USC Schaeffer Study Confirms Value of PBM Tools, Private-sector Negotiation in Medicare Part D

In a July 2021 Research Letter published in the journal JAMA Internal Medicine, *USC Schaeffer researchers Erin Trish, Laura Gascue, Rocio Ribero et al. discuss their comparison of generic spending under Medicare Part D and the generic prices available at Costco. Specifically, Trish et al. compared "Costco member prices" for 184 generic drugs to the "total [Medicare] spending, including beneficiary out-of-pocket (OOP) payments from all other sources."[1] The study finds that out-of-pocket payments by patients at the pharmacy counter were lower than Costco membership prices 89% of the time.*

The USC Schaeffer study discusses discounts on generic drugs, for which "it is extremely rare for a generic manufacturer to negotiate rebates with health plans and PBMs." Indeed, discounts for generic drugs are negotiated between generic manufacturers and wholesalers on behalf of pharmacies (Sood et al. 2017; Milliman 2018; Lieberman, Ginsburg, and Trish 2020; AAM 2017). POS rebate proposals would have no relationship to wholesaler-negotiated discounts on generic drugs.

- **Discounts on generics, which are commoditized, are different than rebates.** Generics' purchase prices are typically negotiated through contracts between manufacturers and wholesalers and then wholesalers and pharmacies. (HHS 2000).
- **PBMs then negotiate contracts with pharmacies (or their PSAOs) that incent cost-effective generic purchasing,** including through the use of maximum allowable cost (MAC) lists and higher dispensing fees (e.g., "25 or 50 cents higher") to encourage generic substitution (HHS 2000). States also use MAC lists (Kaiser 2013). Indeed, The trade association representing the generic manufacturers notes that "Decisions on which manufacturer to purchase a generic drug from are made at the pharmacy level and do not typically involve a health plan or PBM." (AAM 2017)

For generics, a pharmacy's purchase price, and thus the consumer's price, is "highly variable, largely depending upon competition in the drug class, and the ability of the wholesale distributor to drive market share or increase the volume sold. … The price to the end consumer also is highly elastic depending upon the negotiated contracts [of the wholesaler] with the retail pharmacies." (Kaiser 2013)

Medicare Part D plan sponsors are heavily incentivized to promote generic dispensing, including CMS-established generic dispensing rate (GDR) performance metrics.

- **Generics use has increased markedly over time.** In fact, the majority of Part D plans achieve generic substitution rates above 75% (Avalere 2020).
- **When weighted by enrollment, the analysis found that 77% of beneficiaries are enrolled in plans with generic substitution rates above 80%,** suggesting that most Part D beneficiaries are enrolled in plans that encourage generic substitution. The U.S. Department of Health and Human Services Assistant Secretary for Planning and Evaluation found that plan sponsors and PBMs use higher dispensing fees to encourage generic substitution.

[1] Erin Trish et al., "Comparison of Spending on Common Generic Drugs by Medicare v. Costco Members" (July 6, 2021).

Rebates negotiated by Part D plan sponsors and pharmacy benefit managers (PBMs) have consistently been shown to lower costs for Medicare beneficiaries and taxpayers. Centers for Medicare & Medicaid Services (CMS) actuaries found point-of-sale (POS) rebates would increase Part D premiums by up to 25% and increase drug spending by $196 billion.

There is no correlation between rebates and list prices. But there is a correlation between POS rebates and savings for manufacturers. Requiring POS rebates in Medicare Part D would increase costs for most beneficiaries and taxpayers. CMS estimated that requiring 100 percent of rebates to be passed through at POS would, over 10 years, save drug manufacturers $29.4 billion.