



Medicare Part D: Important Successes and Challenges Ahead

Leigh Purvis, Director, Health Services Research
AARP Public Policy Institute

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Overview of Medicare Part D

- Created by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and implemented in 2006
- Voluntary coverage for prescription drugs filled at a pharmacy
 - Late enrollment penalty for those who do not maintain prescription drug coverage at least equivalent to Part D (“creditable coverage”)
- Provides Extra Help, or low-income subsidy (LIS), for enrollees with limited income and assets



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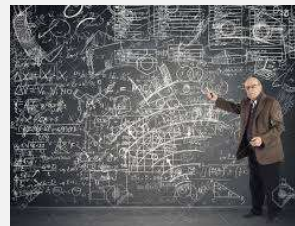
How does Medicare Part D pay for drugs?

- Medicare provides plans with a subsidy that covers 74.5% of the expected cost of basic benefits
 - Direct subsidy that helps reduce premiums
 - Reinsurance for spending that occurs in catastrophic coverage
- Enrollees pay remaining 25.5% through premiums
 - Also pay cost-sharing required by plan
- Medicare is barred from negotiating with drug manufacturers
 - Part D plans can negotiate but economies of scale are at play

**IT'S
COMPLICATED**

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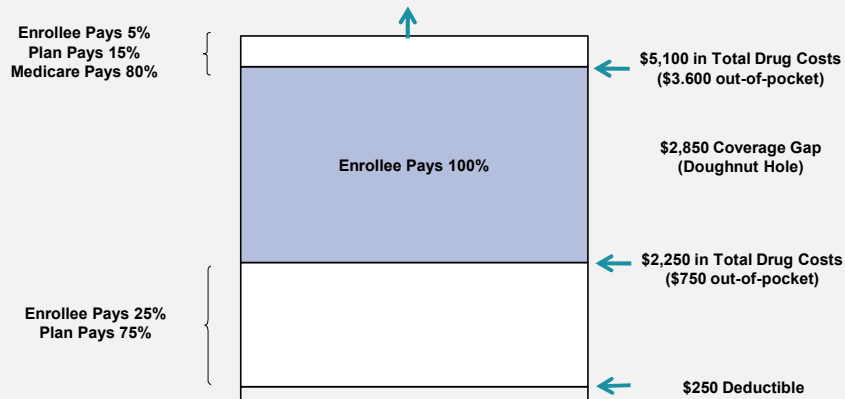
How does Part D coverage work?



- Provided through stand-alone prescription drug plans (PDPs) and Medicare Advantage prescription drug plans (MA-PDs)
- Plans must meet certain requirements but can vary considerably in terms of premiums, cost-sharing, and covered drugs
- Standard Part D benefit includes deductible, initial coverage phase, coverage gap phase, and catastrophic coverage
 - Benefit parameters are updated every year based on per capita Part D spending growth

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Standard Part D benefit in 2006



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Is Part D a success story?



- Enrollment in Part D plans has increased from 20+ million (53% of all eligible Medicare beneficiaries) to 45+ million (74% of all eligible Medicare beneficiaries)
- The vast majority of Medicare beneficiaries report high satisfaction with the Part D program and their plan
 - Perhaps a bit too satisfied: they aren't switching plans even when it would benefit them



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Part D spending growth is accelerating



- Part D expenditures grew from \$47 billion in 2006 to ~\$100 billion in 2019
- Spending on catastrophic coverage (reinsurance) has increased from 14% of total Medicare Part D spending in 2006 to 42% in 2019
 - Most recent Medicare Trustees report projects that reinsurance payments will account for nearly 80% of subsidy payments to plans by 2027
- Increased spending in catastrophic is being driven by high and growing drug prices

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Premium picture isn't quite as rosy as it appears

- According to CMS, the average basic PDP premium is declining and is now around \$30 per month
- However, when weighted by enrollment, the average monthly PDP premium is around \$41 per month
- Among the top 10 most popular PDPs that cover ~80% of PDP enrollees, premiums range from \$28 to \$76 in 2019
 - Premiums for some of these plans have doubled or even tripled since 2006



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Cost-sharing is also increasing



- Part D plans are increasingly using coinsurance, sometimes across all tiers
 - Maximum cost-sharing for non-preferred brands is \$100 (copay) and 50% (coinsurance), and an increasing number of plans use those maximums
- Enrollees are still responsible for some cost-sharing even after they enter catastrophic coverage
 - 1 million non-LIS enrollees entered catastrophic coverage in 2017, twice the number who entered in 2007
 - Some enrollees taking high-priced drugs have cost-sharing that exceeds \$10,000

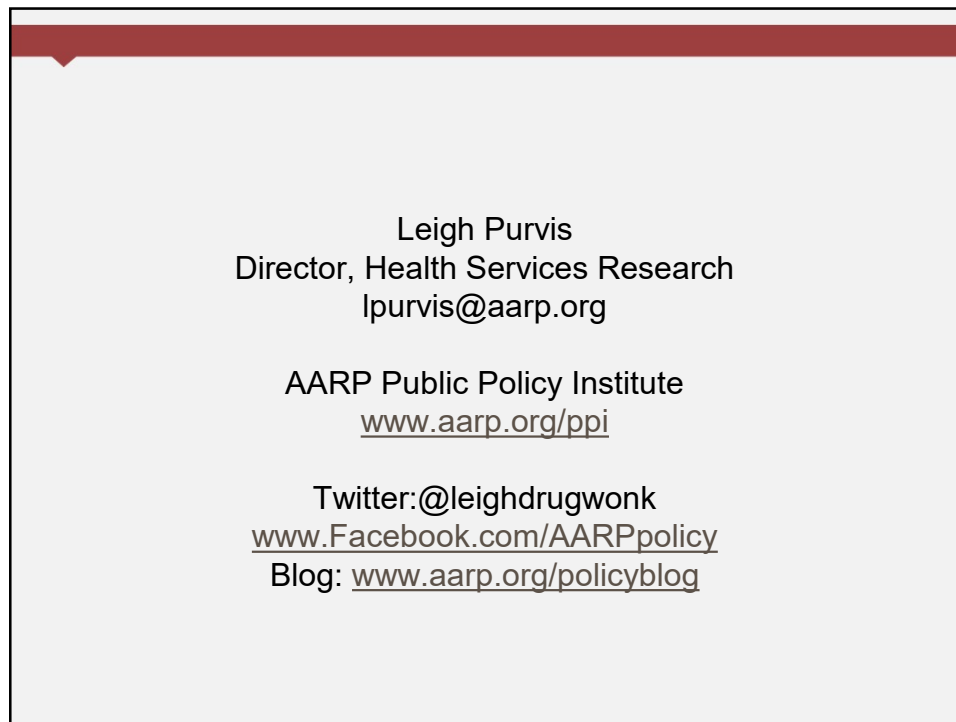
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What does the future hold?



- Part D spending trends are widely viewed as unsustainable
 - Reminder: Medicare is a taxpayer-funded program!
- Enrollees are facing premium and cost-sharing increases that cannot be sustained on a low or fixed income
- Ongoing challenge will be ensuring that access and affordability gained through Part D can continue

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Leigh Purvis
Director, Health Services Research
lpurvis@aar.org

AARP Public Policy Institute
www.aarp.org/ppi

Twitter: @leighdrugwonk
www.Facebook.com/AARPolicy
Blog: www.aarp.org/policyblog