

# The Medicare prescription drug program (Part D): Status report

Tara Hayes, Shinobu Suzuki, and Rachel Schmidt  
January 13, 2023

# Roadmap to this presentation

---

- Snapshot of and trends in the Part D program
- Issues under the current structure of Part D and the Commission's 2020 recommendation
- Part D-related provisions in the Inflation Reduction Act of 2022

# Under Part D, private plans compete to deliver outpatient pharmacy benefits to Medicare enrollees

---

- Plan sponsors accept insurance risk and own or contract for services of a pharmacy benefit manager (PBM)
- Sponsors and PBMs negotiate with:
  - Pharmacies for prescription payments
  - Pharmaceutical manufacturers for rebates on brand-name drugs
- Part D includes:
  - Premium subsidies, risk sharing, and a late-enrollment penalty to encourage plan participation and beneficiary enrollment
  - Additional beneficiary protections and a low-income subsidy (LIS)
- Until recently, law prohibited Secretary from interfering with negotiations among drug manufacturers, pharmacies, and plan sponsors

# Snapshot of the Part D program

---

- Enrollment in 2022: 49.8 million, 77% of Medicare beneficiaries
  - 26.5 million (53%) in MA-PDs
  - 13.3 million (27%) received the full low-income subsidy (LIS)
- Number of plans:
  - In 2022, 766 PDPs; 3,365 MA-PDs; 1,130 SNPs
  - In 2023, 804 PDPs; 3,539 MA-PDs; 1,254 SNPs
- Premiums in 2022 remained at \$26 per month, on average
  - MA-PD enrollees paid <\$15, on average, after Part C rebates of \$47 were applied to their Part D premium
  - PDP enrollees paid \$40, on average
- Medicare program spending totaled \$95.9 billion in 2021

# Part D enrollment concentrated among largest plan sponsors, most of which are vertically integrated



- In 2021, top 5 sponsors accounted for:
  - 88% of PDP enrollment, 68% of MA-PD enrollment
  - PBM services for >90% of Part D enrollees
- Large plan sponsors have purchased PBMs to:
  - Internalize tradeoffs between pharmacy and medical costs
  - Gain access to prescription claims data and information about net cost of drug benefits
- Concerns about market concentration and vertical integration:
  - Potential for anticompetitive behavior
  - Less insight into prices between upstream and downstream companies

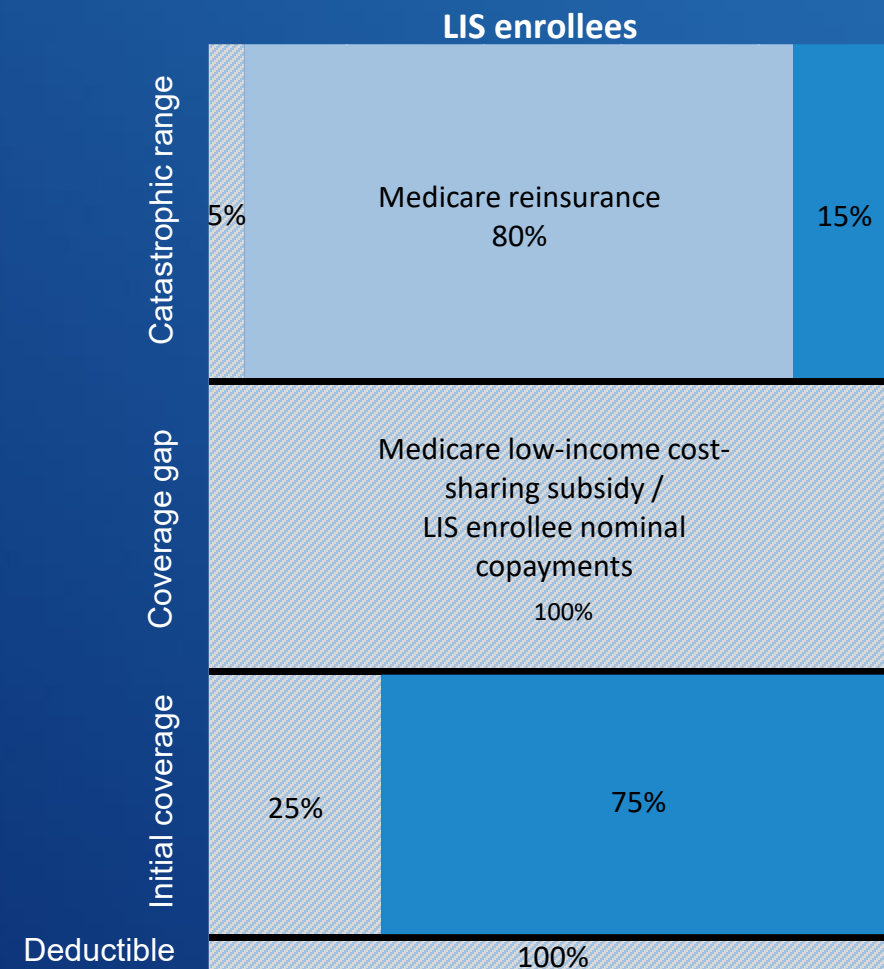
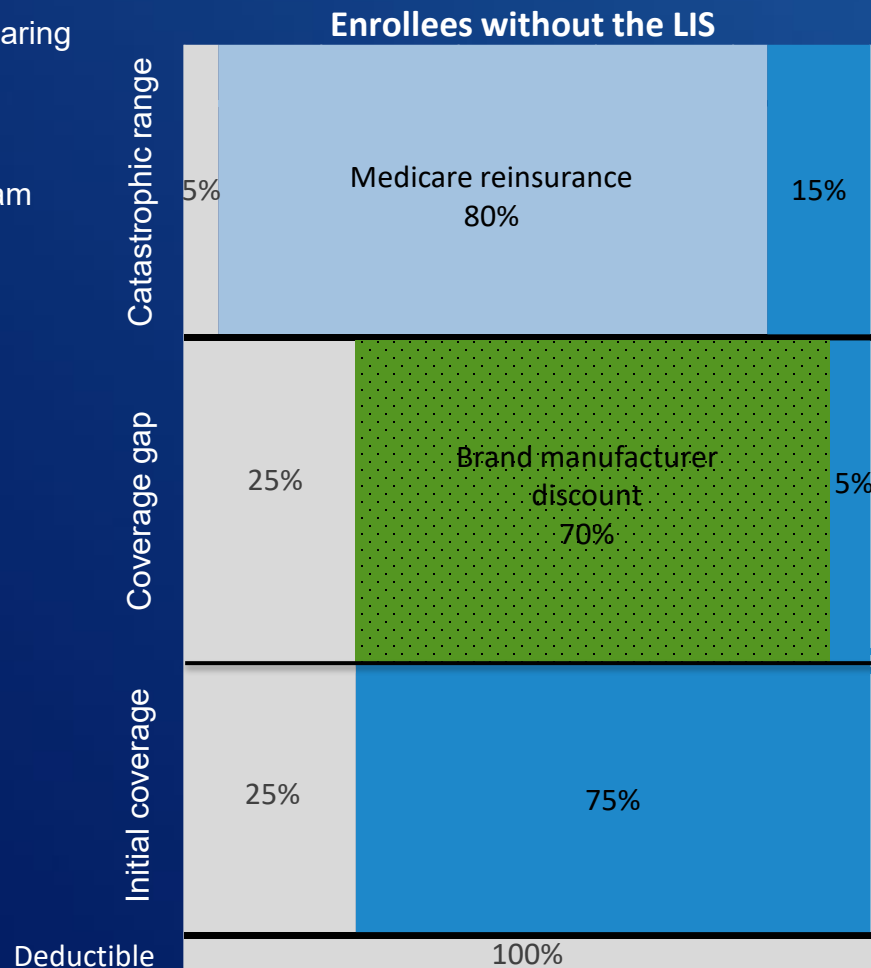
# In 2021, capitated payments as a share of Medicare's payments to plans continued to decline

Program payments	Aggregate spending (billions)		AAGR (%)
	2017	2021	
Capitated direct subsidy*	\$14.6	\$7.8	-14.5%
Cost-based reinsurance	37.6	52.4	8.7%
Low-income subsidy	27.3	35.1	6.5%
Retiree drug subsidy	<u>0.8</u>	<u>0.6</u>	<u>&lt;1.0%</u>
Medicare total	\$80.3	\$95.9	4.1%

- Reinsurance costs driven by enrollees who reach the annual OOP threshold
  - 4.1 million (~8% of Part D enrollees)
  - 464,000 used a single drug expensive enough to reach catastrophic phase
- Shift towards cost-based payments continues in 2023:
  - Average direct subsidy **<\$2 PMPM** vs.
  - Average reinsurance of **\$94 PMPM**

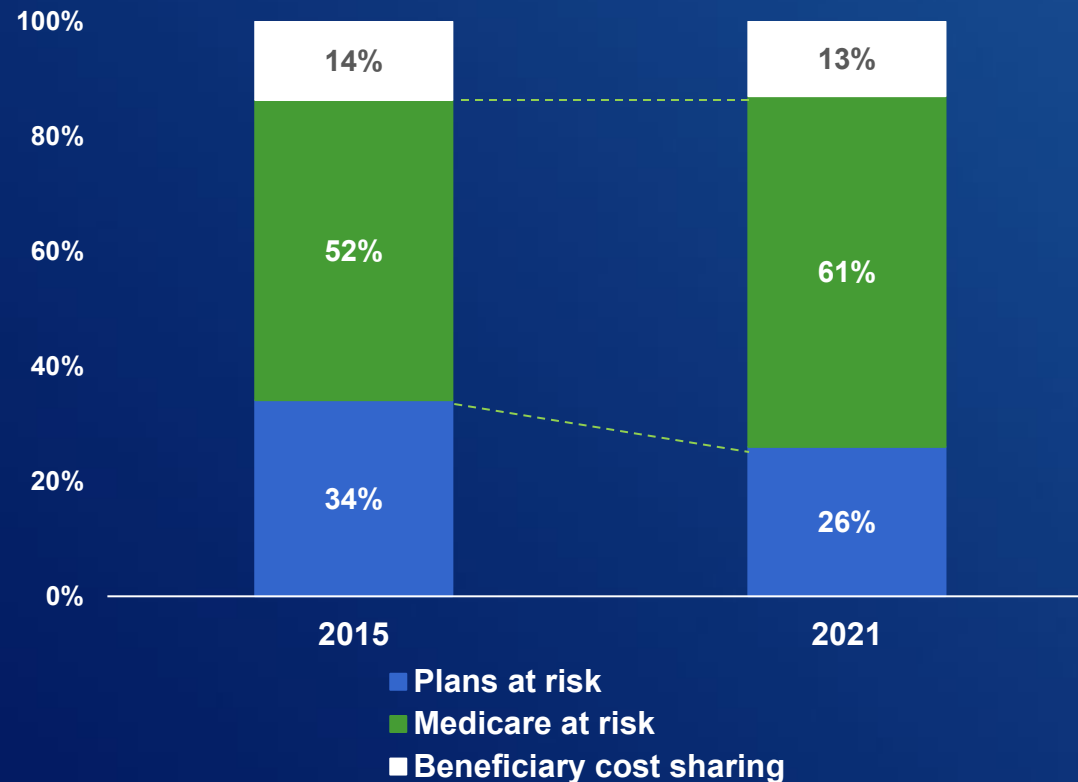
# Plans' financial risk is limited in both of Part D's two distinct standard benefit structures

- Enrollee cost sharing
- Plan liability
- Medicare program



# Insurance risk for net Part D spending has shifted from plans to Medicare, 2015 - 2021

**Share of all Part D spending  
net of DIR and coverage gap discounts**



- Plans were at risk for 26% of net spending, down from 34% in 2015
  - Varied from 12% for SNPs to 33% for MA-PDs\*
- Medicare was at risk for 61% of net spending, up from 52% in 2015
  - Increase was largest for SNPs, followed by other MA-PDs\*

Note: DIR (direct and indirect remuneration), MA-PD (Medicare Advantage-Prescription Drug [plan]), SNP (special needs plan). DIR includes all postsale rebates and discounts that reduce the cost of providing Part D benefits. \*Excludes employer group waiver plans. Data are preliminary and subject to change.

Source: MedPAC based on Medicare Part D prescription drug even and direct and indirect remuneration data from CMS.









# Commission's 2020 recommendations to improve Part D

---

- Address distortions in plan incentives created by rebates and discounts that increase Medicare's costs
  - Eliminate coverage-gap discount
  - Increase plan liability in the coverage gap and the catastrophic phase of the benefit
- Address high prices and high cost sharing
  - Manufacturer discount in the catastrophic phase
  - Complete insurance protection in the catastrophic phase
- Reduce plans' reliance on cost-based reinsurance to improve incentives to manage benefits

# Beneficiaries generally satisfied with Part D, but report informational challenges/frustrations

- ~80% satisfied with their plans and cost sharing

High Satisfaction	Lower Satisfaction
 Amount paid for Rx	 Program easy to understand
 Drug coverage	 Information provided
 Participating pharmacies	 Confident coverage meets needs

- More enrollees reported considering the cost of their prescriptions when choosing a plan than premiums

# Growth in overall Part D prices at the pharmacy accelerated in 2021

	Price index (Jan. 2006 = 1.0)	Annual change (%)		
	December 2021	2019	2020	2021
<b>All drugs and biologics</b>	2.04	2.6%	2.5%	4.2%
<b>Single-source brand-name drugs and biologics</b>	3.99	5.7%	5.2%	6.7%
<b>Generic drugs</b>	0.13	-10.9%	-9.3%	-7.5%
<b>After accounting for generic substitution</b>	1.17	2.1%	1.3%	3.5%

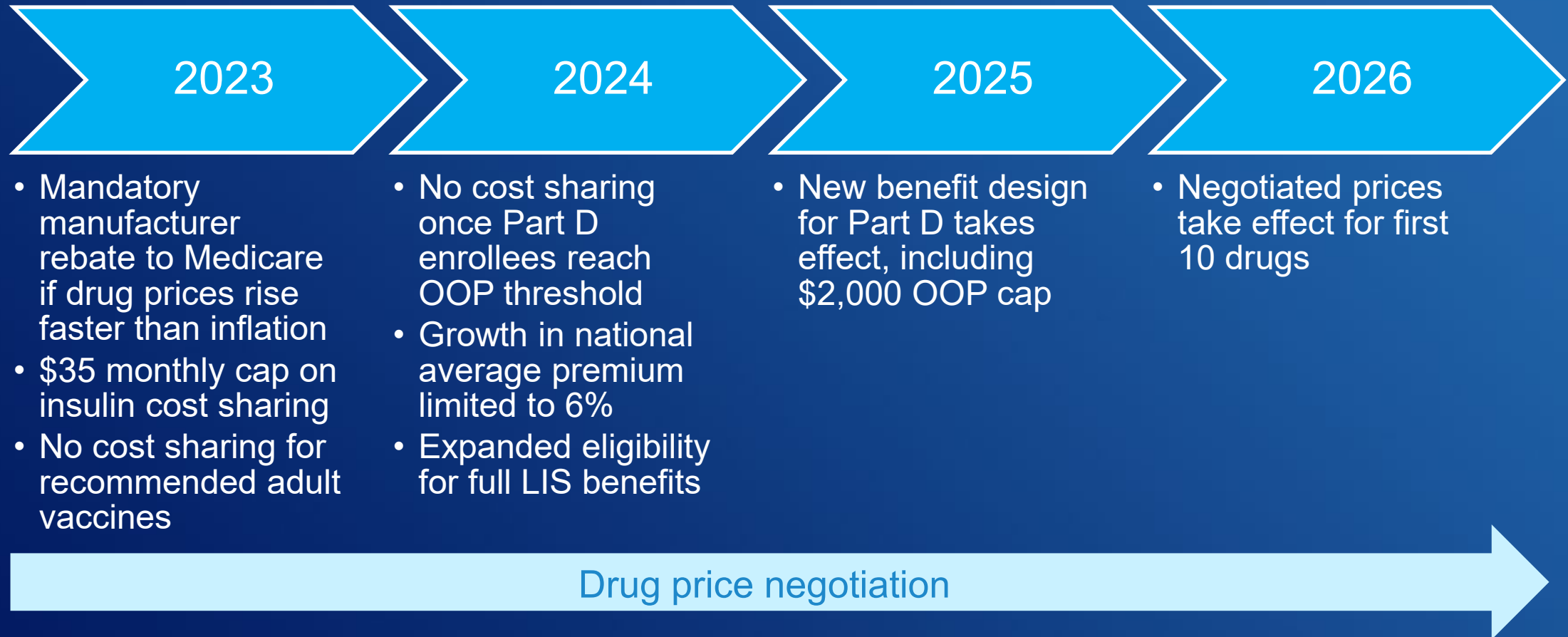
- Prices of single-source drugs and biologics continued to drive the trend
- Generics' share of prescriptions have plateaued at about 90% since 2017
- Further opportunities for generic substitution will likely be limited
- Any meaningful savings would have to come from successful launch and adoption of biosimilars

# High cost-sharing could be a barrier to access for some beneficiaries

---

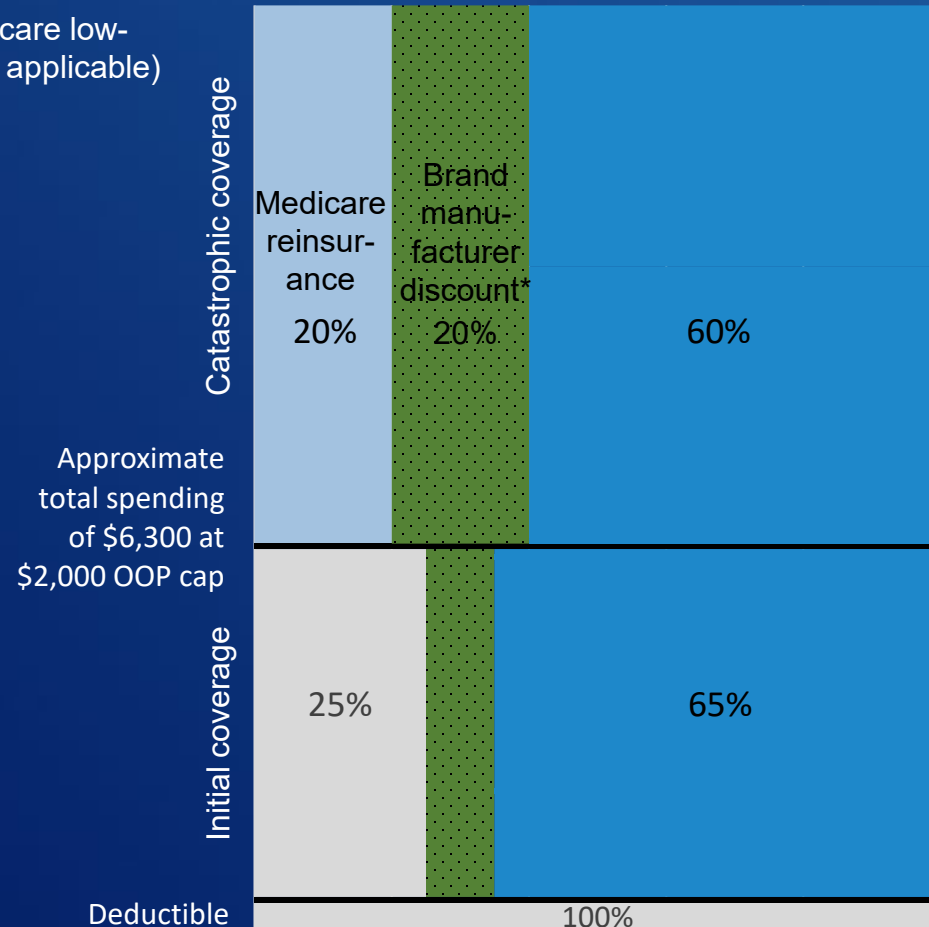
- Despite relatively high satisfaction with Part D costs, *coinsurance* on high-priced drugs and biologics may make them unaffordable for some
  - In our focus groups, physicians and beneficiaries were acutely aware of high drug costs
  - 25% of enrollees reported an affordability issue in 2020 (MCBS)
- Changes made by the Inflation Reduction Act of 2022 will cap beneficiary OOP costs

# Implementation timeline of Part D-related provisions in the Inflation Reduction Act of 2022



# Redesigned Part D benefit structure for all enrollees, effective in 2025

- Enrollee cost sharing and Medicare low-income cost sharing subsidy (if applicable)
- Plan liability
- Medicare program



- Hard OOP cap
- No coverage gap
- Lower Medicare reinsurance
- Higher plan liability
- New manufacturer discount

# IRA's benefit reform will improve plan incentives, but effects of other changes are uncertain

---

- Less reliance on cost-based payments restores plans' incentive to manage benefit
- Higher plan liability provides better formulary incentives
  - Ensures plans no longer benefit financially from high-priced drugs with rebates
- But other IRA changes may alter the drug pricing landscape, such as:
  - Inflation rebates are expected to result in higher launch prices, but slower price growth for some products
  - Effects on prices would likely depend on factors such as therapeutic competition and Medicare's market share

# Discussion

---

- Questions or feedback on draft chapter for the March 2023 report to the Congress
- Upcoming work (Spring 2023): Analysis of the DIR data (continued from Fall 2022)