Medicare Part D in Year 6: Improvements and Ongoing Concerns

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Credits

• Major funding for this work:
  – Henry J. Kaiser Family Foundation
  – Medicare Payment Advisory Commission

• See additional reports:
  hpi.georgetown.edu/medicarepartd
Creation of Medicare Part D

• Medicare did not cover outpatient drugs
  – Part B coverage for physician-administered drugs (e.g., chemotherapy)

• Political battle over passage of the Medicare Modernization Act
  – Limit on total spending with target of $400 billion over 10 years

• MMA became law December 8, 2003

• Benefit started January 2006
Key Characteristics of Medicare Part D

• First Medicare coverage for outpatient drugs
• Voluntary coverage, available to all, not means-tested
• Subsidies for low-income beneficiaries
• Uses competing private, stand-alone drug plans
• Maintains current employer retiree coverage
• Prohibits any government role in price negotiation
• Comprehensive coverage – neither solely catastrophic nor capped, limited benefit
• Builds cost control into benefit design
Standard Medicare Drug Benefit, 2011

- **Plan Pays 15%; Medicare Pays 80%**
- **$3,607 Coverage Gap**
- **50% Price Discount**
- **Plan Pays 75%**
- **$6,447.50 in Total Drug Costs**
  ($4,550 out of pocket)
- **$2,840 in Total Drug Costs**
- **$310 Deductible**
- **$489 Average Annual Premium**

Note: Annual premium amount based on $40.72 projected national average monthly beneficiary premium. Amounts are rounded to nearest dollar.
Most Part D Plans Modify the Standard Benefit Design, 2011

<table>
<thead>
<tr>
<th>Feature</th>
<th>Stand-alone plans</th>
<th>Medicare Advantage plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Deductible</td>
<td>42%</td>
<td>88%</td>
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<tr>
<td>Tiered Cost Sharing</td>
<td>88%</td>
<td>97%</td>
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<tr>
<td>Separate Tier for Specialty Drugs*</td>
<td>94%</td>
<td>99%</td>
</tr>
<tr>
<td>Some Type of Gap Coverage**</td>
<td>27%</td>
<td>33%</td>
</tr>
<tr>
<td>Gap Coverage for Some Brands**</td>
<td>19%</td>
<td>2%</td>
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</tbody>
</table>

* Excludes plans with standard benefit.  **Excludes gap coverage for “few” drugs.

SOURCE: Analysis of CMS landscape files
Medicare Drug Coverage, 2010

- Stand-alone plans: 38%
- Medicare Advantage plans: 21%
- Employer plans: 18%
- Other plans: 13%
- No coverage: 10%

Part D
Eligibility and Participation in Low-Income Subsidy Program, 2009

Numbers in millions; Total eligible for low-income subsidies = 12.5 million
Was Enrollees’ Early Experience with Part D Plan Positive or Negative?

- **Very positive**: 46%
- **Somewhat positive**: 30%
- **Very negative**: 7%
- **Somewhat negative**: 12%
- **Don't know/Refused**: 5%

Source: Kaiser Family Foundation, December 2006.
Future projections have been lowered due to factors such as fewer new approved drugs and more use of generics.

Source: DHHS, Trustees Report, 2010
Improvements Since 2006

- Better information for choosing plans
- Reduced number of plans
- Some standardization of plan choices
- Improvements on plan availability for low-income beneficiaries
- Phased-in closing of the coverage gap or “doughnut hole”
Coverage Gap, Pre-Reform (2010)

Plan Pays 15%; Medicare Pays 80%

Enrollee Pays 5%

Plan Pays 75%

Enrollee Pays 25%

$3,610 Coverage Gap

$6,440 in Total Drug Costs ($4,550 out of pocket)

$2,830 in Total Drug Costs

$310 Deductible
Most Beneficiaries Lack Gap Protection

NOTES: Share of total enrollment. Estimates include Part D enrollees receiving low-income subsidies, but who receive coverage for costs in the gap regardless of whether their plan offers it.

SOURCE: Hoadley et al analysis for the Kaiser Family Foundation.
Average Monthly Premiums for PDPs, By Type of Gap Coverage, 2011

- **No Gap Coverage** (744 PDPs): $43.13
- **Generics Only** (259 PDPs): $71.28
- **Brands & Generics** (106 PDPs): $102.27

**SOURCE:** Georgetown/NORC analysis of CMS PDP Landscape Source Files, 2011, for the Kaiser Family Foundation.
Substantial Minority of Beneficiaries Reached Coverage Gap in 2007

Overall: 3.4 million beneficiaries (14% of all Part D enrollees)

- 74% Did not reach the coverage gap
- 22% Reached catastrophic coverage level
- 4% Remained in the coverage gap
- 26% of non-LIS enrollees using at least one drug reached the coverage gap

NOTES: Estimates based on analysis of retail pharmacy claims for 1.9 million Part D enrollees in 2007.
The Gap Disproportionately Affects Those Taking Drugs for Particular Conditions

<table>
<thead>
<tr>
<th>Drug Class</th>
<th>Total Part D Enrollees</th>
<th>Alzheimer's Treatments</th>
<th>Oral Anti-Diabetics</th>
<th>Proton Pump Inhibitors</th>
<th>Antidepressants</th>
<th>Angiotensin Receptor Blockers</th>
<th>Statins</th>
<th>Osteoporosis</th>
<th>ACE Inhibitors</th>
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<tr>
<td></td>
<td>22%</td>
<td>49%</td>
<td>41%</td>
<td>40%</td>
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<td>(18% of total Part D users)</td>
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<td>(15% of total Part D users)</td>
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<td>(28% of total Part D users)</td>
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NOTES: Estimates, based on analysis of retail pharmacy claims for 1.9 million Part D enrollees in 2007, exclude those who receive low-income subsidies or who use no drugs. Enrollees may use drugs in more than one of the eight drug classes.

Those Reaching the Coverage Gap Were There for Over 4 Months

• Average beneficiaries who reached the gap at some point during the year spent:
  – 7.2 months before hitting the gap
  – 4.2 months in the gap
  – 0.6 months in catastrophic coverage
Experience with the Coverage Gap

Focus Group Reports, 2009

• Beneficiaries hit gap mid-year based on drugs for multiple chronic conditions
• Those reaching gap in past years were well aware of gap and how it works
• Confusion and frustration still remain
• Gap hitters used wide array of coping strategies and adjustments to lower costs
• Many – but not all – could afford to keep taking all prescribed drugs
Part D Enrollees Who Reached the Gap in 2007 Often Stopped or Reduced Drug Use

Among Part D enrollees who reached the coverage gap, percent who:

- Stopped taking medication
- Reduced medication use
- Switched medications

### Average Across 8 Classes
- Stopped: 15%
- Reduced: 1%
- Switched: 5%
- Avg: 20%

### Proton Pump Inhibitors
- Stopped: 20%
- Reduced: 6%
- Switched: 26%

### Antidepressants
- Stopped: 15%
- Reduced: 6%
- Switched: 22%

### Oral Anti-Diabetics
- Stopped: 10%
- Reduced: 8%
- Switched: 23%

### Osteoporosis Treatments
- Stopped: 18%
- Reduced: 1%
- Switched: 3%
- Avg: 22%

### ACE Inhibitors
- Stopped: 16%
- Reduced: 4%
- Switched: 20%

### Statins
- Stopped: 13%
- Reduced: 5%
- Switched: 18%

### Angiotensin Receptor Blockers
- Stopped: 14%
- Reduced: 3%
- Switched: 17%

### Alzheimer's Treatments
- Stopped: 8%
- Reduced: 2%
- Switched: 4%
- Avg: 14%

Health Reform Phases Out Coverage Gap

• 2010: $250 rebate for those in the gap

• Starting in 2011:
  – 50% manufacturer discount on brand drugs in the gap
  – Phased-in reductions in gap cost sharing for generics (2011) and brands (2013)

• By 2020: Coverage gap eliminated in favor of 25% cost sharing or equivalent
Standard Benefit, After Reform (2020)

- **Plan Pays 15%; Medicare Pays 80%**
  - **Brands**
    - Manufacturer 50% price discount / Plan pays 25%
  - **Generics**
    - Plan pays 75%

**Enrollee Pays**
- 5%
- 25%
- 25%

**Out-of-pocket Limit**
**Initial Coverage Limit**
**Deductible**

**Beneficiary Out-of-Pocket Spending**
Impact of Coverage Gap Changes

- Elimination of the “roller coaster” now part of the Part D drug benefit
- Less confusing benefit structure
- Reduced out-of-pocket spending for beneficiaries taking costly drugs
- Better adherence to drug regimens
Questions about Coverage Gap Changes

• Will manufacturers raise prices, especially on expensive brands?
• Will incentives to use generic drugs be weaker?
• Will cost containment incentives be less?
• Will plan sponsors change their use of gap coverage and other enhanced benefits?
Ongoing Concerns in Part D

• Continued need to make the benefit and plan choices as clear and simple as possible
• Assurance that low-income enrollees have good plan choices and good access
• Attention to drivers of cost growth
• Ongoing need to maintain good access to needed drugs
  – Specific attention to high-cost specialty drugs
Total Spending for Part D, 2006-2010

In billions of dollars

Source: MedPAC based on Table IV.B.10 of the Medicare Board of Trustees’ report for 2010.
Prices Flat with Generic Substitutions; Rapid Increases for

Price index of biologics

Price index of all drugs and biologics

Price index of all drugs and biologics accounting for generic substitution

Source: Acumen LLC analysis for MedPAC
Share of Drugs on Formulary Mostly Stable, 2007-2011

Percentage of All Chemical Entities, Stand-Alone PDPs

<table>
<thead>
<tr>
<th>Year</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>87%</td>
</tr>
<tr>
<td>2008</td>
<td>89%</td>
</tr>
<tr>
<td>2009</td>
<td>89%</td>
</tr>
<tr>
<td>2010</td>
<td>87%</td>
</tr>
<tr>
<td>2011</td>
<td>84%</td>
</tr>
</tbody>
</table>

NOTE: Calculations are shares of all chemical entities, weighted by enrollment. Ns are numbers of chemical entities based on the analysis of the CMS reference file for this project.
Gradual Increase in Share of Drugs with Utilization Management, 2007-2011

Average Share of Listed Drugs, PDPs

NOTE: Calculations are share of listed chemical entities, weighted by enrollments.
Most Plans Use Specialty Tiers for Some Expensive Drugs, 2006-2011

Share of Plans with Non-Standard Tier Structures

![Bar chart showing the share of plans with non-standard tier structures for PDPs and MA-PDs from 2006 to 2011]

NOTE: Calculations are share of all non-standard plans, weighted by enrollment.
Distribution of Brand and Generic Drugs by Tier, PDPs, 2010

NOTE: Some plans do not use specialty tiers. Calculations are share of chemical entities, weighted by enrollments.
Expensive Drugs Mostly, But Not Always, on Specialty Tiers, PDPs, 2010

<table>
<thead>
<tr>
<th>Drug</th>
<th>Standard (25%)</th>
<th>Brand or Preferred</th>
<th>Non-Preferred</th>
<th>Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procrit/Epogen</td>
<td>9%</td>
<td>49%</td>
<td>37%</td>
<td>5%</td>
</tr>
<tr>
<td>Aranesp</td>
<td>9%</td>
<td>12%</td>
<td>51%</td>
<td>7%</td>
</tr>
<tr>
<td>Enbrel</td>
<td>9%</td>
<td>8%</td>
<td>68%</td>
<td></td>
</tr>
<tr>
<td>Humira</td>
<td>9%</td>
<td>8%</td>
<td>2%</td>
<td>81%</td>
</tr>
<tr>
<td>Truvada</td>
<td>9%</td>
<td>9%</td>
<td>14%</td>
<td>68%</td>
</tr>
<tr>
<td>Thalomid</td>
<td>9%</td>
<td>13%</td>
<td></td>
<td>78%</td>
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<tr>
<td>Gleevec</td>
<td>9%</td>
<td>9%</td>
<td></td>
<td>81%</td>
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<tr>
<td>Copaxone</td>
<td>9%</td>
<td>8%</td>
<td>2%</td>
<td>81%</td>
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<tr>
<td>Tracleer</td>
<td>9%</td>
<td>4%</td>
<td>9%</td>
<td>77%</td>
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<tr>
<td>Reyataz</td>
<td>9%</td>
<td></td>
<td>46%</td>
<td>44%</td>
</tr>
<tr>
<td>Ritonavir</td>
<td>9%</td>
<td>24%</td>
<td>15%</td>
<td>51%</td>
</tr>
</tbody>
</table>

NOTE: Calculations are share of all PDPs, weighted by 2009 enrollments.
Median Cost Sharing for a Month’s Supply of a Drug Up Over Time, 2006-2011

NOTE: Calculations are weighted by enrollments; exclude generic/brand plans, plans with coinsurance.
Median Cost Sharing for Specialty Tier, 2006-2011

NOTE: Calculations are weighted by enrollments.
Looking Forward: The Big Picture

• In near term Medicare policy will be driven by the broader debates:
  – Future of health reform
  – Budget and entitlements
• Will coverage gap phase-out continue?
• What will larger changes to Medicare mean?
• Will low-income enrollees keep protections?
• How do we maintain good access to needed drugs and manage costs?
For More Information

- See full reports:
  hpi.georgetown.edu/medicarepartd