Medicare Part D Basics and Policy Options for Redesign

June 14, 2021
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INTRODUCTION TO MEDICARE PART D

Leigh Purvis, Director, Health Care Costs & Access
AARP Public Policy Institute
QUICK BACKGROUND

• Created by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and implemented in 2006

• Provides voluntary outpatient prescription drug coverage (with a late-enrollment penalty)

• Includes a Part D Low-Income Subsidy ("Extra Help") program that helps with premiums and cost-sharing for enrollees with limited incomes and assets
HOW DOES PART D COVERAGE WORK?

• Provided through stand-alone prescription drug plans (PDPs) and Medicare Advantage prescription drug plans (MA-PDs) that include drug coverage and other Medicare-covered benefits

• Plans must meet defined requirements but can vary in terms of premiums, deductibles, cost-sharing, formularies, utilization management, and pharmacy network
PLAN AVAILABILITY AND ENROLLMENT

- Average Medicare beneficiary has a choice of nearly 60 Medicare Part D plans in 2021 (30 PDPs and 27 MA-PDs)

- Half of all Part D enrollees are enrolled in stand-alone PDPs and the other half are in MA-PDs, with a slightly larger number of enrollees in MA-PDs

- Enrollment is highly concentrated: the top 5 plan sponsors account for 74% of Part D enrollment

- Roughly one in four enrollees (~13 million) are in the Part D Low-Income Subsidy (LIS) program
PREMIUMS AND COST-SHARING CAN ADD UP

• Average monthly premium charged by PDPs and MA-PDs (weighted by enrollment) has fluctuated recently and is now $26
  • However, average masks sizable premium increases among some plans with high enrollment
• Enrollees can also face substantial cost-sharing for certain drugs
  • Maximum cost-sharing for non-preferred drugs is $100 (copay) and 50% (coinsurance)
IS PART D A SUCCESS STORY?

• Nearly 90% of older adults have prescription drug coverage
• The vast majority of Medicare beneficiaries report high satisfaction with Part D
  • Perhaps a little bit too satisfied; they aren’t switching plans even when it would benefit them
WILL THE HONEYMOON CONTINUE?

• Recent trends could have serious health and financial implications for enrollees who are not in a position to absorb increased costs
  • Most Medicare beneficiaries live on modest incomes and resources
    • Median income is just under $30,000
    • 1 in 4 have less than $8,500 in savings
Juliette Cubanski, Ph.D.
Deputy Director
Program on Medicare Policy
Kaiser Family Foundation
Figure 17

Medicare Part D Standard Benefit Design in 2021

Share of costs paid by:  Enrollees  Plans  Medicare  Manufacturers

- **Deductible**
  - $445
  - 100%

- **Initial coverage phase**
  - $4,130
  - 25% by enrollees
  - 75% by plans

- **Coverage gap phase**
  - $10,048 total / $6,550 out of pocket
  - 25% by enrollees
  - 70% by plans
  - 5% by Medicare

- **Catastrophic coverage phase**
  - $10,048 total / $6,550 out of pocket
  - 15% by enrollees
  - 80% by plans
  - 5% by Medicare

KFF
Figure 18

Medicare Part D standard benefit parameters have increased over time

- Total drug spending at catastrophic threshold
- Out-of-pocket threshold for catastrophic coverage
- Initial coverage limit
- Deductible

NOTE: Where applicable, estimates are rounded to nearest whole dollar.
Most Part D enrollees have relatively low out-of-pocket drug costs, but a small share pay thousands of dollars out of pocket each year.

Average Out-of-Pocket Spending by Medicare Part D Enrollees in 2018

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of enrollees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrollees receiving low-income subsidies</td>
<td>13.9 million</td>
</tr>
<tr>
<td>Enrollees not receiving low-income subsidies</td>
<td>32.2 million</td>
</tr>
<tr>
<td>Enrollees with out-of-pocket spending above the catastrophic threshold</td>
<td>1.1 million</td>
</tr>
</tbody>
</table>

SOURCE: KFF analysis of a 20% sample of 2018 Medicare prescription drug event claims from the CMS Chronic Conditions Data Warehouse.
Overall Medicare Part D spending has increased over time, and spending will continue to grow in the future.

**Total Part D Spending (in billions):**

- **Actual**
- **Projected**

**SOURCE:** 2016-2020 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, Table IV.B10.
Spending for catastrophic coverage ("reinsurance") now accounts for close to half of total Medicare Part D spending, up from 14% in 2006

Since 2015, at least 1 million Medicare Part D enrollees have had out-of-pocket spending above the catastrophic coverage threshold.

NOTE: Estimates exclude enrollees who receive low-income subsidies.

After a period of relatively slow growth, average Medicare Part D enrollee costs are projected to increase at a faster rate in the coming decade.

<table>
<thead>
<tr>
<th>Year Period</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-2010</td>
<td>5.5%</td>
</tr>
<tr>
<td>2010-2019</td>
<td>2.0%</td>
</tr>
<tr>
<td>2019-2029 (projected)</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

Stacie B. Dusetzina, Ph.D.
Associate Professor of Health Policy
Vanderbilt University School of Medicine
Options for Medicare Part D Redesign

Stacie B. Dusetzina, PhD
Associate Professor of Health Policy
Ingram Associate Professor of Cancer Research
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Reform Proposals

• S.2543 – The Prescription Drug Pricing Reduction Act of 2019 (Senate Finance Bill)

• H.R. 3 – the Elijah E. Cummings Lower Drug Costs Now Act

• H.R. 19 – the Lower Costs, More Cures Act of 2021
Benefit Today

- **Plan (75%)**
- **Manufacturer (70%)**
- **Medicare (80%)**
- **Patient (25%)**
- **Plan (5%)**
- **Patient (5%)**
- **Plan (15%)**
- **Patient (5%)**

- **Brand Spending <$4,130**
- **Brand Spending of $4,130-$10,045**
- **Brand Spending >$10,045**

- **Initial Coverage Phase**
- **Coverage Gap**
- **Catastrophic Phase**
Redesign Proposals – General Overview

• Eliminates the coverage gap.

• New out-of-pocket limit for patients.

• Plans are responsible for 75% of spending between the deductible and out-of-pocket limit.

• Plans and manufacturers face higher spending after the out-of-pocket limit; Medicare reinsurance is lowered from 80% to 20%.
Simplified Benefit Under Redesign

Plans 75%

Patients 25%

Plan 60%

Manufacturer 20%

Medicare 20%

Brand Spending < $10,045

Initial Coverage Phase

Catastrophic Coverage Phase
## Differences by Bills Previously Introduced

<table>
<thead>
<tr>
<th>Medicare Part D coverage phase</th>
<th>H.R. 3</th>
<th>S. 2543</th>
<th>H.R. 19</th>
</tr>
</thead>
</table>
| **Initial coverage**          | Patient: 25%  
Plan: 65%  
Manufacturer: 10% | Patient: 20%  
Plan: 73%  
Manufacturer: 7% | Patient: 15%  
Plan: 75%  
Manufacturer: 10% |
| **Catastrophic coverage**     | Patient: 0%  
Medicare: 20%  
Plan: 50%  
Manufacturer: 30% | Patient: 0%  
Medicare: 20%  
Plan: 66%  
Manufacturer: 14% | Patient: 0%  
Medicare: 20%  
Plan: 70%  
Manufacturer: 10% |
| **Out-of-pocket limit**       | $2,000  | $3,100  | $3,100  |

Bottom Line

• Medicare Part D redesign bills agree on key details:
  • Simplify the benefit for patients;
  • Cap out-of-pocket spending;
  • Lower Medicare reinsurance spending.

• Small differences in the percentage paid by manufacturers or plans by phase across bills.
  • Manufacturer contributions range from 7%-10% in the initial phase and from 10% to 30% in the catastrophic phase.
  • Plan contributions range from 65% to 75% in the initial phase and 50% to 70% in the catastrophic phase.
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