Supplementary Materials

Estimated discounts generated by Medicare drug negotiation in 2026

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SUPPLEMENTARY EXHIBIT 1 Supplemental Methods
Supplemental Methods

Our methodology relies on the relationship between rebates and Medicaid discounts established by the Best price provision, as previously used in the peer-reviewed literature.1–4

First, we estimate Medicaid discounts as follows:

**Medicaid discounts** = number of Medicaid units * Medicaid discount per unit

**Number of Medicaid units** were obtained from the Centers for Medicare and Medicaid Services dashboard.

**Medicaid discount per unit** = base rebate + inflation penalty

- The inflation penalty was calculated for each product and year as the difference between the list price and the inflation-adjusted launch price, following a published method. 5 Launch price data is available at the national drug code level and our analyses were conducted at the product level. To estimate an inflation-adjusted launch price at the product level, we calculated the inflation-adjusted launch price for each national drug code every year, and weighted by the relative utilization of each national drug code every year.

- The base rebate is calculated as the greater of 23% discount or the Best Price offered to any purchaser. To estimate the base rebate, in the first iteration of our algorithm, we assumed that the rebate set Best Price. Therefore, we subtracted the inflation Medicaid and 340B inflation penalty discounts from the total discounts figure.

\[ \text{Total discounts} - \text{Medicaid inflation penalty} - \text{340B inflation penalty} - \text{coverage gap discounts} = x \]

We amortize the remaining discount \( x \) amount across the sum of group health plans, Part D, Medicaid, and 340B program units to generate the estimated rebate per unit. Then, the total rebate amount is estimated as the product of the rebate per unit and commercial units (group health insurance and Medicare Part D units).

If the estimated rebate \( \geq 23.1\% \) of list price, then the assumption that the rebate set Best Price holds.

If the estimated rebate < 23.1% of list price, then the rebate does not trigger the Best Price provision. In this case, we re-estimate Medicaid and 340B discounts as the sum of 23.1% of list price and inflation penalty. We subtract these re-calculated discounts to the Medicaid program and 340B discounts from the total discounts figure. The resulting estimate \( y \) represents rebates.

\[ \text{Total discounts} - \text{Medicaid units} \times (23\% \text{ of list price} + \text{inflation penalty}) - \text{340B units} \times (23\% \text{ of list price} + \text{inflation penalty}) - \text{coverage gap discounts} = y \]

Medicaid and 340B discounts are capped at 100% of the Average Manufacturer Price, in other words, the sum of the base discount and the inflation penalty cannot exceed the invoice price. We checked whether the sum of the estimated base rebate and inflation penalty exceeded the list price. For drug-year observations where it did, we recalculated the total rebate amount as follows, where \( z \) represents rebates:

\[ \text{Total discounts} - \text{Medicaid units} \times \text{list price} - \text{340B units} \times \text{list price} - \text{coverage gap discounts} = z \]
Supplemental References


