MEDPAC: RESTRUCTURING MEDICARE PART D

EXECUTIVE SUMMARY

The Medicare Payment and Access Commission (MedPAC) convened a session to discuss current issues in the Medicare Part D benefit and a proposal to restructure Part D. **Principal Policy Analyst Shinobu Suzuki** and **Principal Policy Analyst Rachel Schmidt** outlined a restructuring of Part D that would eliminate the manufacturer coverage-gap discount, establish the same benefit design for enrollees with and without low-income subsidies (LIS), and redesign the catastrophic benefit.

Commissioners were generally supportive of the proposal but agreed there are additional aspects to consider in the restructuring. Commissioners supported examining the role of biosimilars and introducing competition to market in order to address actual prices. Additionally, Commissioners suggested further examining Medicare's reinsurance role and expected behavioral changes of plans, manufacturers, and beneficiaries.

STAFF PRESENTATION

Ms. Shinobu Suzuki began the presentation by highlighting several reasons why the Part D benefit needs to be restructured. Ms. Suzuki suggested that due to changes in Part D spending and the development of specialty drugs over time, Part D needs to be restructured to address reduced plan incentives to manage spending, preferential formulary treatment of certain high-price, high-rebate drugs and manufacturers pricing decisions.

She detailed that under the current benefit design, plans are only responsible for five percent of costs in the coverage gap and 15 percent in the catastrophic phase for non-LIS beneficiaries, and plans responsible for 15 percent of costs in the catastrophic phase for LIS beneficiaries. She continued that Medicare is responsible for 80 percent of catastrophic costs for non-LIS and LIS beneficiaries, and 100 percent of the coverage gap for LIS beneficiaries. Finally, she detailed that manufacturers are only liable for a coverage-gap discount, that only affects a small share of specialty tier spending.

Ms. Suzuki outlined an approach to restructuring Part D that would include:

- Eliminate the coverage-gap discount for manufacturers
- Create the same benefit design for enrollees with and without LIS
- Redesign the catastrophic benefit by: 1) creating a new manufacturer discount, 2) placing a cap on beneficiaries out-of-pocket (OOP) costs, 3) placing more liability on the plans, and 4) lowering Medicare reinsurance.

Dr. Rachel Schmidt detailed that under the proposed restructuring plans would liable for 75 percent of costs for all drugs up to the OOP threshold for non-LIS and LIS beneficiaries. Dr. Schmidt stated this would improve plan's formulary incentives and remove the manufacturer's coverage-gap discount. The new manufacturer discount in the catastrophic phase would apply to non-LIS and LIS prescriptions and the discount rate could be set to ensure that manufacturer's contribution is no less than the coverage-gap discount. Dr. Schmidt continued that capping beneficiaries' OOP spending would eliminate the perpetual five percent contribution in the catastrophic phase and provide more complete insurance protection, while slightly increasing premiums and program spending.

Dr. Schmidt concluded that several changes would need to occur to ensure a successful transition as plans take on greater risk. She stated that these include phasing in of the new structure over time, providing greater flexibility in formulary management, a recalibration of the risk adjustment model to discourage risk selection and potential changes to risk corridors.

CLARIFYING QUESTIONS

Vice Chairman Paul Ginsburg asked the staff what the net effect financially would be on program and beneficiary spending. Ms. Suzuki replied that each aspect of restructuring indicates whether premiums or program spending would increase or decrease as a result, but an overall spending impact was not conducted due to several policy decisions that would need to be made. Similarly, **Commissioner Dana Gelb Safran** asked what premium increases could be expected. Again, Ms. Suzuki responded that there are many moving pieces, and premium increases would be dependent on parameters chosen for plan risk, Medicare reinsurance, and manufacturer discounts.

Commissioner Gelb Safran and **Commissioner Bruce Pyenson** asked if behavioral economics was considered and what behavior changes could be expected from beneficiaries, plans, and manufacturers. Dr. Schmidt stated that plans could reconsider what benefits to include in their plans, and manufacturers could change their list price or what drugs they decide to introduce to the market.

COMMISSIONER DISCUSSION

Commissioner Pyenson was supportive of the proposal because it focuses on high priced drugs and the catastrophic phase. However, he stated that the proposal does not address the failure to bring more biosimilars to the market. He continued that the only way to fully address affordability is for the prices to go down through competition. He suggested the Commission examine ways to correct misinformation about originator drugs and biosimilar safety among clinicians and beneficiaries.

Vice Chairman Ginsburg stated that Part D has evolved to a place where private plans cannot utilize their market forces effectively. He was enthusiastic about the proposal and was interested in the Commission doing more around Medicare reinsurance and having it more closely resemble commercial reinsurance for unpredictable events rather than a cost-based reinsurance.

Commissioner Gelb Safran suggested the Commission examine the potential behavioral incentives that could occur for manufacturers, plans, and beneficiaries and the unintended consequences to monitor for.

She also suggested incorporating a premium increase threshold to ensure that premiums do not increase too fast and ways to encourage plans to act as gatekeepers for certain therapies in order to control costs.

Commissioner David Grabowski stated that this is a first step, but the proposal needs additional tools to be effective. He suggested providing plans more tools to control costs if they are expected to take on more risk. Commissioner Grabowski stated a need to prevent risk selection and suggested examining the risk corridors. He also supported a closer examination of reinsurance and making it look more like the commercial market.

Commissioner Pat Wang agreed with Commissioner Pyenson around biosimilars and supported Medicare's role in stimulating additional competition that could result in long-term effects. Commissioner Wang was concerned about the shift in risk resulting in smaller plans leaving the market. Additionally, she supported holding manufacturers liable in the coverage-gap and the catastrophic phase and exploring a manufacturer discount for high cost generics. **Commissioner Jaewon Ryu** agreed that manufacturers should still be liable in the coverage-gap and supported consistent liability at all levels of the benefit.

Commissioner Karen DeSalvo concluded Commissioner discussion by suggesting that clarity around the consequences be laid out, specifically addressing market consolidation and pricing considerations. In terms of tools for formulary management, Commissioner DeSalvo stated that there is an opportunity to utilize existing technology, like point of care decision making tools that CMS has referenced in proposed rules.