



Advising the Congress on Medicare issues

Sharing risk in Part D

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Roadmap

- Quick review of Part D's approach
- Mechanisms for sharing risk
- Experience with risk sharing
- Issues related to low-income subsidy
- Potential approaches to changes in risk sharing

Part D's approach

- Private plans deliver drug benefits
 - Compete for enrollees
 - Drug-only plans or part of Medicare Advantage
- Medicare pays for nearly 75% of basic benefits, enrollees pay 25%
 - Monthly capitated payments to plans
 - Plan premiums vary depending on their bids
 - Medicare has other subsidies that offset risk

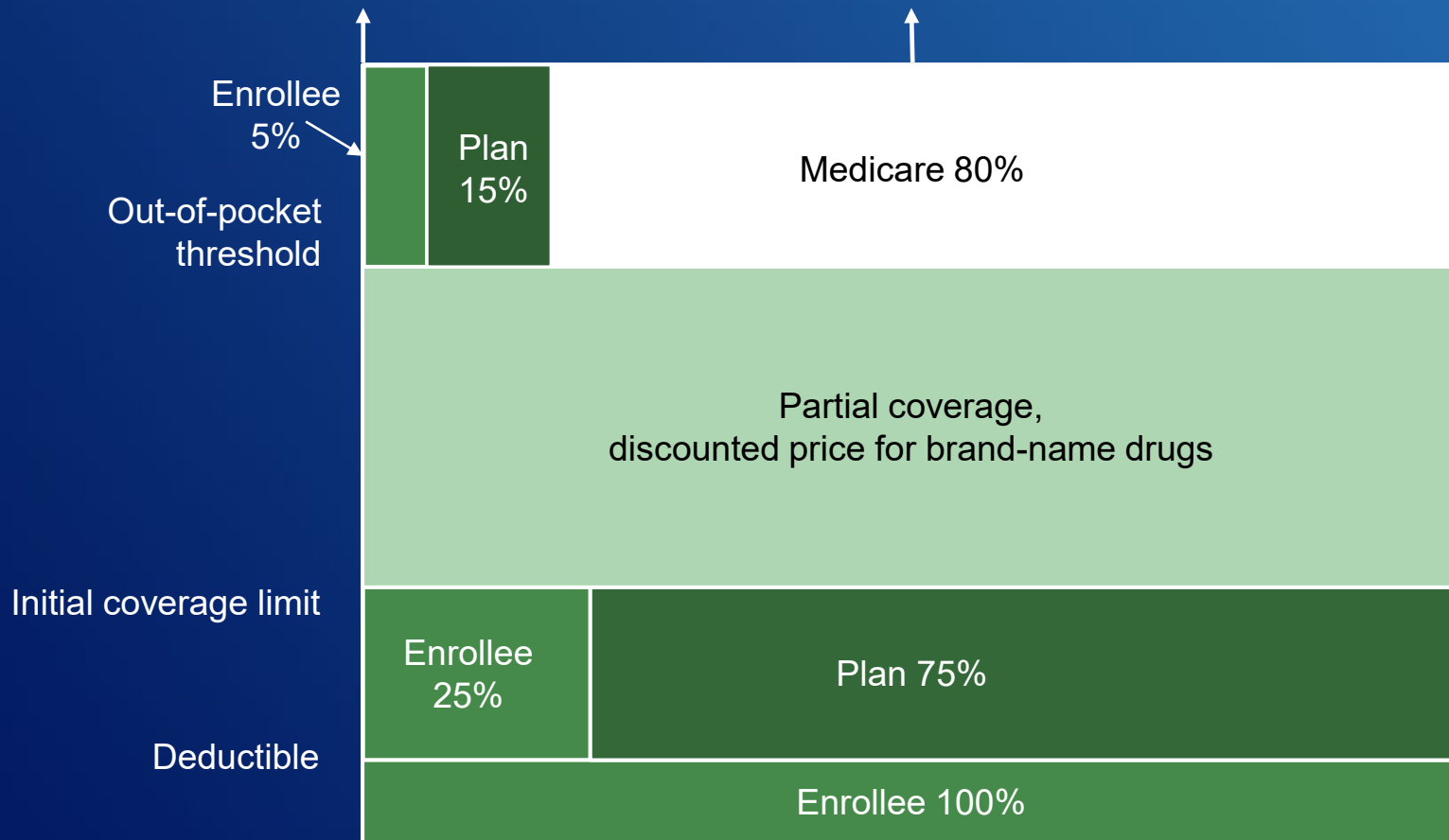
Part D's low-income subsidy (LIS)

- Beneficiaries at or below 150% of poverty
- Extra help with premiums
 - Regional threshold—maximum amount Medicare will pay for an LIS premium
 - CMS randomly assigns LIS enrollees to basic plans with premiums at/below threshold
- Extra help with cost sharing
 - Nominal copay amounts set in law
 - No coverage gap

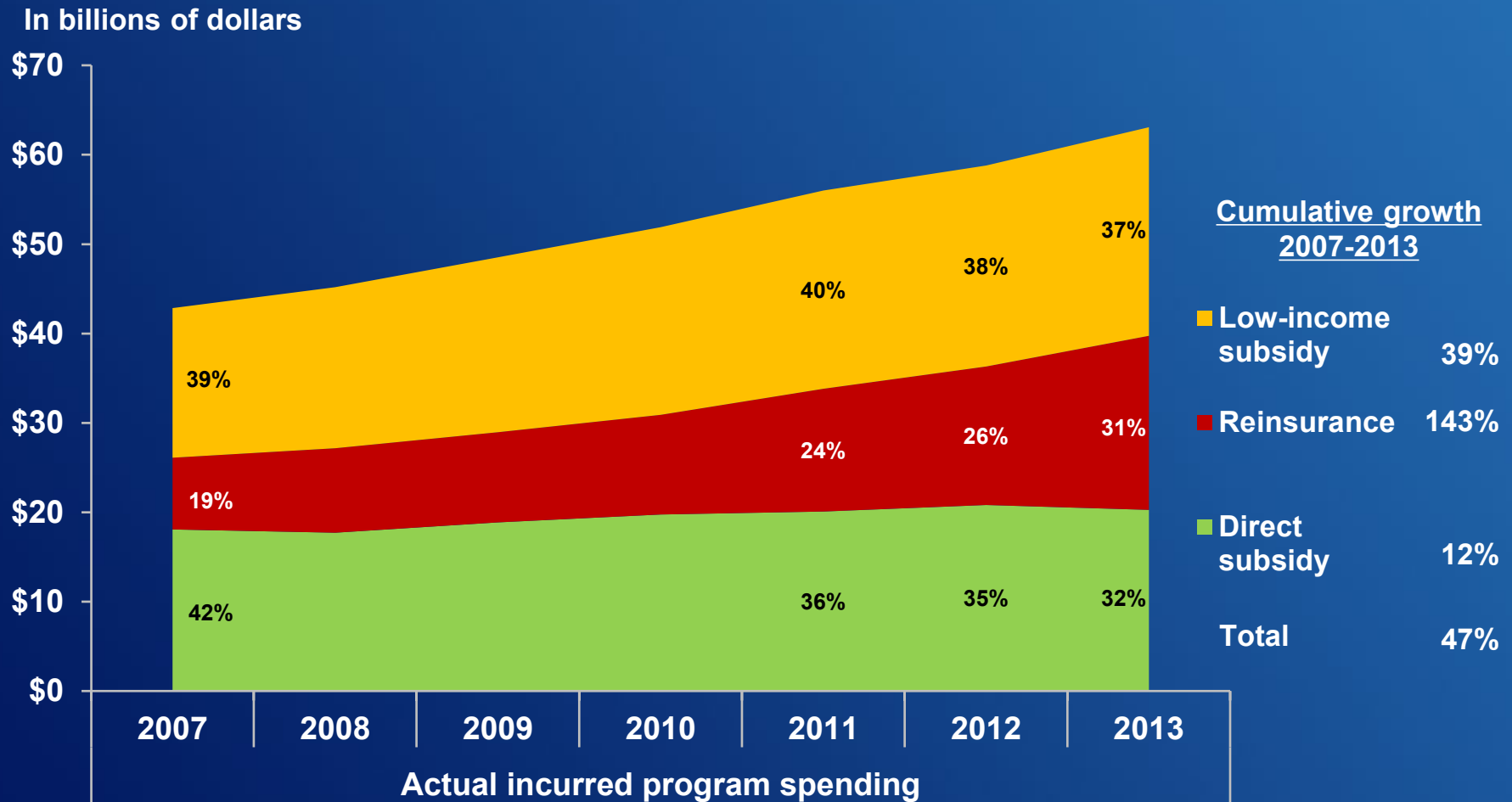
Medicare shares risk with private plans

- Mechanisms for sharing risk
 - Capitated payments
 - Risk adjustment
 - Individual reinsurance
 - Risk corridors
- Objectives for sharing risk may have changed
 - Less concern about plan entry and rivalry
 - More concern about managing benefits of high-cost enrollees

Individual reinsurance: Medicare pays for 80% of benefits above the OOP threshold



Reinsurance has grown 143% since 2007



Current structure of risk corridors: actual costs relative to bids



Objectives of and experience with risk corridors

- Initial objective was to establish market for stand-alone drug plans
 - Risk of attracting high-cost enrollees
 - Little early information on which to base bids
- Sponsors have consistently bid too high
 - Have paid back Medicare each year
 - Portion of enrollee premiums not paid back

LIS enrollees not distributed equally

- About one third of Part D enrollees get LIS
 - 75% in PDPs
 - 25% in MA-PDs
- Among top 20 PDP plans in 2012:
 - 8 had 25% or fewer enrollees with LIS
 - 9 had 75% or more enrollees with LIS
- Changes to risk sharing could affect incentives to enroll individuals with LIS

Managing Part D benefits for LIS enrollees is a major concern

- Higher average disease burden
- Higher average prescription use
- Lower use of generics
- More likely to reach OOP threshold
- On the order of two-thirds of Part D program spending for LIS enrollees

Data for 2012	LIS	Non-LIS
Average risk score	1.195	0.894
Average number of prescriptions per month	5.2	3.8
Average generic dispensing rate	78%	83%
Percent with spending high enough to reach OOP threshold	17%	4%

Source: MedPAC based on 2012 Part D prescription drug event data.

Note: OOP (out of pocket).

Analysis is preliminary and subject to change.

Market segmentation through minimally enhanced plans

- LIS enrollees who do not choose a plan can only be assigned to plans with basic benefits
- Enhanced plans have higher actuarial value than basic plans
 - Actuarial value of minimally enhanced not much higher than basic benefit
 - Often have lower premium than basic plan offered by same sponsor
- LIS enrollees cannot be assigned to enhanced plans

Potential policy approaches

- Risk sharing
 - Widen or remove corridors
 - Plans pay more than 15% above OOP threshold
- LIS policies
 - 2012 recommendation on LIS cost sharing
 - Consider premiums and average low-income cost sharing when setting regional thresholds
 - Reassign LIS enrollees to basic and enhanced plans if premium at/below regional threshold
- May need to combine policy approaches to balance competing goals