therapies
- Further analysis of 15 drugs revealed different patterns of price variation across and within products
- We also found instances in which prices varied more for a subgroup than for the drug product as a whole:
  - Higher variation for individual NDCs vs. variation measured at the PEP level
  - Higher variation for chain pharmacies vs. variation across all pharmacies

**Note:** NDC (national drug code), PEP (pharmaceutically equivalent product). We measured price variation using a relative standard deviation, where the standard deviation of each drug's price distribution is expressed relative to the median value of that distribution.

\*Prices were calculated as ingredient costs per unit on each claim. Results for analysis by therapy were similar when other definitions of price (including dispensing fees and/or postsale pharmacy fees) were used.

**Source:** Acumen LLC analysis of 2021 Part D prescription drug event and direct and indirect remuneration data for MedPAC.

# What did we learn from the analysis of the Part D data?

---

- For generic drugs for which Part D plans negotiated postsale pharmacy fees, POS prices do not accurately reflect the final prices paid by Part D plans
- Price variation did not exhibit consistent patterns across therapies, products, or at the individual NDC level
- Variations across pharmacy types or individual plans may explain some, but not all, of the price variation for a given product
- To understand why there may be nonsystematic variation in prices of generic drugs in Part D, we turned to the experts and conducted interviews with pharmaceutical supply chain participants

**Note:** POS (point-of-sale), NDC (national drug code).

**Source:** Acumen LLC analysis of 2021 Part D prescription drug event and direct and indirect remuneration data for MedPAC.



# Stakeholder interviews

# Scope of the stakeholder interviews

---

- We conducted 14 interviews\* with individuals and organizations representing pharmacies, PBMs, plan sponsors, wholesalers, and other pharmaceutical supply chain intermediaries and experts
- A semi-structured discussion on topics related to:
  - How prices of generic drugs are determined and the nature of interactions among supply chain participants
  - How Part D plans set their reimbursement rates (“price”) for generic drugs
  - Other factors that affect generic price variation in Part D

**Note:**

PBM (pharmacy benefit manager).

\*Commission staff contracted with B&J Health Policy LLC to conduct external stakeholder interviews. Interviews were conducted between August 2023 and March 2024.

# Theme 1: Pharmacies often face different acquisition costs for the same generic drug

---

- Interviewees generally agreed that most variation in pharmacies' acquisition costs resulted from different prices charged by wholesalers, not generic manufacturers
- Pharmacies' acquisition costs reflect purchasing decisions of wholesalers (e.g., the wholesaler's manufacturer of choice)
- Some interviewees noted that differences in bargaining leverage likely contribute to variation in pharmacies' acquisition costs
  - E.g., large chain pharmacies' greater bargaining leverage (via their consortia) allows them to obtain lower acquisition costs than independent pharmacies

**Source:** B&J Health Policy LLC stakeholder interviews for MedPAC.



## Theme 2: Wholesalers' prices for generic drugs may be tied to prices of brand-name drugs

---

- Interviewees described “tying arrangements” between wholesalers and pharmacies, which “tie” discounts for branded drugs to the volume and price of generic drugs purchased
- Some interviewees noted that independent pharmacies often agree to these tying arrangements to avoid losing money on branded drugs, even if they must pay more for generics
- Some independent pharmacies have formed cooperative-style wholesale businesses that provide transparent pricing and some control over purchasing decisions

**Source:** B&J Health Policy LLC stakeholder interviews for MedPAC.

# Theme 3: Part D payments do not reflect pharmacy acquisition costs or manufacturers' prices

---

- Payments for generic drugs are typically based on PBMs' MAC prices
  - Unless U & C price or discounted AWP is lower
  - Updated periodically, sometimes as often as every week
  - Vary widely across PBMs and by pharmacy
  - Many voiced concerns about the lack of transparency in setting MAC prices
- Many discussed PBMs' use of a target generic effective rate (GER) as a factor contributing to price variation
  - Adjust MAC prices and/or postsale pharmacy fees to meet the GER target across generic drugs
- In recent years, some pharmacies have negotiated reimbursements based on AWP-based prices rather than MAC prices

**Note:** PBM (pharmacy benefit manager), MAC (maximum allowable cost), U & C (usual & customary), AWP (average wholesale price).  
**Source:** B&J Health Policy LLC stakeholder interviews for MedPAC.

# Theme 4: POS payments may not provide an accurate picture of prices paid by Part D plans

---

- Some interviewees considered Part D overpayments for generic drugs a possibility, although not after postsale fees and dispensing fees were accounted for
- Several interviewees noted that GER makes it difficult for pharmacies to know the profit margin on individual drugs because GER is determined across generic drugs
- Some interviewees emphasized that any meaningful Part D price comparisons would need to go beyond POS payments
  - Factor in any differences in dispensing fees
  - Account for postsale pharmacy fees

**Note:** POS (point-of-sale), GER (generic effective rate).  
**Source:** B&J Health Policy LLC stakeholder interviews for MedPAC.

# Theme 5: PSAOs typically do not negotiate reimbursement contract terms with PBMs

---

- We consistently heard from interviewees that PSAOs have little effect on determining pharmacy reimbursements
  - Some commented that pharmacy reimbursement rates are generally not up for negotiation
  - One interviewee noted that even when there were negotiations around price schedules, there “ha[ve] not been stellar results”
- Interviewees conveyed that PSAOs primarily serve as facilitators for pharmacies, existing largely to relieve independent pharmacies of contractual and administrative burdens

**Note:** PSAO (pharmacy services administrative organization), PBM (pharmacy benefit manager).  
**Source:** B&J Health Policy LLC stakeholder interviews for MedPAC.

# Theme 6: Pharmacy fees may continue to create financial uncertainties for independent pharmacies

---

- Interviewees generally agreed that postsale pharmacy fees make it difficult to know the true reimbursement amount for a specific drug
  - Differences in postsale fees across pharmacies contributed to price variation
  - Interviewees were dissatisfied with the lack of transparency in how postsale fees determined
- A few commented on the policy change to reflect pharmacy fees at the POS beginning in 2024:
  - One interviewee said that pharmacy fees will be indistinguishable from ingredient costs, preventing pharmacies from appealing MAC prices
  - Another interviewee thought the policy may allow pharmacists to decide not to fill a prescription if they expected to incur a loss

**Note:** POS (point of sale), MAC (maximum allowable cost).  
**Source:** B&J Health Policy LLC stakeholder interviews for MedPAC.

# Theme 7: Part D plan payments, in general, do not contribute to generic drug shortage

---

- Several interviewees noted that large purchasers are contributing to “race to the bottom” pricing until prices reach a level that is too low for some generic manufacturers to operate profitably
- Some added that requiring higher reimbursements for generic drugs would “only contribute to pharmacy margins”
- One interviewee, however, suggested that higher payments for generic drugs may flow through to the generic manufacturers and help address shortages caused by financial rather than other supply chain-related issues

**Source:** B&J Health Policy LLC stakeholder interviews for MedPAC.



# Summary and discussion

# Key takeaways

---

- In most cases, generic POS prices only indirectly affect beneficiaries and Medicare
  - Premiums/program costs are based on net prices accounting for all pharmacy fees
  - Cost sharing for most generic prescriptions are subject to copays\*
- Part D plan payments for generic prescriptions:
  - Reflect MAC prices set by PBMs and vary widely by plan and pharmacy
  - Change periodically through adjustments to MAC prices or pharmacy fees to achieve specific target “prices” across all (or most) generic prescriptions

**Note:** POS (point-of-sale), MAC (maximum allowable cost), PBM (pharmacy benefit manager).

\*Analysis was limited to plans that use formulary tiers. The vast majority of plans excluded from the analysis were special needs plans that serve beneficiaries who receive Part D’s low-income subsidy, which covers most of the cost-sharing liability on behalf of LIS beneficiaries.

**Source :** MedPAC analysis of Part D prescription drug event and formulary data from CMS.



# Discussion

- Continue to monitor prices and access in Part D
- Questions or comments about this work?



*Advising the Congress on Medicare issues*

# Medicare Payment Advisory Commission

 [www.medpac.gov](http://www.medpac.gov)

 [@medicarepayment](https://twitter.com/medicarepayment)