Status report on Part D

Shinobu Suzuki and Rachel Schmidt
January 15, 2015
Overview of the presentation

- Snapshot of Part D
  - Key trends
  - Enrollment and plan offerings
  - Access and quality
- Program costs
- Sponsor strategies for controlling premiums
- Drug pricing
- Ongoing and future Part D work
The Part D program

- 37 million enrollees
  - 69% of Medicare beneficiaries in Part D plans
  - 5% receive benefits through retiree drug subsidy (RDS)
- Program spending of $65 billion in 2013
  - $63 billion for payments to Part D plans
  - $2 billion for RDS
- Plan enrollees generally satisfied
Key trends since 2007

- **Enrollment growth**
  - Higher among enrollees without low-income subsidy (8%) than with LIS (3%)
  - Move from RDS to Part D employer groups

- **Average monthly premiums**
  - Grew by 3% per year
  - Stable at around $30 per month between 2010 – 2014

- **But Medicare reinsurance payments to plans have grown much faster**
  - 8% per year, 2007 – 2014
  - 10% per year, 2010 – 2014
Part D enrollment in 2014 and plan offerings for 2015

- **PDPs**
  - 62% of all Part D enrollees (down from 70% in 2007)
  - 14% fewer plans in 2015, but still broad choice (24–33 PDPs in each region)

- **MA-PDs**
  - 38% of all Part D enrollees (up from 30% in 2007)
  - Total number of plans stable (a typical county has 3–10 MA-PDs)

- **Low-income subsidy (LIS)**
  - 30% of all Part D enrollees receive LIS (down from 39% in 2007)
  - About 28% of LIS enrollees in MA-PDs (up from 14% in 2007)
  - Fewer benchmark PDPs, but still 4–12 PDPs
Access and quality in Part D

- Most are satisfied with the drug coverage and pharmacy access; 5% reported trouble filling at least 1 medication in 2012

- CMS collects plan quality and performance data to rate plans on a 5-star system (similar to Part C)
  - Average ratings have generally increased over time, particularly among MA-PDs
  - MA-PDs may have stronger incentive to improve their ratings because of effect on bonus payments under Part C
  - Changes in metrics used to rate plans make it difficult to assess changes in quality over time
Part D’s defined basic benefit structure

- **Deductible**
  - **Enrollee 25%**
  - **Plan 75%**
  - **Enrollee 100%**

- **Initial coverage limit**
  - **Enrollee 5%**
  - **Plan 15%**
  - **Medicare 80%**
  - **Partial coverage, discounted price for brand-name drugs**

- **Out-of-pocket threshold**
  - **Enrollee 25%**
  - **Plan 75%**
  - **Enrollee 100%**
Tails for the distribution of Part D drug spending in 2012

- Plan premiums reflect spending below coverage gap, small share of gap, 15% of catastrophic
- Medicare’s reinsurance pays 80% of covered benefits in catastrophic phase

75% of enrollees had spending below the coverage gap

25% of gross spending

44% of gross spending

8% of enrollees reached the catastrophic phase

Source: MedPAC based on Part D prescription drug event data.
Note: Preliminary, subject to change.
### Individual reinsurance is the largest component of plan bids

<table>
<thead>
<tr>
<th>Year</th>
<th>Monthly payments to plans</th>
<th>Base beneficiary premium</th>
<th>Expected individual reinsurance</th>
<th>Average total bid for basic monthly Part D benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$103</td>
<td>$26</td>
<td>$50</td>
<td>$103</td>
</tr>
<tr>
<td>2008</td>
<td>$107</td>
<td>$26</td>
<td>$50</td>
<td>$107</td>
</tr>
<tr>
<td>2009</td>
<td>$119</td>
<td>$26</td>
<td>$50</td>
<td>$119</td>
</tr>
<tr>
<td>2010</td>
<td>$125</td>
<td>$26</td>
<td>$50</td>
<td>$125</td>
</tr>
<tr>
<td>2011</td>
<td>$127</td>
<td>$26</td>
<td>$50</td>
<td>$127</td>
</tr>
<tr>
<td>2012</td>
<td>$122</td>
<td>$26</td>
<td>$50</td>
<td>$122</td>
</tr>
<tr>
<td>2013</td>
<td>$122</td>
<td>$31</td>
<td>$51</td>
<td>$122</td>
</tr>
<tr>
<td>2014</td>
<td>$127</td>
<td>$33</td>
<td>$60</td>
<td>$127</td>
</tr>
<tr>
<td>2015</td>
<td>$130</td>
<td>$37</td>
<td>$60</td>
<td>$130</td>
</tr>
</tbody>
</table>

Source: MedPAC based on data from CMS.  
Note: Preliminary, subject to change.
Reinsurance and LIS have grown much faster than the direct subsidy

In billions of dollars

Cumulative growth 2007-2013
- Low-income subsidy: 39%
- Reinsurance: 143%
- Direct subsidy: 12%

In 2013, LIS enrollees accounted for:
- 1/3 of enrollment
- 2/3 of total program spending

Source: MedPAC based on Table IV.B.10 of the Medicare Board of Trustees’ report for 2014.
Note: Preliminary, subject to change.
Strategies for controlling growth in plan premiums

- More plans use cost sharing differentials to encourage the use of lower-cost drugs
  - In 2015, over 80% of PDP offerings use 5-tier structure w/ nonpreferred and preferred tiers for both brands and generics, and a specialty tier
  - In 2015, 90% of PDP offerings use lower cost sharing at preferred pharmacies
    - Plans get lower prices (rebates/discounts) at preferred pharmacies in return for increased volume
    - Availability of preferred (lower cost sharing) pharmacies vary widely by plan and by region

OLLOWINGSTRATEGIES PROVIDE FINANCIAL INCENTIVES TO USE LOWER-COST DRUGS/PROVIDERS, POTENTIALLY REDUCING PROGRAM COSTS

- However, these approaches could also increase Medicare’s spending for LIS
Two underlying trends affecting drug prices in Part D

- Large number of patent expirations for blockbuster drugs in recent years
  - Average GDR grew from 61% (2007) to 81% (2012)
  - Lower per capita spending for most enrollees
  - Decrease in the share of enrollees reaching the catastrophic phase in 2012 claims data

- Drug pipeline dominated by higher-priced biologics and specialty drugs
  - Increased use of biologics by high-cost enrollees
  - Implications for LIS and reinsurance spending
  - Available data do not yet reflect recent Hep-C drugs
Growth in brand prices, decline in generic prices, 2006–2012

Source: Acumen, LLC for MedPAC based on Part D prescription drug event data.
Note: Preliminary, subject to change.
Upward pressure on prices

Growth in capita spending for Medicare Part D business, 2012-2013

- Generics
  - Fewer patent expirations
  - Some sharp price increases

- Specialty drugs
  - Unprecedented launch prices, some for therapies that treat broad populations
  - Beginning to drive overall trend in PBMs’ spending

- Can plan sponsors negotiate lower prices?
  - Depends on availability of therapeutic substitutes
  - Role of biosimilars
Summary

- High satisfaction among Part D enrollees
  - Stable premiums and good access to prescription drugs
  - Many plan options to choose from
- But cost trends are increasingly of concern
  - Costs for individual reinsurance and the LIS (where Medicare bears the risk) are growing much faster than the premiums
  - Prices of single-source drugs continue to grow aggressively and drug pipeline is shifting towards higher-cost biologics/specialty drugs
  - Large increases in prices of older generics
On-going and future Part D work

- Part D’s risk-sharing arrangement, plan incentives, and implications for financial sustainability (Spring 2015)

- How do plans’ strategies to encourage use of lower-cost drugs/providers affect the LIS?
  - Revisit Commission’s recommendation to change LIS cost sharing structure to encourage use of lower-cost drugs?

- Other issues
  - Effects generic drug price increases
  - Polypharmacy and adverse drug events