Advising the Congress on Medicare issues

Status report on Part D

Shinobu Suzuki

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The Part D program

- In 2012, Part D program spending totaled $62.5 billion, a 4.4% increase from 2011
  - About $59 billion for payments to Part D plans and $3 billion for retiree drug subsidy
- Over 35 million beneficiaries enrolled in 2013
- Base beneficiary premium increased by 4% to $32.42 in 2014
- Part D enrollees filled on average 4 prescriptions at $240 per enrollee per month in 2011
- Surveys indicate Part D enrollees are generally satisfied

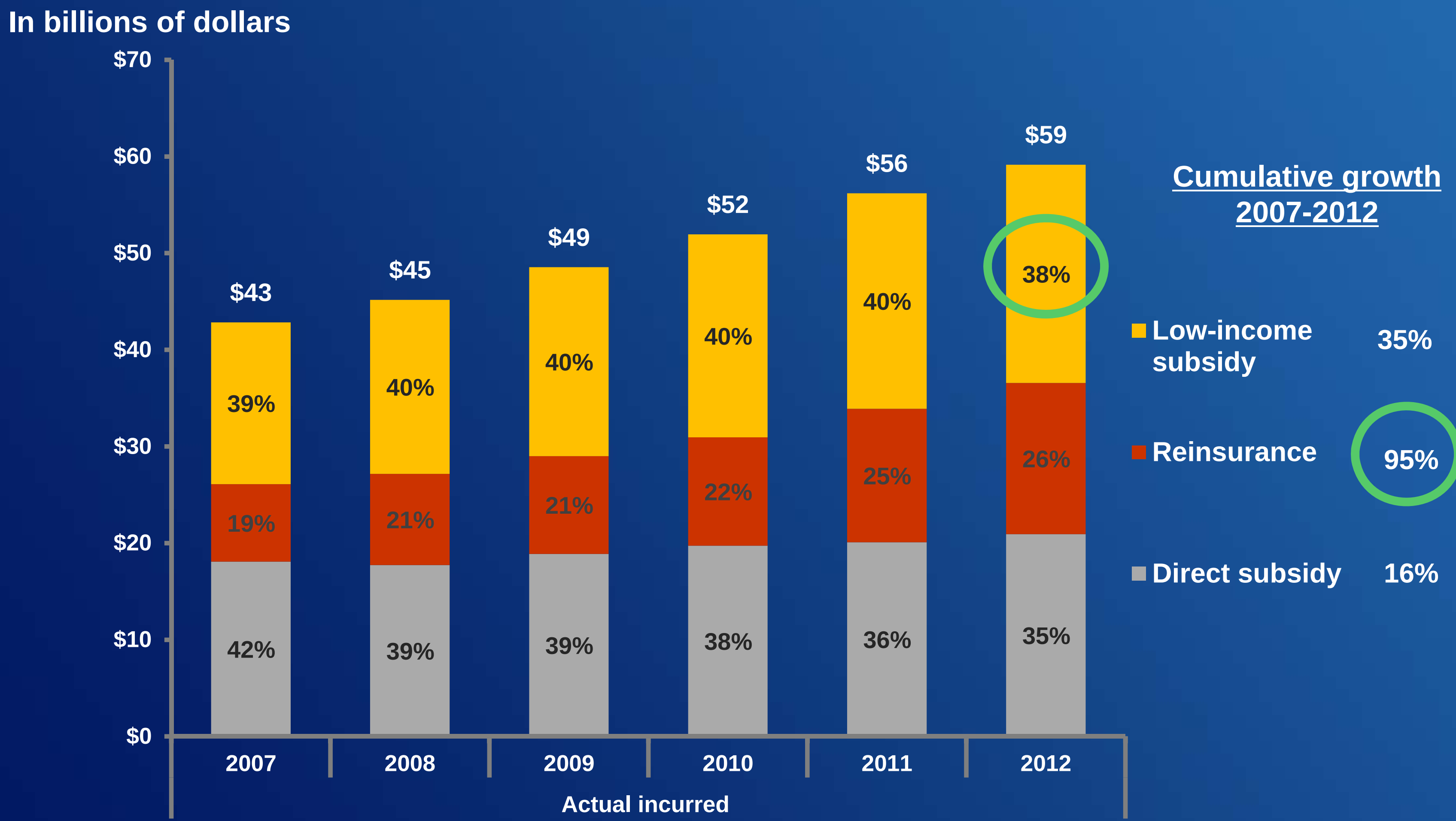
Overview of the presentation

- Part D enrollment and plan offerings
- Program costs
  - Trends in program spending
  - Drivers of cost growth
- On-going and future Part D work

Part D enrollment and plan offerings, 2013-2014

- Part D enrollment pattern remain stable
  - About 64% in stand-alone prescription drug plans (PDPs), 36% in Medicare Advantage-Prescription Drug plan (MA-PDs)
  - About 75% of LIS enrollees are in PDPs
- Modest increase in PDP offerings for 2014
  - Each region has between 28 - 39 PDPs
  - A typical county has 3 - 10 MA-PDs
- In 2014, fewer PDPs are offering gap coverage

Payments to plans, 2007 - 2012



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Note: Figures do not include payments for the retiree drug subsidy. Totals may not sum to 100 percent due to rounding.

Source: MedPAC based on Table IV.B.10 of the Medicare Board of Trustees' report for 2013.

What's driving the spending growth?

- Part D spending…
  - grew faster than enrollment
  - on LIS continues to be the largest component
  - on reinsurance continues to be the fastest growing component
- To understand the sources of growth, we examined:
  - Per capita spending and use
  - Trends in Part D prices
  - Potential effects of plan formularies
  - Effects of the closing of the coverage gap

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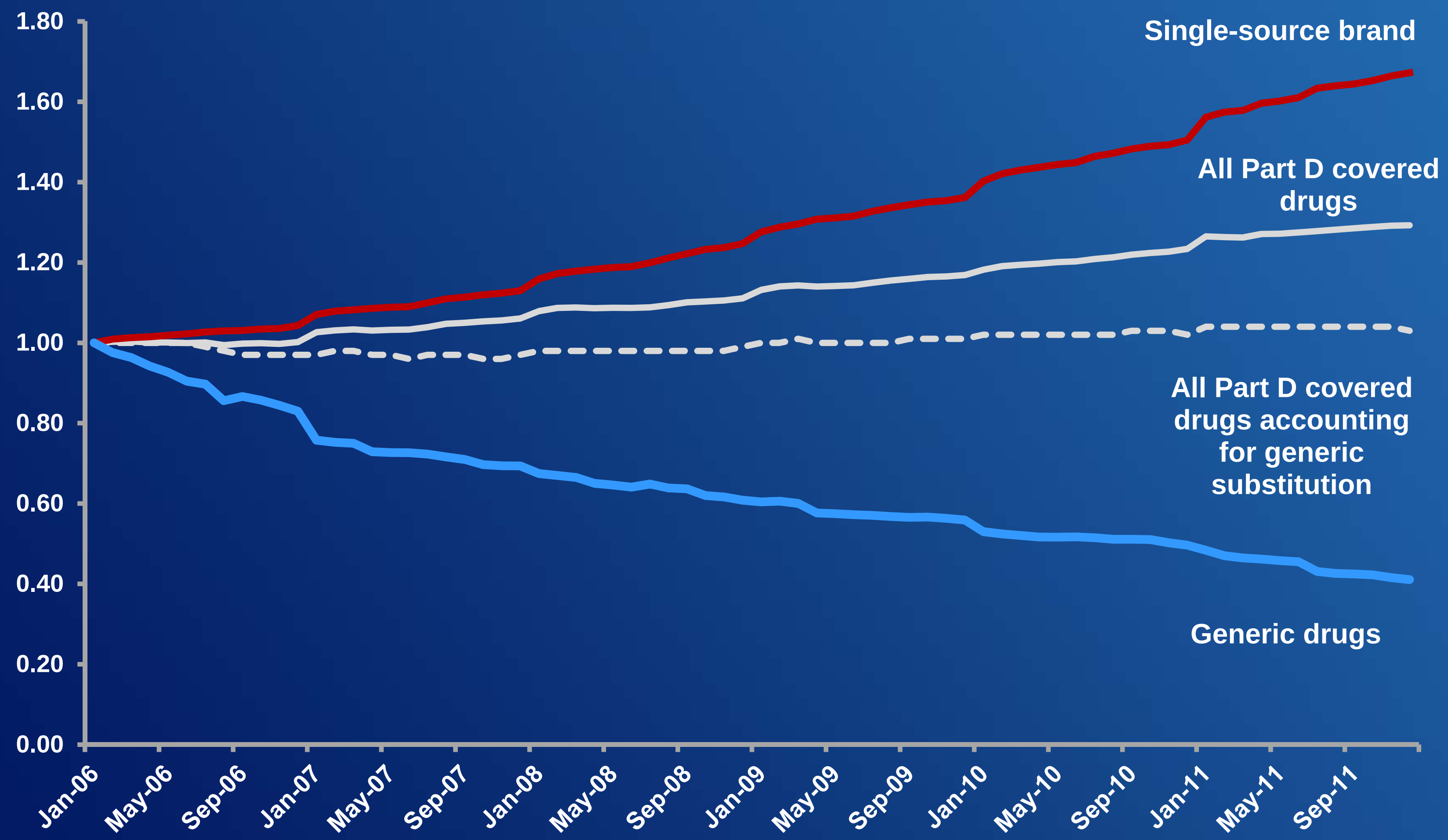
Spending grew faster among LIS enrollees than for non-LIS enrollees

- Between 2007 – 2011,
  - Per capita spending for LIS enrollees grew 4.8% annually vs. 1.8% among non-LIS enrollees
  - Growth in # of Rx filled were comparable (2.6% annually for both)
- Average price per Rx filled by LIS enrollees grew 10% vs. -2% for non-LIS enrollees

Brand drug prices grow rapidly



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

Use of generic drugs has increased, but varies across enrollees

- Generic drugs accounted for 77% of prescriptions in 2011, up from 61% in 2007
- Rate of generic drug use varies across enrollees
  - Higher among MA-PD enrollees compared to PDP enrollees
  - Higher among non-LIS enrollees compared to LIS enrollees
    - Difference has grown from 2 percentage points in 2007 to 5 percentage points in 2011

Effects of formulary structure on program spending

- More plans are using cost sharing differentials to encourage the use of lower-cost drugs
  - Use of a nonpreferred generic tier—a 5-tier structure—some w/ a relatively high copay (about 75% of generic Rx classified as nonpreferred in 2014)
  - Cost sharing amounts for LIS enrollees set by law
    - ➔ Higher cost sharing required for nonpreferred drugs may increase Medicare's costs for the LIS
- More plans are using tiered (preferred/nonpreferred) pharmacy networks (70% of PDPs in 2014)
  - Plans get lower prices (rebates) at preferred pharmacies in return for increased volume
  - Some enrollees may not have access to preferred (lower cost) pharmacies
  - Potential to increase Medicare's costs?

Effects of closing the coverage gap

- Phase-out of the coverage gap began in 2011
  - Manufacturer discount for brand Rx reduced cost sharing by 50% for non-LIS enrollees
  - Discount counts toward the out-of-pocket (OOP) threshold

➔ Non-LIS enrollees who reach catastrophic phase increased by 28%, with 38% increase in spending

- If the discount did not count toward the OOP threshold (assuming no change in Rx filled)
  - Very few would have reached the catastrophic phase (lower Medicare spending for reinsurance)
  - Beneficiary OOP spending would have been higher as enrollees would have remained in the gap phase longer

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Summary

- Program enrollment and plan offerings remain stable, with generally high satisfaction among enrollees
- Spending growing faster than enrollment
  - Higher use of brand-name drugs by LIS enrollees contributing to higher growth in spending
  - Use of nonpreferred tiers and tiered pharmacy networks may increase Medicare's costs
  - Closing of the coverage gap accelerating growth in Medicare's costs for reinsurance

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On-going and future Part D work

- In the past…
  - Commission recommended changes to LIS cost sharing structure to encourage more generic drug use
  - Reported on preliminary findings on the relationship between Parts A/B and Part D spending
- Other Part D issues
  - Faster growth for Part D compared with national trend
  - Abusive prescribing
  - Use of preferred networks and other formulary changes
- Future work
  - Definition of OOP used to determine entry into catastrophic phase of the benefit
  - Should the program shift its focus to providing stronger incentives for plans to manage costs?
  - Update on the analysis of the relationship between Parts A/B and Part D spending