

Medicare Part D Basics and Policy Options for Redesign

June 14, 2021

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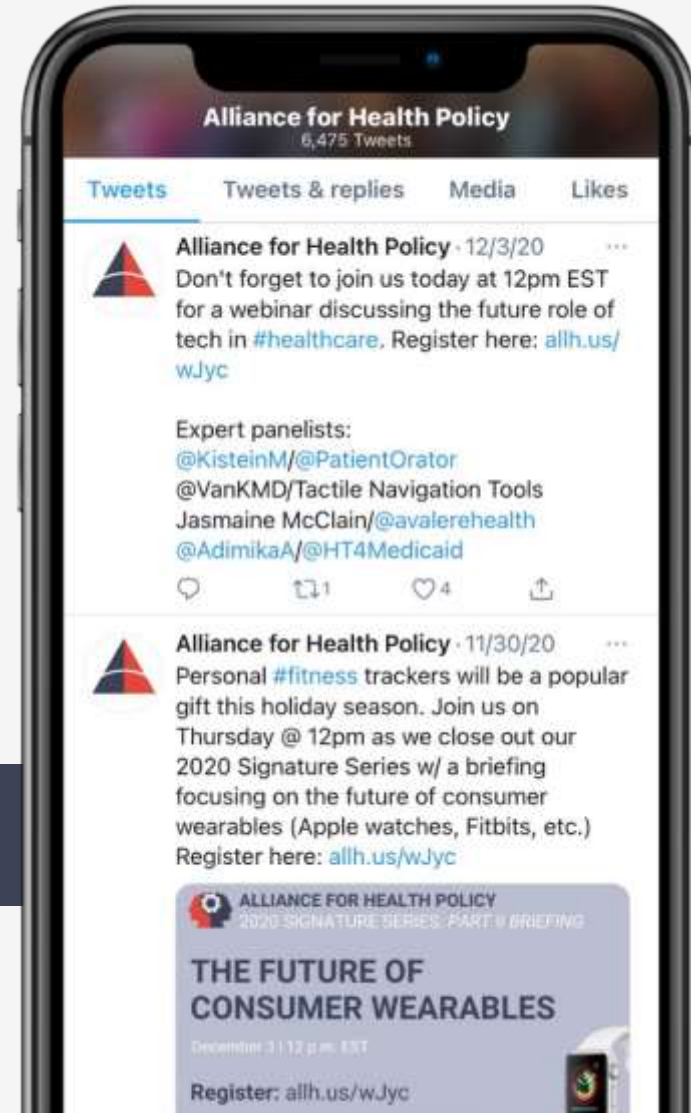


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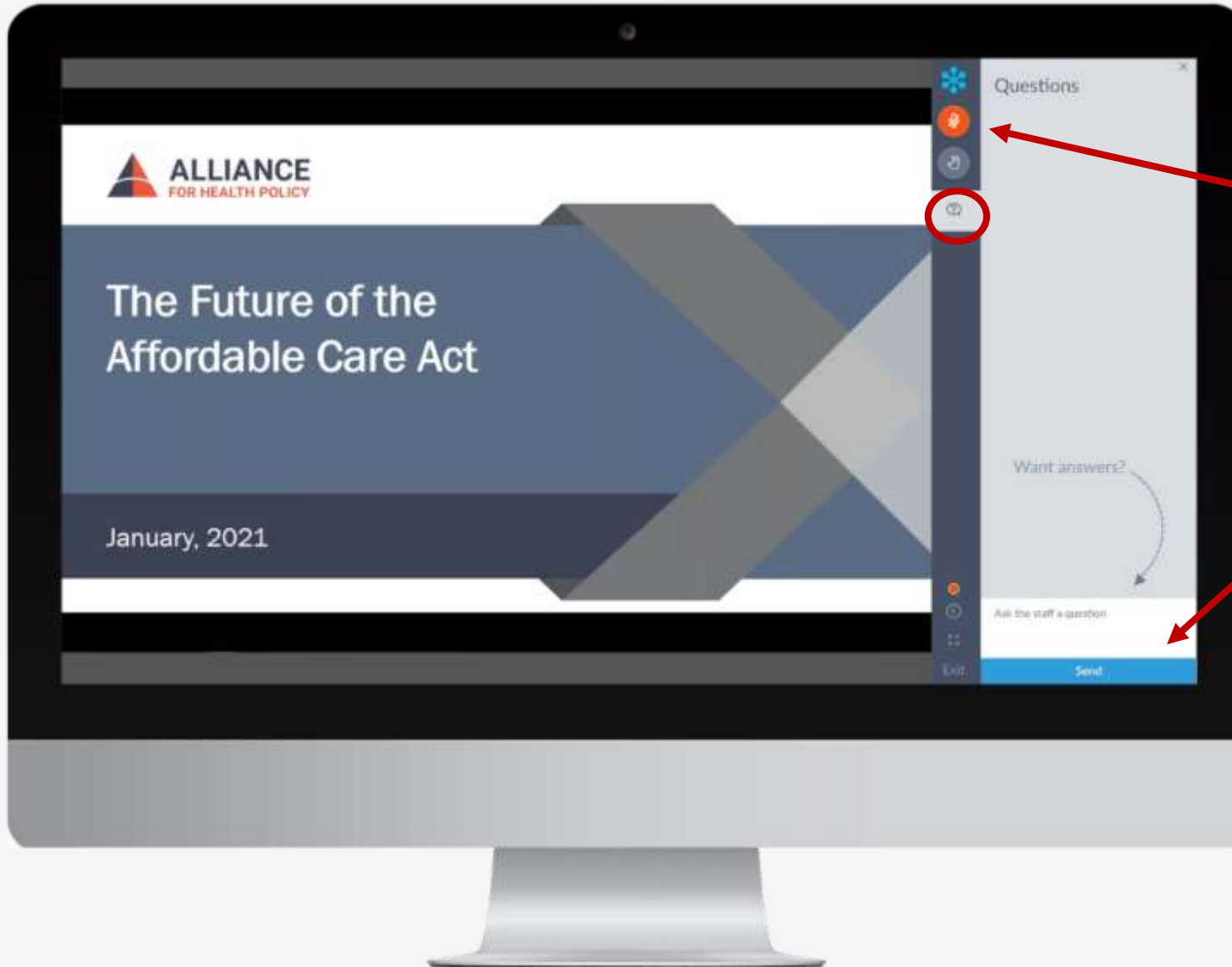


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Panelists



Leigh Purivs, MPA

Director
Health Care Costs and Access
AARP

 @leighdrugwonk



Juliette Cubanski, Ph.D.

Deputy Director
Program on Medicare Policy
Kaiser Family Foundation

 @jcubanski



Stacie B. Dusetzina, Ph.D.

Associate Professor of Health Policy
Vanderbilt University School of
Medicine

 @DusetzinaS



Sarah Dash, MPH

President & CEO
Alliance for Health Policy

 @SarahJDash

Moderator





@leighdrugwonk

Leigh Purivs, MPA

Director

Health Care Costs and Access

AARP





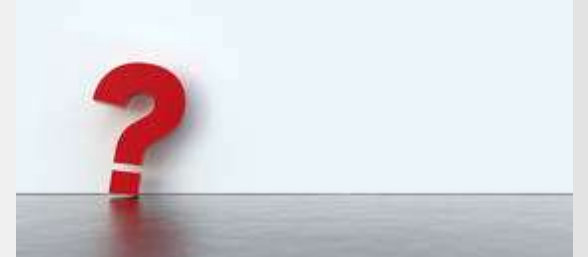
INTRODUCTION TO MEDICARE PART D

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



Medicare Part D Basics

Alliance for Health Reform

June 16, 2021

Juliette Cubanski, PhD, MPP, MPH

Deputy Director, Program on Medicare Policy, KFF

@jcubanski

KFF

Filling the need for trusted information on national health issues.

Figure 17

Medicare Part D Standard Benefit Design in 2021

Share of costs paid by: ■ Enrollees ■ Plans ■ Medicare ■ Manufacturers

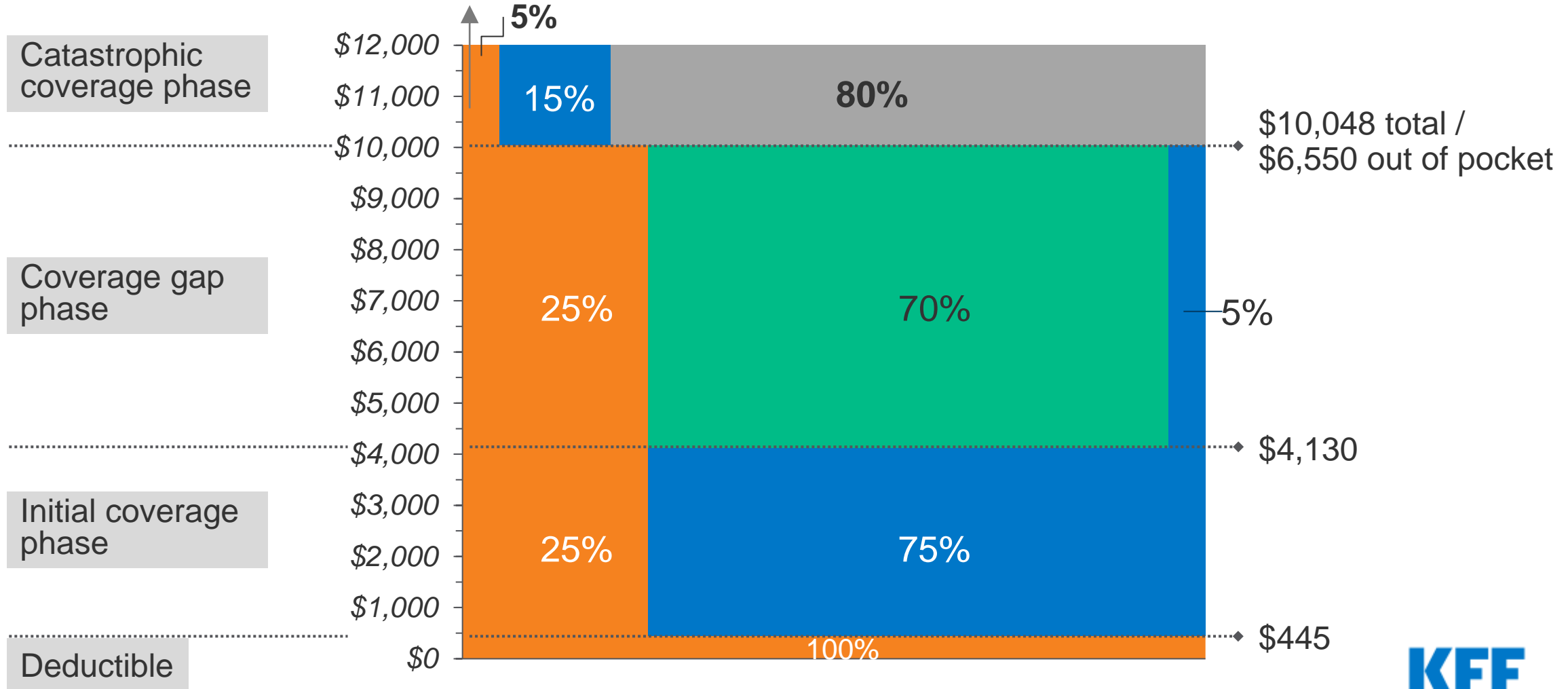
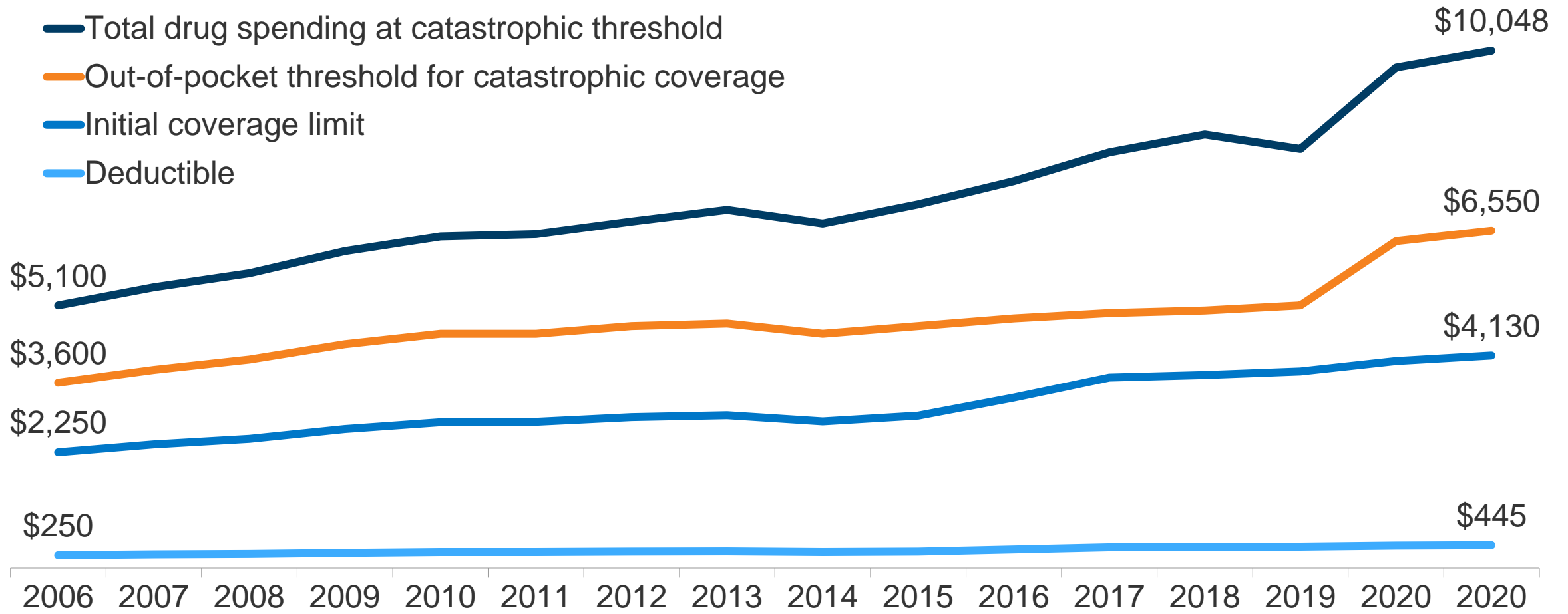


Figure 18

Medicare Part D standard benefit parameters have increased over time



NOTE: Where applicable, estimates are rounded to nearest whole dollar.

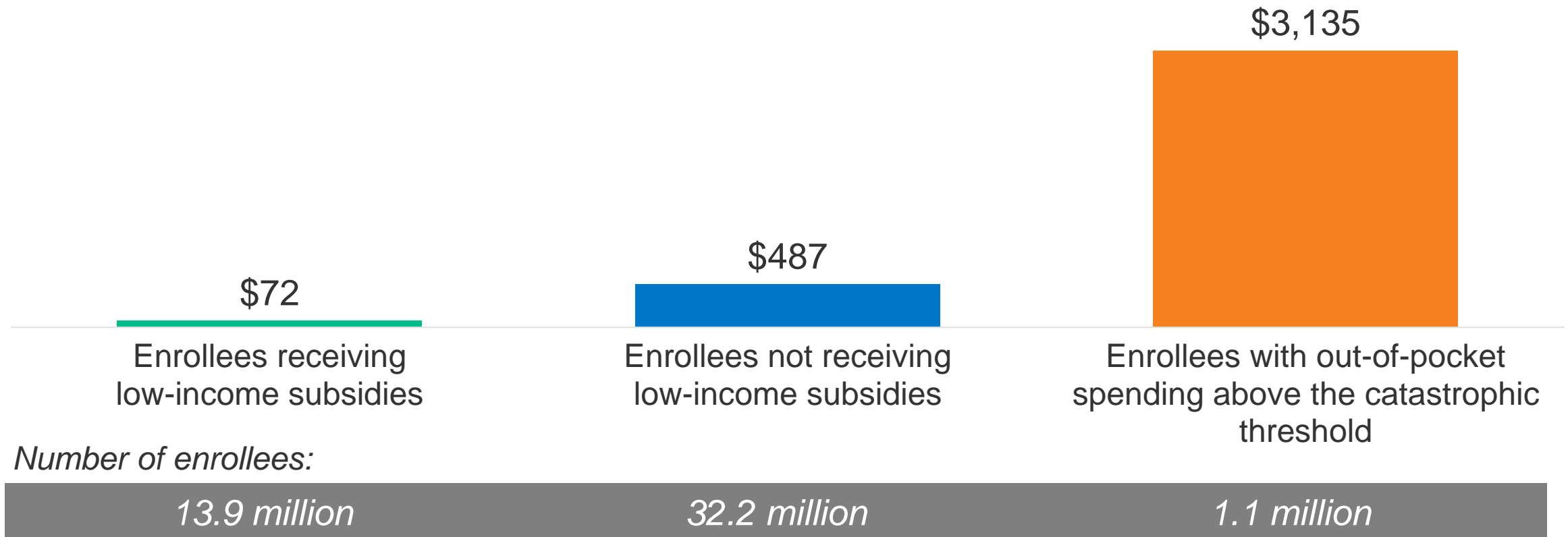
SOURCE: KFF, based on Part D benefit parameters, 2006-2021.



Figure 19

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

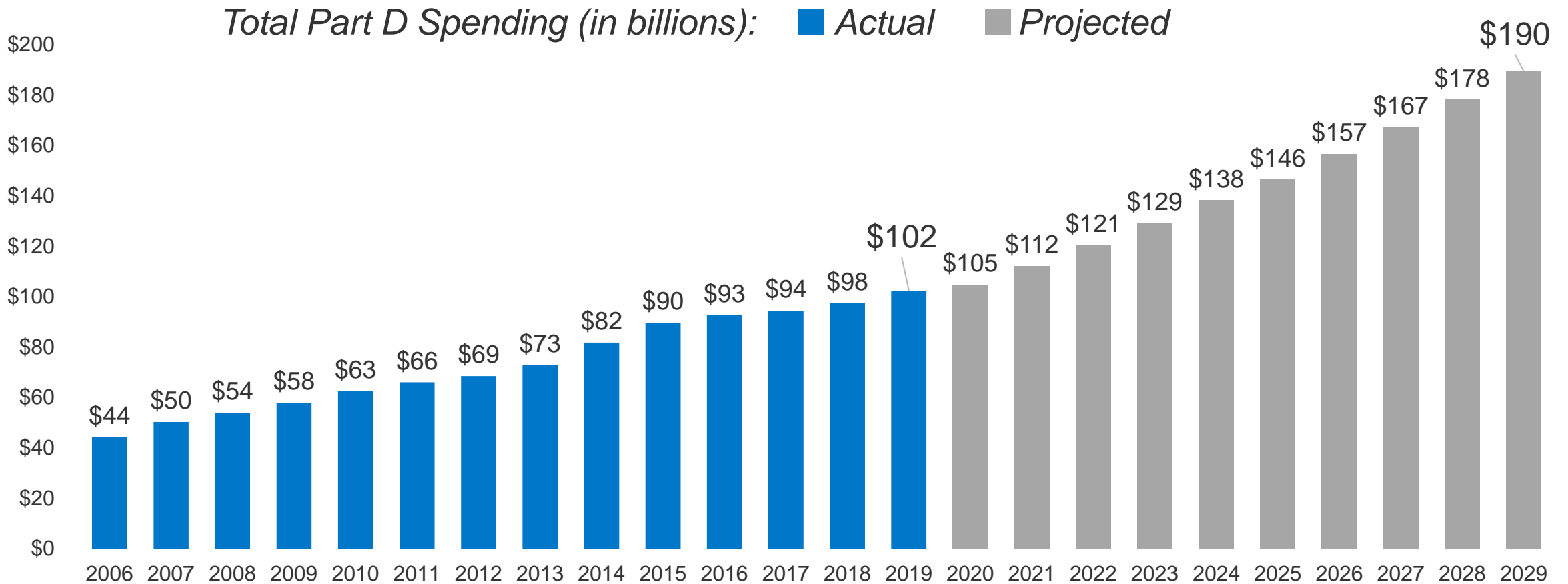
Average Out-of-Pocket Spending by Medicare Part D Enrollees in 2018



SOURCE: KFF analysis of a 20% sample of 2018 Medicare prescription drug event claims from the CMS Chronic Conditions Data Warehouse.

Figure 20

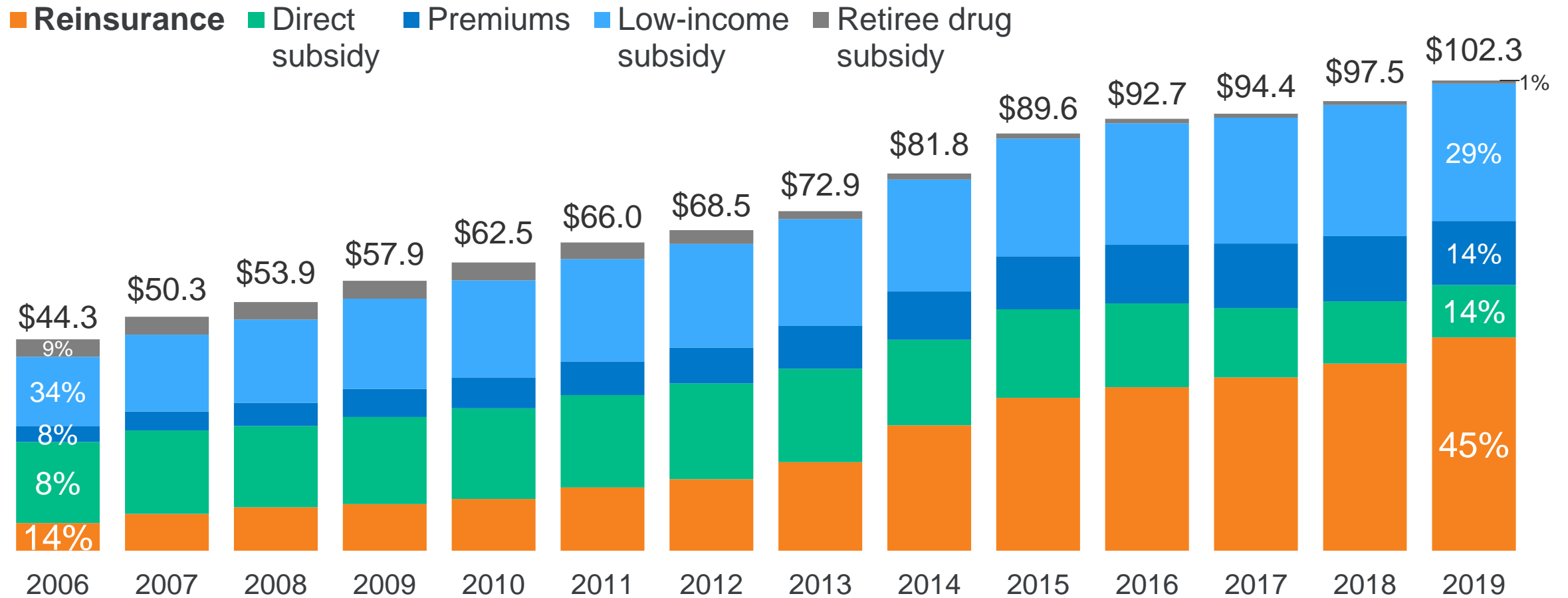
Overall Medicare Part D spending has increased over time, and spending will continue to grow in the future



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.

Figure 21

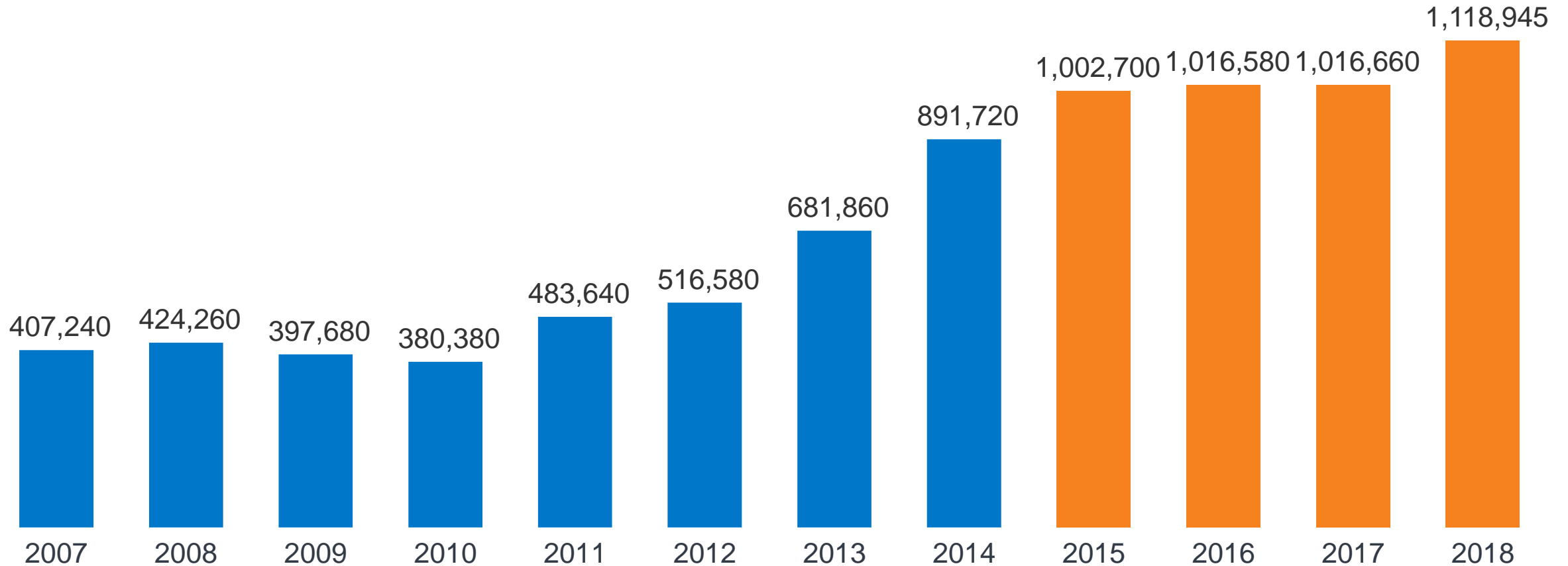
Spending for catastrophic coverage (“reinsurance”) now accounts for close to half of total Medicare Part D spending, up from 14% in 2006



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.

Figure 22

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



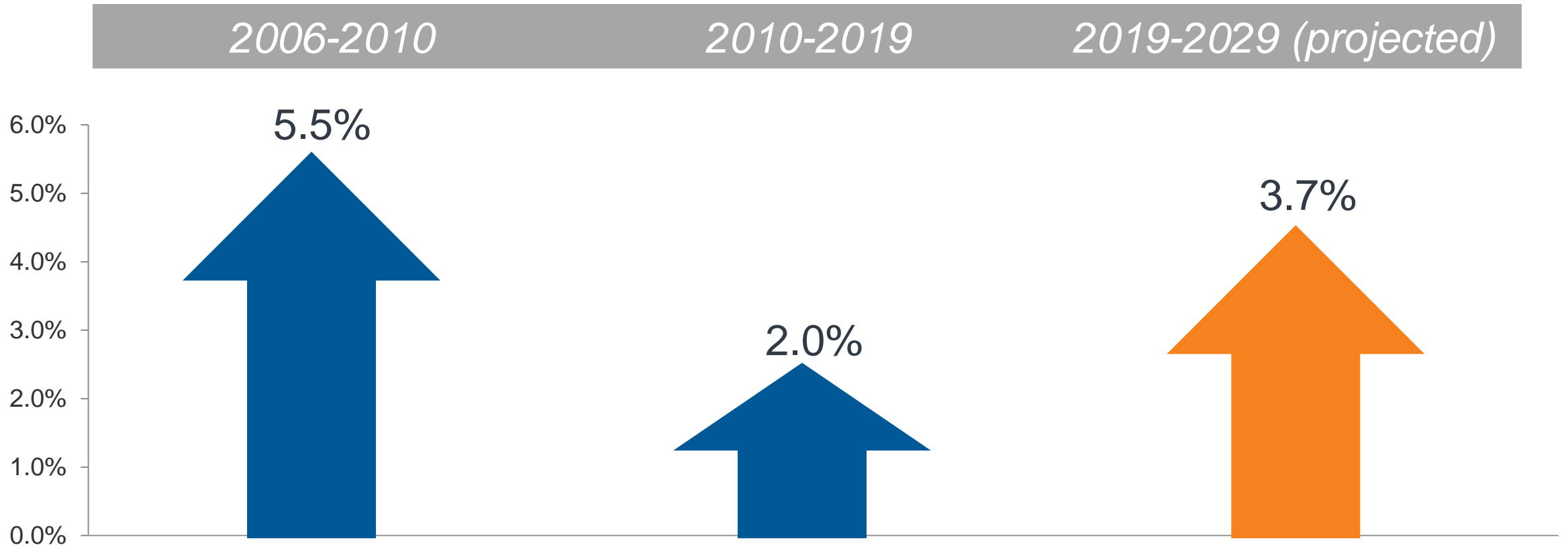
NOTE: Estimates exclude enrollees who receive low-income subsidies.

SOURCE: KFF analysis of 2007-2018 prescription drug claims data from the CMS Chronic Conditions Data Warehouse.



Figure 23

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



SOURCE: KFF analysis of Medicare spending data from the 2020 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, Table V.D1.



@DusetzinaS

Stacie B. Dusetzina, Ph.D.

Associate Professor of Health Policy
Vanderbilt University School of
Medicine



Department of
Health Policy



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Options for Medicare Part D Redesign

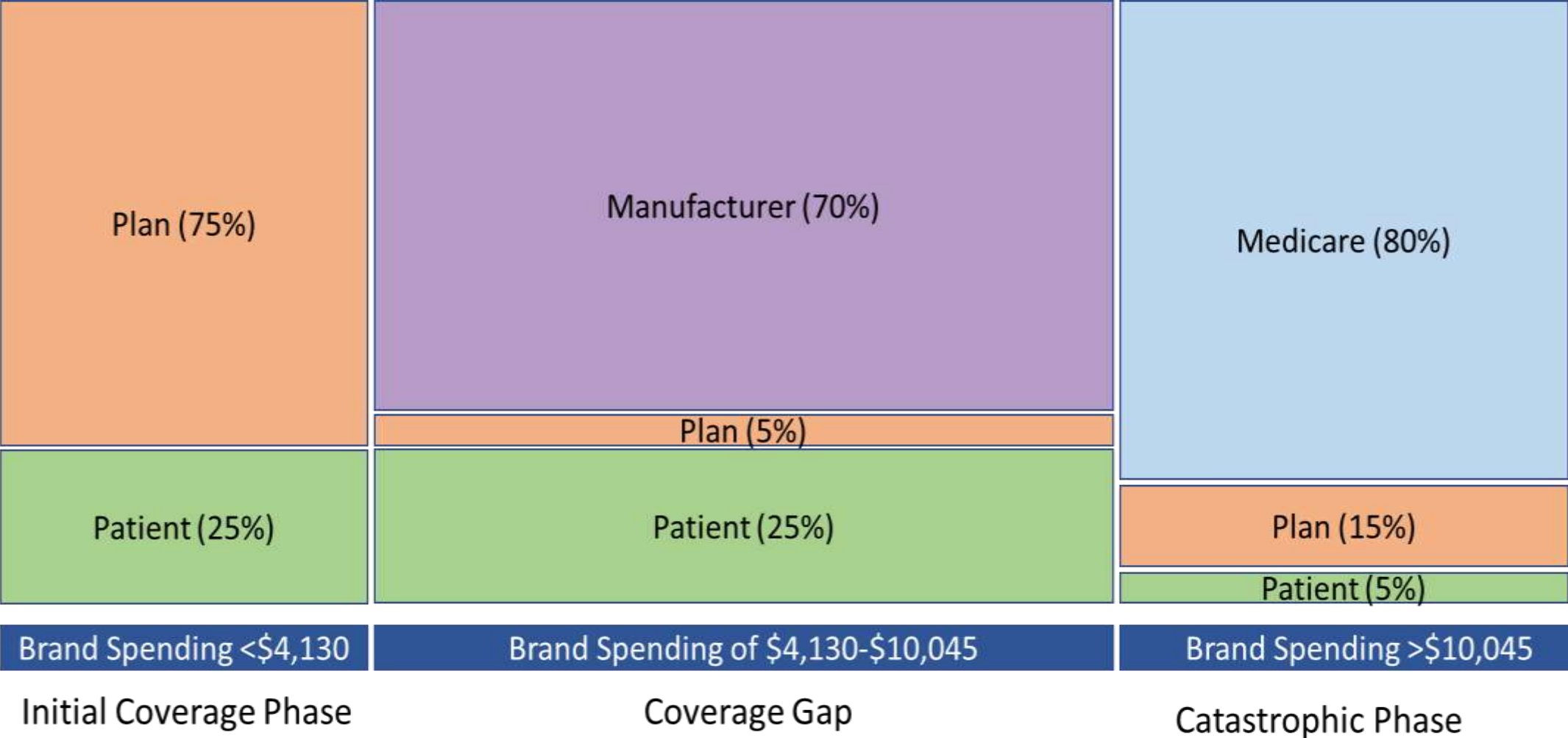
Stacie B. Dusetzina, PhD

Associate Professor of Health Policy
Ingram Associate Professor of Cancer Research
Vanderbilt University School of Medicine

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

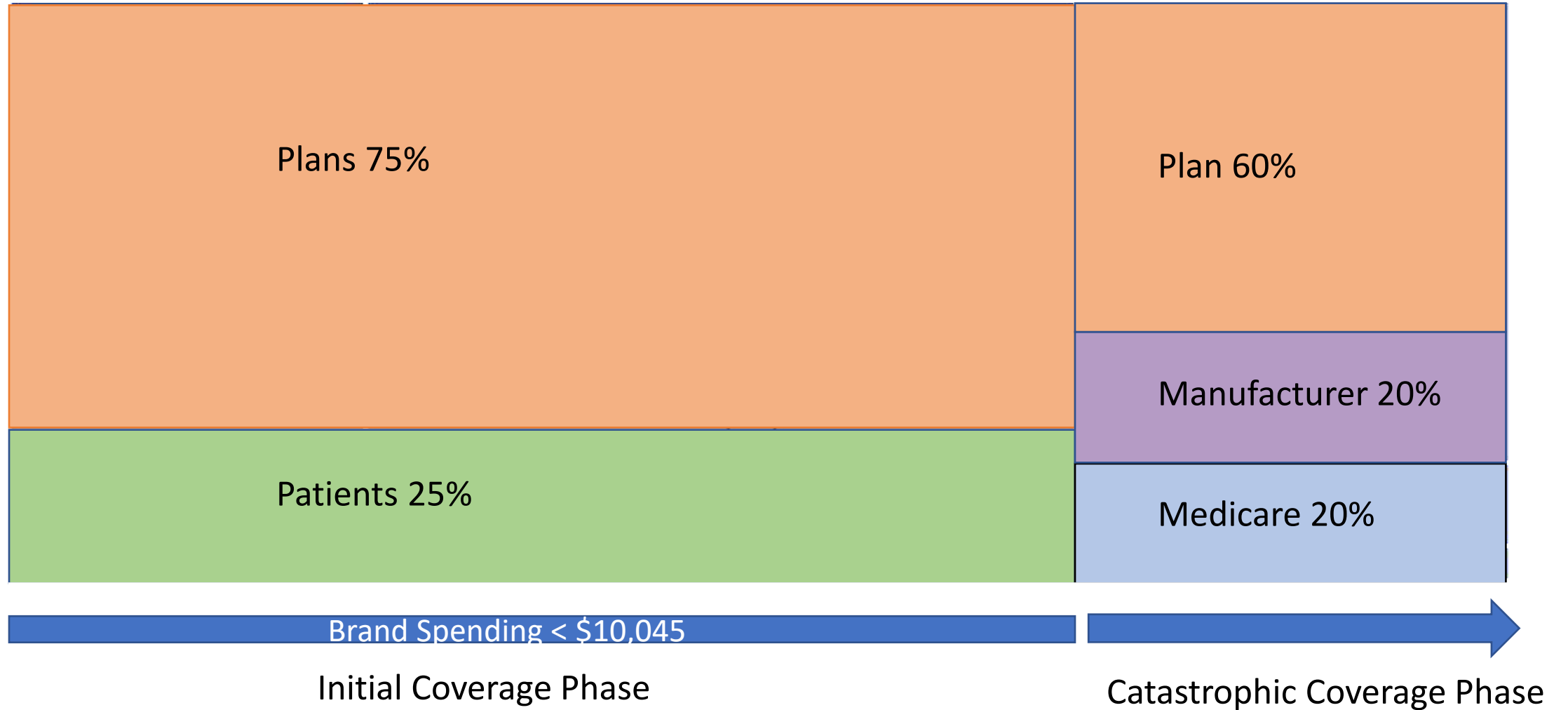
Benefit Today



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



Differences by Bills Previously Introduced

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

Source: <https://www.commonwealthfund.org/publications/explainer/2021/may/medicare-part-d-redesign>

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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