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

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Roadmap

- Part D’s approach and role of manufacturer rebates
- Effects of COVID-19 on Part D
- Current program snapshot and key trends
- Drug prices and high-cost enrollees
- Commission’s 2020 recommendations
- Questions and discussion
Part D’s goals and approach

▪ Expand beneficiary access to prescription drug coverage
▪ Use a market-based approach:
  ▪ Wide choice among competing private plans
  ▪ Program was intended to give plan sponsors tools and financial incentives to manage benefit spending
▪ Beneficiary protections and low-income subsidy (LIS)
▪ Medicare subsidies, risk sharing, and late-enrollment penalty to encourage plan participation and broad enrollment
Multiple actors in pharmacy benefits

- Brand drug manufacturer
- Plan sponsor
- Pharmacy benefits manager (PBM)
- Pharmacy
- Beneficiary

Post-sale rebate

Prescription payment
Plan sponsors’ role and drug price negotiations

- Plan sponsors accept insurance risk and own or contract for services of a PBM
- Sponsors and PBMs negotiate with:
  - Pharmacies over payments for prescriptions filled, post-sale fees
  - Pharmaceutical manufacturers for rebates on brand-name drugs
- By law, Secretary may not interfere with negotiations among drug manufacturers, pharmacies, and plan sponsors, require a particular formulary, or institute a price structure
Rebates and drug prices in Part D

- Postsale payments to plans/PBMs from brand manufacturers
  - When there are competing therapies and drugs can be excluded from formulary
  - Used by manufacturers to tailor prices depending on plan’s ability to expand market share
  - Generally used by plans to lower premiums
- Amounts are highly proprietary, final drug prices are not transparent
- Growing gap between prices at pharmacy and net-of-rebate prices
- When plans use coinsurance, it is based on pharmacy price
- DHHS OIG rule would no longer exempt rebates from antikickback statute in Part D as of 1/1/2022, but would permit rebates at the point of sale

Note: DHHS (Department of Health and Human Services), OIG (Office of Inspector General).
Two distinct defined benefit structures for enrollees without and with the LIS

**Enrollees without the LIS**
- Medicare reinsurance: 80%
- Initial coverage limit: $4,130
- Deductible: $445
- OOP threshold: $10,048
- Coverage gap: 25%
- Brand manufacturer discount: 70%
- Enrollee cost sharing: 25%
- Plan liability: 75%

**LIS enrollees**
- Medicare reinsurance: 80%
- Initial coverage limit: $4,130
- Deductible: $445
- OOP threshold: $9,314
- Coverage gap: 25%
- Medicare low-income subsidy / LIS enrollee cost sharing: 75%
- Enrollee cost sharing: 25%
- Plan liability: 75%

Note: LIS (low-income subsidy), OOP (out-of-pocket). The coverage gap for beneficiaries without the LIS is depicted as it would apply to brand-name drugs and biologics.
COVID-19 and Part D

- Comparatively less disruption of access to medicines than to other types of health care
  - Grocery stores, community and mail-order pharmacies often remained open during restrictions
  - Enrollees initially stockpiled supplies, returned closer to patterns from previous year by late summer
- Medicare’s monthly payments to plans during 2020 based on bids submitted in June 2019
- Symmetric risk corridors around plan bids
Snapshot of the Part D program

- Among 63 million Medicare beneficiaries in 2020:
  - 47 million (nearly 75%) enrolled in Part D plans
  - Another 1 million (nearly 2%) received retiree drug subsidy (RDS)
  - Remaining 23.5% had coverage as generous through other sources, or had no or less generous coverage

- Program spending of $88.4 billion in 2019
  - About $87.7 billion for payments to Part D plans
  - $0.7 billion for RDS

- Plan enrollees
  - Paid $13.9 billion in basic premiums*; $16.7 billion in cost sharing
  - Most continue to say they are satisfied with their plan

Note: Results are preliminary and subject to change. *Excludes Medicare premium subsidies for beneficiaries receiving Part D’s low-income subsidy and enrollee premiums for enhanced (supplemental) benefits.
Key trends

- Enrollment has grown 5% per year through 2020
- In 2020, among all Part D enrollees:
  - 47% in MA-PDs, 53% in PDPs
  - 27% received low-income subsidy (LIS) compared with 39% in 2007
  - 15% in employer-group plans, a shift from RDS
- Average monthly premiums decreased to $27 in 2020
  - Stable at around $30 per month since 2010
  - However, there is wide variation across plans
- More plan offerings for 2021
  - Larger increases in MA-PDs (12%) and SNPs (14%) than PDPs (5%)
  - More premium-free* benchmark PDPs (6%)

Note: MA-PD (Medicare Advantage-Prescription Drug [plan]), PDP (prescription drug plan), RDS (retiree drug subsidy), SNP (special needs plan). Results are preliminary and subject to change. *Premium free for beneficiaries who qualify for Part D's low-income subsidy.
CMMI’s new Part D Senior Savings model in 2021

- Coverage of certain insulins at cost sharing of no more than $35 per one-month supply
- Limited to non-LIS beneficiaries who enroll in participating enhanced plans (about 1,600 plans in 2021)
- Allow plans to offer enhanced benefits for insulins without losing manufacturer discounts in the coverage gap
- Could improve access and adherence to insulins
- Does not address high insulin prices
- Enrollees may face higher supplemental premiums
Overall Part D prices grew more slowly in 2019

<table>
<thead>
<tr>
<th></th>
<th>Price index as of December</th>
<th>Average annual change (%)</th>
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</thead>
<tbody>
<tr>
<td>All drugs and biologics</td>
<td>1.86</td>
<td>1.91</td>
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<tr>
<td>Single-source brand-name drugs</td>
<td>3.36</td>
<td>3.55</td>
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<tr>
<td>Generic drugs</td>
<td>0.17</td>
<td>0.15</td>
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<tr>
<td>After accounting for generic substitution</td>
<td>1.14</td>
<td>1.11</td>
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</tbody>
</table>

- Changes in price indexes between 2018 and 2019 varied widely
- Prices decreased for classes with new/increased generic competition (e.g., anticonvulsants)
- Prices continued to rise for therapeutic classes dominated by brand-name drugs or biologics (e.g., anti-inflammatory drugs)

Note: LIS (low-income subsidy). Prices reflect point-of-sale prices before accounting for postsale rebates and discounts. *Relative to prices as of January 2006. Results are preliminary and subject to change.

Source: Acumen, LLC, analysis for MedPAC.
Medicare’s reinsurance continues to be fastest growing part of program spending

<table>
<thead>
<tr>
<th>Spending category</th>
<th>Spending in billions</th>
<th>Percentage growth, 2007—2019</th>
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<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2018</td>
</tr>
<tr>
<td>Direct subsidy*</td>
<td>$17.6</td>
<td>$13.5</td>
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<tr>
<td>Reinsurance</td>
<td>8.0</td>
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<td>Low-income subsidy</td>
<td>16.7</td>
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<tr>
<td>Retiree drug subsidy</td>
<td>3.9</td>
<td>0.8</td>
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<tr>
<td>Medicare program total</td>
<td>$46.2</td>
<td>$83.4</td>
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</tbody>
</table>

Note: Results are preliminary and subject to change. *Net of Part D risk-corridor payments.
Source: MedPAC based on Table IV.B.10 of the Medicare Board of Trustees’ report for 2020.
2019 saw the largest ever increase in non-LIS beneficiaries reaching the catastrophic phase

- In 2019, 4.3 million (9% of enrollees) reached the catastrophic phase
- 12% increase from 2018, mostly among non-LIS enrollees
- Surge in high-cost, non-LIS enrollees driven by:
  - Recent law changes
  - Use of prescriptions for which a single claim is sufficient to reach the catastrophic phase (>480,000 in 2019, up from 378,000 in 2017 and 33,000 in 2010)

Note: LIS (low-income subsidy). Results are preliminary and subject to change. Source: MedPAC analysis of Part D prescription drug event data and published data from CMS.
Access to medications under Part D

- General program-wide indicators of access show improvements in formulary and coverage decisions
- >80% report their plans provide good value with reasonable cost sharing*
- However, for beneficiaries without the LIS, access depends on their medication needs:
  - Good access if taking generic drugs for common conditions
  - High cost sharing could be a barrier to access if one needs many brand-name drugs or specialty drugs

Source: MedPAC analysis of Part D prescription drug event data and published data from CMS.
Commission’s 2020 recommendations to improve Part D

- Address distortions in plan incentives created by rebates and discounts that increase Medicare’s reinsurance costs
  - Eliminate coverage-gap discount
  - Increase plan liability in the coverage gap and the catastrophic phase of the benefit
- Address high prices and high cost sharing
  - Manufacturer discount in the catastrophic phase
  - Complete insurance protection in the catastrophic phase
- Restore market-oriented incentives and provide greater flexibility to manage benefits
Questions and discussion

- Feedback on draft chapter

- Future work:
  - Rebates and risk adjustment
  - Low-income premium benchmarks
  - Long-term care pharmacy
  - Other ideas?