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# Medicare spending growth for prescription drugs

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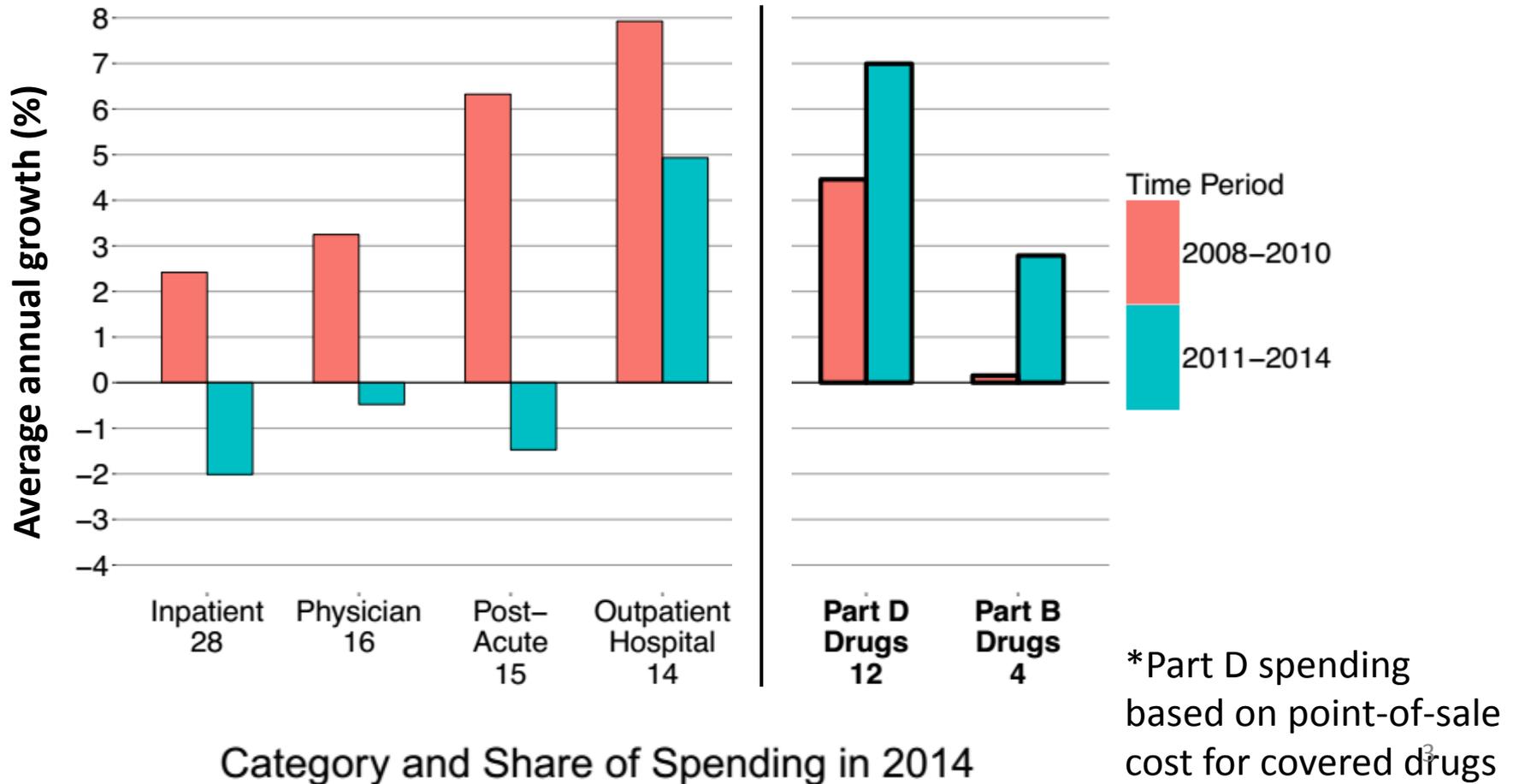
Grant funding from the Commonwealth Foundation

# 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  
Age 65 and above



# CBO: Drugs substitute for other expensive medical services

## Closing the Part D donut hole

- 5% ↑ prescription drug fills
- 1% ↓ medical care spending

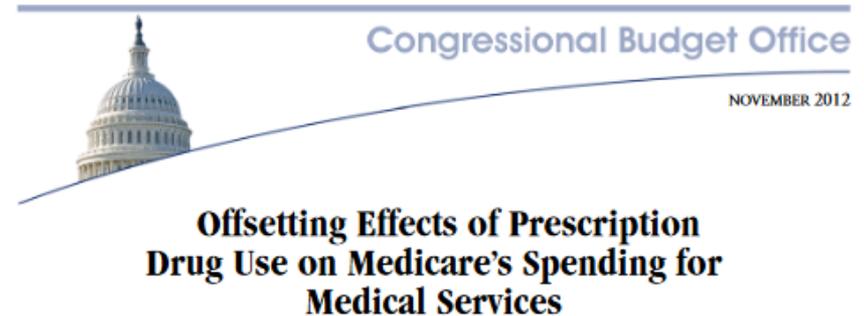
## Different incentives

### Medicare Advantage plus D

- At risk for overall spending

### Stand-alone Part D plans

- No benefit from offset



#### Summary

Prescription drugs affect people's health and their need for medical services.<sup>1</sup> 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.<sup>2</sup> 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

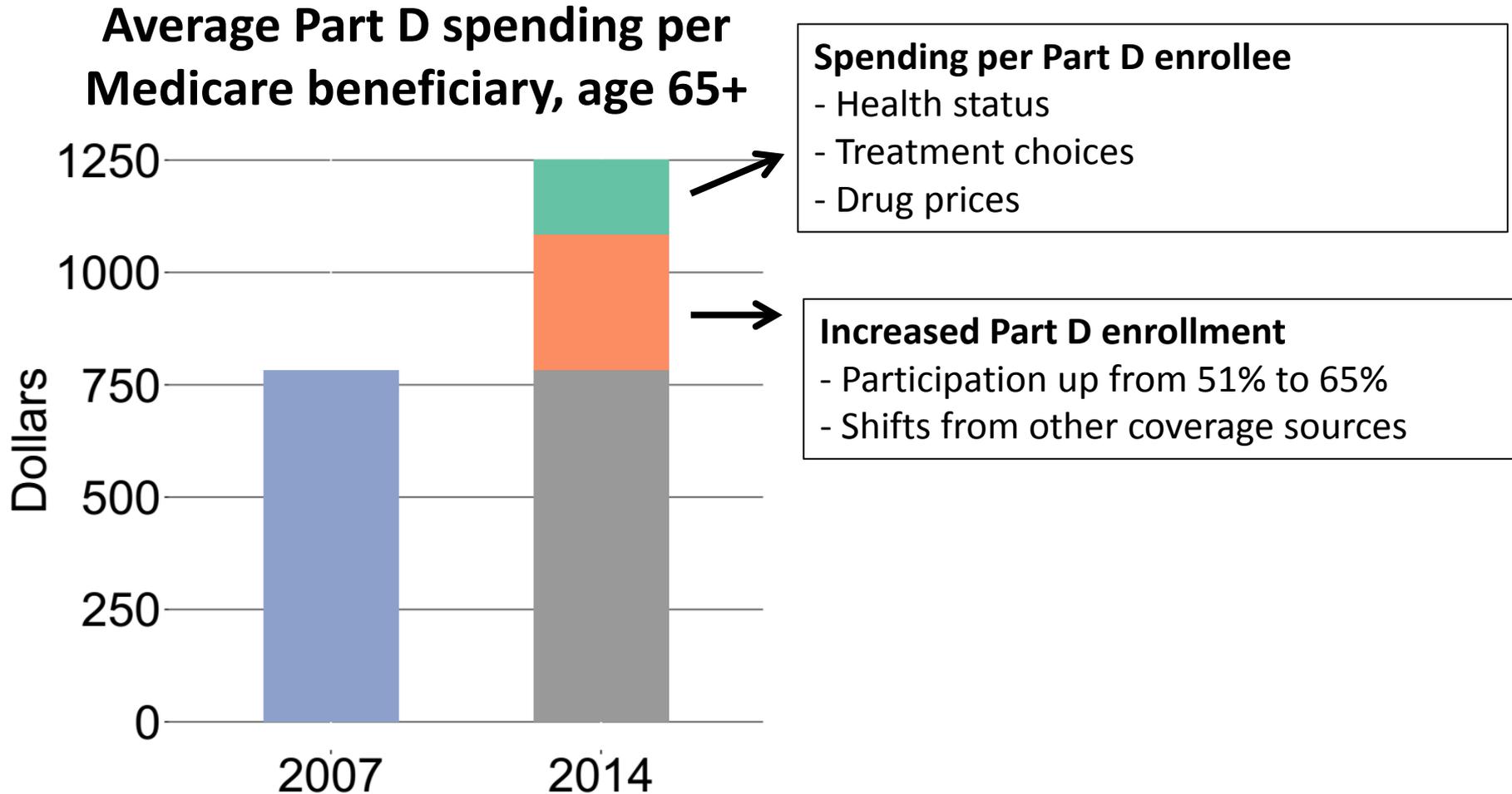
example of how CBO's change in methodology will affect the agency's cost estimates for proposals that would change prescription drug use by Medicare beneficiaries.

#### 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.<sup>3</sup> 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.<sup>4</sup> 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



# 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**

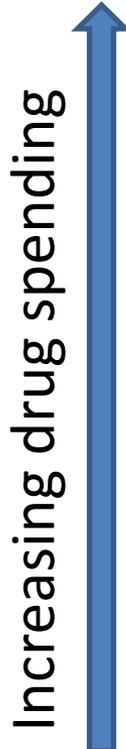
- Notable exceptions where price more than doubled

## **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

# Medicare bears almost all risk for members with high drug costs

Part D standard coverage for brand-name drugs, 2016



Coverage phase	Total drug spending	Member	Part D plan	Drug Maker	Reinsurance (Medicare)
	No cap				
Catastrophic coverage					
	~\$7,515				
Donut hole					
	\$3,310				
Initial coverage		Deductible, 25%	75%		

# Medicare bears almost all risk for members with high drug costs

Part D standard coverage for brand-name drugs, 2016

Coverage phase	Total drug spending	Member	Part D plan	Drug Maker	Reinsurance (Medicare)
No cap					
Catastrophic coverage	~\$7,515				
Donut hole		Actual: 45% Credit: 95%	5%	50%	
Initial coverage	\$3,310	Deductible, 25%	75%		

# Medicare bears almost all risk for members with high drug costs

Part D standard coverage for brand-name drugs, 2016

Coverage phase	Total drug spending	Member	Part D plan	Drug Maker	Reinsurance (Medicare)
No cap					
Catastrophic coverage		5%	15%		80%
Donut hole	~\$7,515	Actual: 45% Credit: 95%	5%	50%	
Initial coverage	\$3,310	Deductible, 25%	75%		

Original incentive for plans to enter market

# 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