Status report on Part D

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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

- Initial coverage limit:
  - Enrollee: 25%
  - Plan: 75%
  - Medicare: 80%

- Out-of-pocket threshold:
  - Enrollee: 5%
  - Plan: 15%

- Deductible:
  - Enrollee: 100%
  - Plan: 75%
  - Medicare: 80%

- Brand-name drugs:
  - 40% enrollee
  - 50% manufacturer discount
  - 10% plan

- Generic drugs:
  - 51% enrollee
  - 49% plan

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

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

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

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

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

- 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

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

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.

- 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).

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

Components of annual average growth in spending, 2010-2014

- Average price per prescription
- Number of prescriptions
- Gross spending per enrollee

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