EVENT RECAP

# MEDICARE PART D BASICS AND POLICY OPTIONS FOR REDESIGN

## Overview

The Centers for Medicare & Medicaid Services is the largest payer for health care in the United States. Nearly 38 million Americans rely on health care benefits through this program, 61 million when Medicare Advantage beneficiaries are included. Since taking effect in 2006, Medicare beneficiaries have had access to Medicare Part D, which provides coverage of prescription drugs typically dispensed by retail pharmacies. These benefits are provided through private health plans (such as Aetna or Humana), so premiums and cost-sharing amounts vary and the inner workings of the Part D program can be unclear.

On June 16, 2021, the Alliance for Health Policy hosted a briefing that clarified the defining characteristics of Medicare Part D, including eligibility, coverage, and benefits. In addition, attendees learned about options for potential Medicare Part D redesign including ones outlined in Congressional bills HR.3, HR.19, S.2543, and S.909, as well as the implications and tradeoffs of those policies on beneficiaries and other stakeholders.

For more background information on health insurance basics and prescription drug financing, please reference our Health Policy Handbook chapters four and five.

## Key Lessons

- Enrollees can choose between roughly 60 plans, either through stand-alone prescription drug plans (PDPs) or Medicare Advantage prescription drug plans (MA-PDs). The plans can vary in terms of premiums, deductibles, cost-sharing, formularies (list of drugs that may be prescribed), utilization management, and pharmacy network.
- As outlined in the graphic below, most plans involve some cost-sharing from enrollees, and most include a coverage gap phase (sometimes referred to as the "donut hole"). Since 2015, at least 1 million Medicare Part D enrollees have had out-of-pocket spending above the catastrophic coverage threshold. Spending for catastrophic coverage ("reinsurance") now accounts for close to half of total Medicare Part D spending, up from 14% in 2006. Overall, Medicare Part D spending has increased over time, and spending will continue to grow in the future. 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.
- The median income of Medicare Part D enrollees is under $30,000. One in four enrollees has less than $8,500 in savings. These patterns could have serious health and financial implications for enrollees who are not able to absorb increased drug plan premium and cost-sharing expenses.
- There are three reform proposals (S.2543, H.R. 3, H.R. 19) that focus on eliminating the coverage gap for enrollees, creating new out-of-pocket spending limits, and lowering Medicare reinsurance spending. These proposals differ slightly in the percentage paid by manufacturers or plans by phase.

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## Differences by Bills Previously Introduced

| Medicare Part D Coverage Phase | H.R. 3 | S. 2543 | H.R. 19 |
|---|---|---|---|
| Initial Coverage | Patient: 25%<br>Plan: 65%<br>Manufacturer: 10% | Patient: 20%<br>Plan: 73%<br>Manufacturer: 7% | Patient: 15%<br>Plan: 75%<br>Manufacturer: 10% |
| Catastrophic Coverage | Patient: 0%<br>Medicare: 20%<br>Plan: 50%<br>Manufacturer: 30% | Patient: 0%<br>Medicare: 20%<br>Plan: 66%<br>Manufacturer: 14% | Patient: 0%<br>Medicare: 20%<br>Plan: 70%<br>Manufacturer: 10% |
| Out-of-Pocket Limit | $2,000 | $3,100 | $3,100 |

*Source: Dusetzina, S.B. (2021). Options for Medicare Part D Redesign [PowerPoint slides]. Vanderbilt University School of Medicine. Available here.*

## Questions & Answers

**How has the coverage gap created different incentives for Part D plans versus drug manufacturers?**

"Plans are in a position where a lot of the costs have been shifted to the manufacturers, and when the enrollee gets to catastrophic costs are mostly picked up by Medicare. From a manufacturer perspective, they are only on the hook for a relatively small range of total drug costs with that 70% discount between the initial coverage limit and the catastrophic coverage limit. Once the enrollee gets to catastrophic coverage, the manufacturer discount goes away. Certainly, the manufacturer discount has been tremendously helpful for beneficiaries when they get to that coverage gap phase because they don't have to pay 100% of their drug costs anymore. But it has created some poorly aligned incentives that Part D redesign will help with." – Juliette Cubanski, Ph.D., Deputy Director, Program on Medicare Policy, KFF

**How should policymakers weigh the challenges that premium cost burdens cause beneficiaries compared to cost-sharing challenges? How do the different redesign proposals address each?**

"I do think there is a lot of attention paid to the fact that premiums really haven't changed a lot and are not that expensive. But if you dig deeper, you can see some people that are paying 80 dollars a month for their prescription drug plan. So those premiums can get a lot more expensive than what you potentially see on average. The redesign efforts include efforts to reduce prices, which is when you start to see changes in cost-sharing, especially to the extent that plans are relying on coinsurance. To the extent of slowing down price or bringing prices down, that will have meaningful impact for beneficiaries." – Leigh Purvis, MPA, Director, Health Care Costs and Access, AARP

"I think if people are focused on premium as overall costs, it's inadequate, in terms of understanding a beneficiary's total liabilities. There are several layers of costs. It's important to look beyond the premium to understand more about the other costs associated with coverage and what's happening with those costs. We see plans charging more for nonpreferred drugs. So, while it is an individual decision, and some might be better off in a cheap plan, that is not the most important thing people need to be considering for evaluating different party plan options." – Juliette Cubanski, Ph.D., Deputy Director, Program on Medicare Policy, KFF

**Do the existing proposals provide enough enhancement of patient affordability? What other approaches could improve affordability?**

"The proposals have a hard out-of-pocket cap, which is a huge improvement. To the extent that drug price trends are moderated by redesign, that is a huge win for beneficiaries. There are some parts that would allow beneficiaries to blow through the benefit on one pill, which is actually 10% of people who hit catastrophic [coverage threshold]. That is a lot of money for people who have fixed incomes. The idea to spread out those costs so they aren't facing several thousand dollars in January would be an important improvement." – Leigh Purvis, MPA, Director, Health Care Costs and Access, AARP

"We know people will leave drugs behind if the cost is too high. If the cap is $2,000 or $3,100, don't have the person hit that with a single bill. Maybe do a monthly cap rather than an annual cap. If you broke it up as a limit, that could help limit spending overall and make it more manageable." – Stacie B. Dusetzina, Ph.D., Associate Professor of Health Policy, Vanderbilt University School of Medicine

"The trends we have seen in terms of benefit design with increasing use of coinsurance is hitting people harder than flat dollar copayments that are easier to understand. With coinsurance, you really only understand what your out-of-pocket cost is, which you may only realize when you get to the pharmacy counter. So, encouraging plans or CMS to put some requirements around using copayments for generic drugs and limiting generic placement on nonpreferred tiers where there are coinsurance requirements." – Juliette Cubanski, Ph.D., Deputy Director, Program on Medicare Policy, KFF

## Experts


**Kirsten Axelsen, M.S.**
American Enterprise Institute, Visiting Fellow
sara.rogers@aei.org

**Kristin Bass, MBA**
Pharmaceutical Care Management Association, Chief Policy and External Affairs Officer
kbass@pcmanet.org

**Kelly Brantley, MPH**
Avalere, Policy Practice Director
kbrantley@avalere.com

**John Coster, Ph.D., R.Ph.**
Centers for Medicare & Medicaid Services, Director, Division of Pharmacy at Center for Medicaid and CHIP Services
john.coster@cms.hhs.gov

**Lida Etemad, Pharm.D., M.S.**
United Healthcare Pharmacy, Vice President, Pharmacy Management Strategies
lida.etemad@uhc.com

**Adam J. Fein, Ph.D.**
Drug Channels Institute, Chief Executive Officer
afein@drugchannels.net

**Andi Lipstein Fristedt, MPA**
U.S. FDA, Deputy Commissioner for Policy, Legislation, and International Affairs
andi.fristedt@fda.hhs.gov

**Lovisa Gustafsson, MBA**
The Commonwealth Fund, Vice President, Controlling Health Care Costs
ilg@cmwf.org

**Mark Howell, J.D.**
American Hospital Association, Senior Associate Director, Standards and Drug Policy
mhowell@aha.org

**Kristi Martin, MPA**
Highway 136 Consulting, President
kristi@highway136.com

**Mark McClellan, M.D., Ph.D.**
Duke-Margolis Center for Health Policy, Robert J. Margolis Professor of Business, Medicine, and Policy and Founder
mark.mcclellan@duke.edu

**David Mitchell**
Patients for Affordable Drugs, President and Founder
david@patientsforaffordabledrugs.org

**Andrea Noda, MPP**
Director of Health Care, Arnold Ventures
anoda@arnoldventures.org

**John O'Brien, Pharm.D., MPH**
National Pharmaceutical Council, President and Chief Executive Officer
jobrien@southcapitol.com

## Resources


"Frequently Asked Questions About Prescription Drug Pricing and Policy." Kirchhoff, S., Bodie, A., Sekar, K. et al. Congressional Research Service. May 6, 2021. Available at http://allh.us/wycp.

"Essential Facts About Drug Pricing Reform: Medicare Part D Redesign." Martin, K. The Commonwealth Fund. May 5, 2021. Available at http://allh.us/wh8d.

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"How Medicare Works." Blue Cross Blue Shield Blue Care Network. Available at http://allh.us/3wKD.



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