Spotlight

Drug Price Increases That Exceed Inflation Are Costing Medicare Part D Billions

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Background

It has been 15 years since the creation of the Medicare Part D prescription drug benefit. Research indicates that the program has been largely successful: beneficiaries report improved access to prescription drugs and the vast majority are satisfied with their coverage. However, there is growing concern about trends in Medicare Part D spending, which has accelerated considerably over the past decade.

One factor helping to drive these trends is brand-name drug price growth. Brand-name drug prices have been growing faster than general inflation for more than a decade, and drug companies are increasingly relying on such price increases for revenue growth. Meanwhile, Medicare Part D remains prohibited from negotiating with pharmaceutical companies, leaving it exposed to the possibility of paying ever-higher prices for the exact same drug products.

In response to this challenge, Congress recently considered bipartisan legislation that would require drug manufacturers to pay a rebate to the federal government if their prices increased faster than the rate of general inflation. Notably, a similar inflationary rebate is already required under Medicaid and is responsible for roughly half of the rebates that state Medicaid programs receive from brand-name drug manufacturers.

This AARP Public Policy Institute Spotlight finds that total Medicare Part D spending on 50 top brand-name drugs was $38 billion higher between 2015 and 2019 than it would have been if drug manufacturers had not increased their prices faster than the corresponding rate of inflation.
Analysis

The analysis is based on the 50 sole-source brand-name drugs with the highest total Medicare Part D spending in 2019 ("top 50 drugs"), as reported in the Medicare Part D Drug Spending Dashboard. Our analysis found that, prior to the application of any drug company rebates, Medicare Part D spent nearly $77 billion on the top 50 drugs in 2019 (figure 1). Meanwhile, spending on these same drugs would have been more than $16 billion lower ($60.5 billion vs. $77.0 billion) had their price changes been limited to the rate of general inflation after 2015.

Our analysis also found that excess spending on drug price increases accumulates quickly over time. Total Medicare Part D spending (i.e., spending by the Medicare program, Part D plans, and enrollees prior to the application of any drug company rebates) for the top 50 drugs would have totaled $250.8 billion—instead of $289.1 billion—over the study period if price changes had been limited to the rate of general inflation. In other words, between 2015 and 2019, Medicare Part D spent a total of $38.3 billion on the top 50 drugs that was solely attributable to drug price increases that exceeded inflation.

Our analysis also found that the vast majority of the top 50 sole-source brand-name drugs experienced annual price increases over the study period. On average, nearly 90 percent of the top 50 drugs had annual price increases that exceeded the corresponding rate of general inflation from the end of 2015 through 2019 (figure 2). These trends indicate that annual price increases that exceed inflation are a regular occurrence for a wide variety of sole-source brand-name drugs.

FIGURE 1
Medicare Part D Spent an Extra $38 Billion on the Top 50 Drugs between 2015 and 2019 because Drug Price Increases Exceeded Inflation

Note: Totals may not sum due to rounding.

Conclusion
Our analysis found that between 2015 and 2019, Medicare Part D spent billions of dollars as a result of brand-name drug price increases. These findings are not surprising: the Medicare Payment Advisory Commission (MedPAC) has noted that drug price increases are a major factor driving Medicare Part D spending growth.14 Notably, this analysis includes a relatively small subset of brand-name drugs and focuses on a brief time period. Further, many of the top 50 drugs entered the market prior to 2015, making it highly likely that the baseline prices used in this study were already elevated due to price increases that occurred before the study period.15 In addition, Medicare, which is currently prohibited from negotiating drug prices for Part D drugs, pays considerably higher brand-name drug prices than other federal programs.16 Thus, the excess spending identified in this report is almost certainly an underestimate.

Another limitation of this analysis is our inability to fully account for proprietary drug company rebates and other price concessions. Research indicates that only about one-third of brand-name drugs have more than nominal rebates17 and that there is substantial drug-to-drug variability, with some brand-name drugs having no rebates and others believed to have rebates of over 60 percent.18 However, even if we assume that all top 50 drugs received a rebate of 35 percent,19 excess Medicare Part D spending due to price increases that exceeded inflation would still be $25 billion between 2015 and 2019.

Medicare Part D is a taxpayer-funded program. Higher government spending driven by drug price increases will affect all Americans in the form of higher taxes and/or cuts to public programs. Equally important, increased drug costs—if left unchecked—will prompt more older Americans to stop taking necessary medications, leading to poorer health outcomes and higher health care costs in the future.20 It is unclear whether the inflation-based rebates under consideration in Congress would lead to widespread changes in drug company pricing behavior; however, given the current prevalence and magnitude of annual brand-name drug price changes, it is clear that even a small movement in the right direction will result in substantial savings over the status quo.

Methodology
This report is based on an AARP Public Policy Institute analysis of 2015–19 data from the Centers for Medicare & Medicaid Services, Medicare Part D Drug Spending Dashboard.21 Annual price changes were limited to the corresponding annual rate of general inflation (Consumer Price Index-All Urban Consumers for All Items; CPI-U)22 for the top 50 sole-source brand-name drugs by total Medicare Part D spending in 2019.
Price changes were measured using annual changes in unweighted average spending per dosage unit (i.e., total spending divided by total dosage units). Any annual drug price changes that exceeded the corresponding rate of general inflation were adjusted to match inflation. The adjusted prices were then multiplied by the corresponding dosage unit amount to calculate adjusted Medicare Part D spending over that time period.

The prices used in this analysis do not reflect rebates and other price concessions offered by certain drug companies, which are not publicly available.


3 Ibid.


13 Based on CPI-U (see Consumer Price Index-All Urban Consumers for All Items [seasonally adjusted] [CPI-U], Bureau of Labor Statistics series CU84000001).  


21 Centers for Medicare & Medicaid Services, Medicare Part D Drug Spending Dashboard & Data.

22 See Consumer Price Index-All Urban Consumers for All Items [seasonally adjusted], Bureau of Labor Statistics series CUSR0000SA0.