

Medicare Prescription Drug Benefit - Part D -

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Medicare financing/entitlement

Part A

- **Payroll tax; self-employment tax**
- *Workers and dependents entitled to coverage at age 65/disability/as survivors of worker (disabled or 65); end-stage renal disease*

Part B

- **Beneficiary premiums and general revenue**
 - *Beneficiaries elect to enroll (92% elect Part B)*

Part C

- **Part A and Part B components of Part C financed by Parts A/B financing mechanism**

Part D

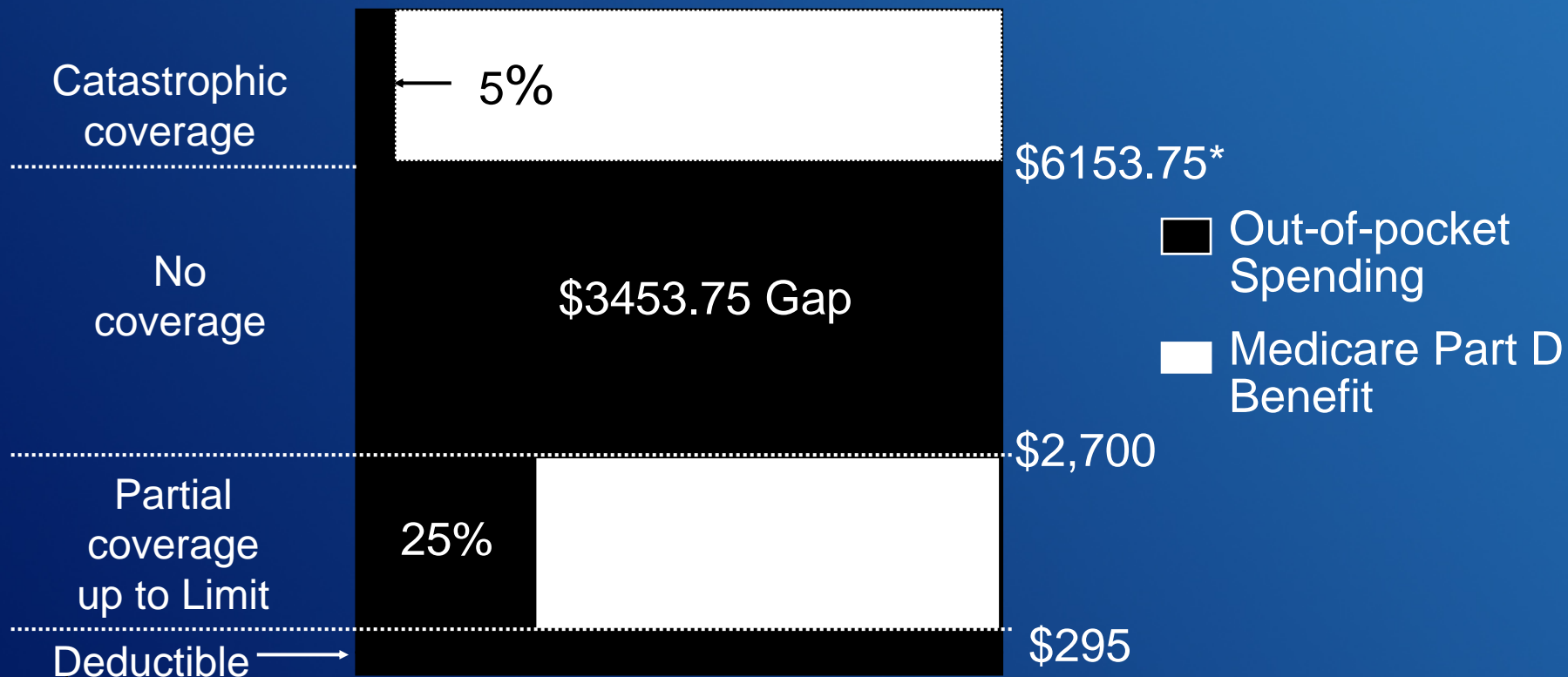
- **Beneficiary premiums and general revenue**

Part D: The Medicare drug benefit

ELIGIBILITY

- Must be entitled to Medicare Part A and/or enrolled in Part B
- Reside in plan's service area

Standard Drug Benefit in 2009



+ ~\$364 in annual premiums

* Equivalent to \$4,350 in out-pocket spending:
 $\$4,350 = \295 (deductible) + $\$601.25$ (25% cost-sharing on $\$2,405$) + $\$3,453.75$ (100% cost-sharing in the “gap”).

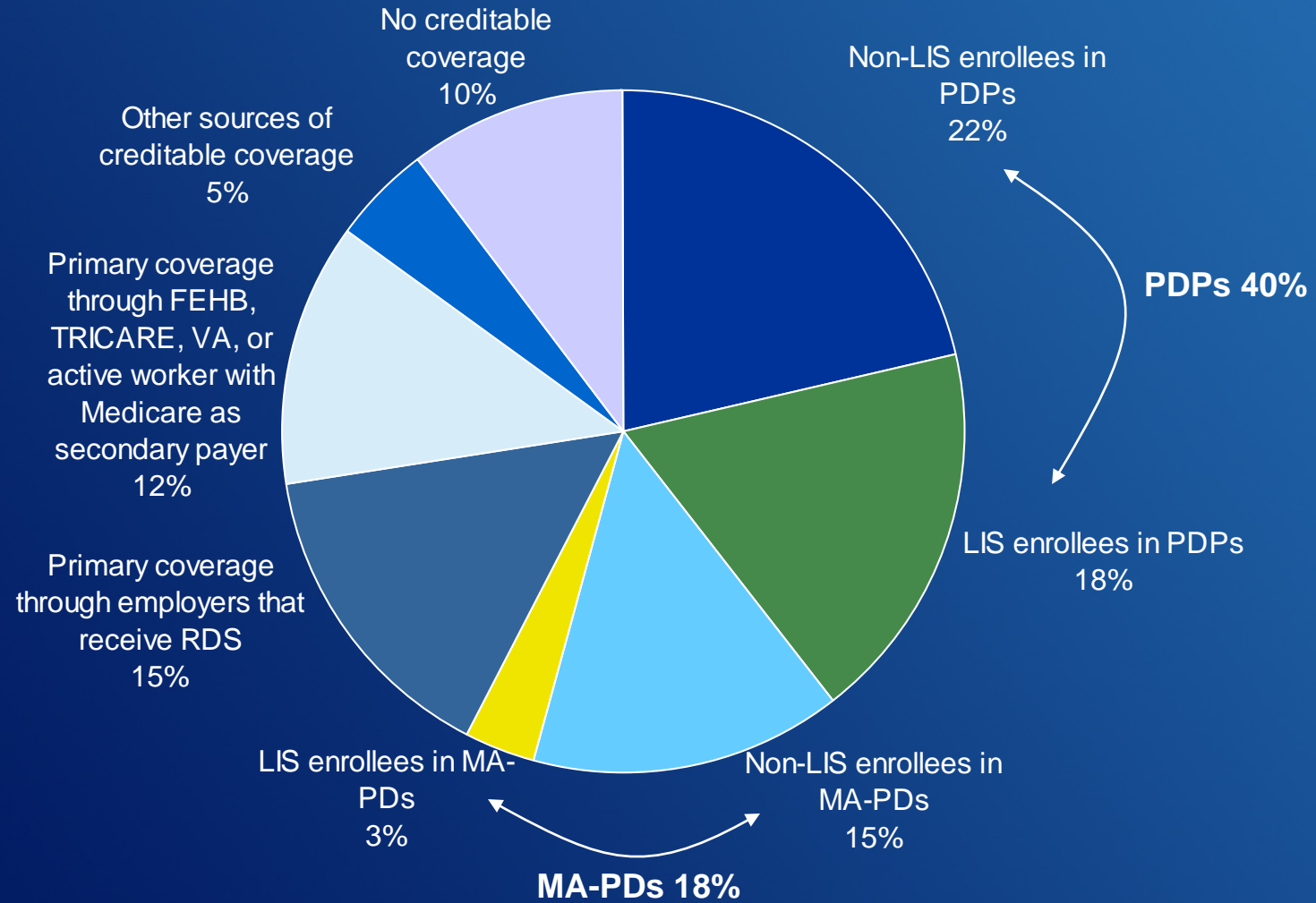
What is the Part D Low Income Subsidy (LIS)?

- People with limited income and resources get extra help with premiums, deductibles and cost sharing
- Two part process
 - Qualify based on income and assets (e.g., Medicaid beneficiaries deemed eligible for assistance)
 - Enroll in a Medicare drug plan
- Duals (Medicare/Medicaid) are automatically assigned to qualifying plans (those with premiums below regional thresholds), unless they choose a plan for themselves

LIS eligibility and benefits in Part D, 2009

Beneficiary category	Income	Asset limit	Covered costs and services
Dual eligibles, QMB, SLMB, QI	Deemed eligible	Deemed eligible	No premium or deductible, \$1.10 - \$3.20 or \$2.40-\$6.00 copays, no copays after drug spending reaches \$6,153.75
Full subsidy	<135% of poverty	\$7,790/ \$12,440	No premium or deductible, \$2.40-\$6.00 copays, no copays after drug spending reaches \$6,153.75
Limited subsidy	<150% of poverty	\$11,990/ \$23,970	Sliding scale (25-100% of regional threshold premium), \$60 deductible, 15% coinsurance, \$2.40-\$6.00 copay after drug spending reaches \$6,153.75

90% of beneficiaries are enrolled in Part D plans or have creditable coverage



Drug coverage and the components of the Medicare program: PDPs and MA-PDs

Part C: Medicare Advantage

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For beneficiaries choosing MA who want drug coverage, **Part D is through the MA plan** (a few exceptions)

Part D: Medicare drug coverage

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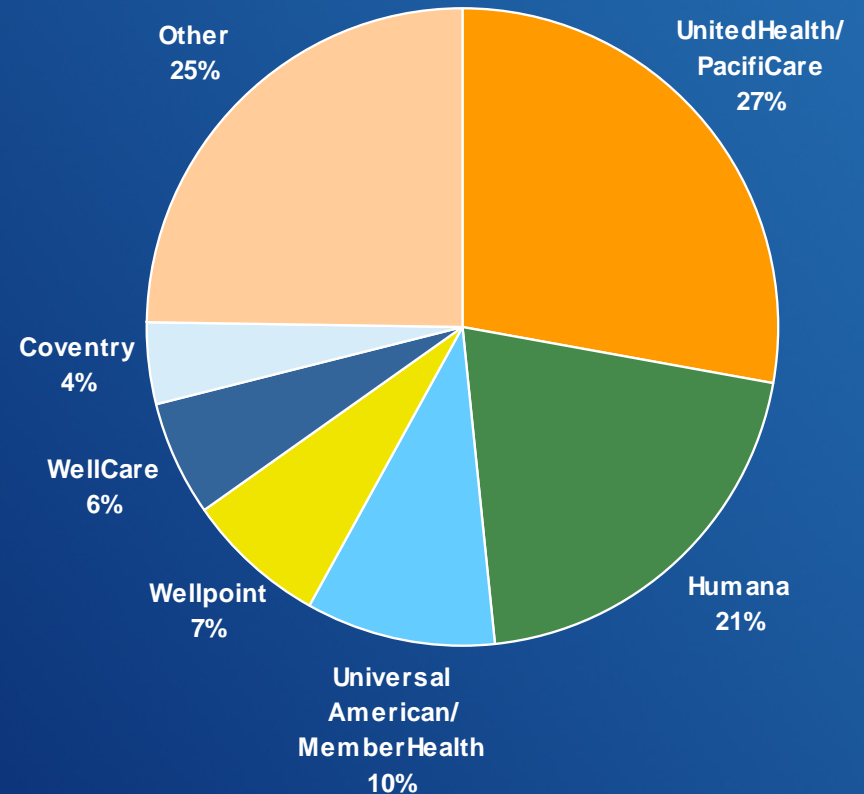
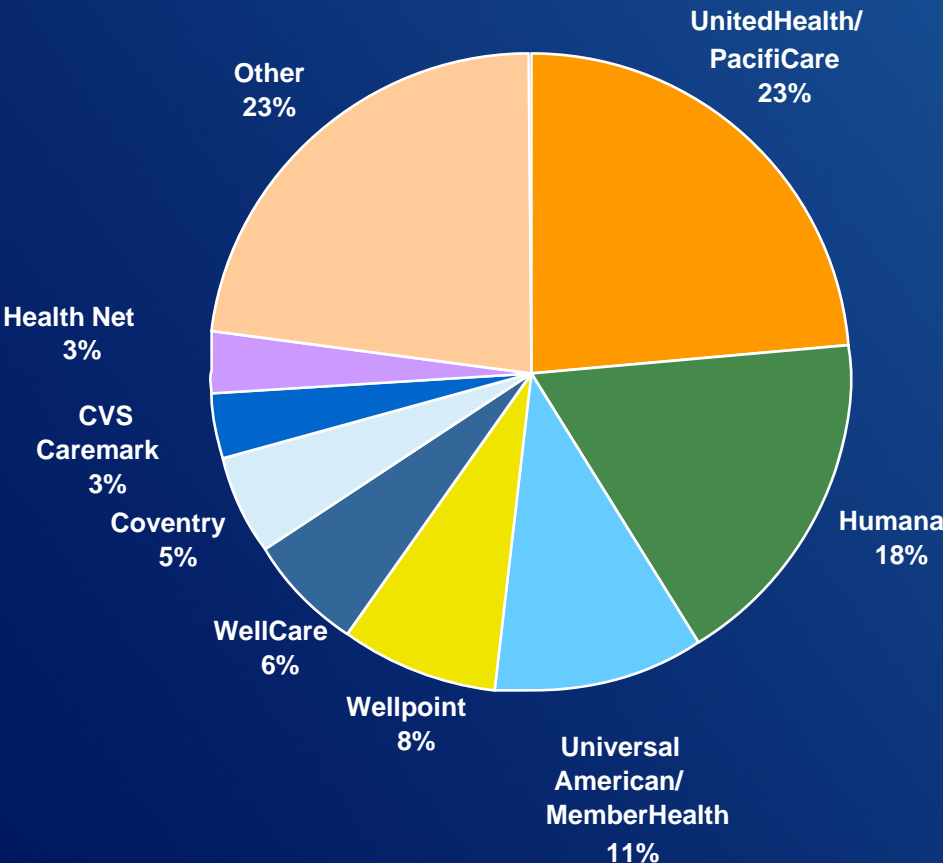
- Private plans offering drug coverage include
 - **PDPs** (prescription drug plans)
 - **MA-PDs** (MA prescription drug plans)



Largest PDP sponsors lost some market share in 2008

PDP enrollment in 2008 = 17.4 million

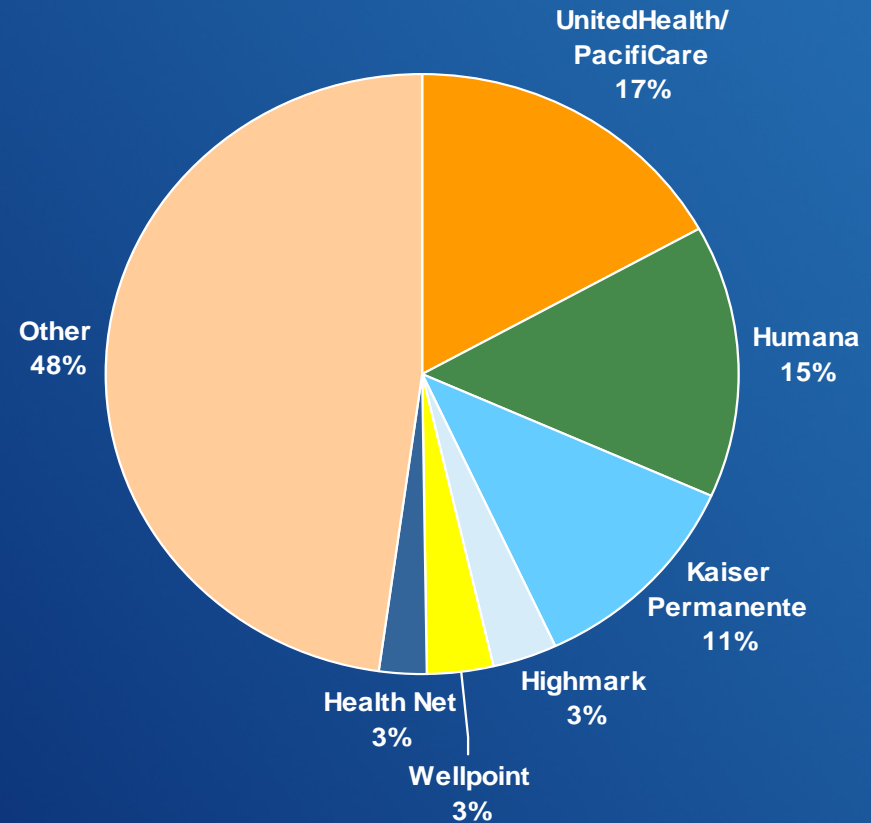
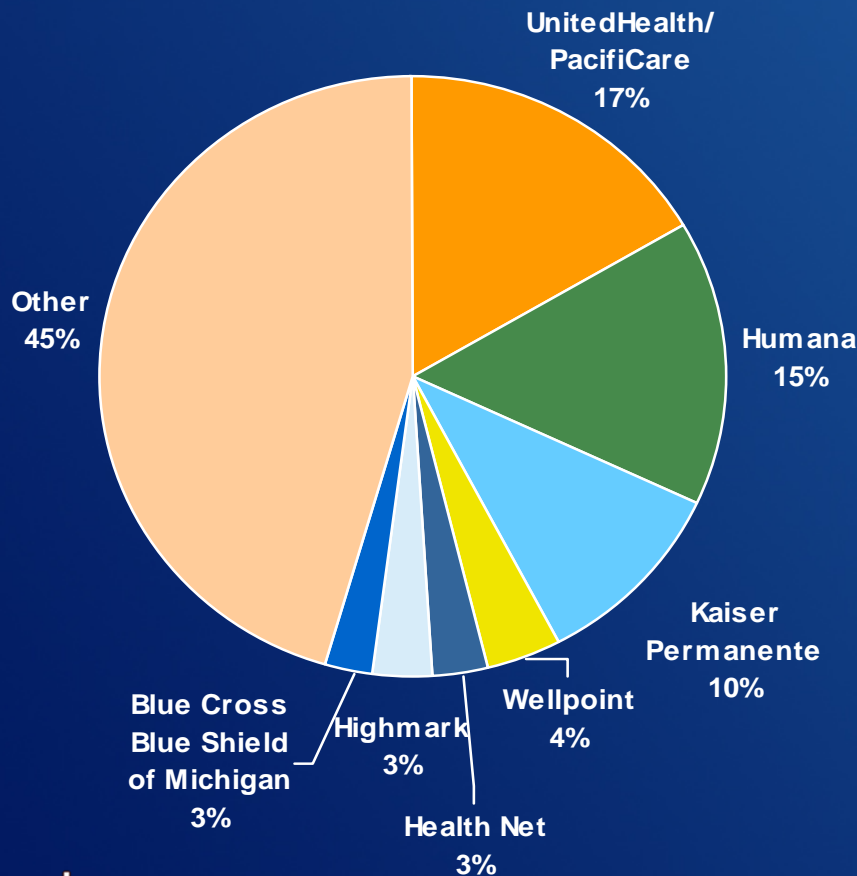
PDP enrollment in 2007 = 16.8 million



Market shares of MA-PD sponsors were stable in 2008

MA-PD enrollment in 2008 = 8.6 million

MA-PD enrollment in 2007 = 7.4 million



What drug plans bid to do

- Insure enrollees for some of their drug spending through a drug benefit
- Manage that drug benefit: Strike a balance between enrollees' desire for drug therapies and need for cost control

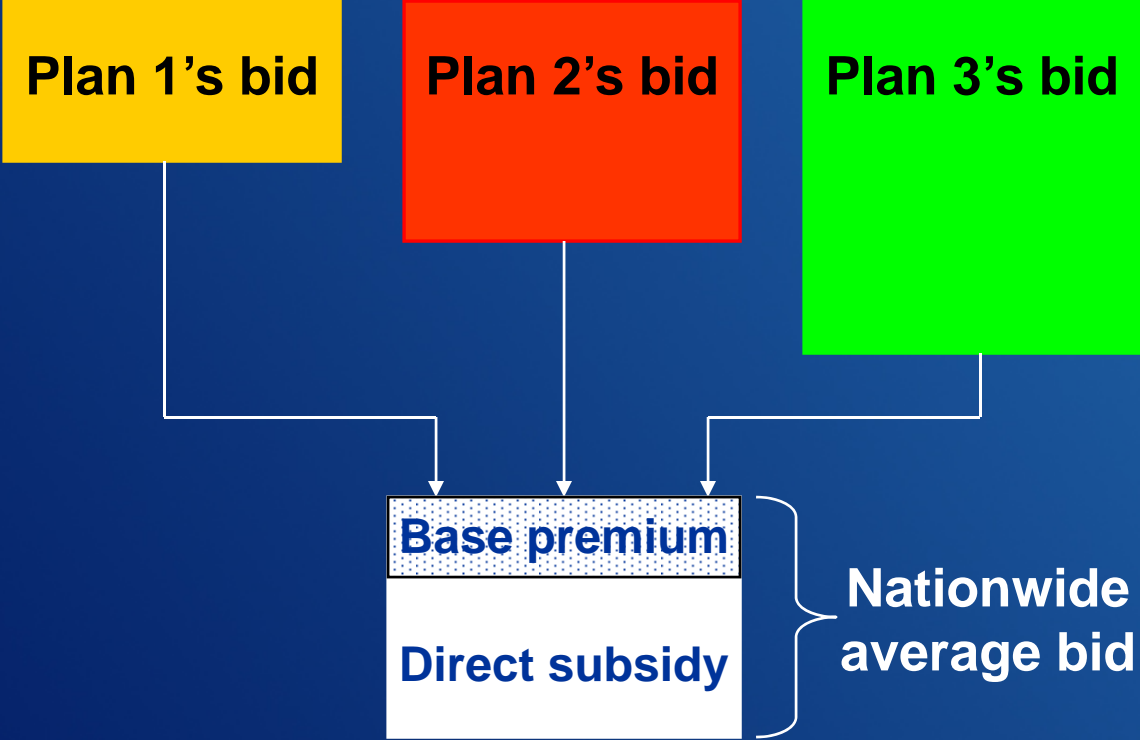
What drug plans bid to do

- Manage pharmacy benefit for their enrollees
 - Design a benefit and formulary
 - Use other tools to encourage appropriate use
 - Build network of pharmacies
 - Adjudicate drug claims
 - Administer exceptions, grievances, and appeals
 - Negotiate price rebates with manufacturers
- Bear some insurance risk
- Accept CMS's other contract requirements

Pricing for drug plans

- Plans negotiate with:
 - Pharmacies over drug price discounts and dispensing fees
 - Pharmaceutical manufacturers for rebates
- Noninterference clause: Secretary may not –
 - Interfere with negotiations between drug manufacturers, pharmacies, and plans
 - Require a particular formulary or institute a price structure for Part D drugs

What determines Part D enrollee premiums



Plans' bids determine Part D enrollee premiums



What plans get paid under Part D

- Enrollee usually pays premium
- Medicare pays
 - Direct subsidy
 - Other protections against risk
 - Individual reinsurance
 - Risk corridors
 - Low-income subsidies

Part D program financing

- Under law, Medicare to pay 74.5% of program costs, enrollees to pay 25.5%
 - Medicare is paying a higher share initially
 - Medicare also pays for low-income subsidies
 - States pay “clawback” to Medicare for providing primary drug coverage to duals
- Federal government’s share paid out of SMI trust fund with general tax revenues

Part D issues

- Do plans get good drug prices for enrollees?
- Growing importance of biologics
- Do this differently or not for LIS beneficiaries?
- How do we measure the quality of Part D plans?