Weekly Checkup

Misreading the Drivers of Medicare Prescription Drug Costs

LAURA HOBBS | AUGUST 4, 2023

Last week, the Senate Finance Committee held an open executive session to mark up yet another variation of a pharmacy benefit managers (PBMs) transparency bill. PBMs have been at the heart of numerous bipartisan congressional hearings and markups in 2023, with members arguing that PBMs drive up the costs of prescription drugs for patients and taxpayers. **Yes, transparency in the prescription drug purchasing chain is essential—but these legislative proposals overlook the role PBMs have played in keeping Medicare Part D premiums low.** Let's dive into the perceived problem of PBMs, recent Medicare data and the longer-term challenges facing the program, particularly for physician-administered drugs.

The Perceived Problem: PBMs are accused of increasing the cost of prescription drugs, especially for a small portion of Medicare Part D beneficiaries who may have paid a higher cost-sharing amount based on the list price rather than net price (the amount after a drug rebate is applied) at the pharmacy counter. Yet **this analysis may be missing the forest for the trees, with a hyper-focus on pricing for specific pharmaceutical products rather than the generally low premium most Part D beneficiaries pay for prescription drug coverage.**

The Data: MedPAC released its July data book, which noted that, in all Part D premium plans from 2014–2023, the cumulative change in weighted average premiums was -$3 (from $29 to $26). **In an earlier report this year, MedPAC highlighted that Part D premiums have remained low and even declined despite the upward pressure from prescription drug brand costs. Moreover, Part D premiums have mostly stabilized since 2010.**

The Challenge to Medicare: **None of this is to say that Medicare is without deep fiscal problems. Medicare Part B spending is expected to be half of all Medicare spending by 2031.** (And it's important to note that PBMs are not involved in the delivery of Part B, which covers outpatient physician services and administered drugs.) This increase in spending may be due at least in part to the 340B Drug Pricing Program. A June 2015 Government Accountability Office report stated that, as a result of the 340B Program, "Not only does [Medicare] excess spending on Part B drugs increase the burden on both taxpayers and beneficiaries who finance the program through their premiums, it also has direct financial effects on beneficiaries who are responsible for 20 percent of the Medicare payment for their Part B drugs…." In short, **Medicare paid more than the amount the covered entity (such as a hospital) paid for the acquired drug and patients paid a higher cost-sharing amount for the drug. Recent federal agency attempts to cut reimbursement under Medicare Part B have been nullified in court.**

For the first time, Medicare spending is projected to exceed $1 trillion this year. Medicare Part B spending is expected to constitute the majority of Medicare spend by 2031. **Congressional scrutiny into the prescription drug purchasing chain should consider potential distortionary impacts of the 340B Drug Pricing Program to better mitigate prescription drug costs for patients and taxpayers in the future.**