Medicare spending growth for prescription drugs

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Alliance for Health Reform
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Overview

• Rapid drug spending growth relative to other Medicare sectors

• Factors influencing Part D spending growth

• Insuring beneficiaries with high drug costs
Drug spending growth increasing; slowdown in other sectors

Growth in per-beneficiary Medicare spending by sector

*Part D spending based on point-of-sale cost for covered drugs*
Closing the Part D donut hole
- 5% ↑ prescription drug fills
- 1% ↓ medical care spending

Different incentives
Medicare Advantage plus D
- At risk for overall spending

Stand-alone Part D plans
- No benefit from offset

CBO: Drugs substitute for other expensive medical services

Offsetting Effects of Prescription Drug Use on Medicare’s Spending for Medical Services

Summary
Prescription drugs affect people’s health and their need for medical services. Therefore, policy changes that influence Medicare beneficiaries’ use of prescription drugs, such as those altering the cost-sharing structure of the Part D prescription drug benefit, probably affect federal spending on their medical services. After reviewing recent research, the Congressional Budget Office (CBO) estimates that a 1 percent increase in the number of prescriptions filled by beneficiaries would cause Medicare’s spending on medical services to fall by roughly one-fifth of 1 percent. That estimate, which applies only to policies that directly affect the quantity of prescriptions filled, represents a change in the agency’s estimating methodology, which until now has not incorporated such an effect.

Previously, when estimating the budgetary effects of legislation regarding prescription drugs, CBO found insufficient evidence of an “offsetting” effect of prescription drug use on spending for medical services. But recently, more analysis has been published that demonstrates a link between changes in prescription drug use and changes in the use of and spending for medical services. This report provides background information about that relationship; reviews the literature on the size of the offset for the Medicare population; and describes how CBO synthesized the recent research. The report also provides an example of how CBO’s change in methodology will affect the agency’s cost estimates for proposals that would change prescription drug use by Medicare beneficiaries.

Background
In the first two years of Medicare’s Part D program—which was created in 2003 with the passage of the Medicare Prescription Drug, Improvement, and Modernization Act and implemented in 2006—the number of prescriptions filled by Medicare beneficiaries increased by more than 10 percent, according to one estimate. More recently, the Part D benefit was expanded by the Affordable Care Act—which, between 2011 and 2020, is gradually closing the gap in coverage in which beneficiaries were responsible for all of the costs for their prescription drugs. That change is expected to further boost the use of prescription drugs. The design of Medicare’s prescription drug benefit continues to be debated, as evidenced by recent proposals to change the cost-sharing rules for low-income beneficiaries and to repeal the gradual closure of the coverage gap.

A substantial body of evidence indicates that people respond to changes in cost sharing by changing their consumption of prescription drugs. From beneficiaries’ perspective, the price of a prescription drug is the portion of the prescription’s cost that they bear. The use of...
Increases in Part D spending levels & enrollment

Average Part D spending per Medicare beneficiary, age 65+

- Increased Part D enrollment:
  - Participation up from 51% to 65%
  - Shifts from other coverage sources

Spending per Part D enrollee:
- Health status
- Treatment choices
- Drug prices

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Part D spending influences: Innovation, competition, benefit design

New specialty, biologic drugs with few competitors
- Rebates confidential: 14% of total Part D drug costs, 2014

Overall decline in prices for generic drugs
- Notable exceptions where price more than doubled

Mixed incentives for plans, consumers to contain costs
- Increasing use of tiered copays, pharmacy networks
- Brand-name drugs less costly than generics in donut hole

2016 Medicare Trustees Report; 2016 GAO-16-706 report; Kaiser Family Foundation
Medicare bears almost all risk for members with high drug costs

<table>
<thead>
<tr>
<th>Coverage phase</th>
<th>Total drug spending</th>
<th>Member</th>
<th>Part D plan</th>
<th>Drug Maker</th>
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**Part D standard coverage for brand-name drugs, 2016**
Medicare bears almost all risk for members with high drug costs

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2011: Shortcut out of donut hole
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Conclusions

• Rapid drug spending relative to other sectors
  – May be partially offset by lower medical spending

• Factors influencing Part D spending growth
  – Increasing participation in Part D
  – Patent expirations, new drugs, benefit design

• Medicare bears almost all risk for beneficiaries with high drug costs
  – Increases in spending on reinsurance