

Effects of pharmaceutical manufacturer rebates on Part D's risk adjustment

ISSUE: Part D's risk adjustment model is estimated using gross prices before postsale rebates and discounts. The rapid growth in manufacturer rebates raises concerns about accuracy of the resulting risk adjusters.

KEY POINTS: When Part D began in 2006, manufacturer rebates offset a relatively small share of Part D's spending. Manufacturer rebates now offset more than 50 percent of plans' benefit liability. Both the magnitude and the uneven distribution across therapies are likely to have reduced the accuracy of Part D's risk adjustment system. That has important implications for accuracy of Medicare's payments and plans' incentives to engage in risk selection.

ACTION: Commissioners will discuss the material and implications for future work.