September 2023

MEDICARE PART D

CMS Should Monitor Effects of Rebates on Plan Formularies and Beneficiary Spending

GAO Highlights

Highlights of GAO-23-105270, a report to Congressional Requesters

Why GAO Did This Study

Medicare Part D drug expenditures exceeded $200 billion in 2021. Part D plan sponsors may negotiate rebates from drug manufacturers, where manufacturers offer payments to sponsors in exchange for access to a plan's formulary. Manufacturers may offer higher rebates in exchange for lower beneficiary cost-sharing or facing fewer competitors. Policymakers have sought better understanding of rebates' effects on Part D spending and beneficiary access.

GAO was asked to examine rebates in the Part D program. This report, among other objectives, describes (1) rebate and expenditure information for Part D drugs and (2) implications of rebates on plan sponsors and beneficiaries. GAO also assessed how CMS considers rebate data in its oversight of Part D formularies.

GAO analyzed CMS drug expenditure and rebate data for Part D drugs in 2021 (the data most recently available at the time of our analysis); reviewed CMS documentation; and spoke with CMS officials, plan sponsors, and manufacturers.

What GAO Recommends

The Administrator of CMS should monitor the effect of rebates on plan sponsor formulary design and on Medicare and beneficiary spending to assess whether rebate practices are likely to substantially discourage enrollment by certain beneficiaries. The Department of Health and Human Services did not concur with GAO's recommendation. GAO believes the recommendation could help ensure compliance with Part D requirements.

View GAO-23-105270. For more information, contact John Dicken at (202) 512-7114 or dickenj@gao.gov.

What GAO Found

GAO found plan sponsors—private companies that provide voluntary Medicare Part D prescription drug coverage—received $48.6 billion in rebates from drug manufacturers in 2021. Three therapeutic drug classes accounted for 73 percent of rebates: (1) endocrine metabolic agents, including antidiabetic drugs; (2) blood modifiers, including anti-stroke drugs; and (3) respiratory agents, including anti-asthma drugs.

Beneficiary use of highly rebated drugs had different spending implications for plan sponsors, beneficiaries, and Medicare. In general, rebates may reduce plan sponsor payments for drugs with a higher gross cost to an amount lower than the payment for a competing drug with a lower cost. This may lower Medicare drug spending, as its plan sponsor payments are based on drug costs after rebates. However, rebates do not lower individual beneficiary payments for drugs, as these are based on the gross cost of the drug before accounting for rebates. Thus drugs with higher gross costs generally result in higher beneficiary payments relative to payments for competing drugs with lower gross costs. GAO found payments by beneficiaries were more than plan sponsor payments, after accounting for rebates, for 79 of the 100 drugs receiving the most rebates.

Medicare Part D Expenditures by Beneficiaries and Plan Sponsors, after Rebates, for the 79 Highest-Rebated Drugs Where Beneficiaries Paid More than Plan Sponsors, 2021

Source: GAO analysis of Centers for Medicare & Medicaid Services (CMS) data. | GAO-23-105270

The Centers for Medicare & Medicaid Services (CMS) uses drug rebate data to help ensure its plan sponsor payments are accurate, but CMS officials stated they do not use this data in its oversight of plan formularies. CMS conducts an annual clinical formulary review, which includes reviewing if formularies include commonly prescribed drug classes. GAO found that rebates may influence formulary design in ways that could affect beneficiary access for certain drugs. CMS officials told GAO that an evaluation of rebate information is unnecessary given its clinical formulary review, and that CMS is statutorily prohibited from interfering with drug manufacturer and plan sponsor negotiations. However, monitoring rebate and expenditure data would not require CMS to interfere with negotiations between plan sponsors and manufacturers, and it could provide CMS and Congress insight on the extent to which rebates' influence on formularies could discourage enrollment of certain beneficiaries. Such monitoring of rebates will be particularly important as the agency implements the provisions of the Inflation Reduction Act of 2022, which will change Part D plan sponsor, beneficiary, and Medicare drug spending responsibility and may affect formulary design and rebates.