

Payment and plan incentives in Part D

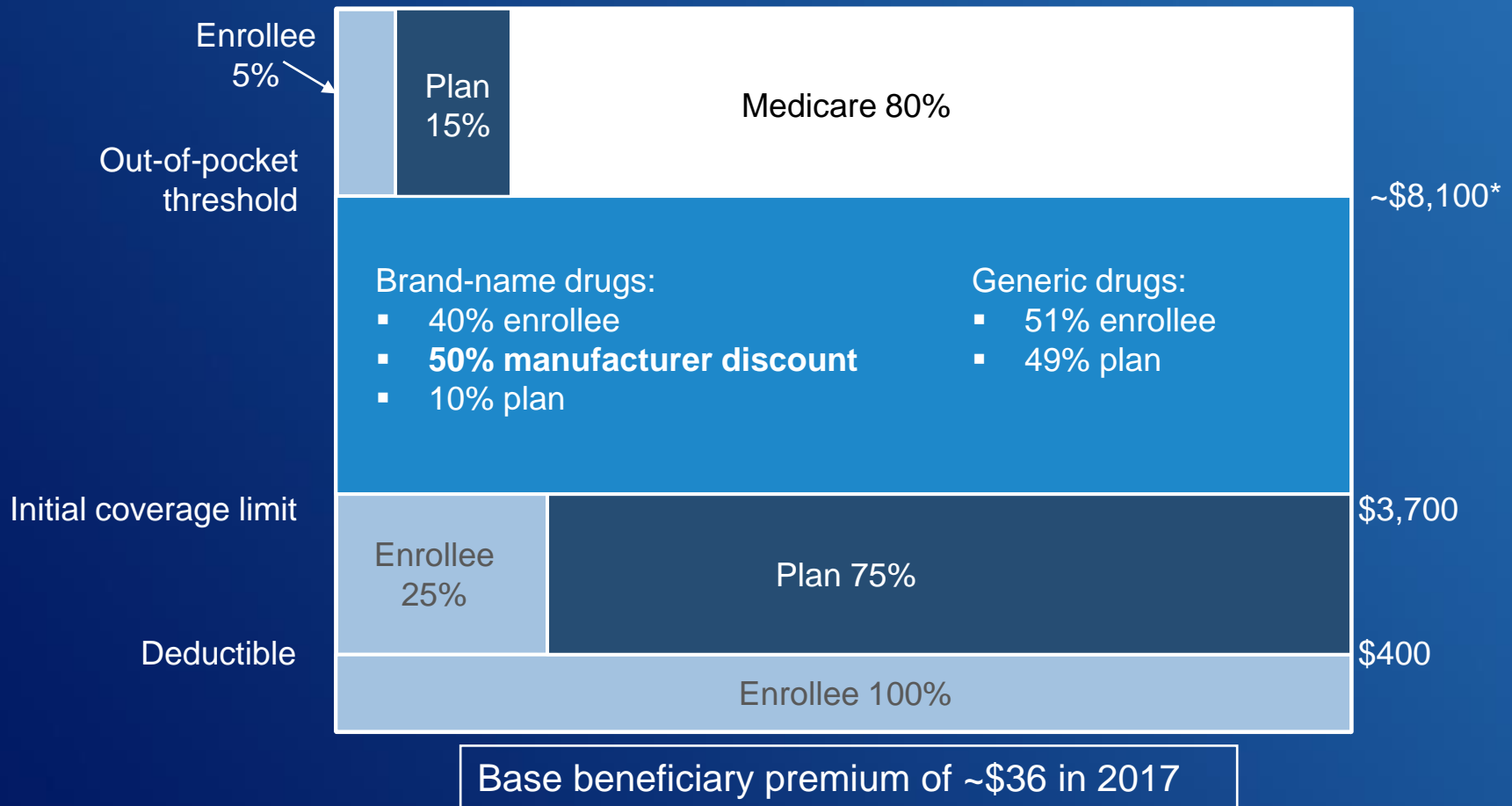
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Overview of this presentation

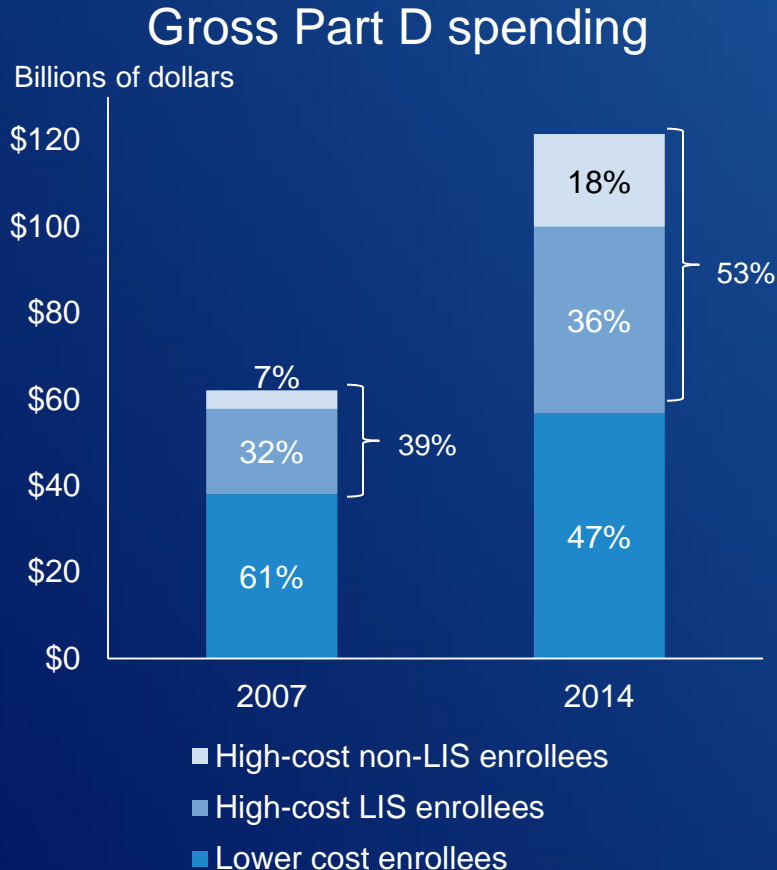
- Changing distribution of Part D spending
- Factors behind expanded catastrophic spending
- Growing gap between gross and net drug prices
- Commission's 2016 recommendations
- Biosimilars and the coverage-gap discount

Defined standard benefit in 2017



*Total covered drug spending at the annual OOP threshold depends on each enrollee's mix of brand-name and generic drugs filled during the coverage gap. This amount is for an individual who does not receive Part D's low-income subsidy, has no other supplemental coverage, and has the average mix of generic and brand-name spending.

High-cost enrollees now account for more than half of Part D spending



- Number of high-cost enrollees has grown
 - 2.3 million in 2007
 - 3.4 million in 2014
- But high-cost enrollees as a % of Part D enrollees has been stable
 - 8.8% in 2007
 - 8.6% in 2014

Note: Data are preliminary and subject to change. LIS (low-income subsidy). "High-cost enrollees" are individuals who reach Part D's out-of-pocket threshold. In 2014, that threshold was at nearly \$6,700 in gross drug spending.

Source: MedPAC based on CMS enrollment and prescription drug event data.

Factors behind expanded catastrophic spending

- Enrollment growth
- Brand manufacturer discount in the coverage gap
- Higher drug prices
- Growth in direct and indirect remuneration (DIR)
 - Manufacturer rebates
 - Pharmacy fees
 - Other payments that reduce benefit cost

Gross price vs. net price

- Gross price is the amount paid at the point of sale
- Net price is gross price net of rebates and discounts (DIR)
- Gap between gross and net prices (i.e., DIR) has grown by more than 20% per year between 2010 and 2015

Growing gap between gross and net drug prices raises concerns

- Certain beneficiary and Medicare payments are based on gross prices which are higher than net prices
 - Higher beneficiary coinsurance and low-income cost-sharing subsidy
 - More beneficiaries reaching the OOP threshold
 - Higher Medicare's payment for reinsurance
 - Overpayment for conditions (RxHCC*) with large gross-to-net price differences
- For certain drugs, gross-to-net price difference could provide financial benefit to both plan sponsors and manufacturers
 - May affect plan formulary decisions
 - Plan incentives not aligned with beneficiary and Medicare

More equitable allocation of DIR between plans and Medicare

2015 gross drug spending, in billions

| | | |
|--|---------------|--|
| Medicare reinsurance | \$41.5 | } Total benefit spending = <u>\$83.5 billion</u> |
| Plan liability | \$41.9 | |
| Cost sharing (beneficiary, LIS, other) | <u>\$53.5</u> | |
| Total | \$136.9 | |

Total DIR, in billions **\$25.1**

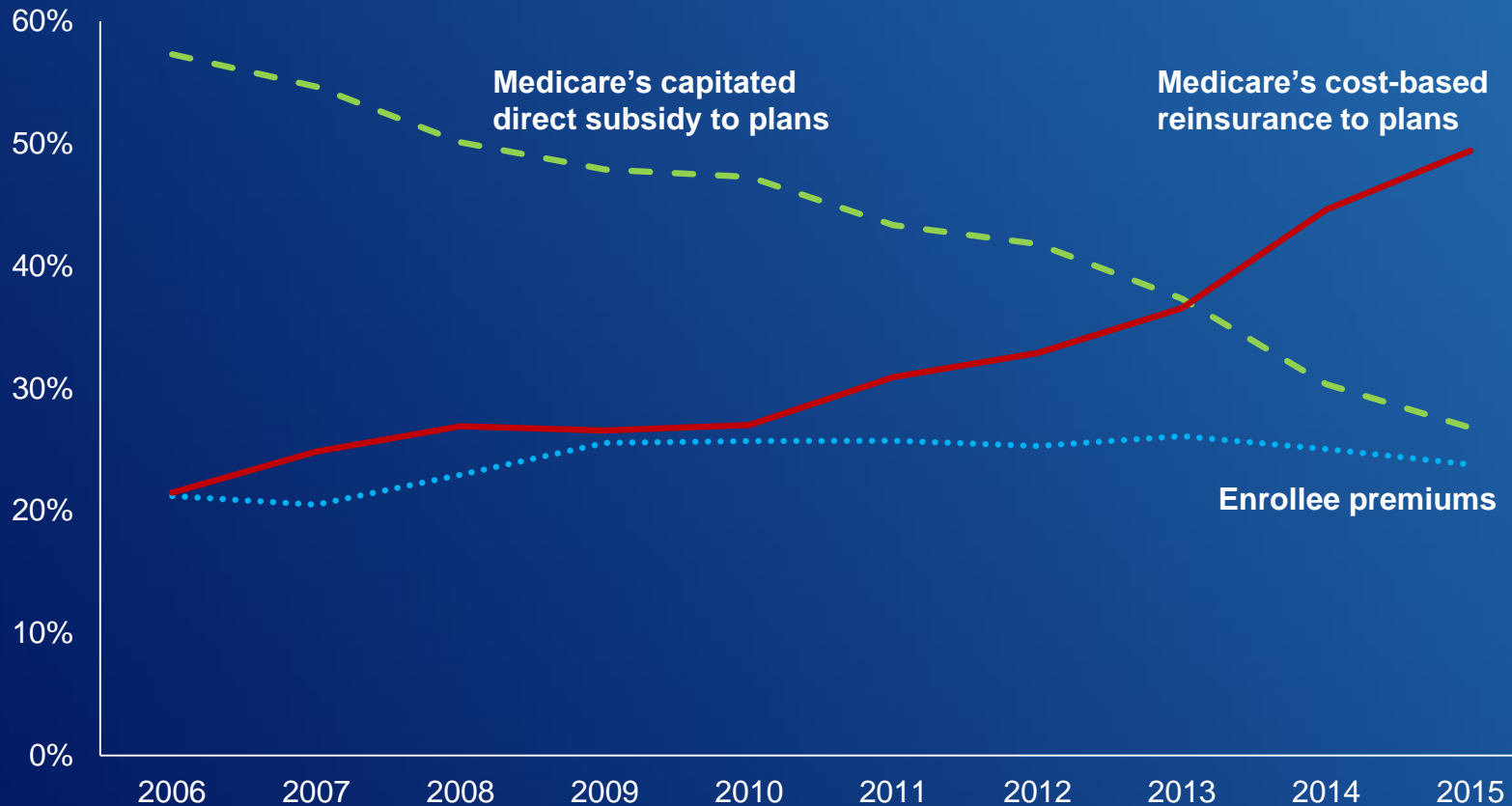
| Current DIR allocation | <u>Allocation formula (%)</u> | <u>DIR amount (billions)</u> |
|-------------------------------|--|--------------------------------|
| Medicare (reinsurance) | % of <i>gross spending</i> , or \$41.5b ÷ \$136.9b = 30% | \$25.1 x 30% = \$7.6 |
| Plan | Residual | \$25.1 - \$7.6 = \$17.5 |

| Alternative DIR allocation | <u>Allocation formula (%)</u> | <u>DIR amount (billions)</u> |
|-----------------------------------|---|--------------------------------|
| Medicare (reinsurance) | % of <i>benefit spending</i> , or \$41.5b ÷ \$83.5b = 50% | \$25.1 x 50% = \$12.5 |
| Plan | Residual | \$25.1 - \$7.6 = \$12.6 |

Note: DIR (direct and indirect remuneration), LIS (low-income subsidy). Data are preliminary and subject to change. Drug spending not covered by the Part D benefit includes cost sharing paid by beneficiaries and by Medicare's LIS and coverage gap discounts paid by brand manufacturers for prescriptions filled by non-LIS beneficiaries during the coverage gap. Source: MedPAC based on data from CMS's Office of the Actuary.

About half of Part D payments are now cost-based rather than risk-based

Percent of average value of Part D basic benefits

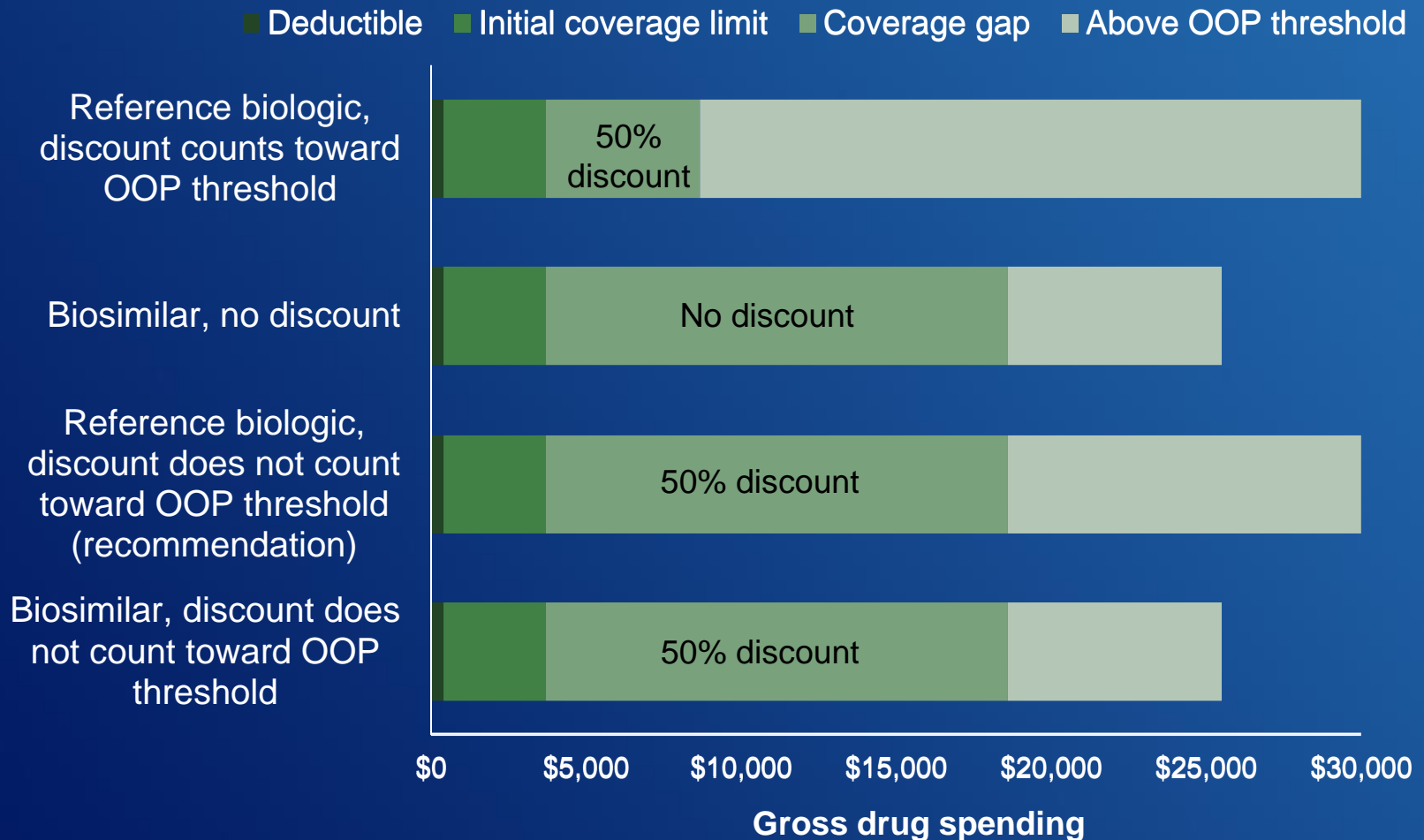


Note: Data are preliminary and subject to change. Medicare aims for the combination of direct subsidies and reinsurance payments to sum to 74.5 percent of basic drug benefits.
Source: MedPAC based on data from CMS's Office of the Actuary.

The Commission's June 2016 Part D recommendations

- Change Part D to:
 - Transition Medicare's reinsurance from 80% to 20% of catastrophic spending and keep Medicare's overall subsidy at 74.5% through higher capitated payments
 - Exclude manufacturers' discounts in the coverage gap from enrollees' "true OOP" spending
 - Eliminate cost sharing above the OOP threshold
- Make moderate changes to LIS cost sharing to encourage use of generics and biosimilars
- Greater flexibility to use formulary tools

Example with policy alternatives for coverage-gap discount on biosimilars



Note: OOP (out of pocket). Example depicts a \$30,000 reference biologic compared with a \$25,500 biosimilar. It uses 2017 Part D benefit parameters with 2020 closure of the coverage gap.
Source: MedPAC.

Summary

- Continued upward pressure on spending
- Need for a fundamental change to Part D's incentive structure (i.e., the Commission's 2016 recommendations)
- Potential incremental policy changes:
 - Change DIR allocation
 - Apply coverage-gap discount to biosimilars

Next steps

- Revisions based on commissioner comments
- Intended to be part of March 2018 Report to the Congress