

Advising the Congress on Medicare issues

Status report on Part D

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January 14, 2016

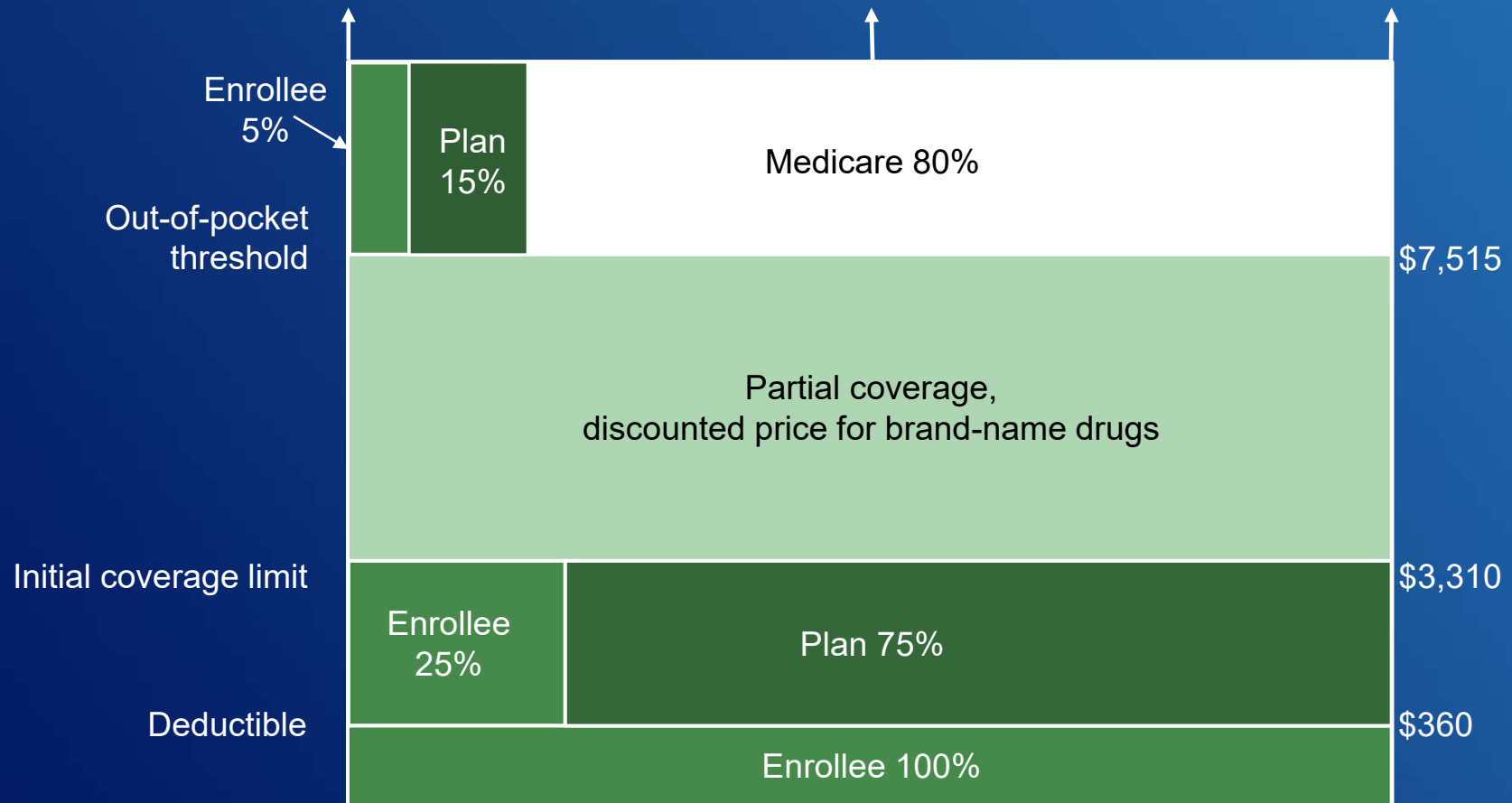
Overview of the presentation

- Program description and key trends
- Role of high-cost enrollees in program spending
- Growth in drug prices
- Plan strategies to manage spending
- Trends in enrollee out-of-pocket costs
- Preview of spring discussions

The Part D program

- Among 56 million Medicare beneficiaries in 2015:
 - 39 million (70%) enrolled in Part D plans
 - Another 4% received retiree drug subsidy (RDS)
 - 14% had coverage as generous through other sources
 - 12% had less generous or no drug coverage
- Of the 39 million in Part D plans, 12 million (30%) received the low-income subsidy (LIS)
- Program spending of \$78 billion in 2014
 - \$76 billion for payments to Part D plans
 - Less than \$2 billion for RDS
- Plan enrollees continue to say they are satisfied

Defined standard benefit in 2016



Key trends since start of Part D

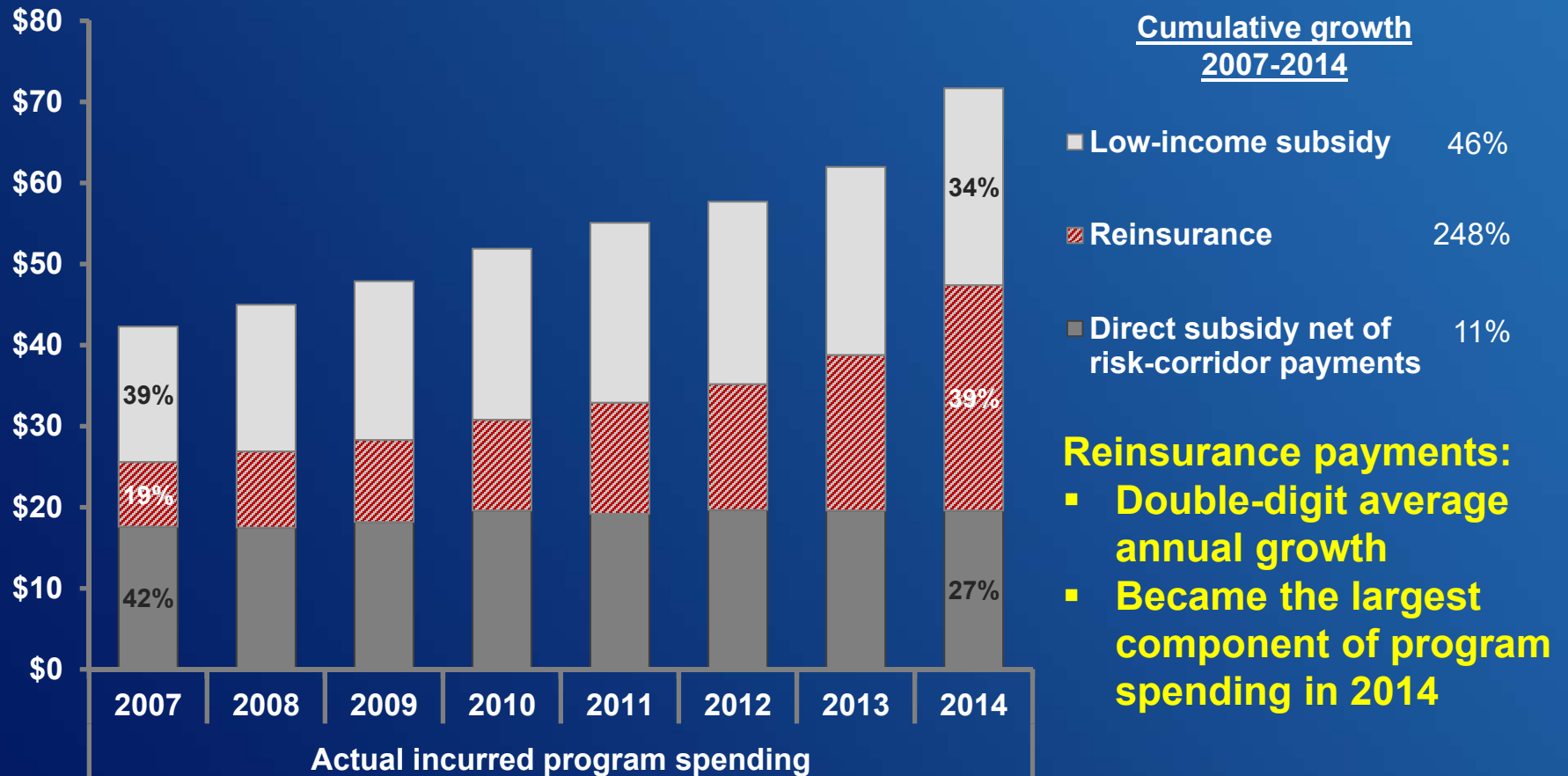
- Enrollment growth
 - 24 million in 2007 to 39 million in 2015 (6% per year)
 - Higher among non-LIS enrollees (8%) than LIS enrollees (3%)
 - Move from RDS to Part D employer-group plans
- Average monthly premiums
 - Grew by 3% per year over 2007 – 2015
 - Stable at around \$30 per month between 2009 and 2015
- Medicare reinsurance payments to plans have grown much faster
 - 12% per year, 2007 – 2010
 - 26% per year, 2010 – 2014

Part D enrollment in 2015 and plan offerings for 2016

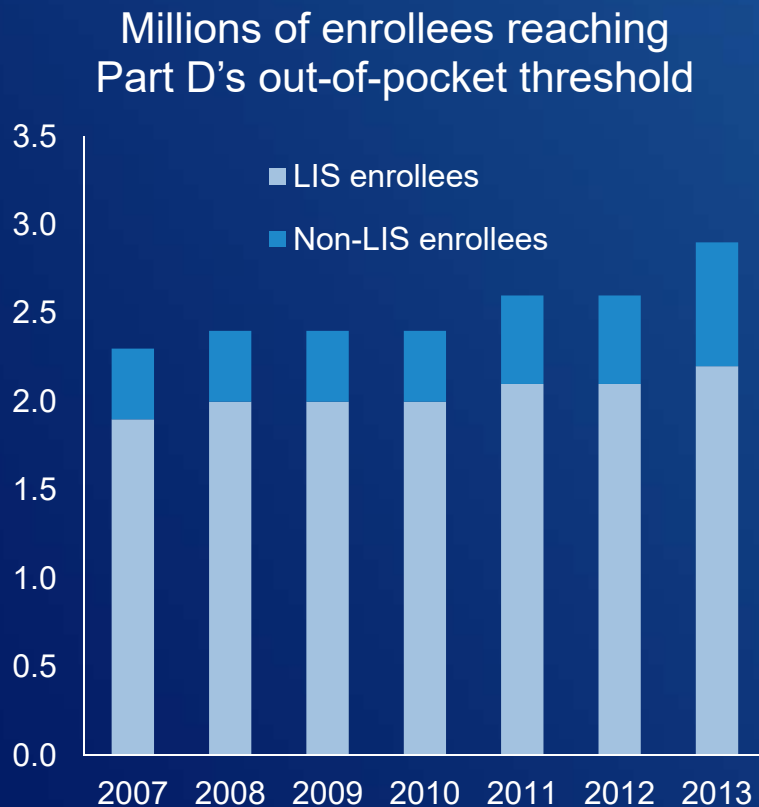
- **PDPs**
 - 61% of all Part D enrollees (down from 70% in 2007)
 - 12% fewer plans in 2016, but still broad choice (19–29 PDPs in each region)
- **MA-PDs**
 - 39% of all Part D enrollees (up from 30% in 2007)
 - Total number of plans increased by 5%
- **Low-income subsidy (LIS)**
 - 30% of all Part 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 3–10 PDPs in most regions

Reinsurance has become the largest component of Part D spending

In billions of dollars

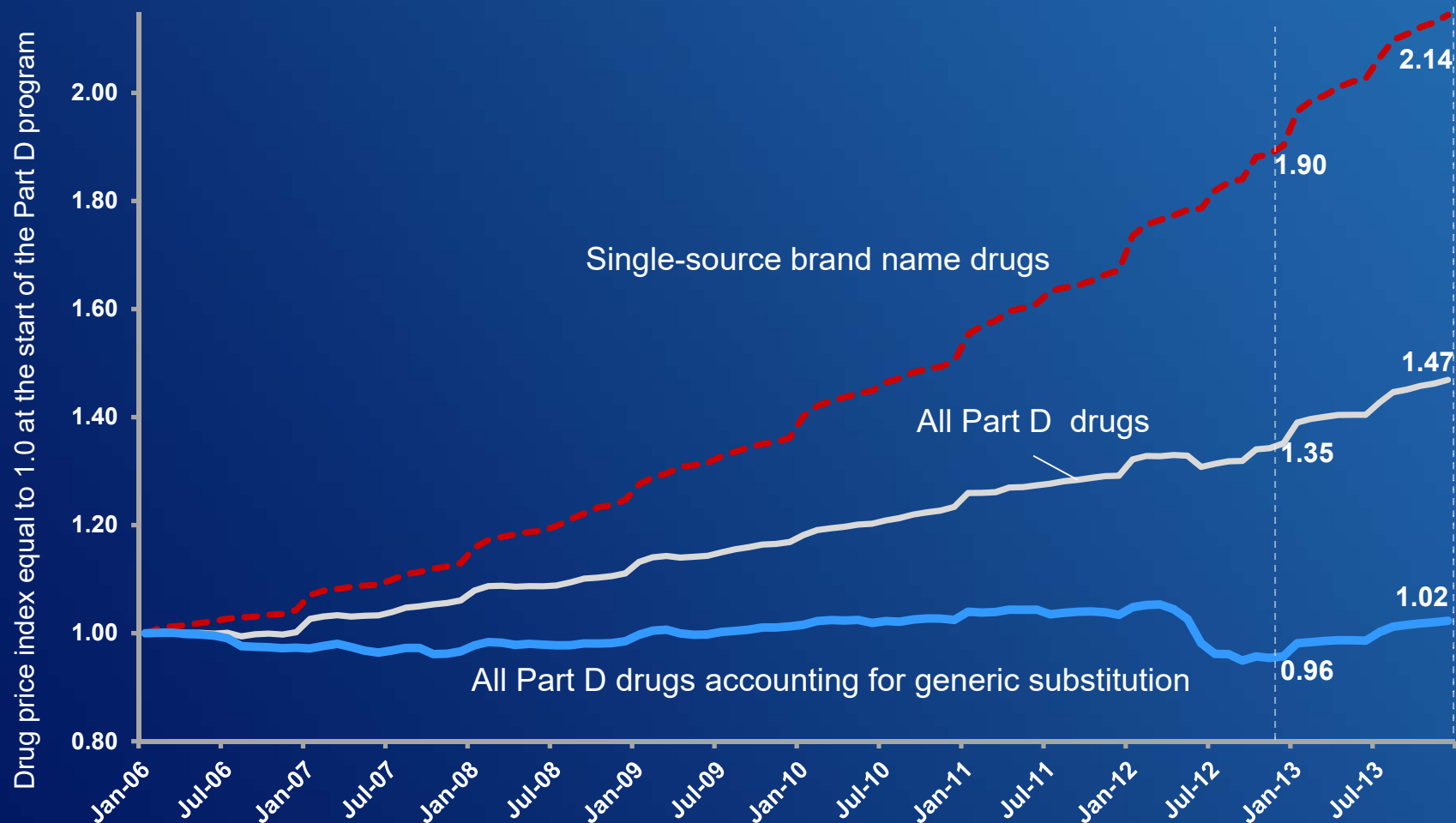


Growing share of Part D spending is for high-cost enrollees



- 2.9 million (7.6%) of enrollees reached OOP threshold in 2013
- Among these “high-cost enrollees,” non-LIS growing faster than LIS
- High-cost enrollees accounted for 47% of spending in 2013 (up from 40% in 2011)
- Recent growth in their spending driven by prices

In 2013, growth in brand prices more than offset effects of generic use



Upward pressure on prices

- Fewer patent expirations
- Some sharp increases in generic prices
- Drug pipeline includes many higher-priced biologics and specialty drugs
- Unprecedented launch prices, some for therapies that treat broad populations

Use of higher-cost drugs poses challenges for Part D

- Share of high-cost enrollees who filled at least one prescription for a biologic product grew from 8% in 2009 to 12% in 2013*
- Spending for new hepatitis C therapies has led to a large spike (15% increase) in Part D spending in 2014**
- As more expensive therapies become available, more beneficiaries will likely reach the catastrophic phase of the benefit

*MedPAC analysis of Part D prescription drug event data. Data are preliminary and subject to change.

**Boards of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds. 2015. *2015 annual report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Insurance Trust Funds*. Washington, DC: Boards of Trustees.

Plans' use of formularies to manage enrollees' drug spending

- Some (but not all) plan sponsors tightening coverage, increasing utilization management
- Greater use of coinsurance by some plans, particularly for nonpreferred brand-name drugs
- Subject to CMS's formulary requirements
 - 2 drugs per therapeutic class
 - "All or substantially all drugs" in 6 protected classes
 - CMS must approve mid-year "negative" formulary changes

Plans' management strategies affect Medicare program payments

- Plans are using new tools to affect enrollee behavior, e.g., differential cost sharing between:
 - Preferred generics vs. other generics
 - Preferred pharmacies vs. other pharmacies
- But LIS copays are set in law
 - LIS enrollees do not face plans' differential cost sharing
 - Differences between plans' cost-sharing requirements and LIS copay amounts are paid by Medicare
- ➔ Medicare's low-income cost-sharing subsidy affected by LIS enrollees' choice
 - If the lower cost option not chosen, Medicare does not get the "savings"
 - Under certain circumstances, may result in higher costs for Medicare

Trends in enrollee out-of-pocket spending: Premiums

- Overall average premium has remained at about \$30 per month since 2009
- Wide variation underlies the overall average
- Stability explained by several factors
 - Spending for reinsurance not fully reflected
 - Influx of younger enrollees
 - More beneficiaries choosing MA-PDs

Trends in enrollee out-of-pocket spending: Cost sharing

- Between 2007 – 2013, average cost sharing remained stable or decreased depending on phase of benefit
 - Non-LIS enrollees
 - Responded to plan incentives (e.g., lower cost sharing for generics and preferred drugs)
 - Phase out of the coverage gap
 - LIS enrollees have cost-sharing protection (maximum copays set by law)
- However, amounts paid by Medicare's low-income cost-sharing subsidy have increased

Summary

- Part D plan enrollees
 - Continue to say they are generally satisfied
 - Many plan options to choose among
 - Stable average premium and cost sharing
- But cost trends increasingly of concern
 - Medicare spending for individual reinsurance growing much faster than premiums
 - Growth in prices for single-source drugs beginning to outstrip moderating effects of generic use
 - Drug pipeline shifting towards higher-cost biologics and specialty drugs

Spring discussions about Part D: Combination of policy approaches

- Stronger incentives for plans to control spending of high-cost enrollees
- Provide plans with more flexibility to manage costs
- Consider increasing out-of-pocket protection for enrollees
- Revisit 2012 LIS copay recommendation