

Clinician Cost Measures: Methodology for Incorporation of Rebates in Part D Standardized Amounts

Certain cost measures for clinicians include Medicare Part D services, in addition to the costs of services in Parts A and B. This is determined on a measure-by-measure basis in consideration of factors such as the importance of Part D drugs to the overall assessment of clinician performance for the particular condition or procedure. For measures that do include Part D services, the Part D costs are standardized according to the documentation on [CMS Price \(Payment\) Standardization page](#). This document details the methodology used to incorporate rebates into standardized amounts for Part D drugs. Section 1.0 provides a background on drug rebates, and Section 2.0 details the methodological steps in calculating and applying the adjustment factor.

1.0 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. This rebate adjustment is 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.

2.0 Methodology for Part D Rebate Adjustment

There is 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.² There are 3 steps in the applying the rebate adjustment, described below.

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

² CMS, "Medicare Trustees Report: 2016-2020," <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Trustees-Reports-Items/2016-2019>



Step 1. Obtain total rebate percentage and generic-brand cost proportions from Medicare Trustees Report

Obtain the following values from the relevant Medicare Trustees Report:

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

Please see the [Appendix](#) for the sources and values obtained in this step.

Step 2. Calculate the share of Part D branded drug cost from rebates, using report figures

Using the values obtained in Step 1, solve 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.

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

Example: This is illustrated in an example calculation with 2019 figures from the 2020 Medicare Trustees Report.³

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

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

Step 3. Calculate and apply rebate adjustment factor to branded drug costs

After deriving the Brand Rebate % in Step 2, reduce standardized costs for all Part D branded drugs by applying a multiplier equal to the complement of the Brand Rebate % to these costs.

³ Board of Trustees, "2020 Medicare Trustees Report," <https://www.cms.gov/files/document/2020-medicare-trustees-report.pdf>.



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The rebate adjustment factor is calculated by subtracting the Brand Rebate % (in decimal form) from 1.

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

Example: This is illustrated using figures from Step 2.

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

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

The final drug cost is then calculated by multiplying the initial standardized amount and the rebate adjustment factor.

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

Example: This is illustrated for a hypothetical Part D branded drug with an initial standardized amount of \$100 (representing point-of-sale cost). The drug is adjusted to a final post-rebate cost of \$66.20.

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

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



Appendix: Medicare Trustees Report Data for Rebate Adjustment

This appendix provides further information on the Medicare Trustees Report figures used in Step 1 for the calculation of the rebate adjustment factor.

To calculate the rebate adjustment factor, obtain 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. Use historical DIR percentages where available.

Obtain 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 Report⁴ (pg. 141), respectively.

Appendix Table A1 below summarizes the values obtained from the Medicare Trustees Reports for 3 years of data.

Appendix Table A1. 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

⁴ Board of Trustees, "2019 Medicare Trustees Report," <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2019.pdf>.

