Advising the Congress on Medicare issues

Potential reforms to Part D's low-income premium subsidy

Eric Rollins

September 2, 2021

MEDPAC

Introduction

- Part D's low-income subsidy (LIS) covers most beneficiary premiums and cost sharing
- About 13 million Part D enrollees (27 percent) are LIS beneficiaries
- Total LIS spending on premiums was $3.8 billion in 2019
- The premium subsidy has two key features: a dollar limit known as the benchmark and an auto-enrollment process

The benchmark encourages LIS beneficiaries to enroll in lower-cost plans

- The benchmark equals the average premium for basic coverage across all PDPs and Medicare Advantage-Prescription Drug plans (MA-PDs) in a region
- The benchmark is the maximum amount that the LIS will spend on a beneficiary’s premium
  - Those enrolled in less expensive plans (benchmark plans) do not pay a premium
  - Those enrolled in more expensive plans pay the difference
- There must be at least 1 benchmark PDP in each region

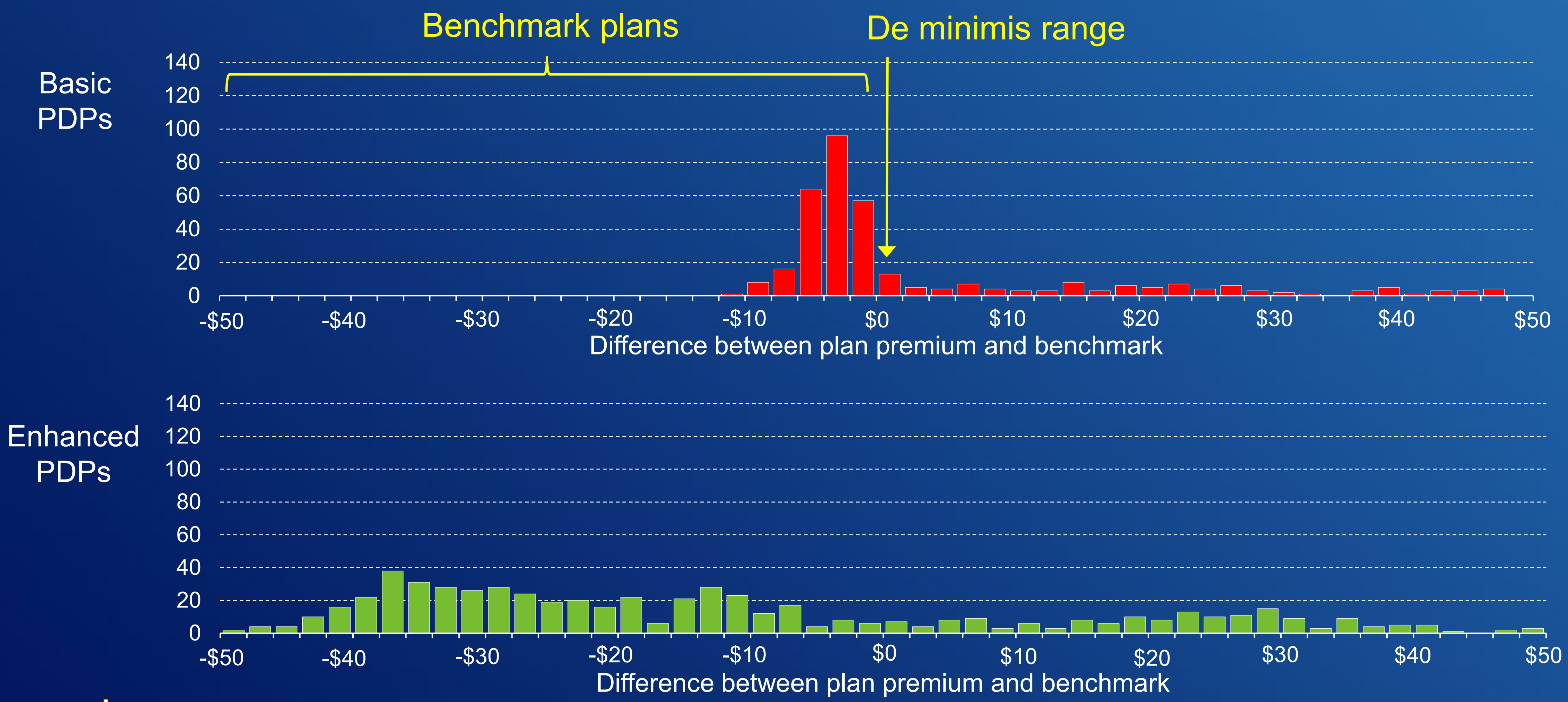
The auto-enrollment process ensures that LIS beneficiaries have Part D coverage

- Beneficiaries who do not select a plan on their own are automatically enrolled in benchmark plans
- CMS also uses auto-enrollment to reassign beneficiaries to new plans if their premium rises above the benchmark
- Beneficiaries are randomly assigned to benchmark plans
- Each benchmark plan in a region usually receives the same number of auto-enrollees
- Auto-enrollees can easily switch to another plan

The LIS has features that limit competition among benchmark plans

- PDPs that want to serve LIS beneficiaries need to keep their premiums below the benchmark
- But benchmark plans also have no marginal incentive to lower their premiums any further
  - They do not receive more auto-enrollees
  - They do not become more attractive to LIS choosers
  - Plans receive less revenue for the same number of enrollees
- Benchmark plans thus want to keep their premiums as close to the benchmark as possible without going over

The premiums for most benchmark plans are clustered around the benchmark (2021 data)



Note: PDP (prescription drug plan). Figures for enhanced PDPs are based on the portion of their premium that is for basic coverage. Figures are preliminary and subject to change.

Potential reforms to the LIS premium subsidy

- Key goals for reforms
  - Create stronger incentives for plans to bid competitively
  - Reduce LIS spending on premium subsidies
  - Maintain sustainable competition and plan choice
- Two basic approaches to consider
  - Option 1: Make changes to the auto-enrollment process with supporting changes to the benchmark
  - Option 2: Lower the benchmark without changing the auto-enrollment process

Option 1: Assign more auto-enrollees to plans with lower premiums

- Plans with lower premiums could receive progressively larger shares of auto-enrollees
- Benchmark plans would have an incentive to lower their premiums in exchange for higher enrollment
- CMS would need flexibility to decide exactly how the share of auto-enrollees for each benchmark plan would be determined

Option 1 (continued): Eliminate or modify the de minimis policy

- Policy lets plans that narrowly miss the benchmark waive the difference for LIS enrollees and avoid reassignment
- Discourages competition by reducing the consequences of missing the benchmark
- Policymakers could modify the policy to reduce LIS payments to de minimis plans

Option 1 (continued): Make supporting changes to the benchmark

- Assigning more enrollees to plans with lower premiums would put downward pressure on the benchmark
- The average premium could still serve as the benchmark, but the minimum number of benchmark PDPs might need to be raised to ensure sufficient plan choice
- One alternative would be to have CMS specify the number of benchmark PDPs in each region and use the premium for the last plan chosen as the benchmark

Option 2: Lower the benchmark without changing the auto-enrollment process

- Plans would need to reduce premiums to meet the new benchmark but clustering incentives would remain
- We evaluated three alternate benchmark formulas:
  - Use non-LIS enrollment to weight premiums
  - Include Part C rebates that MA-PDs use to lower premiums
  - Use overall Part D enrollment to weight premiums and include Part C rebates that MA-PDs use to lower premiums
- We found that the second and third alternate formulas would reduce benchmarks

Implications of potential reforms for MA-PDs and LIS beneficiaries

- Benchmark changes would affect how some MA-PDs (particularly D-SNPs) use their MA rebates
- For LIS beneficiaries:
  - Number of benchmark plans could decline
  - More beneficiaries might be reassigned to new plans and some “choosers” might need to switch plans to avoid higher premiums
- Potential magnitude of these effects is difficult to estimate given uncertainty about how plans would respond

Note: D-SNP (dual-eligible special needs plan)

Comparing the two reform options

	Assign more auto-enrollees to lower-premium plans	Lower benchmarks w/o auto-enrollment changes
Plan incentives to reduce premiums	Stronger due to new auto-enrollment rules	Need to reduce premium below new benchmark
Benchmarks	Expected to be lower	Expected to be lower
Program savings	Driven by greater competition among plans	Driven by changes in benchmark formula
Potential drawbacks	Limited number of benchmark PDPs More turnover in benchmark PDPs More reassignments of LIS beneficiaries	Limited number of benchmark PDPs More turnover in benchmark PDPs More reassignments of LIS beneficiaries

Discussion

- Interest in working towards a recommendation that would appear in our June 2022 report
- Feedback on potential reforms