



Advising the Congress on Medicare issues

Status report on Part D

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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

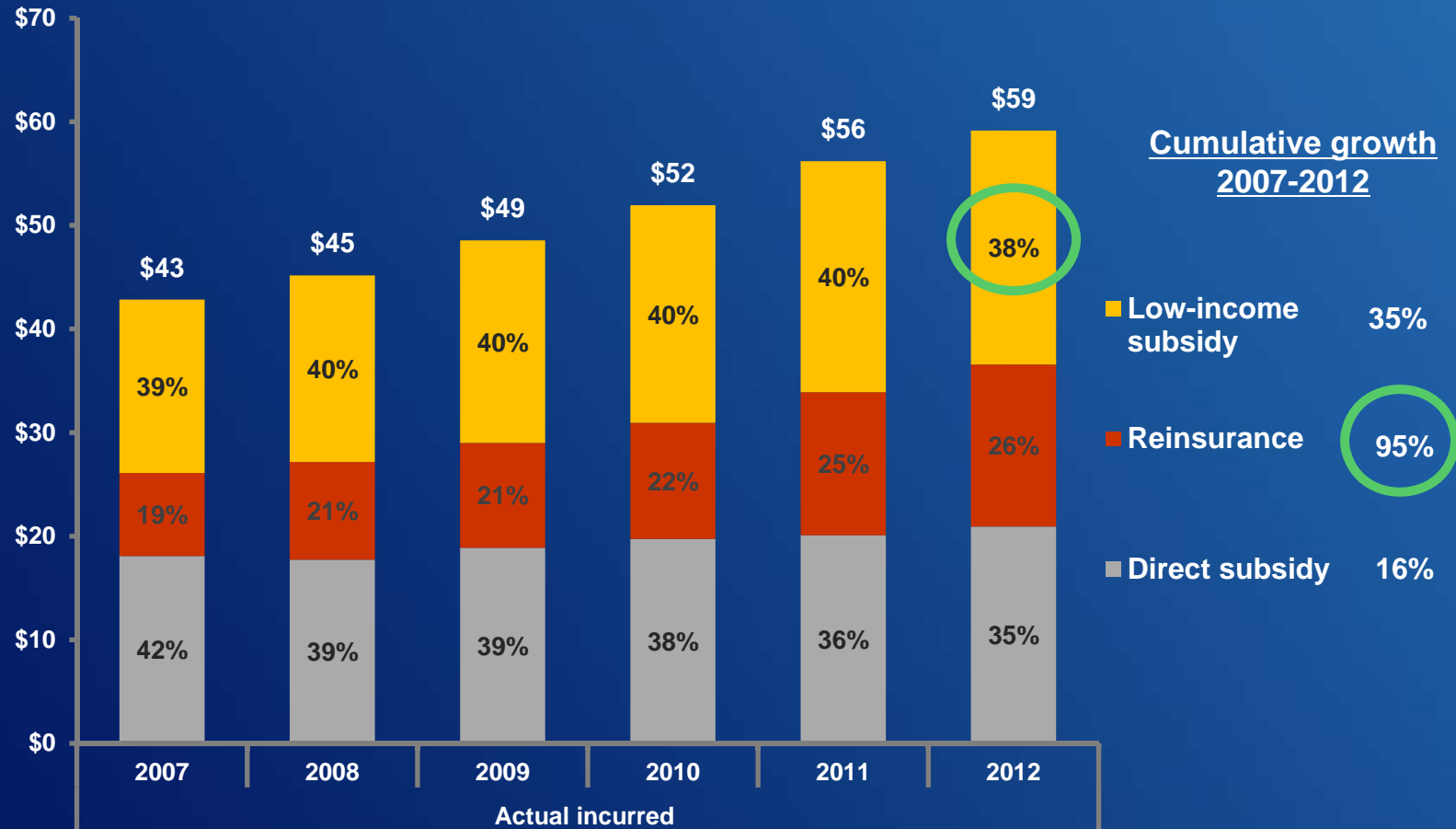
- Part D enrollment and plan offerings
- Program costs
 - Trends in program spending
 - Drivers of cost growth
- On-going and future Part D work

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

In billions of dollars



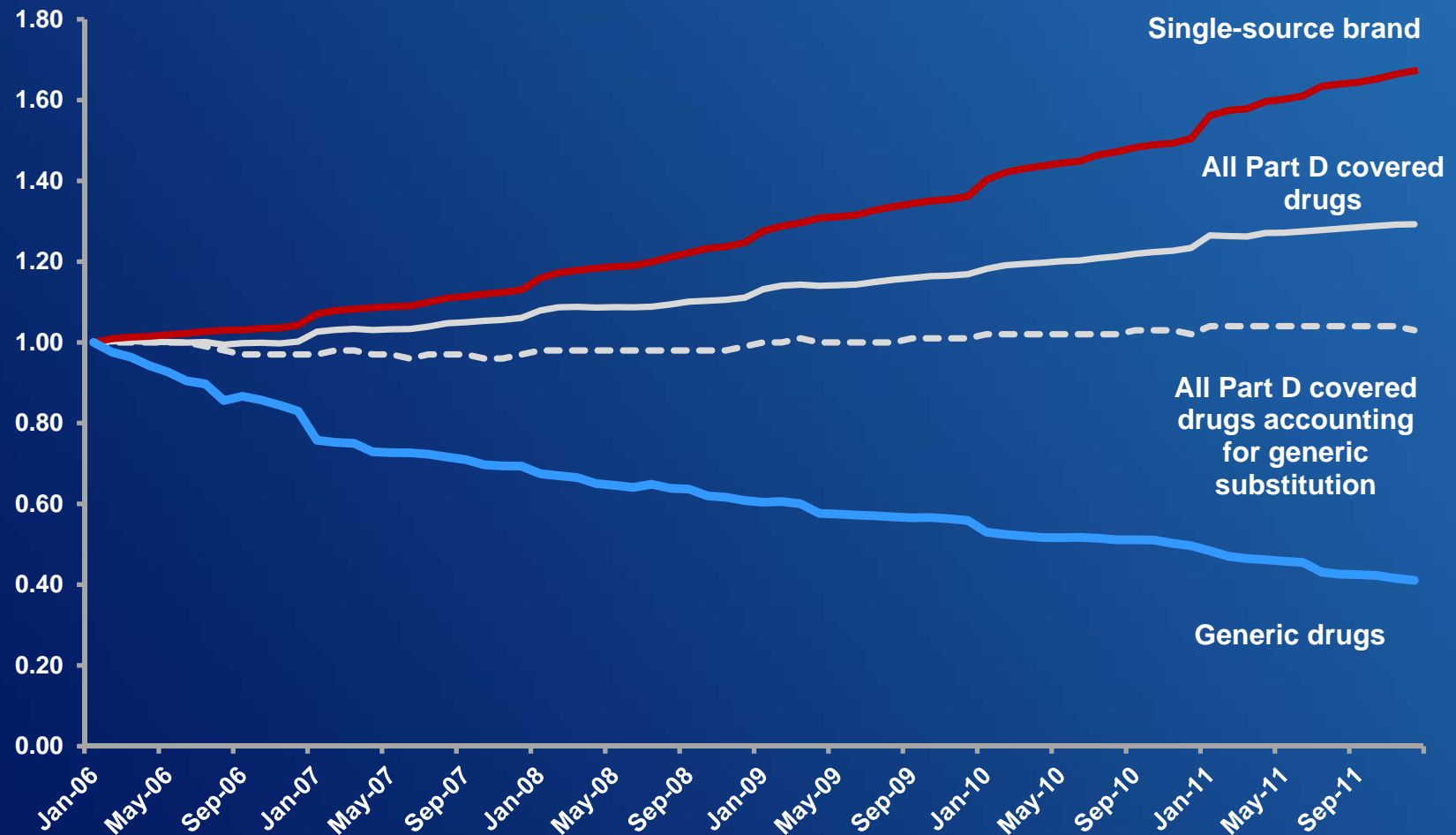
What's driving the spending growth?

- 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

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



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

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

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