

2020 Cost Measures Field Testing Methodology for Incorporation of Rebates in Part D Standardized Amounts

1.0 Introduction

This document details the draft methodology used to incorporate rebates into standardized amounts for Part D drugs during field testing of Wave 3 episode-based cost measures. This methodology applies to Part D standardized amounts calculated according to a draft Part D payment standardization methodology, for which documentation is posted on the [MACRA Feedback Page](#).

As part of the measure development process, field testing allows the Centers for Medicare & Medicaid Services (CMS) and the measure development contractor Acumen, LLC (referred to as “Acumen”) to gather feedback on new episode-based cost measures from clinicians and other stakeholders. During field testing, Field Test Reports are available for group practices and solo practitioners who meet the minimum number of cases for each measure being field tested. All stakeholders also have the opportunity to review the draft measure specifications and supplemental documentation, and provide feedback on the draft measure specifications for each measure. As part of this process, CMS and Acumen are seeking stakeholder feedback on this draft methodology for incorporating rebates into Part D standardized cost captured in episode-based cost measures.

We are collecting stakeholder feedback from **August 17 to September 18, 2020**. To provide feedback on the draft measure specifications please navigate to this feedback survey: <https://www.surveymonkey.com/r/2020-cost-measures-field-testing>

2.0 Background on Part D Drug Rebates

Within the Medicare Part D program, private insurers (i.e., Part D plan sponsors) and their Pharmacy Benefits Managers (PBMs) often receive compensation for drugs after their point-of-sale, which CMS calls Direct or Indirect Remuneration (DIR)¹. Most commonly, drug manufacturers issue post-point-of-sale rebates to Part D sponsors and PBMs in exchange for preferential listing of the manufacturer’s branded drugs on plan formularies (i.e., the list of drugs covered by a plan). Rebates are rare when it comes to generic drug counterparts, and aren’t issued for drugs covered under the Medicare Part B program.

For the 3 episode-based cost measures (i.e., Sepsis, Diabetes, and Asthma/Chronic Obstructive Pulmonary Disease [COPD]) being tested with Part D drug costs, CMS and Acumen decided to implement an adjustment to account for post-point-of-sale rebates within Part D standardized amounts (which only reflect point-of-sale drug costs). This rebate adjustment is

¹ Additional information about DIR can be found in this [CMS Newsroom Fact Sheet](#)

meant to ensure that the cost of Part D branded drugs don't appear disproportionately costly relative to generic and/or Part B drug substitutes.

3.0 Field Testing Methodology for Part D Rebate Adjustment

To make the rebate adjustment, Acumen implemented a reduction to the standardized costs for all Part D branded drugs based on a single adjustment factor. This adjustment factor is based on the proportion of total Part D branded drug cost that is from rebates, and is calculated from data in the annual [Medicare Trustees Report](#). The details of this methodology are outlined in the following steps and example calculations.

- i. Obtain total rebate percentage and generic-brand cost proportions from [Medicare Trustees Report](#)

In this first step, Acumen obtains the following values from the relevant Medicare Trustees Report:

- a. Total Rebate %: Proportion of gross drug cost (GDC) from rebate payments
- b. Brand Cost %: Proportion of GDC from branded drugs
- c. Generic Cost %: Proportion of GDC from generic drugs

Please see the [Appendix](#) at the end of this document for a complete set of report sources and values obtained in this step, for use in field testing.

- ii. Calculate the share of Part D branded drug cost from rebates, using report figures

Using the values obtained in step i, Acumen solves for Brand Rebate % (the proportion of branded GDC from rebate payments on branded drugs) using the formula below for Total Rebate % which assumes that the Total Rebate % is a weighted sum of the Brand Rebate % and the Generic Rebate % (proportion of generic GDC from rebate payments on generic drugs). Since rebates are rare for generic drugs, the Generic Rebate % is assumed to be 0.

$$\begin{aligned} \text{Total Rebate \%} &= \\ & (\text{Brand Cost \%} * \text{Brand Rebate \%}) + (\text{Generic Cost \%} * \text{Generic Rebate \%}) \\ \text{Brand Rebate \%} &= \frac{(\text{Total Rebate \%}) - (\text{Generic Cost \%} * \text{Generic Rebate \%})}{\text{Brand Cost \%}} \end{aligned}$$

Below is an example calculation with 2019 figures from the [2020 Medicare Trustees Report](#):

$$\text{Brand Rebate \%} = \frac{(.267) - (.21 * 0.00)}{.79}$$

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$$\text{Brand Rebate \%} = .338$$

iii. Calculate and apply rebate adjustment factor to branded drug costs

After deriving the Brand Rebate % in step ii, Acumen reduces standardized costs for all Part D branded drugs by applying a multiplier equal to the complement of the Brand Rebate % to these costs.

As shown below, the rebate adjustment factor is calculated by subtracting the Brand Rebate % (in decimal form) from 1:

$$\text{Rebate Adjustment Factor} = 1 - \text{Brand Rebate \%}$$

$$\text{Rebate Adjustment Factor} = 1 - .338$$

$$\text{Rebate Adjustment Factor} = .662$$

In the following example, a hypothetical Part D branded drug with an initial standardized amount of \$100 (representing point-of-sale cost) is adjusted to a final post-rebate cost of \$66.20

$$\text{Final Drug Cost} = \text{Initial Standardized Amount} * \text{Rebate Adjustment Factor}$$

$$\text{Final Drug Cost} = \$100 * .662$$

$$\text{Final Drug Cost} = \$66.20$$

Appendix: Medicare Trustees Report Data for 2020 Cost Measures Field Testing Rebate Adjustment

This appendix provides further information on the Medicare Trustees Report figures obtained in step i, for calculation of the rebate adjustment factor for field testing.

To calculate the rebate adjustment factor used in field testing, Acumen obtained the **Total Rebate %** from Table IV.B.8 (pg.142) of the [2020 Medicare Trustees Report](#). Table IV.B.8 contains average Direct and Indirect Remuneration (DIR) percentages of gross drug cost (GDC) across all prescription drugs. Specifically, this table provides historical figures for total DIR percentages of GDC until 2 years prior to the report year (i.e., the year the report was released), after which projections are provided. Acumen used historical DIR percentages when available.

Acumen obtained the **Generic %** and **Brand %** from the Medicare Trustees Report that contains the proportion of Part D spending for generic drugs for the relevant data year. Generic % values for 2019 and 2018 are provided in footnotes found in the [2020 Medicare Trustees Report](#) (pg. 143) and [2019 Medicare Trustees Report](#) (pg. 141), respectively.

Appendix Table. Medicare Trustees Report Figures by Data Year

Data Year	Rebate Percentage			Generic and Brand Cost Proportions		
	Total Rebate %	Historical/ Projected	Report Year	Generic %	Brand %	Report Year
2020	28.4%	Projected	2020	21%	79%	2020
2019	26.7%	Projected	2020	21%	79%	2020
2018	25.0%	Historical	2020	22%	78%	2019