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

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Overview of the presentation

- Program description and key trends
- Plan strategies to manage Part D premiums
- Growth in drug prices
- Trends in program spending
- Draft recommendation
Snapshot of the Part D program

- Among 58.6 million Medicare beneficiaries in 2017:
  - 42.5 million (72.5%) enrolled in Part D plans
  - Another 2.7% received retiree drug subsidy (RDS)
  - 24.8% had coverage as generous through other sources, had no coverage, or had less generous coverage

- Program spending of nearly $80 billion in 2016
  - Nearly $79 billion for payments to Part D plans
  - About $1 billion for RDS

- Plan enrollees
  - Paid nearly $13 billion in premiums (excluding Medicare premium subsidies for low-income enrollees) plus additional amounts in cost sharing
  - Most continue to say they are satisfied

Note: Results are preliminary and subject to change.
Part D’s coverage gap is closing, but brand manufacturer discount will remain

**Defined standard benefit in 2018**

- Enrollee 5%
- Plan 15%
- Medicare 80%
- OOP threshold ~$8,400
- Initial coverage limit $3,750
- Deductible $405

**Coverage gap**

- Enrollee 25%
- Plan 75%

**Brand-name drugs in gap**

- 2018: 50% (Plan), 35% (Enrollee), 15% (Manufacturer)
- 2019: 50% (Plan), 30% (Enrollee), 20% (Manufacturer)
- 2020: 50% (Plan), 25% (Enrollee), 25% (Manufacturer)

**Generics / biosimilars in gap**

- 2018: 44% (Plan), 56% (Enrollee)
- 2019: 37% (Plan), 63% (Enrollee)
- 2020: 25% (Plan), 75% (Enrollee)
Part D enrollment in 2017 and plan offerings for 2018

- **Enrollment in 2017**
  - 59% of all Part D enrollees in PDPs, 41% 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)
  - 36% of LIS enrollees in MA-PDs (up from 14% in 2007)

- **Plan offerings for 2018**
  - 16% more MA-PDs
  - 5% more PDPs, range of 19 – 26 per region
  - 6% decrease in PDPs qualifying as premium-free to LIS enrollees; one region has 2 qualifying PDPs, the rest have 3 – 10 per region

Note: Results are preliminary and subject to change.
Key trends since start of Part D

- Enrollment growth
  - 24 million in 2007 to 42.5 million in 2017 (6% per year)
  - Higher among non-LIS enrollees (7%) than LIS (3%)
  - Move from RDS to Part D employer-group plans

- Average monthly premiums, 2010 to 2017
  - Stable average at $30 - $32 per month, but wide variation
  - Faster growth in MA-PD premiums (4%) than PDP premiums (1%)

- Per capita Medicare reinsurance payments to plans have grown much faster than enrollee premiums
  - 7% per year, 2007 – 2010
  - 13% per year, 2010 – 2016

Note: Results are preliminary and subject to change.
Strategies to manage Part D premiums

- Formulary design
  - Typically 5-tier formularies
  - Within limits, trend toward moderate tightening
- Manufacturer rebates
  - Grown from <10% of gross Part D spending in 2007 to approximately 22% in 2016
  - Use of “price-protection” rebates
- Pharmacy networks
  - Preferred cost-sharing pharmacies
  - Pharmacy 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. Results are preliminary and subject to change.
Cost-based reimbursement has grown as a share of basic benefit costs

<table>
<thead>
<tr>
<th>Spending category</th>
<th>Spending in billions</th>
<th>Percentage growth</th>
<th>Average annual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2016</td>
<td>Cumulative</td>
</tr>
<tr>
<td>Direct subsidy*</td>
<td>$17.6</td>
<td>$16.3</td>
<td>-7.4%</td>
</tr>
<tr>
<td>Reinsurance</td>
<td>8.0</td>
<td>34.8</td>
<td>335.0%</td>
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<tr>
<td>Subtotal, basic benefits</td>
<td>25.6</td>
<td>51.1</td>
<td>99.6%</td>
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<tr>
<td>Low-income subsidy</td>
<td>16.7</td>
<td>26.7</td>
<td>59.9%</td>
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<tr>
<td>Retiree drug subsidy</td>
<td>3.9</td>
<td>1.1</td>
<td>-71.8%</td>
</tr>
<tr>
<td>Medicare program total</td>
<td>46.2</td>
<td>78.9</td>
<td>70.8%</td>
</tr>
</tbody>
</table>

Source: MedPAC based on Table IV.B.10 of the Medicare Board of Trustees’ report for 2017.
Note: Results are preliminary and subject to change. RDS (retiree drug subsidy). * Net of Part D risk-corridor payments.
Nearly all of the growth in spending for high-cost enrollees is due to higher prices.

In 2015,

- 8% of Part D enrollees reached the catastrophic phase (high-cost enrollees)
- High-cost enrollees accounted for 57% of overall spending
- Use of higher-priced drugs will continue to put strong upward pressure on program spending

Components of annual average growth in spending, 2010-2015

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

Source: MedPAC analysis of Part D prescription drug event data.
Note: Results 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 driving more catastrophic spending

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

- More high-cost enrollees
- Rapid growth in Medicare’s payments for reinsurance

Trend likely to continue because of increasing focus on specialty drugs and biologics in the pipeline
The Commission’s June 2016 Part D recommendations

- Change Part D to:
  - Transition Medicare’s reinsurance from 80% to 20% of catastrophic spending and keep Medicare’s overall subsidy at 74.5% through higher capitated payments
  - Exclude manufacturers’ discounts in the coverage gap from enrollees’ “true OOP” spending
  - Eliminate cost sharing above the OOP threshold
  - Make moderate changes to LIS cost sharing to encourage use of generics and biosimilars
  - Greater flexibility to use formulary tools
Need to remove financial disincentive to use biosimilars

- Biologics will continue to grow in importance
  - Increasing cost burden on patients and Medicare
  - Need for biosimilars to promote price competition
- **BUT** some Part D policies may negatively affect take up of biosimilars
  - Copays for LIS enrollees
  - Coverage-gap discount provides financial advantage to originator biologics over biosimilars