

Why GAO Did This Study

The Patient Protection and Affordable Care Act of 2010 established the Discount Program to help Medicare Part D beneficiaries with their prescription drug costs while in the coverage gap, which occurs between the initial and catastrophic coverage periods where Medicare helps pay for drug costs. Until the Discount Program began in 2011, beneficiaries in the coverage gap paid 100 percent of drug costs. The Discount Program required manufacturers to provide a 50 percent discount on the price of brand-name drugs for beneficiaries in the gap.

GAO was asked to describe (1) CMS's oversight of the Discount Program; (2) perspectives of plan sponsors, manufacturers, and PBMs on effects of the Discount Program; and (3) how prices for brand-name drugs used by beneficiaries in the coverage gap and by those who did not reach the gap changed before and after the start of the Discount Program. To describe CMS's oversight, GAO reviewed CMS documents and interviewed CMS officials. To describe perspectives on the effects of the Discount Program, GAO interviewed the 7 largest Part D plan sponsors based on enrollment data, 8 of 10 manufacturers of brand-name drugs with the highest expenditures in the gap, and 3 PBMs who contracted with sponsors GAO interviewed. To describe price changes, GAO used CMS Part D data from 2007 to 2011 to track prices for high-expenditure brand-name drugs used by those in and those who did not reach the gap. GAO compared prices for the two baskets because drugs used by those in the gap may be more susceptible to price increases since manufacturers must provide the discount for these drugs.

View [GAO-12-914](#). For more information, contact John Dicken at (202) 512-7114 or DickenJ@gao.gov.

MEDICARE PART D COVERAGE GAP

Discount Program Effects and Brand-Name Drug Price Trends

What GAO Found

As part of Medicare's Part D Coverage Gap Discount Program (Discount Program), the Centers for Medicare & Medicaid Services (CMS), located within the Department of Health and Human Services (HHS), oversees the provision of discounts by plan sponsors to eligible beneficiaries when they purchase brand-name drugs and monitors that discounts are paid for by drug manufacturers. CMS checks prescription drug data to verify that sponsors provide accurate discounts at the point-of-sale to eligible beneficiaries in the coverage gap. These checks include verifying whether a beneficiary has reached the coverage gap and that the plan sponsor has calculated the discount amount correctly. CMS also tracks that manufacturers pay plan sponsors for the discounts sponsors have provided to beneficiaries and has implemented a dispute resolution process for manufacturers disputing discount payment amounts. CMS also performs other activities such as monitoring beneficiary complaints related to the program.

The plan sponsors, pharmacy benefit managers (PBM) that negotiate on behalf of plan sponsors, and drug manufacturers GAO interviewed had different perspectives on aspects of the drug pricing and plan design effects of the Discount Program. Most sponsors and PBMs believed the Discount Program may have been a contributing factor in the rising prices of some brand-name drugs by some manufacturers. However, most manufacturers did not believe the Discount Program affected drug prices they negotiated with sponsors and PBMs. The PBMs we interviewed also told us they observed that some manufacturers decreased the amount of rebates for the brand-name drugs they offered, which they believe occurred as a result of the Discount Program. In comparison, most of the plan sponsors did not observe manufacturers decreasing rebate amounts and most manufacturers reported no effects on their rebate negotiations as a result of the Discount Program. Most sponsors and PBMs told GAO that the Discount Program did not affect Part D plan formularies, plan benefit designs, or utilization management practices.

GAO found that the prices for high-expenditure brand-name drugs used by beneficiaries in the coverage gap and by those who did not reach the gap in 2011 increased at a similar rate before and after the Discount Program was implemented in January 2011. Specifically, from January 2007 to December 2010, before the Discount Program began, the median price for the basket of 77 brand-name drugs (weighted by the utilization of each drug) used by beneficiaries in the coverage gap increased 36.2 percent. During the same period, the median price for the basket of 78 brand-name drugs used by beneficiaries who did not reach the coverage gap increased 35.2 percent. From December 2010 through December 2011, the first year with the Discount Program, the median price for the two baskets increased equally by about 13 percent, the greatest increase in median price for both baskets compared to earlier individual years.

HHS reviewed a draft of this report and in its written comments noted that GAO's findings on stakeholder perspectives and changes in brand-name drug prices were consistent with its experience and CMS's drug price analysis. HHS stated that CMS will continue to monitor the Discount Program and Part D drug prices.