Advising the Congress on Medicare issues

Improving competition among Part D's benchmark plans

Eric Rollins

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MEDPAC

Introduction

- Part D has a low-income subsidy (LIS) that covers most beneficiary premiums and cost sharing
- About 13 million Part D enrollees are LIS beneficiaries
- This presentation focuses on the premium subsidy and the prescription drug plans (PDPs) that largely serve LIS beneficiaries
- The premium subsidy has two key features: a dollar limit known as the benchmark and an auto-enrollment process

The benchmark encourages LIS beneficiaries to enroll in lower-cost plans

- The benchmark equals the average premium for basic coverage across all PDPs and MA-PDs in a region
- The benchmark is the maximum amount that the LIS will spend on a beneficiary's premium
  - Those enrolled in less expensive plans (benchmark plans) do not pay a premium
  - Those enrolled in more expensive plans pay the difference

The auto-enrollment process ensures that LIS beneficiaries have Part D coverage

- Beneficiaries who do not select a plan on their own are automatically enrolled in benchmark plans
- Beneficiaries are randomly assigned to benchmark plans
- Each benchmark plan in a region usually receives the same number of auto-enrollees
- Auto-enrollees who do not like their plan have several chances to switch to another plan

CMS also uses auto-enrollment to reassign some LIS beneficiaries to new plans

- Reassignment is used for beneficiaries in PDPs with premiums slated to rise above the benchmark
- “De minimis” exception allows plans that narrowly miss the benchmark to waive the difference for LIS enrollees
- Benchmark plans and de minimis plans are collectively known as zero-premium plans
- Beneficiaries who have picked a plan (choosers) are not reassigned

The LIS has created a distinct subset of PDPs that serve low-income beneficiaries

- Most LIS beneficiaries (88 percent) are in zero-premium plans (versus 21 percent of non-LIS beneficiaries)
- LIS beneficiaries are a majority of the enrollment in zero-premium plans, but only a small share in other PDPs
- In 2020, there are 244 zero-premium plans
  - 191 benchmark plans and 53 de minimis plans
  - Most plans are offered by six national Part D sponsors
  - Most regions have between 5 and 9 plans

Note: Figures are preliminary and subject to change.

Most LIS beneficiaries in PDPs are auto-enrollees

- In 2019, current auto-enrollees accounted for 62 percent of the LIS beneficiaries in PDPs
- About 875,000 beneficiaries were auto-enrolled each year between 2015 and 2019
- Roughly half of auto-enrollees select a PDP or MA-PD on their own within 4-5 years

Note: Figures are preliminary and subject to change.

Experience with the reassignment process

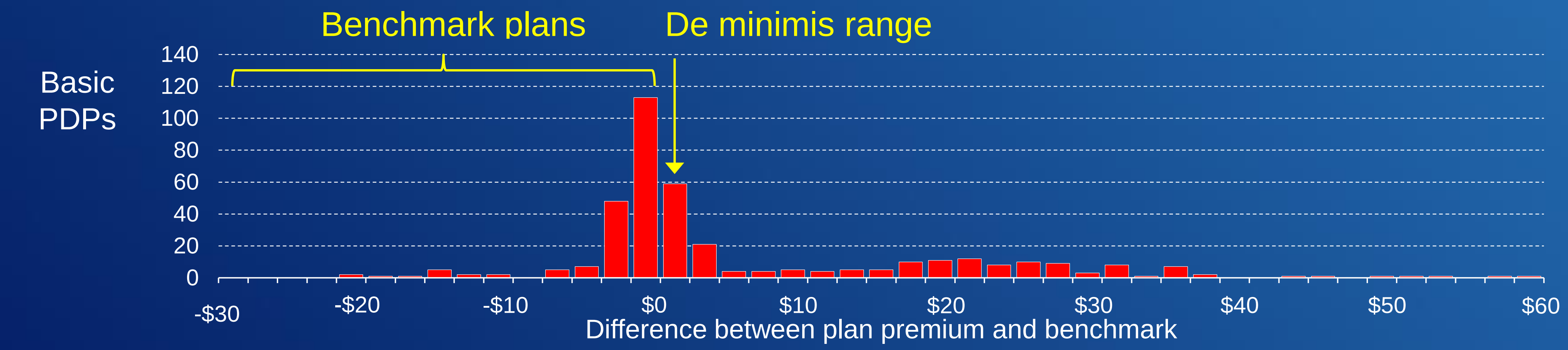
- Impact is best measured by subset of people who were randomly reassigned to other PDPs due to premium increases
- Number of random reassignments declined from 498,000 at the end of 2015 to 100,000 at the end of 2019
- The benchmark PDP market was unstable in Part D’s early years, leading to policy changes that raised benchmarks and reduced reassignments

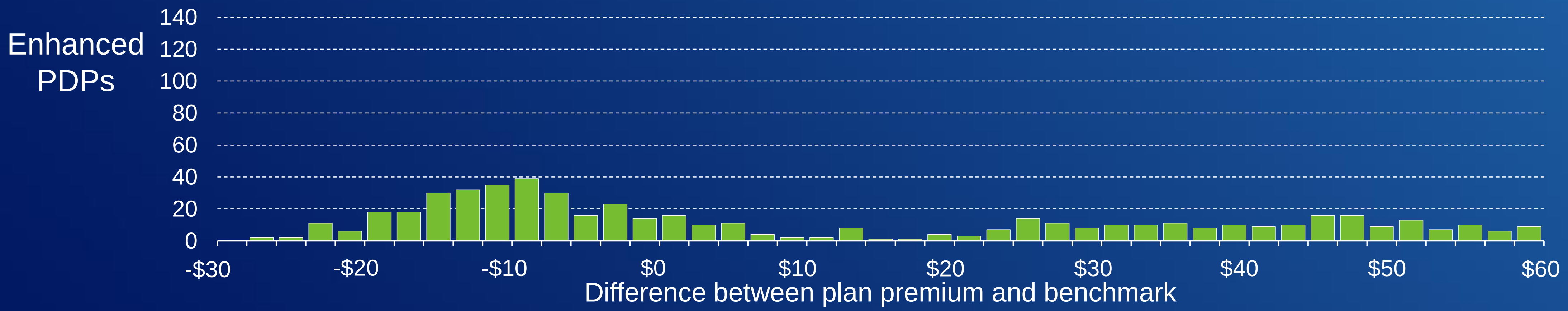
Note: Figures are preliminary and subject to change.

The LIS has features that limit competition among benchmark plans

- PDPs that want to serve LIS beneficiaries need to keep their premiums below the benchmark
- But benchmark plans also have no marginal incentive to lower their premiums any further
  - They do not receive more auto-enrollees
  - They do not become more attractive to LIS choosers
  - Plans receive less revenue for the same number of enrollees
- Benchmark plans thus want to keep their premiums as close to the benchmark as possible without going over

The 2020 premiums for most benchmark plans are clustered around the benchmark





Note: PDP (prescription drug plan). Figures are preliminary and subject to change.

Why do we think benchmark plans are not bidding as low as they could?

- Some enhanced PDPs have premiums that are well below the benchmark
- The vast majority of plans that qualify for the de minimis option participate (88 percent)
- A 2014 study by CBO found that:
  - Benchmark plans were less responsive to greater competition
  - Plans with premiums that were farther below the benchmark were more likely to increase their bids in the following year

Plan sponsors can inflate benchmarks after a merger or acquisition

- Sponsors can normally offer just one basic PDP, but they get a 2-year exception after an acquisition
  - During this transition period, sponsors can bid strategically to inflate benchmarks without losing LIS enrollees
  - Charge a high premium for Plan 1 to put upward pressure on the benchmark
  - Make Plan 2 a zero-premium plan to ensure that the LIS beneficiaries in Plan 1 get reassigned to Plan 2
- Evidence suggests that several sponsors have used this strategy in recent years

Potential policy change: Give benchmark plans stronger incentives to bid lower

- Plans that bid lower could be rewarded by getting a larger share of auto-enrollments
  - CMS could specify the share that each plan would receive
  - New method of calculating benchmarks may also be needed
- LIS beneficiaries who are choosers could be given a cash award when they enroll in a lower-premium plan

Potential policy change: Eliminate ability to inflate benchmarks after a merger or acquisition

- Stop reassigning LIS beneficiaries to another zero-premium plan offered by the same parent organization
- Require plan sponsors to submit the same bid for all basic PDPs
- Eliminate the two-year transition period that plan sponsors have after an acquisition before they have to comply with CMS's limits on plan offerings

Discussion

- Interest in additional work on this issue?
- Feedback on policy options?
  - Give lower-bidding plans a larger share of auto-enrollments
  - Pay a cash award to LIS choosers who enroll in lower-premium benchmark plans
  - Eliminate the ability of plan sponsors to inflate benchmarks after a merger or acquisition