HHS Office of Inspector General

HIGHLIGHTS

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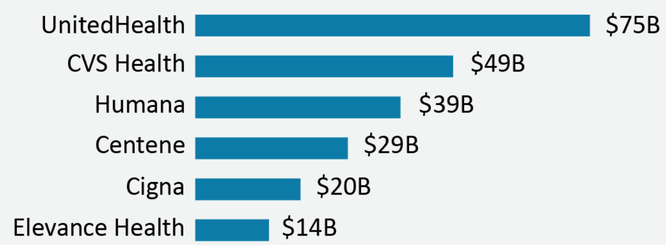
DATA SNAPSHOT

Impacts of Vertical Integration in Medicare Part D on Sponsors’ Drug Costs, Pharmacy Reimbursement, and Enrollee Cost Sharing

Why OIG Did This Review

- Stakeholders have raised concerns about the potential effects of vertical integration, including higher drug costs and anticompetitive behavior that negatively affects independent pharmacies. The Part D market is heavily concentrated among a small number of vertically integrated organizations and their associated sponsors (i.e., VI sponsors). In 2023, 6 of 11 vertically integrated organizations we identified accounted for about 82 percent of the $275.9 billion in Part D spending that year.
- In order to understand the impact of vertical integration on Medicare and enrollee costs, OIG initiated this evaluation and audit work.
- For the purpose of this study, vertical integration refers to the consolidation of Part D sponsors with pharmacy benefit managers (PBMs). Pharmacies can also be affiliated with sponsors or PBMs. For example, a single entity may own a Part D sponsor, a PBM, and pharmacies.

These 6 VI sponsors accounted for 82% of gross Part D spending in 2023.



Source: OIG analysis of 2023 Part D sponsor data and Prescription Drug Event data.

What OIG Found

- Overall, the **net cost of drugs was similar for vertically integrated Part D sponsors and other Part D sponsors for select drugs**. However, **the approaches used by Part D sponsors to reach the net costs of drugs differed.** For most drugs, vertically integrated sponsors paid pharmacies more upfront, but then took back more money later through rebates and fees. In contrast, other sponsors paid less upfront and got less back later for most drugs.

Due to (1) data limitations pertaining to Part D sponsors’ adjustments to pharmacy payments, and (2) recent dynamic shifts in the Part D market, the full impacts of vertical integration—particularly on pharmacies—remain unknown.

Recent changes to the Part D market and PBM requirements could increase transparency of payment models and facilitate more comprehensive assessments of vertical integration.

- Vertically integrated sponsors paid their own pharmacies a little less than they paid other pharmacies. Because of data constraints, we **couldn’t account for later payment adjustments to pharmacies** that usually reduce what they ultimately receive.
- In general, **enrollees** in plans offered by vertically integrated Part D sponsors **paid lower monthly premiums but substantially higher drug out-of-pocket costs**.