Advising the Congress on Medicare issues

Status report on Part D

Rachel Schmidt and Shinobu Suzuki

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MEDPAC

Overview of the presentation

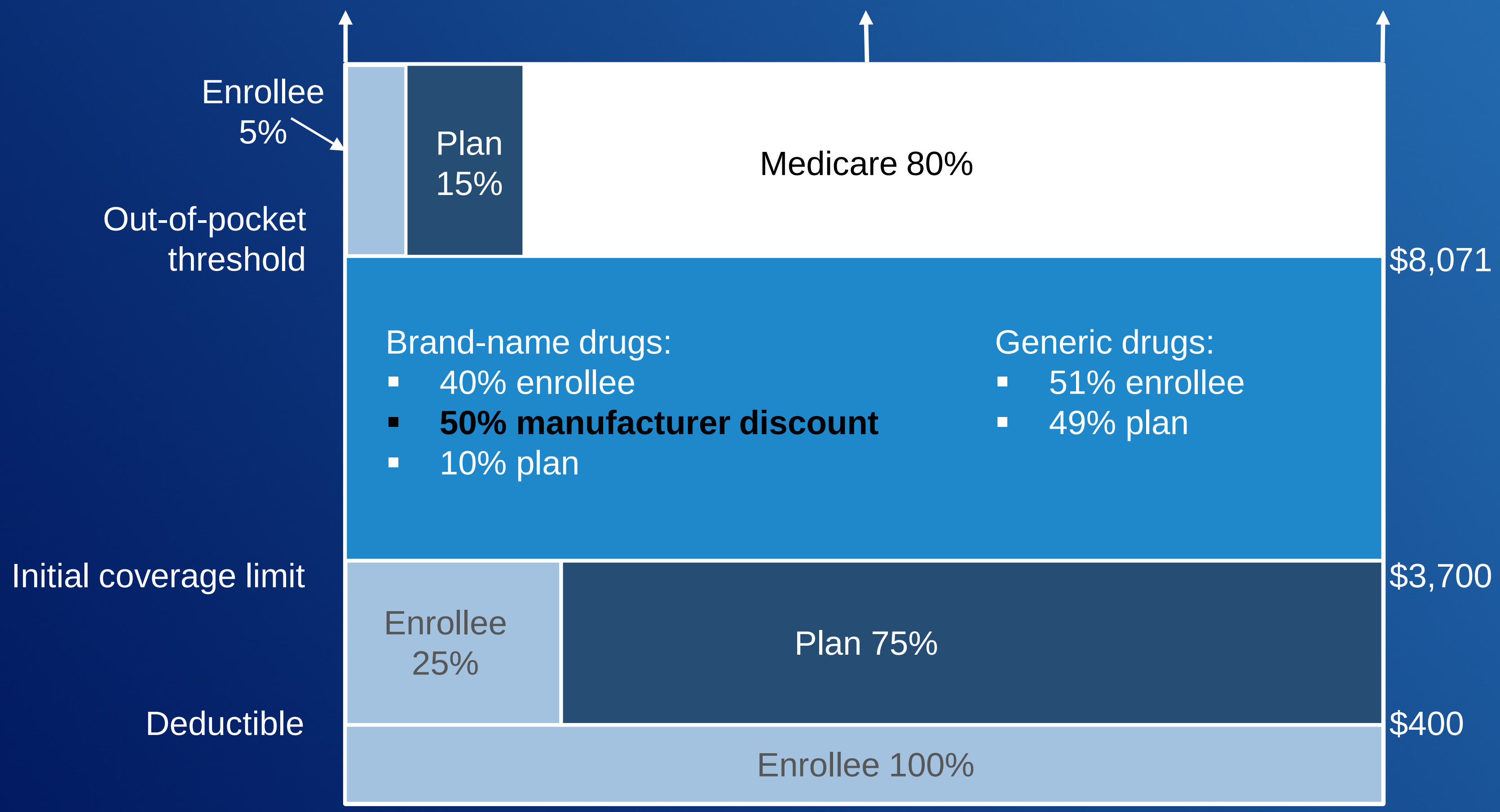
- Program description and key trends
- Market structure of plan sponsors and strategies to manage spending
- Growth in drug prices
- Trends in program spending
- Preview of spring discussions

The Part D program

- Among 57 million Medicare beneficiaries in 2016:
  - 41 million (72%) enrolled in Part D plans
  - Another 3% received retiree drug subsidy (RDS)
  - 25% had coverage as generous through other sources, had no coverage, or had coverage less generous than Part D
- Program spending of $80 billion (incurred) in 2015
  - $79 billion for payments to Part D plans
  - Less than $2 billion for RDS
- Most plan enrollees continue to say they are satisfied
- Continued stakeholder frustration with coverage determination and appeals processes

Note: Data are preliminary and subject to change.

Defined standard benefit in 2017



Source: MedPAC based on information from CMS, Office of the Actuary.

Part D enrollment in 2016 and plan offerings for 2017

- Enrollment in 2016
  - 60% of all Part D enrollees in PDPs, 40% in MA-PDs (compared with 70% in PDPs, 30% in MA-PDs in 2007)
  - 29% of all Part D enrollees receive LIS (down from 39% in 2007)
  - 34% of LIS enrollees in MA-PDs (up from 14% in 2007)
- Plan offerings for 2017
  - 16% fewer PDPs, but still broad choice (18–24 in each region)
  - Total number of MA-PDs increased by 3%
  - 6% increase in PDPs qualifying as premium-free to LIS enrollees, 3–10 PDPs in each region

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Note: Data are preliminary and subject to change.

Key trends since start of Part D

- Enrollment growth
  - 24 million in 2007 to 41 million in 2016 (6% per year)
  - Higher among non-LIS enrollees (8%) than LIS (3%)
  - Move from RDS to Part D employer-group plans
- Average monthly premiums, 2009 to 2016
  - Stable at $29-$31 per month
  - Somewhat faster growth in MA-PD premiums (3%) than PDP premiums (2%)
- Medicare reinsurance payments to plans have grown much faster than enrollee premiums
  - 12% per year, 2007 – 2010
  - 25% per year, 2010 – 2015

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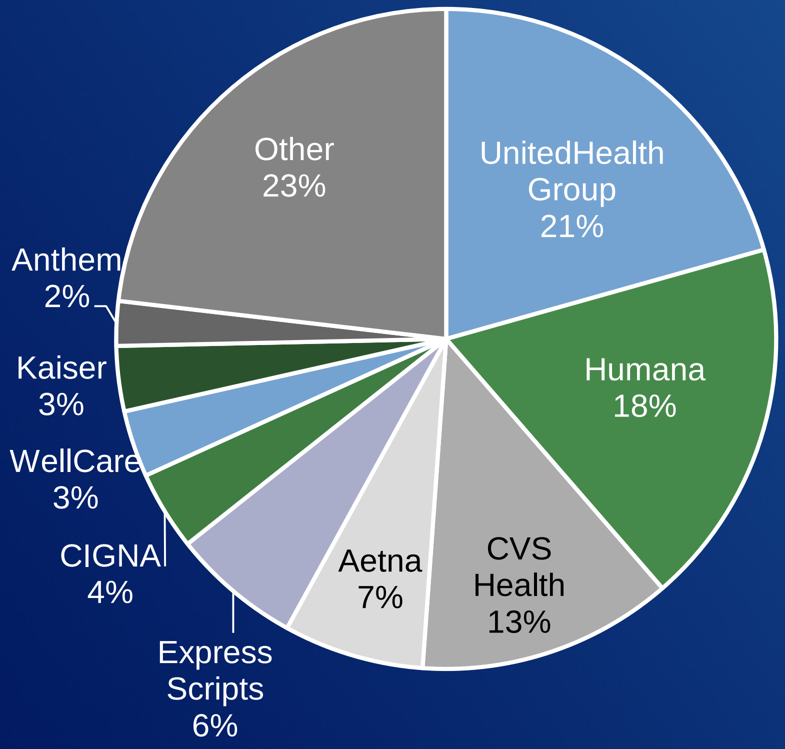
Note: Data are preliminary and subject to change.

Part D enrollment is concentrated among a few large companies

Combined PDP and MA-PD enrollment in 2016 = 41 million



- In 2016, the top 9 plan sponsors accounted for nearly 80% of enrollment
- In 2007, those same sponsors had about 60% of enrollment
- Top 2 sponsors have held market shares over time; others expanded market shares through mergers and acquisitions

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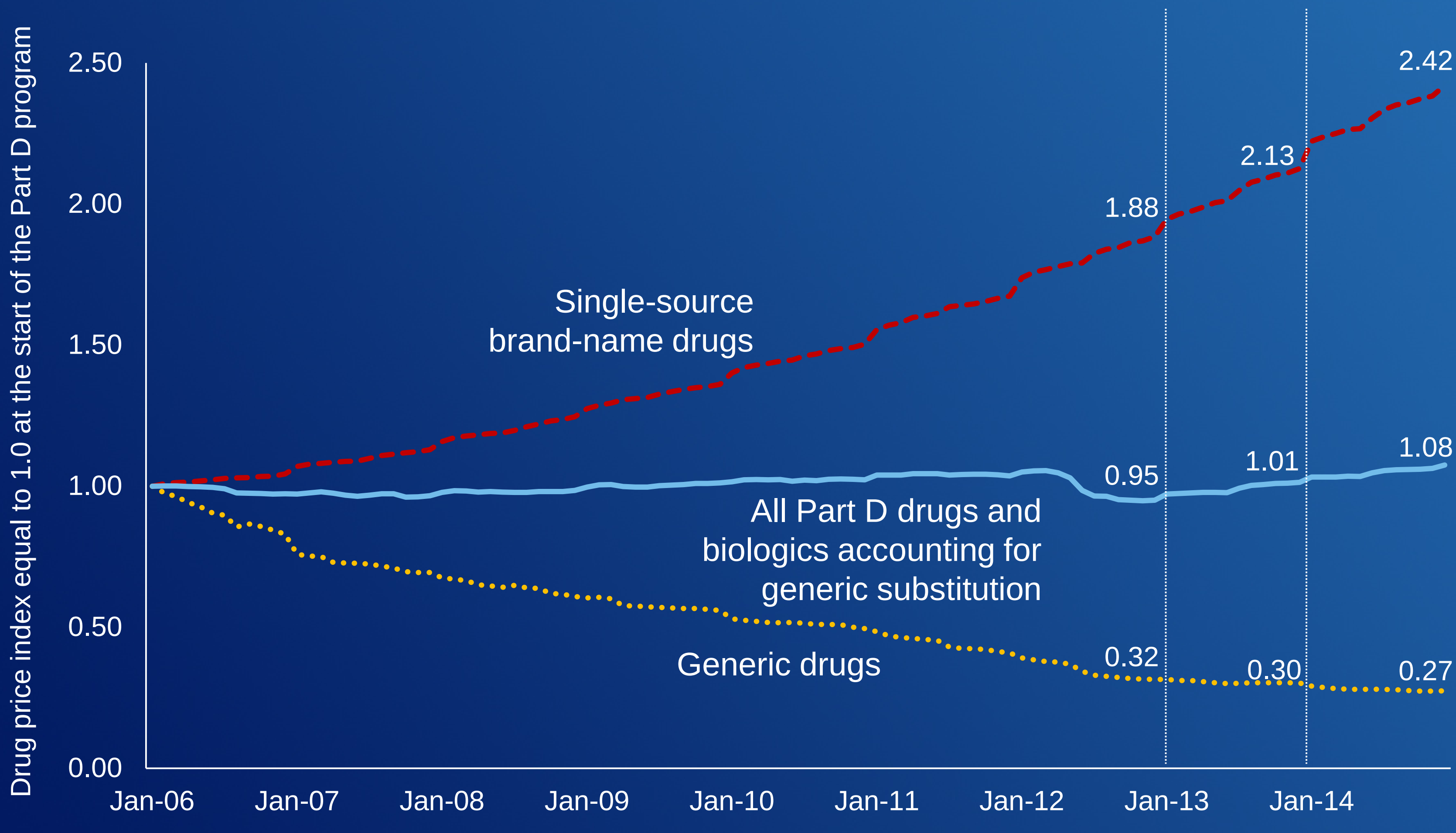
Note: Data are preliminary and subject to change. LIS (low-income subsidy); PDP (prescription drug plan); MA-PD (Medicare Advantage prescription drug [plan]).

Strategies to manage Part D premiums

- Formulary design
  - 5-tier formularies common
  - Within limits, trend toward moderate tightening
- Manufacturer rebates
  - Direct and indirect remuneration (DIR) has grown
  - Use of “price-protection” rebates
- Pharmacy networks
  - Preferred cost-sharing pharmacies
  - Pharmacy DIR fees growing
- Specialty pharmacies

Growth in brand prices more than offsets effects of generic use



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

Note: Indexes do not reflect rebates from manufacturers. Data are preliminary and subject to change.

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Incentives for plans to put higher-price, high-rebate drugs on formularies

Hypothetical example	Brand #1	Brand #2
List price and % rebate	$60,000 with 25% rebate	$30,000 with 25% rebate
Net price	$45,000	$22,500
Cost sharing	$5,489	$3,989
Net effect assuming 80% reinsurance		
Net Medicare reinsurance	$37,729	$15,729
Plan liability	– 287	713
Net effect assuming 20% reinsurance		
Net Medicare reinsurance	$9,432	$3,932
Plan liability	28,010	12,510

- Plan's "liability" for a drug is the list price net of:
  - Enrollee cost sharing
  - Coverage-gap discount
  - Medicare reinsurance
  - Rebates and pharmacy fees
- A portion of rebates offsets Medicare's reinsurance, but CMS's formula may be too generous to plans
- Reducing reinsurance from 80% to 20% would remedy this incentive (Commission's June 2016 recommendation)

Source: MedPAC.

Note: Assumes Part D's 2017 defined standard benefit. Also assumes that catastrophic spending makes up one-third of the plan's gross Part D drug spending.

Medicare's reinsurance has grown much faster than other categories of spending

Spending category	Spending in billions		Percentage growth	
	2007	2015	Cumulative	Average annual
Direct subsidy*	$17.6	$18.6	5.7%	0.7%
Reinsurance	8.0	34.3	328.8%	20.0%
Low-income subsidy	16.7	25.8	54.5%	5.6%
Retiree drug subsidy	3.9	1.4	-64.1%	-12.0%
Medicare program total	46.2	80.1	73.4%	7.1%

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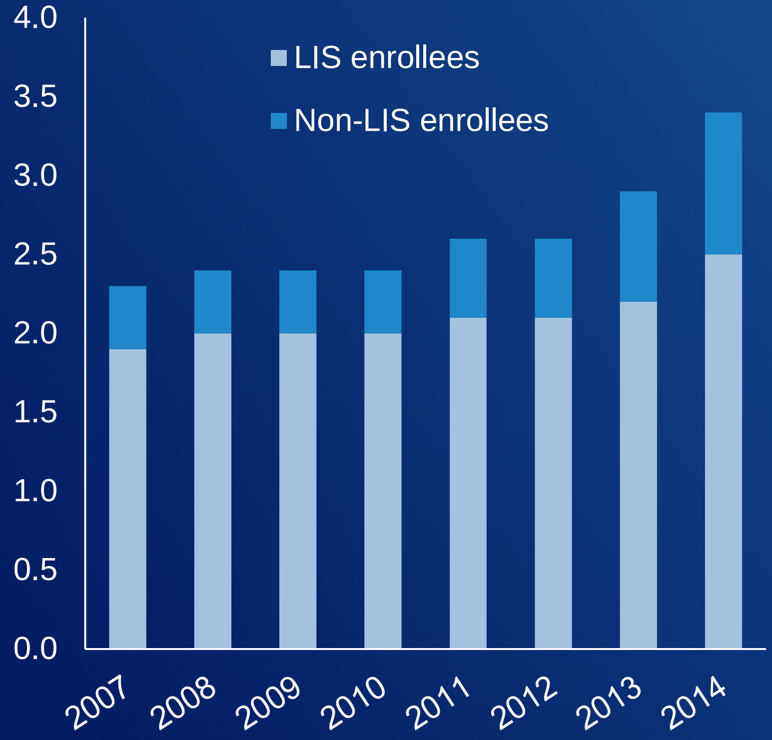
Source: MedPAC based on Table IV.B.10 of the Medicare Board of Trustees' report for 2016.

Note: Data are preliminary and subject to change. RDS (retiree drug subsidy). * Net of Part D risk-corridor payments.

In 2014, nearly 9% of enrollees were “high-cost” and they accounted for 53% of spending

Millions of enrollees reaching Part D’s out-of-pocket threshold



- 3.4 million (8.6%) of enrollees reached the OOP threshold in 2014
- Average gross annual drug spending of $18,845 in 2014
- Among these “high-cost enrollees,” non-LIS growing faster than LIS
- High-cost enrollees accounted for 53% of spending in 2014 (up from 40% before 2011)

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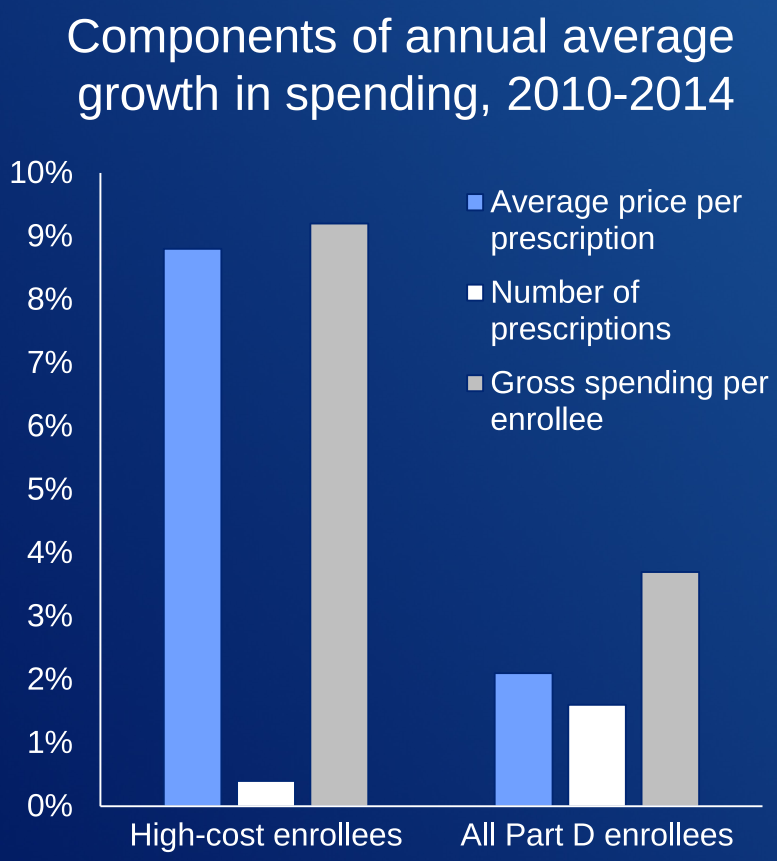
Source: MedPAC analysis of Part D prescription drug event data.
Note: Data are preliminary and subject to change.

Growth in spending for high-cost enrollees driven by average price per prescription



- Low growth in number of prescriptions filled
- Average price per prescription for high-cost enrollees rose by nearly 9% per year, while that for all other enrollees fell
- As more enrollees use higher-price drugs, strong upward pressure on Medicare program spending

Source: MedPAC analysis of Part D prescription drug event data.
Note: Data are preliminary and subject to change. “High-cost enrollees” are beneficiaries who reach Part D’s out-of-pocket threshold. Price reflects inflation and changes in mix of drugs used.

Many factors converging to drive enrollees into catastrophic phase

- Growth in enrollment, especially non-LIS
- Higher drug prices
- Coverage gap discount
- Plan incentives to put higher-price drugs on formularies

➔More high-cost enrollees and rapid growth in Medicare’s payments for reinsurance

Summary

- Part D plan enrollees
  - Continue to say they are generally satisfied, many plan options
  - Stable average premium and cost sharing
- But cost trends increasingly of concern
  - Medicare spending for reinsurance growing fast
  - Growth in prices of single-source drugs is overwhelming the effects of generic use
  - Plans may have incentives to put higher-price, high-rebate drugs on their formularies
  - As more enrollees use high-price drugs, upward pressure on Medicare program spending

Spring discussions about Part D

- Exceptions and appeals process and the move to electronic prior authorization
- Enrollees reaching the OOP threshold and rising cost of reinsurance
  - Better align plans' incentives with Medicare's
    - Commission's June 2016 recommendations (reduce reinsurance from 80% to 20%, exclude brand discounts in the coverage gap from enrollees' "true OOP" spending)
    - Changes to CMS's rules for allocating DIR
  - Applicability of brand-name discount to biosimilars