Rebates and Medicare Part D

Jack Hoadley, PhD
Research Professor Emeritus
Health Policy Institute, Georgetown University

Alliance for Health Policy
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Part D Benefit Design

Initial Coverage Period: $410
Coverage Gap: $3,820
Catastrophic Coverage: $8,140

Total Spending

Plan Pays
Beneficiary Pays
CMS Pays (reinsurance)

Combination of Mfr. Discount, Plan & Beneficiary Payment

Beneficiary Pays:
- Brands: 25%
- Generics: 37%

Plan Pays:
- 75%
- 25%

Beneficiary Pays:
- 100%
- 75%

CMS Pays:
- 80%
- 15%
- 5%

Bene 100%
Bene 75%
Bene 25%
Bene 15%
Bene 5%
Understanding the Role of Rebates in Prescription Drug Pricing

Trends in Medicare Part D Rebates, 2006-20

As Percentage of Total Drug Costs

![Graph showing trends in Medicare Part D rebates from 2006 to 2022.](image)

**SOURCE:** Medicare Trustees Report, 2018

Estimated Rebate Amounts

As Percentage of Drug Costs by Category

![Bar chart showing estimated rebate amounts.](image)

* Refers to the top 53 therapeutic classes of drugs, which accounted for 70 percent of Part D spending in 2010

**SOURCE:** Adapted from Congressional Budget Office, Competition and the Cost of Medicare's Prescription Drug Program, July 30, 2014
Estimated Rebates by Market Status

As Percentage of Gross Drug Costs by Category Among Drugs with Rebates

<table>
<thead>
<tr>
<th>Market Status</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Brand Competition</td>
<td>39%</td>
</tr>
<tr>
<td>Direct Generic Substitute (3+ Competitors)</td>
<td>34%</td>
</tr>
<tr>
<td>Direct Generic Substitute (1-2 Competitors)</td>
<td>27%</td>
</tr>
<tr>
<td>No Direct Brand Competition or Generic Substitute</td>
<td>23%</td>
</tr>
<tr>
<td>Protected Class</td>
<td>14%</td>
</tr>
</tbody>
</table>

*Source: Milliman, Prescription Drug Rebates and Part D Drug Costs, July 16, 2018*

CMS Estimated Total Impact

In Billions

<table>
<thead>
<tr>
<th>Rebate Pass-Through Percent</th>
<th>33%</th>
<th>90%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beneficiary Costs</strong></td>
<td>-20</td>
<td>-53</td>
</tr>
<tr>
<td>-- Cost Sharing</td>
<td>-29</td>
<td>-79</td>
</tr>
<tr>
<td>-- Premiums</td>
<td>+9</td>
<td>+26</td>
</tr>
<tr>
<td><strong>Government Costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-- Direct Subsidy</td>
<td>+62</td>
<td>+177</td>
</tr>
<tr>
<td>-- Reinsurance</td>
<td>-22</td>
<td>-62</td>
</tr>
<tr>
<td>-- Low-Income Cost-Sharing Subsidy</td>
<td>-17</td>
<td>-48</td>
</tr>
<tr>
<td>-- Low-Income Premium Subsidy</td>
<td>+3</td>
<td>+8</td>
</tr>
<tr>
<td><strong>Manufacturer Gap Discount</strong></td>
<td>-10</td>
<td>-26</td>
</tr>
</tbody>
</table>

*Source: CMS Proposed Rule, November 2017*
Interpreting Impact of Policy Change

- Exact numbers rely on many assumptions
- Lowers out-of-pocket costs for beneficiaries in high coinsurance tiers
- Affects when beneficiaries reach donut hole and catastrophic threshold
- Increases premiums paid by all Part D enrollees
- Changes incentives for gaming on annual plan bids submitted to CMS

What Could Change?

- Incentives for manufacturers, PBMs, and Part D plans to change use of rebates
  - Higher or lower net rebates
  - Different distribution of rebate dollars
- Impact of (partial) transparency of rebates
- Possible federal policy changes
  - Change share of federal reinsurance
  - Change out-of-pocket liability for beneficiaries
- Evolution of plan benefit design
  - Balance of coinsurance and copays