The Medicare prescription drug program (Part D): Status report

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January 11, 2018

MEDPAC

Overview of the presentation

- Program description and key trends
- Plan strategies to manage Part D premiums
- Growth in drug prices
- Trends in program spending
- Draft recommendation

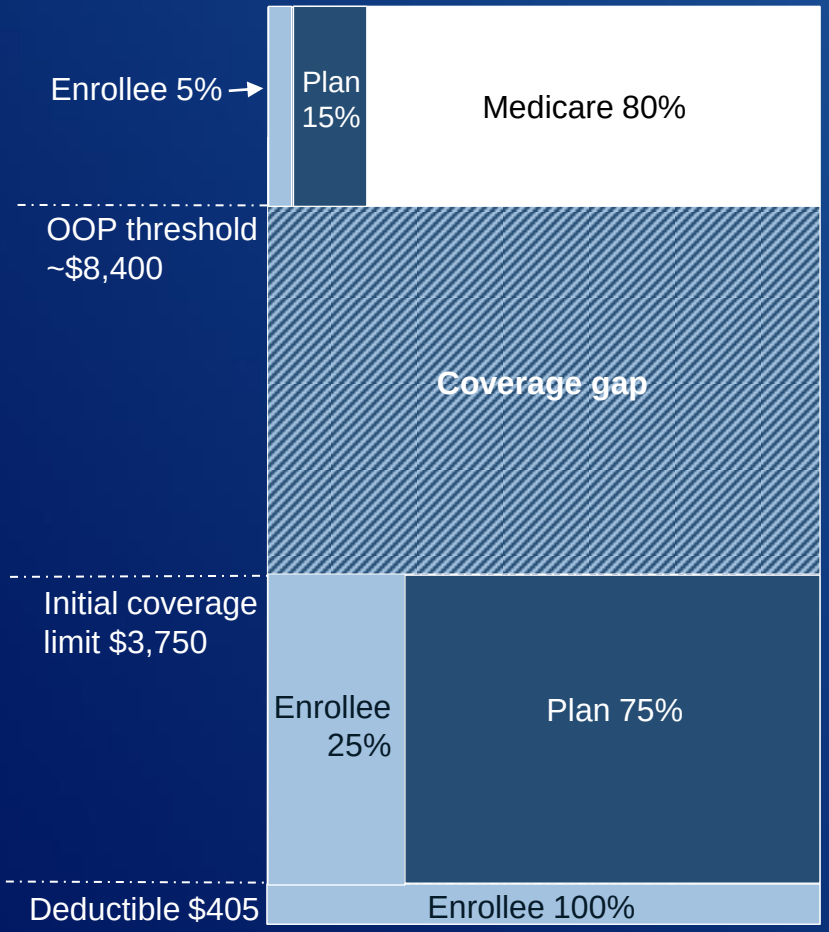
Snapshot of the Part D program

- Among 58.6 million Medicare beneficiaries in 2017:
  - 42.5 million (72.5%) enrolled in Part D plans
  - Another 2.7% received retiree drug subsidy (RDS)
  - 24.8% had coverage as generous through other sources, had no coverage, or had less generous coverage
- Program spending of nearly $80 billion in 2016
  - Nearly $79 billion for payments to Part D plans
  - About $1 billion for RDS
- Plan enrollees
  - Paid nearly $13 billion in premiums (excluding Medicare premium subsidies for low-income enrollees) plus additional amounts in cost sharing
  - Most continue to say they are satisfied

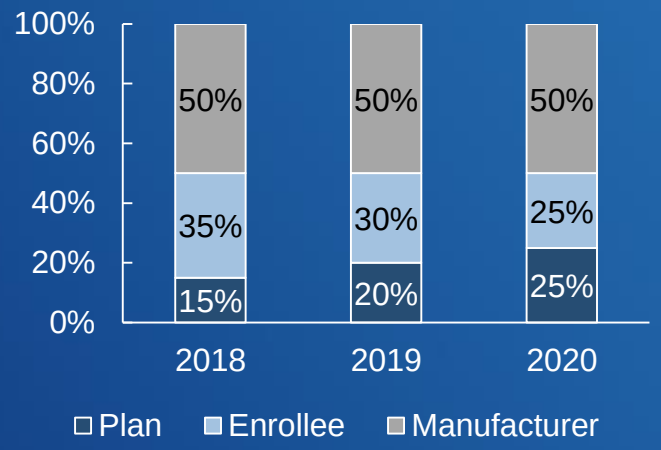
Note: Results are preliminary and subject to change.

Part D's coverage gap is closing, but brand manufacturer discount will remain

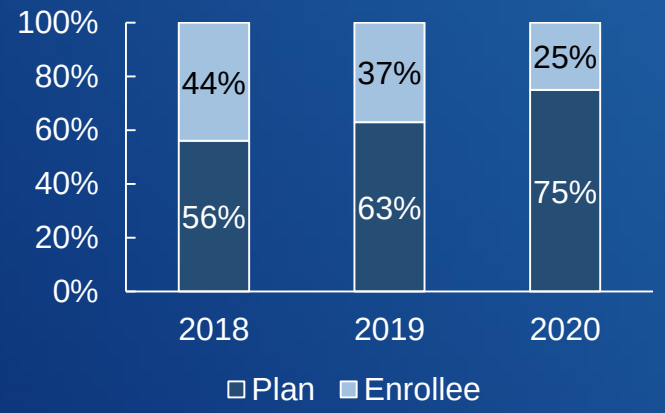
Defined standard benefit in 2018



Brand-name drugs in gap



Generics / biosimilars in gap



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Part D enrollment in 2017 and plan offerings for 2018

- Enrollment in 2017
  - 59% of all Part D enrollees in PDPs, 41% in MA-PDs (compared with 70% in PDPs, 30% in MA-PDs in 2007)
  - 29% of all Part D enrollees receive LIS (down from 39% in 2007)
  - 36% of LIS enrollees in MA-PDs (up from 14% in 2007)
- Plan offerings for 2018
  - 16% more MA-PDs
  - 5% more PDPs, range of 19 – 26 per region
  - 6% decrease in PDPs qualifying as premium-free to LIS enrollees; one region has 2 qualifying PDPs, the rest have 3 – 10 per region

Note: Results are preliminary and subject to change.

Key trends since start of Part D

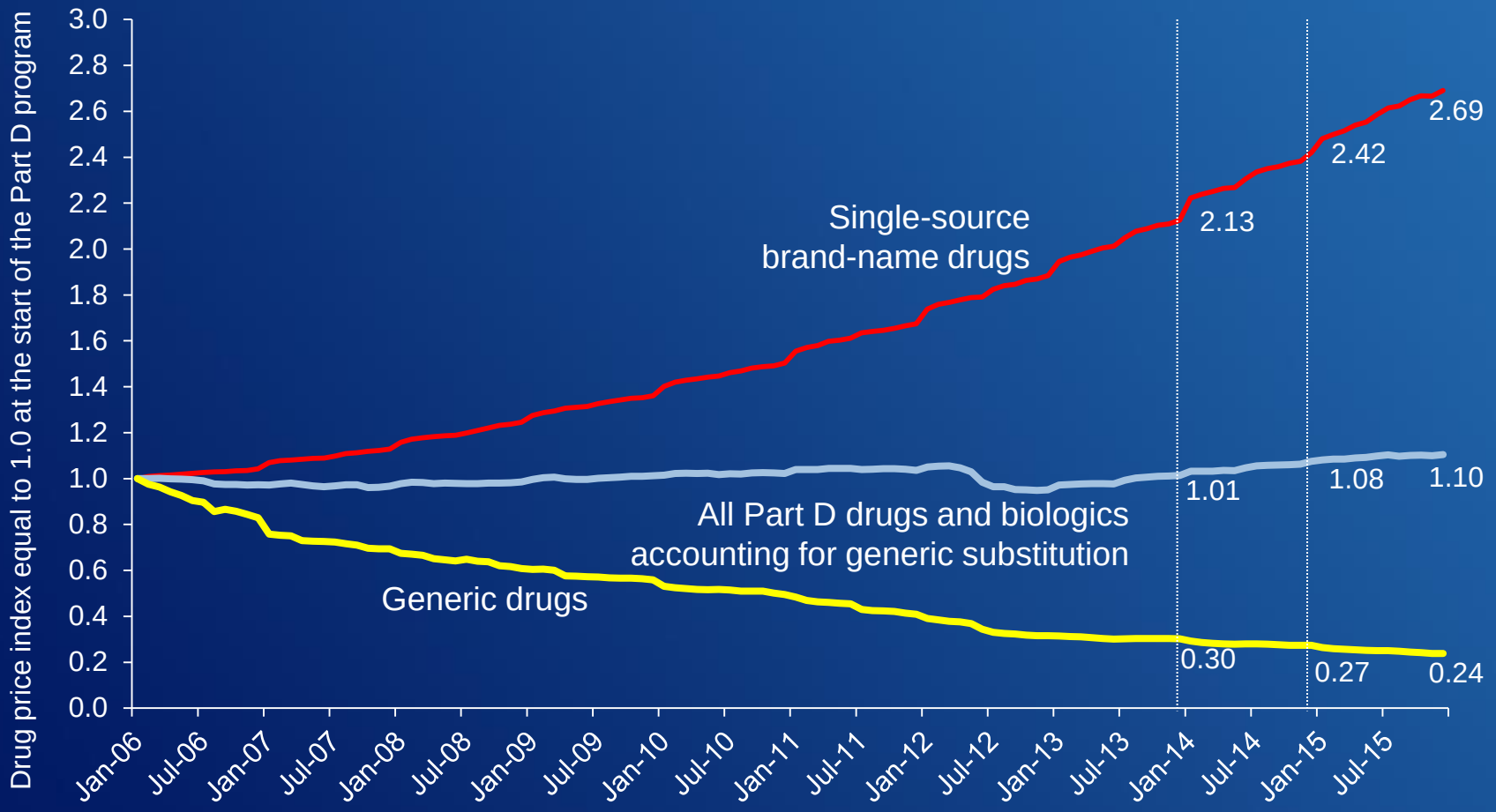
- Enrollment growth
  - 24 million in 2007 to 42.5 million in 2017 (6% per year)
  - Higher among non-LIS enrollees (7%) than LIS (3%)
  - Move from RDS to Part D employer-group plans
- Average monthly premiums, 2010 to 2017
  - Stable average at $30 - $32 per month, but wide variation
  - Faster growth in MA-PD premiums (4%) than PDP premiums (1%)
- Per capita Medicare reinsurance payments to plans have grown much faster than enrollee premiums
  - 7% per year, 2007 – 2010
  - 13% per year, 2010 – 2016

Note: Results are preliminary and subject to change.

Strategies to manage Part D premiums

- Formulary design
  - Typically 5-tier formularies
  - Within limits, trend toward moderate tightening
- Manufacturer rebates
  - Grown from <10% of gross Part D spending in 2007 to approximately 22% in 2016
  - Use of “price-protection” rebates
- Pharmacy networks
  - Preferred cost-sharing pharmacies
  - Pharmacy fees growing
- Specialty pharmacies

Growth in brand prices more than offsets effects of generic use



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Source: Acumen, LLC for MedPAC based on Part D prescription drug event data.

Note: Indexes do not reflect rebates from manufacturers. Results are preliminary and subject to change.

Cost-based reimbursement has grown as a share of basic benefit costs

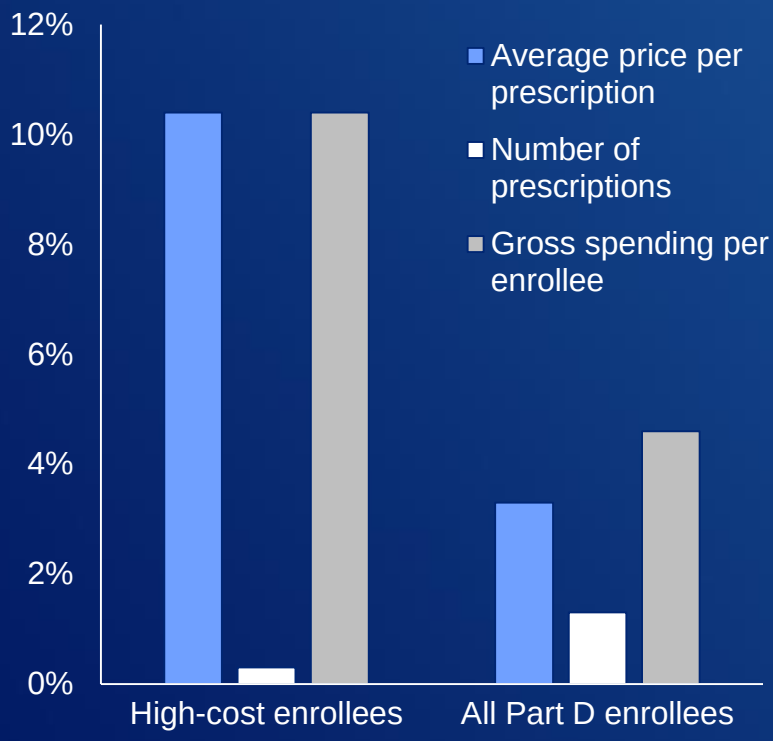
Spending category	Spending in billions		Percentage growth	
	2007	2016	Cumulative	Average annual
Direct subsidy*	$17.6	$16.3	-7.4%	-0.8%
Reinsurance	8.0	34.8	335.0%	17.7%
Subtotal, basic benefits	25.6	51.1	99.6%	8.0%
Low-income subsidy	16.7	26.7	59.9%	5.4%
Retiree drug subsidy	3.9	1.1	-71.8%	-13.1%
Medicare program total	46.2	78.9	70.8%	6.1%

Source: MedPAC based on Table IV.B.10 of the Medicare Board of Trustees' report for 2017.

Note: Results are preliminary and subject to change. RDS (retiree drug subsidy). * Net of Part D risk-corridor payments.

Nearly all of the growth in spending for high-cost enrollees is due to higher prices

Components of annual average growth in spending, 2010-2015



- In 2015,
  - 8% of Part D enrollees reached the catastrophic phase (high-cost enrollees)
  - High-cost enrollees accounted for 57% of overall spending
- Use of higher-priced drugs will continue to put strong upward pressure on program spending

Source: MedPAC analysis of Part D prescription drug event data.
Note: Results are preliminary and subject to change. "High-cost enrollees" are beneficiaries who reach Part D's out-of-pocket threshold. Price reflects inflation and changes in mix of drugs used.

Many factors driving more catastrophic spending

- Growth in enrollment, especially non-LIS
- Higher drug prices
- Coverage gap discount
- Plan incentives to put high-price, high-rebate drugs on formularies

➔More high-cost enrollees

➔Rapid growth in Medicare's payments for reinsurance

Trend likely to continue because of increasing focus on specialty drugs and biologics in the pipeline

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

Need to remove financial disincentive to use biosimilars

- Biologics will continue to grow in importance
  - Increasing cost burden on patients and Medicare
  - Need for biosimilars to promote price competition
- BUT some Part D policies may negatively affect take up of biosimilars
  - Copays for LIS enrollees
  - Coverage-gap discount provides financial advantage to originator biologics over biosimilars