Status report on Part D

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Overview of the presentation

- Snapshot of Part D
  - Key trends
  - Enrollment and plan offerings
  - Access and quality
- Program costs
- Sponsor strategies for controlling premiums
- Drug pricing
- Ongoing and future Part D work

The Part D program

- 37 million enrollees
  - 69% of Medicare beneficiaries in Part D plans
  - 5% receive benefits through retiree drug subsidy (RDS)
- Program spending of $65 billion in 2013
  - $63 billion for payments to Part D plans
  - $2 billion for RDS
- Plan enrollees generally satisfied

Key trends since 2007

- Enrollment growth
  - Higher among enrollees without low-income subsidy (8%) than with LIS (3%)
  - Move from RDS to Part D employer groups
- Average monthly premiums
  - Grew by 3% per year
  - Stable at around $30 per month between 2010 – 2014
- But Medicare reinsurance payments to plans have grown much faster
  - 8% per year, 2007 – 2014
  - 10% per year, 2010 – 2014

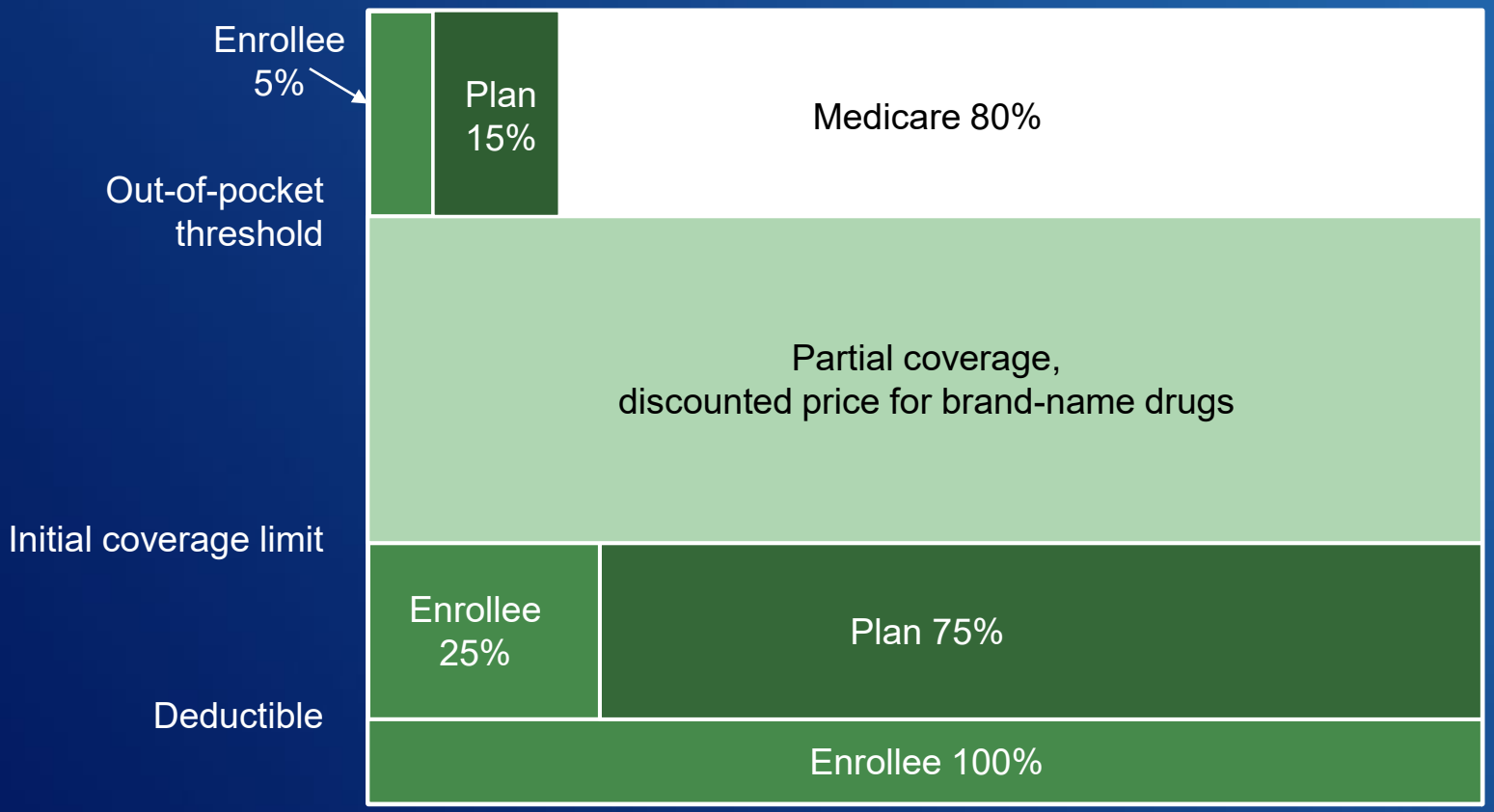
Part D enrollment in 2014 and plan offerings for 2015

- PDPs
  - 62% of all Part D enrollees (down from 70% in 2007)
  - 14% fewer plans in 2015, but still broad choice (24–33 PDPs in each region)
- MA-PDs
  - 38% of all Part D enrollees (up from 30% in 2007)
  - Total number of plans stable (a typical county has 3–10 MA-PDs)
- Low-income subsidy (LIS)
  - 30% of all Part D enrollees receive LIS (down from 39% in 2007)
  - About 28% of LIS enrollees in MA-PDs (up from 14% in 2007)
  - Fewer benchmark PDPs, but still 4–12 PDPs

Access and quality in Part D

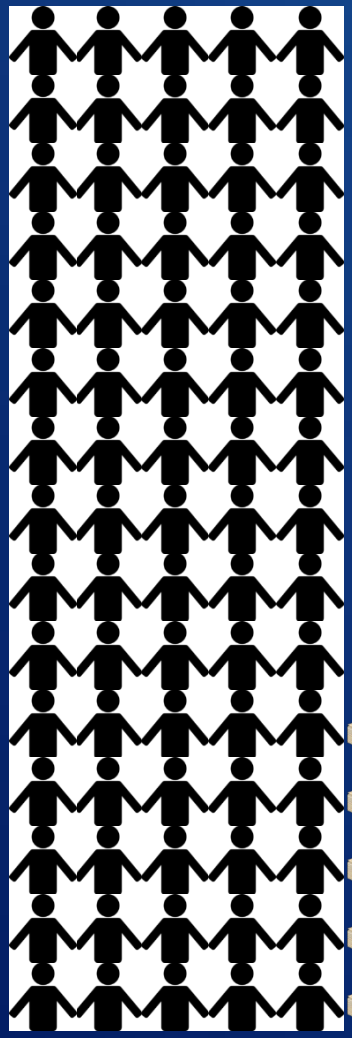
- Most are satisfied with the drug coverage and pharmacy access; 5% reported trouble filling at least 1 medication in 2012
- CMS collects plan quality and performance data to rate plans on a 5-star system (similar to Part C)
  - Average ratings have generally increased over time, particularly among MA-PDs
  - MA-PDs may have stronger incentive to improve their ratings because of effect on bonus payments under Part C
  - Changes in metrics used to rate plans make it difficult to assess changes in quality over time

Part D's defined basic benefit structure



Tails for the distribution of Part D drug spending in 2012

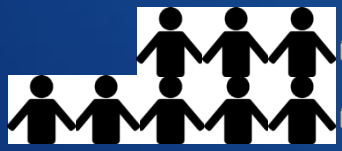
75% of enrollees had spending below the coverage gap



- Plan premiums reflect spending below coverage gap, small share of gap, 15% of catastrophic
- Medicare's reinsurance pays 80% of covered benefits in catastrophic phase

25% of gross spending

8% of enrollees reached the catastrophic phase



44% of gross spending

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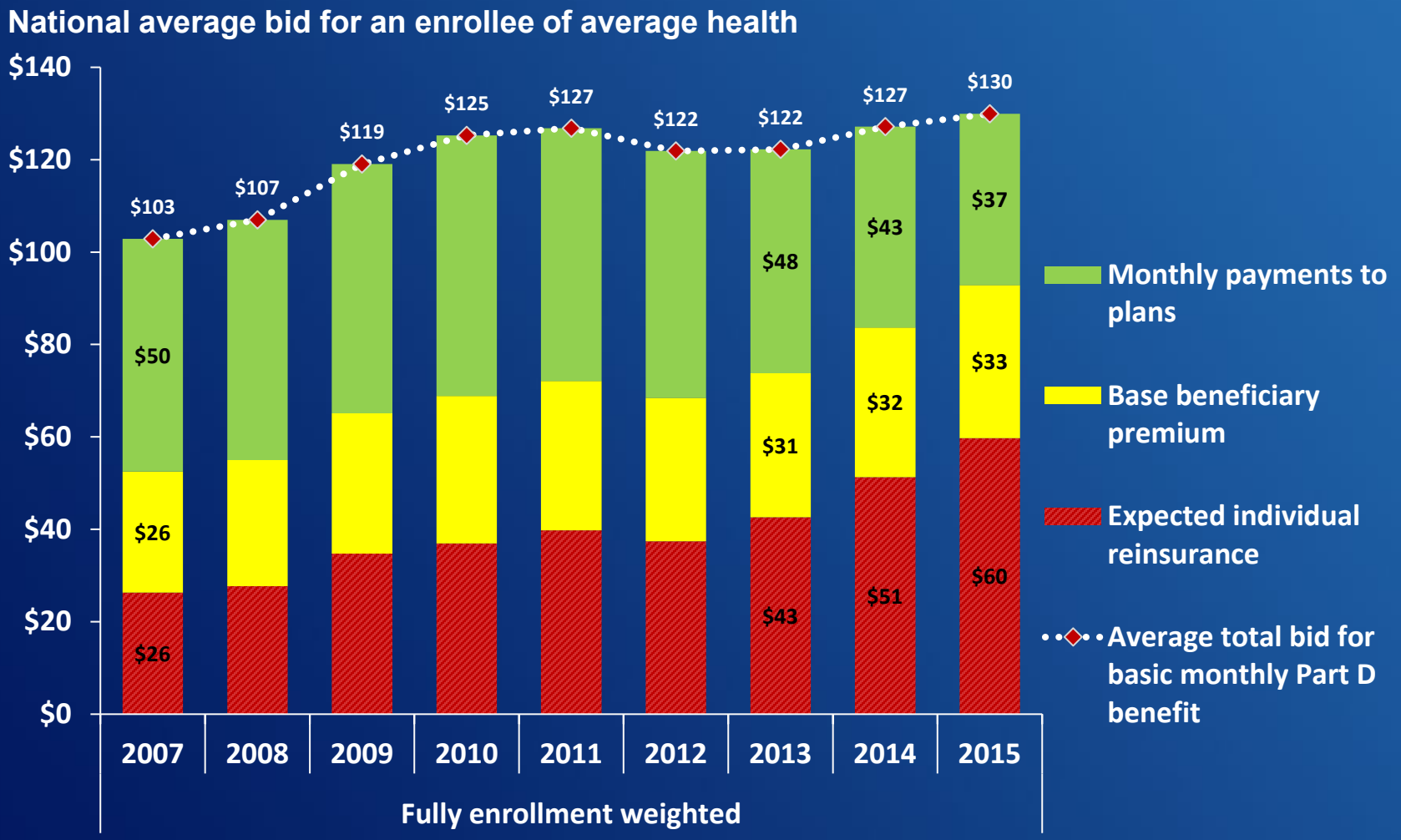
Source: MedPAC based on Part D prescription drug event data.

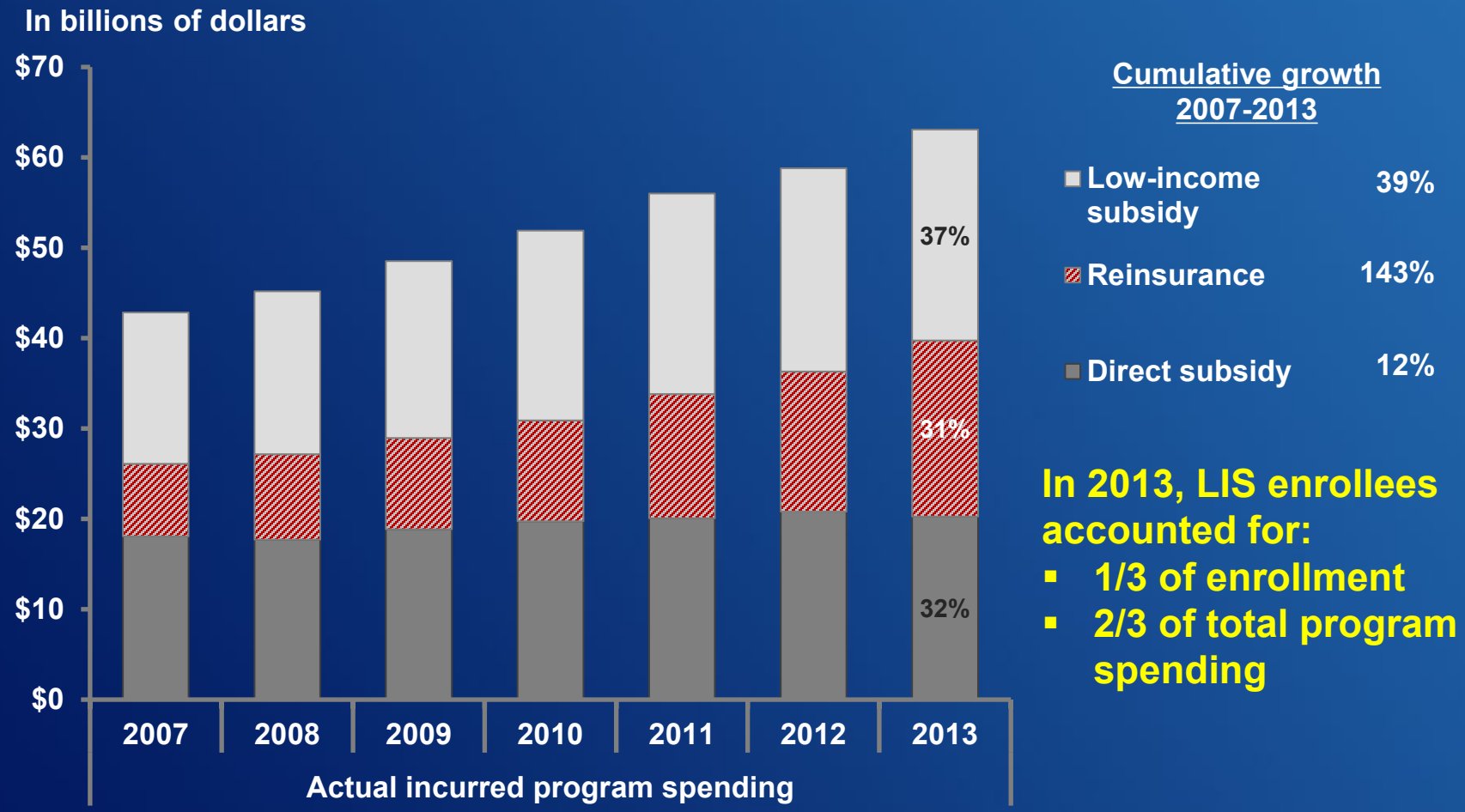
Note: Preliminary, subject to change.

Individual reinsurance is the largest component of plan bids



Source: MedPAC based on data from CMS.
Note: Preliminary, subject to change.

Reinsurance and LIS have grown much faster than the direct subsidy



In 2013, LIS enrollees accounted for:

- **1/3 of enrollment**
- **2/3 of total program spending**

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Source: MedPAC based on Table IV.B.10 of the Medicare Board of Trustees' report for 2014.
Note: Preliminary, subject to change.

Strategies for controlling growth in plan premiums

- More plans use cost sharing differentials to encourage the use of lower-cost drugs
  - In 2015, over 80% of PDP offerings use 5-tier structure w/ nonpreferred and preferred tiers for both brands and generics, and a specialty tier
- In 2015, 90% of PDP offerings use lower cost sharing at preferred pharmacies
  - Plans get lower prices (rebates/discounts) at preferred pharmacies in return for increased volume
  - Availability of preferred (lower cost sharing) pharmacies vary widely by plan and by region

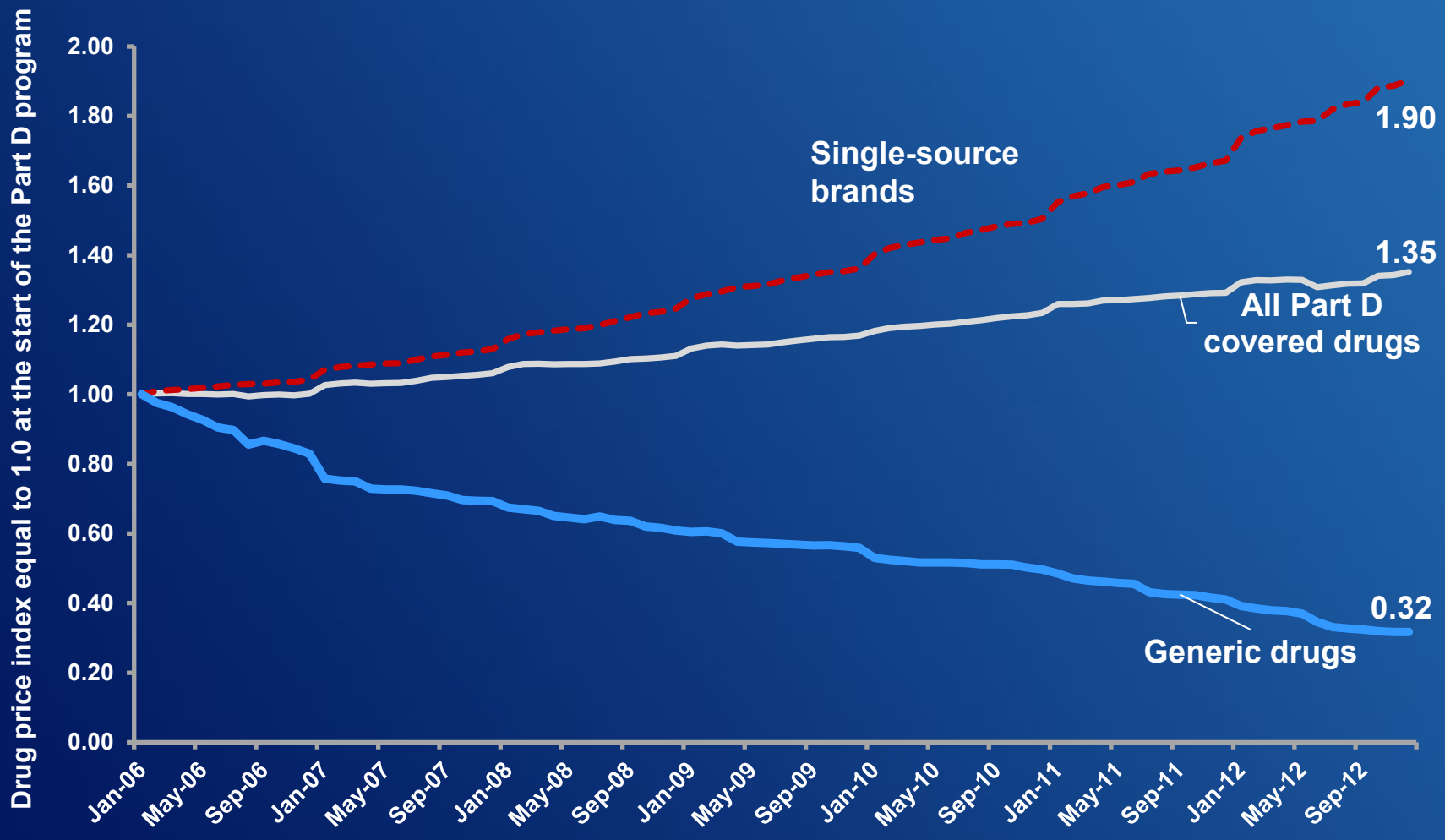
➔ Both strategies provide financial incentives to use lower-cost drugs/providers, potentially reducing program costs

➔ However, these approaches could also increase Medicare's spending for LIS

Two underlying trends affecting drug prices in Part D

- Large number of patent expirations for blockbuster drugs in recent years
  - Average GDR grew from 61% (2007) to 81% (2012)
  - Lower per capita spending for most enrollees
  - Decrease in the share of enrollees reaching the catastrophic phase in 2012 claims data
- Drug pipeline dominated by higher-priced biologics and specialty drugs
  - Increased use of biologics by high-cost enrollees
  - Implications for LIS and reinsurance spending
  - Available data do not yet reflect recent Hep-C drugs

Growth in brand prices, decline in generic prices, 2006–2012



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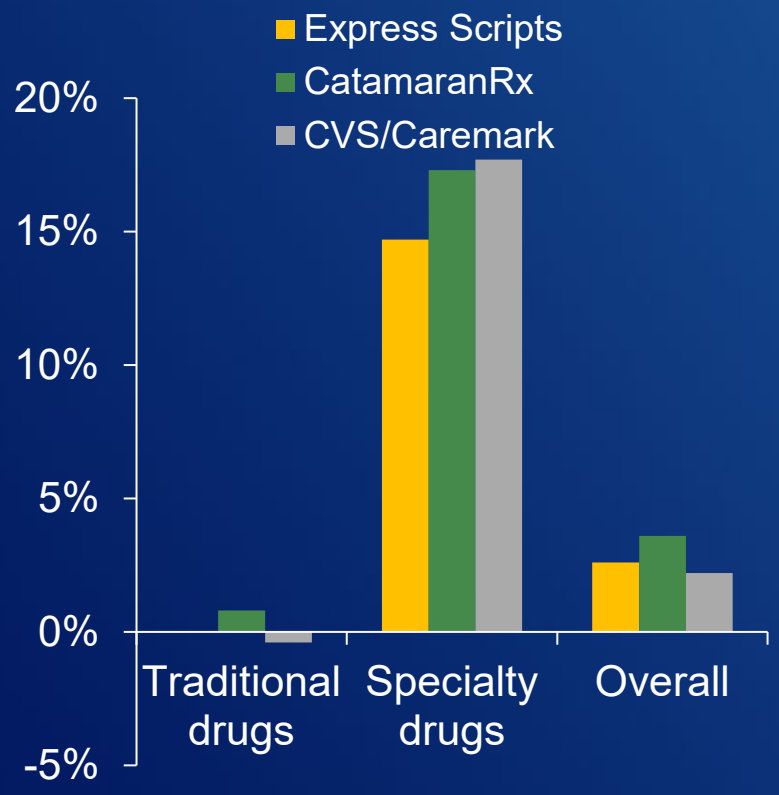
Source: Acumen, LLC for MedPAC based on Part D prescription drug event data.

Note: Preliminary, subject to change.

Upward pressure on prices

Growth in capita spending for Medicare Part D business, 2012-2013



- Generics
  - Fewer patent expirations
  - Some sharp price increases
- Specialty drugs
  - Unprecedented launch prices, some for therapies that treat broad populations
  - Beginning to drive overall trend in PBMs' spending
- Can plan sponsors negotiate lower prices?
  - Depends on availability of therapeutic substitutes
  - Role of biosimilars

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Summary

- High satisfaction among Part D enrollees
  - Stable premiums and good access to prescription drugs
  - Many plan options to choose from
- But cost trends are increasingly of concern
  - Costs for individual reinsurance and the LIS (where Medicare bears the risk) are growing much faster than the premiums
  - Prices of single-source drugs continue to grow aggressively and drug pipeline is shifting towards higher-cost biologics/specialty drugs
  - Large increases in prices of older generics

On-going and future Part D work

- Part D's risk-sharing arrangement, plan incentives, and implications for financial sustainability (Spring 2015)
- How do plans' strategies to encourage use of lower-cost drugs/providers affect the LIS?
  - ➔Revisit Commission's recommendation to change LIS cost sharing structure to encourage use of lower-cost drugs?
- Other issues
  - Effects generic drug price increases
  - Polypharmacy and adverse drug events