

Medicare Drug Costs

By David Belk MD

Summary

1. The total cost of medications covered by Medicare Part B increased 42% from 2012-2016.
2. The total cost of medications covered by Medicare Part D increased 71% from 2012-2016.
3. Medicare's total cost for *everything* they covered those years increased by far less; only 18% from 2012-2016, meaning that medication costs alone have accounted for a substantial portion of the rising cost of Medicare.
4. Only 20 of the more than 400 medications covered by Part B, and 100 of the more than 2,000 medications covered by Part D, were responsible for nearly 60% of the total medication costs for both programs.
5. A major reason so few medications are costing Medicare so much is that the providers and pharmacy benefit managers who select these medications are paid more to select more expensive medications.

Overview

Two separate divisions of Medicare cover medications. Part D covers prescription drugs (which people usually buy at retail pharmacies and take at home) and Part B (which covers most other outpatient costs) covers the majority of the medications administered at a doctor's office, infusion clinic or a nursing home. Typically, vaccines administered at a doctor's office would be covered by Part B benefits whereas those received in a pharmacy would be covered by Part D.

Other examples of medications covered by Medicare Part B include infusions of cancer chemotherapy, infusions that treat rheumatological conditions like Rheumatoid Arthritis or Lupus (SLE) and eye injections given by an ophthalmologist to treat certain retinal problems. Medication costs for each division are handled somewhat differently so I'll begin by addressing Part B medication costs.

Medicare Part B Medication Costs

The total spent for all medications covered under Medicare Part B was \$109.8 billion from 2012-2016. Although an average of about 450 separate medications were covered by Part B benefits each of those years, \$64.5 billion, or about 59% of that total spending went toward the administration of just 20 different medications.

The following graph shows these expenditures for each of those years:

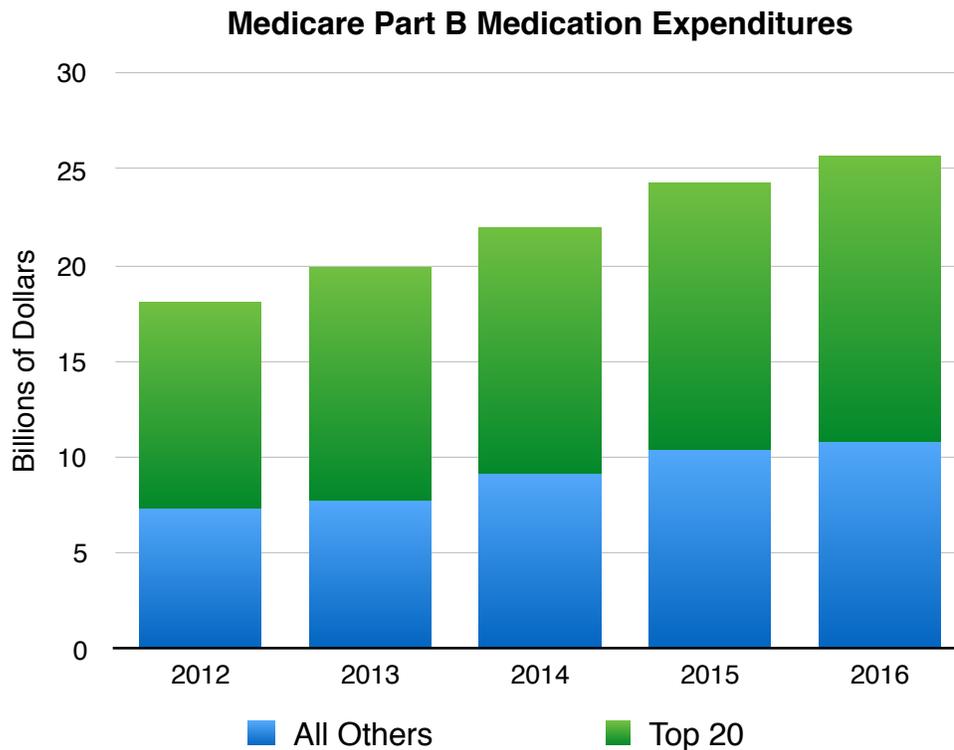


Figure 1: Totals spent on all medications covered by Medicare Part B increased 42%, from about \$18 billion in 2012 to nearly \$26 billion in 2016. The green part of the bar indicates the amounts spent each year on the 20 most expensive medications covered.

Even though The 20 most expensive drugs covered by Medicare Part B accounted for nearly 60% of Part B medication costs, these medications went to only about 5% of the beneficiaries who were administered medications covered by Part B benefits each year. They also accounted for less than 11% of the total medication claims covered by Part B benefits during those years. The following figure shows this:

Allocation vs. Cost of the 20 Most Expensive Part B Medications

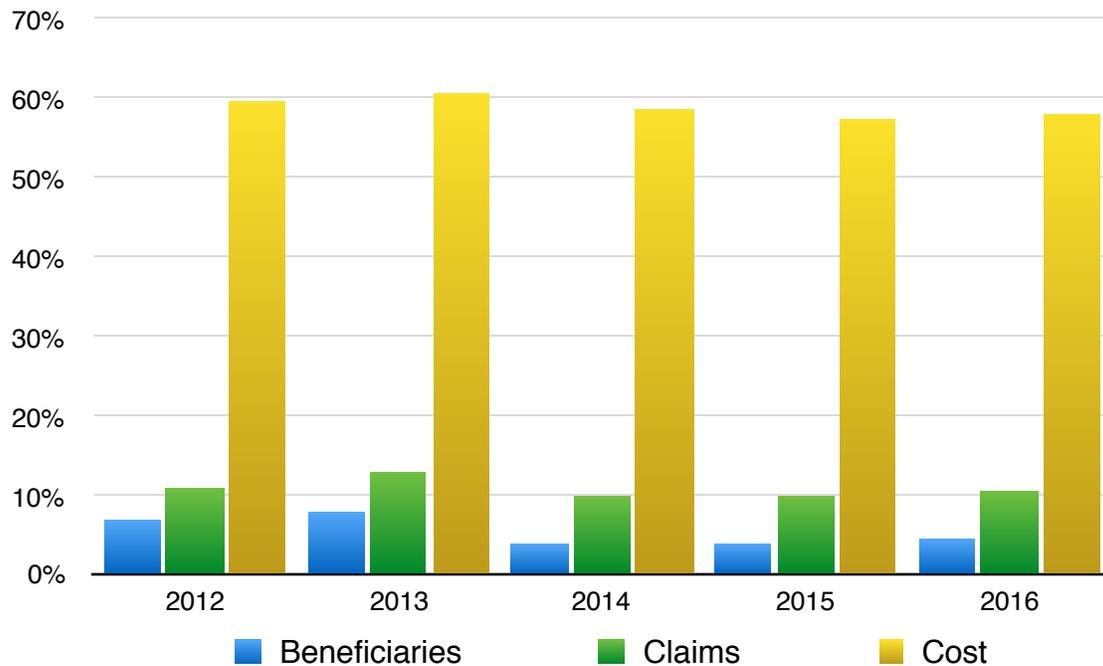


Figure 2: The annual proportion of Medicare Part B medication cost vs. the proportion of medication claims for these drugs and total beneficiaries who received medications covered by Part B.

Going further, the seven most expensive medications covered by Medicare Part B from 2013-2016 are summarized in the following table:

Medication	Primary Indication	Total Spent From 2013-2016
Eylea	Wet Macular Degeneration	\$6.4 Billion
Rituxan	Cancer Chemotherapy	\$6.2 Billion
Neulasta	Low White Blood Cell Count	\$4.9 Billion
Lucentis	Wet Macular Degeneration	\$4.9 Billion
Remicade	Connective Tissue Disease	\$4.9 Billion
Avastin	Cancer Chemotherapy	\$4.3 Billion
Prolia*	Oseoporosis	\$3.4 Billion
Totals for all Seven Medications		\$35 Billion
Total Part B Spent on All Medications		\$92 Billion

Table 1: These seven medications accounted for 38% of Medicare’s Part B medication costs over those four years. At the same time, they accounted for about 6% of medication claims covered by Part B and went to fewer than 3% of Medicare beneficiaries who received medications covered by Part B.

The Commission

So why do so few medications cost Medicare so much money? The short answer is that doctors get paid more—a lot more—to administer these medications. In fact, the more expensive a medication is, the more your doctor gets paid to administer it in their office. As a result, really expensive medications that can be administered in a doctor’s office or an infusion center are really popular with certain doctors.

Here’s how it works:

Doctors who administer medications in their office receive a 6% commission on the price of any medication they administer. This method of paying doctors was created by the Medicare Prescription Drug, Improvement, and Modernization Act that was signed into law by President Bush in 2003 (p. 175). Doctors are also allowed to get rebates from pharmaceutical companies for administering these medications on top of the commissions they receive.

Using this payment method creates a conflict of interest for doctors since those who administer medications are financially motivated to administer the most expensive medication they can justify. It also means that the best way for a pharmaceutical company to attract doctors to their product is to raise the price. This payment system has resulted in an upward spiraling of the prices for many of these drugs and at least a few cases of flat out fraud by physicians.

Medicare Part D Costs

Medicare Part D was created by the Act cited above as a prescription drug benefit for Medicare recipients. Though the benefit is paid for, in part, by Medicare, it’s managed almost entirely by the private insurance companies, or rather the pharmacy benefit managers these insurance companies contract with. These companies have their own conflict of interest in that they’re also allowed to take rebates from pharmaceutical companies for the prescription drugs they cover. Since higher priced drugs normally yield higher rebates, the pharmacy benefit managers covering these prescription drugs have no motivation to control their costs – in fact, they’re financially motivated to do exactly the opposite.

The rebates paid to providers and pharmacy benefit managers aren’t trivial either. The 13 largest pharmaceutical companies paid a total of nearly \$150 billion in rebates and chargebacks to providers, pharmacy benefit managers and suppliers in 2017 alone! These rebates have encouraged an upward spiraling of brand name medications prices much the way the commission

plus rebate payment system for doctors has caused runaway price inflation for medications covered by Medicare Part B.

It should come as no surprise, then, that medication expenditures by Part D programs increased by more than 70% in just the four years between 2012 and 2016. Nor should anyone be surprised that, just as with Part B medication expenses, only a few of the medications covered by Part D resulted in a majority of the money spent. Medicare Part D covered an average of about 2,500 different medications each year from 2012-2016, yet only 100 of these medications accounted for nearly 60% of Part D's total expenditures each year as the following figure shows:

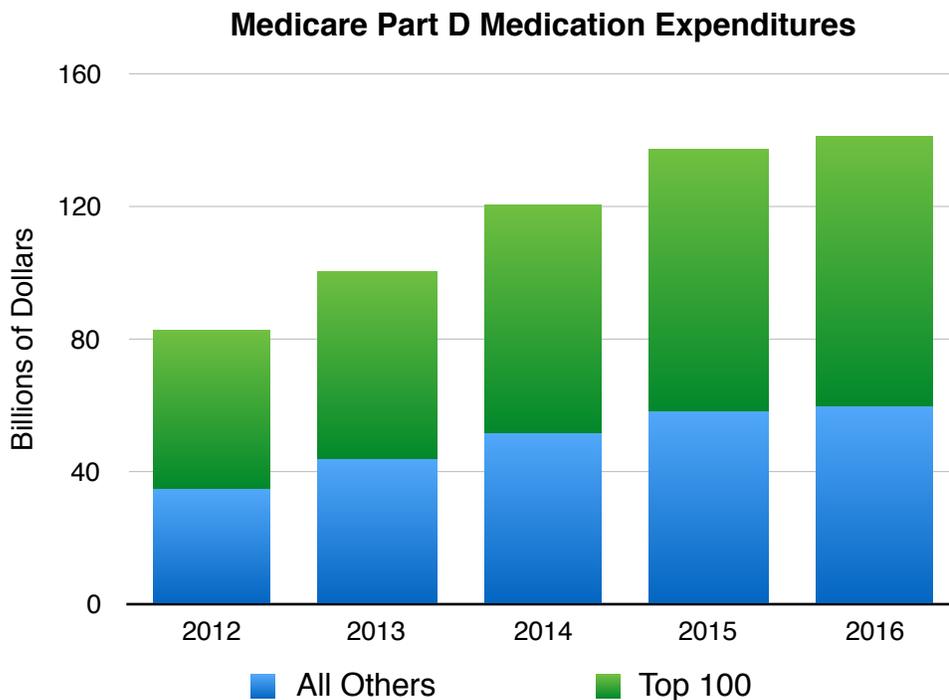


Figure 3: Totals spent on all medications covered by Medicare Part D increased 71%, from about \$83 billion in 2012 to more than \$140 billion in 2016. The green part of the bar indicates the amounts spent each year on the 100 most expensive medications covered.

Also, as with Part B Medication costs, The 100 most expensive medications for Medicare Part D those years went to fewer than 10% of Part D Beneficiaries those years:

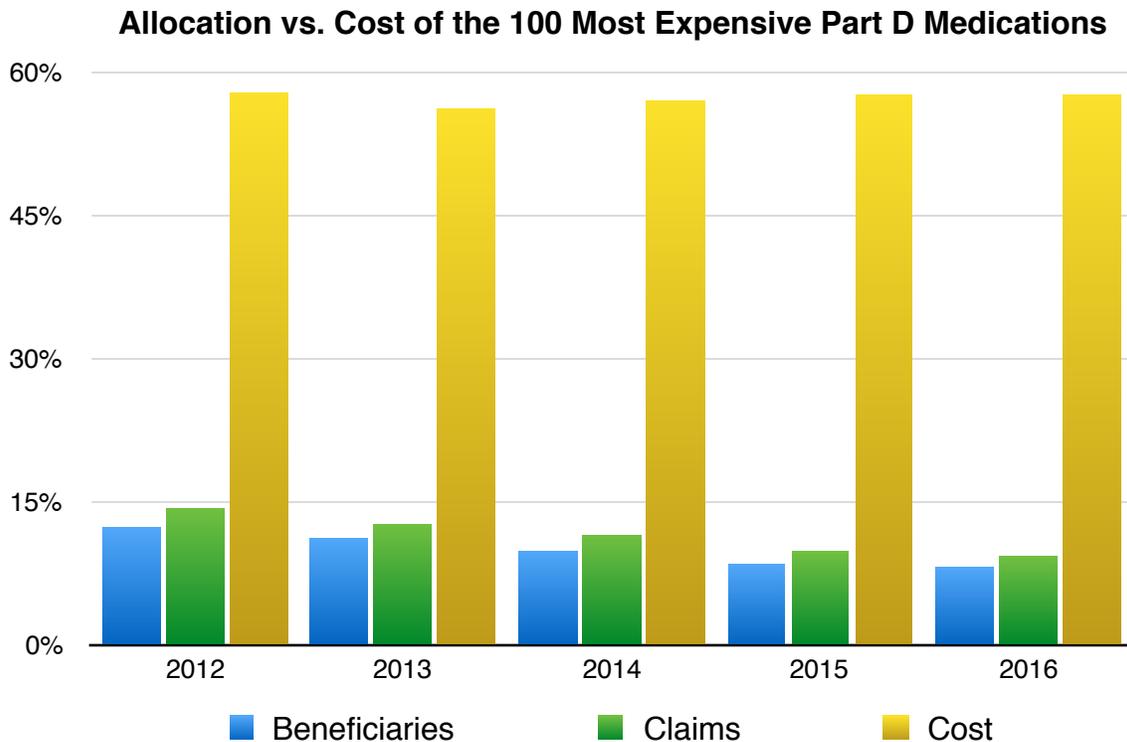


Figure 4: The annual proportion of Medicare Part D medication cost vs. the proportion of medication claims for these drugs and total beneficiaries who received medications covered by Part D.

Conclusion

Medication costs for both Medicare Parts B and D have gone up far faster than the costs of most other products and services covered by Medicare. From 2012-2016 Medicare *total* expenditures increased by only 18%. These cost increases are largely due the way in which these medications are covered which strongly encourages the rapid inflation of their prices. In short, we’re getting what we pay for. So, the real question we should be asking is: why are we paying so much to continue such bad policies?

Sources:

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<https://www.cbsnews.com/news/cost-of-cancer-drugs-60-minutes-lesley-stahl-health-care/>
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