

Medicare Part D Direct & Indirect Remuneration

Payers who offer Medicare Part D plans may receive additional compensation after the point-of-sale. These funds are known as Direct & Indirect Remuneration (DIR), and account for growing levels of disparity between Part D gross and net drug costs. As DIR is primarily composed of manufacturer rebates on select drugs, the way rebates are allocated have unexpected effects on patient out-of-pocket (OOP) contributions and payer incentives.

Key Findings

DIR as a percentage of gross drug costs has grown from 11.3% to 17.2% between 2010 - 2015. This change reflects the success of Part D payers in obtaining increasing levels of price concessions (rebates) for drugs in the Part D benefit. Total DIR reported by Part D plan sponsors has been growing dramatically in recent years (see Figure 1), with rebates growing at twice the rate of net drug costs between 2010 - 2015.

Implications for Life Science Manufacturers

Rebates paid by manufacturers are not applied to pharmacy network pricing which drives patient OOP amounts for individuals subject to coinsurance.

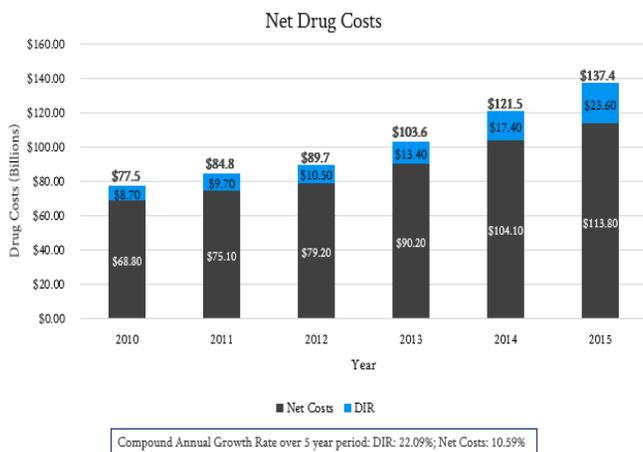


Figure 1: Medicare Part D Drug Cost Summary

As such, patients do not benefit from lower OOP costs due to rebates and instead pay pharmacy network rates based on gross, not net price.

Spending for a beneficiary who takes one prescription drug (annual drug cost)	Example 1: Brand vs. Generic		Example 2: Brand vs. Brand	
	Brand with list price of \$12,000, 25% rebate	Generic with list price of \$3,000, no rebate	Brand with list price of \$60,000, 25% rebate	Brand with list price of \$30,000, 25% rebate
Gross Drug Spending				
Beneficiary cost sharing	\$3,089	\$1,050	\$5,489	\$3,989
Coverage gap discount	\$2,069	0	\$2,069	\$2,069
Covered Benefits	\$6,842	\$1,950	\$52,442	\$23,942
Subtotal	\$12,000	\$3,000	\$60,000	\$30,000
Allocation of Rebates and Fees (at 80% reimbursement in catastrophic phase for 2017 benefit design)				
Medicare reinsurance (at 80%) ¹	\$800	0	\$4,000	\$2,000
Plan liability	\$2,200	0	\$11,000	\$5,500
Total Rebate Subtotal	\$3,000	0	\$15,000	\$7,500
Net effect				
Beneficiary cost sharing	\$3,089	\$1,050	\$5,489	\$3,989
Medicare reinsurance after rebates	\$2,529	0	\$37,729	\$15,729
Plan liability after rebates and reinsurance ²	\$1,313	\$1,950	-\$287	\$713

Source: MedPAC analysis, MedPac March 2017 report

Figure 2: Gross to Net Drug Price Example

However, the manner in which DIR funds are allocated do serve to offset the premium rates Part D plan members pay monthly.

More importantly, the allocation of DIR funds may also provide an incentive for payers to prefer high list price / high rebate drugs over drugs with a lower list price (see Figure 2).

Conclusions / Action Steps

Part D members with coinsurance (particularly for those on specialty medications) may be less adherent to therapy due to OOP burden, suggesting a potential area of alignment for payer and manufacturer collaboration.

The distribution of DIR funds may create a perverse incentive for payers which favors high list price / high rebate drugs. Manufacturers must be cognizant of this fact as they engage in contract negotiations with Part D payers.