Restructuring Medicare Part D: Considerations for plans serving low-income beneficiaries

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Background on the low-income subsidy (LIS)

- Ensures that low-income beneficiaries have access to Part D drug coverage
- Covers about 12.7 million beneficiaries (28 percent of overall Part D enrollment)
  - Most LIS enrollees (80-85 percent) are Medicare-Medicaid dual eligibles
  - Other LIS enrollees have income below 150 percent of the federal poverty level and limited assets

Note: Figures are preliminary and subject to change.

LIS beneficiaries have significantly higher drug costs than non-LIS beneficiaries

	LIS beneficiaries	Non-LIS beneficiaries
Total gross spending (per enrollee per month)	$502	$218
Average number of prescriptions (per month)	5.6	4.1
Average spending per prescription	$90	$53
Share of enrollees with gross spending:		
Above catastrophic threshold	19%	3%
Between ICL and catastrophic threshold	15	14
Below ICL	66	83

Note: LIS (low-income subsidy), ICL (initial coverage limit). These figures are based on 2017 data. Total gross spending reflects payments from all payers, including beneficiary cost sharing, but does not include rebates and discounts from pharmacies and manufacturers that are not reflected in prices at the pharmacies. The figures for number of prescriptions have been standardized to a 30-day supply. Figures are preliminary and subject to change.

The LIS provides assistance with both premiums and cost sharing

- Premiums are covered up to a benchmark amount
- No deductible or coverage gap
- Nominal copayments
  - Copayment amounts are specified in law
  - Limits for 2019 are $3.40 for generics and $8.50 for brands
  - Many LIS beneficiaries have even lower copayments
- No cost sharing in catastrophic phase

LIS beneficiaries have weaker incentives to use lower-cost drugs

Formulary tier	Drug category	Median cost sharing in 2019 for stand-alone PDPs	Maximum cost sharing in 2019 for LIS beneficiaries
Tier 1	Preferred generic drugs	$1 copayment	$3.40 or less for most beneficiaries*
Tier 2	Other generic drugs	$5 copayment	
Tier 3	Preferred brand drugs	$40 copayment / 20% coinsurance	$8.50 or less for most beneficiaries
Tier 4	Non-preferred drugs	40% coinsurance	
Tier 5	Specialty drugs	26% coinsurance	

Note: LIS (low-income subsidy), PDP (prescription drug plan). The figures for median cost sharing are taken from Cubanski, Damico, and Neuman, "Medicare Part D: a first look at prescription drug plans in 2019 (Kaiser Family Foundation, 2018).

* If a plan's standard cost sharing amount is lower than the LIS limit, LIS beneficiaries pay the standard amount. In this example, an LIS beneficiary would pay $1 for a tier 1 generic.

A significant number of Part D plans primarily serve LIS beneficiaries

- Part D and MA both encourage LIS beneficiaries to cluster in certain types of plans
  - Part D: Automatic enrollment and LIS benchmarks
  - MA: Dual-eligible special needs plans
- LIS beneficiaries are a majority of the enrollees in about a quarter of all Part D plans
- These plans cover 65 percent of the LIS population

Key takeaways from interviews with sponsors of Part D plans with high LIS enrollment

- Managing drug costs is more difficult for LIS beneficiaries than for non-LIS beneficiaries
- Formularies for LIS-heavy plans are narrower but the differences are not considered significant
- Medicare payments for LIS beneficiaries are adequate due to CMS's risk adjustment system

The Commission has been examining several potential reforms to the Part D benefit

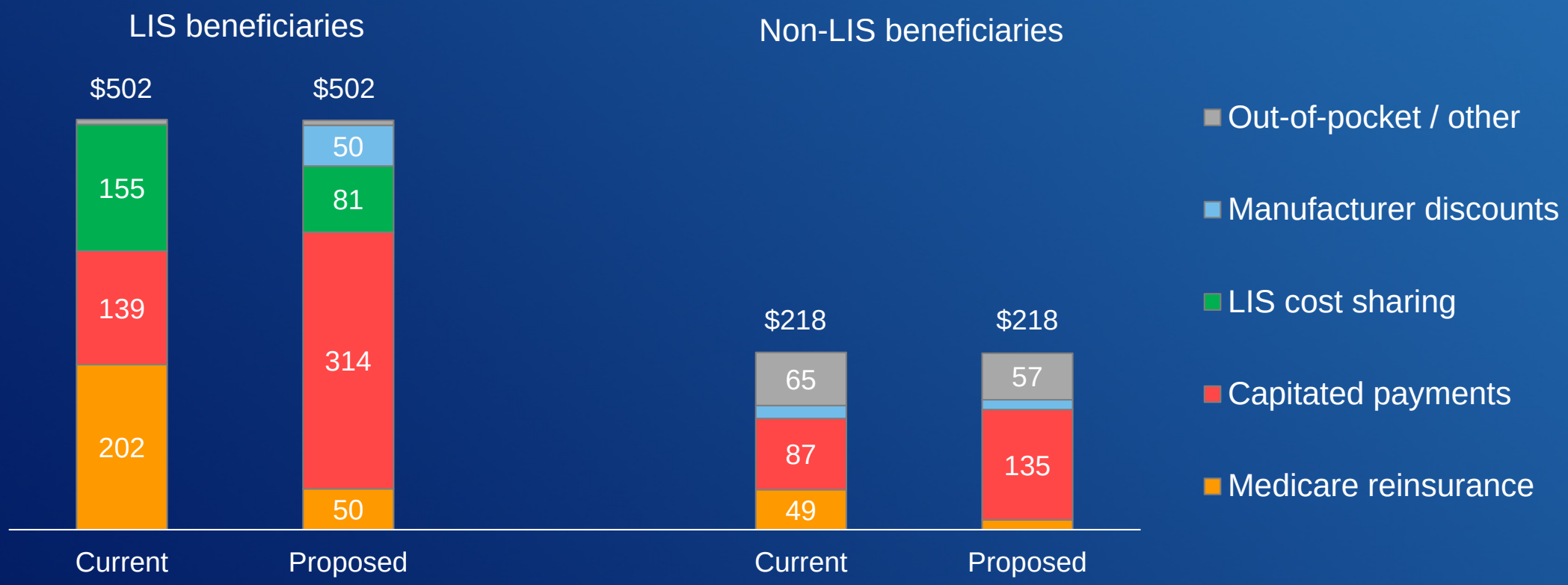
- Equalize benefit structure for LIS and non-LIS enrollees by making plans responsible for 75 percent of drug costs between the deductible and the catastrophic phase
- Add an annual cap on beneficiary out-of-pocket costs
- Restructure financing of catastrophic coverage
  - Reduce use of Medicare reinsurance
  - Manufacturer discounts on brand-name drugs
  - Increase share of spending covered by capitated payments

An illustrative package of reforms

- Plans responsible for 75 percent of drug costs between the deductible and catastrophic phase
- Catastrophic phase starts at ~$7,500 in total drug spending (based on 2017 benefit parameters)
- No beneficiary out-of-pocket costs in catastrophic phase
- Financing of catastrophic coverage
  - Capitated payments: 50 to 60 percent (up from 15 percent)
  - Medicare reinsurance: 20 percent (down from 80 percent)
  - Manufacturer discounts: 20 to 30 percent (new)

Impact of the illustrative package of reforms on the financing of Part D coverage

Gross drug spending in 2017, per enrollee per month



Note: LIS (low-income subsidy). This chart shows the effects of eliminating the coverage gap for LIS beneficiaries; eliminating the coverage gap discount program; adding an annual cap on beneficiary out-of-pocket costs; and financing catastrophic coverage through a mix of reinsurance (20 percent), manufacturer discounts (20 percent), and capitated payments (60 percent). This chart does not incorporate any behavioral responses by plans or beneficiaries. Figures are preliminary and subject to change.

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Risk adjustment would be an essential element of a redesigned Part D benefit

- Capitated payments for LIS beneficiaries will need to be much higher than payments for non-LIS beneficiaries
- Separate risk adjusters for LIS and non-LIS beneficiaries in RxHCC model should provide an adequate overall level of risk adjustment
- Beneficiaries with very high drug costs could pose a problem for smaller plans
  - Part D risk corridors reduce impact of unexpected losses
  - Some plans may also buy private reinsurance

Plans could be given new tools to manage drug spending for LIS beneficiaries

- Medicare could require LIS beneficiaries to pay higher cost sharing for non-preferred drugs
  - Encourage use of lower-cost brands and generics
  - Cost sharing for preferred drugs would not change
  - LIS beneficiaries would have access to at least one preferred drug in each therapeutic class
  - Interviewees thought a difference of $10 to $20 would work
- This approach could also be used for specialty drugs if CMS allowed plans to have preferred specialty tiers

Illustrative example of requiring LIS beneficiaries to pay higher cost sharing for non-preferred drugs

Formulary tier	Non-LIS beneficiaries	LIS beneficiaries	
		Current cost-sharing limit	Proposed cost-sharing limit
Generic	$1 copayment	$3.40*	No change*
Preferred drug (largely brands)	$40 copayment	$8.50	
Preferred specialty	15% coinsurance	$8.50	
Other generic	$5 copayment	$3.40	Higher limits would apply*
Non-preferred drug (largely brands)	$80 copayment	$8.50	
Non-preferred specialty	35% coinsurance	$8.50	

Note: LIS (low-income subsidy)

* If the plan's standard cost sharing amount is lower than the limit, LIS beneficiaries pay the standard amount. For example, the actual amount that LIS beneficiaries in this plan would pay for drugs on the generic tier would be $1.

Implications for LIS beneficiaries

- Beneficiary behavior would determine policy's impact on out-of-pocket (OOP) costs
- Minimal change in OOP costs if beneficiaries respond by switching to preferred drugs
- Higher OOP costs if beneficiaries choose more expensive non-preferred drugs
- Beneficiaries could request an exception from higher cost sharing if a non-preferred drug is more appropriate

Discussion and next steps

- Should LIS beneficiaries pay somewhat higher cost sharing when they choose non-preferred drugs?
- Are there other tools that would help plans manage drug costs for LIS beneficiaries?

- In January, we will give our annual Part D update and discuss the parameters of a redesigned benefit