Medicare Part D: Important Successes and Challenges Ahead

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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
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

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
**Standard Part D benefit in 2006**

- **Enrollee Pays 5%**
  - **Plan Pays 15%**
  - **Medicare Pays 80%**

- **Enrollee Pays 25%**
  - **Plan Pays 75%**

- **$5,100 in Total Drug Costs**
  - ($3,600 out-of-pocket)

- **$2,850 Coverage Gap**
  - (Doughnut Hole)

- **$2,250 in Total Drug Costs**
  - ($750 out-of-pocket)

- **$250 Deductible**

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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
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

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
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

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