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Medicare Part D as a Model for Other Parts of US Healthcare

Key Takeaways:

- Medicare Part D is a popular prescription drug insurance program that is structured around private-sector competition within a government-defined basic benefit design.
- The program enjoys bipartisan support and strong member satisfaction.
- Many of the benefits of Medicare Part D are due to its narrowly-tailored structure.
- The mixed-ideological structure of the program may lead to lessons for other elements of the healthcare sector.

Introduction

Medicare Part D is a popular program that is structured around private-sector competition within a government-defined basic benefit design. Unlike other arms of the US healthcare system, total spending for Medicare Part D has been below projections and premiums have been declining, further increasing beneficiary satisfaction and bipartisan support. The success of the program stands as an outlier within a healthcare system where costs are ballooning and patient satisfaction is low. This begs the questions: What makes Medicare Part D different, what can we learn from it, and are any of these lessons transferable to other areas of the healthcare system?

History and Structure

Originally proposed by President Clinton near the close of his second term, Medicare Part D was enacted in 2003 by President George W. Bush as part of the Medicare Modernization Act of 2003. The program provides insurance coverage to Medicare beneficiaries for self-administered prescription drugs. It is an optional program paid through premiums. While premiums differ depending on plans and locales, the average premium is about $400 per year. More than 43 million Medicare beneficiaries, or 72 percent of all Medicare beneficiaries nationwide, are enrolled in Part D plans. Seniors are incentivized to enroll in

Medicare Part D as individual contributions increase annually with each year enrollment is delayed.

For the Part D member, the program functions through four phases: (1) the Deductible stage; (2) the Initial Coverage stage; (3) the Coverage Gap (Donut Hole) stage; and (4) the Catastrophic Coverage stage (see text box below).

The Four Phases of Medicare Part D

The Deductible Stage
In 2019, the allowable Medicare Part D deductible is $405. Plans may charge the full Part D deductible, a partial deductible, or waive the deductible entirely. Members pay the network discounted price for their medications until their plan tallies that they have satisfied the deductible. After that, they enter the Initial Coverage Stage

The Initial Coverage Stage
At this stage, members pay a copay for their medications based on the drug formulary. Each drug plan separates its medications into tiers. Each tier has a varying copay amount that must be paid. Once total spending by both the member and the plan have together spent a total of $3820, members enter the Coverage Gap Stage.

The Coverage Gap (Donut Hole) Stage
While in the this stage, members typically pay 35 percent of the plan's cost for brand-name drugs and 44 percent of the plan's cost for generic drugs. Once patients' yearly out-of-pocket drug costs reach $5,100, they enter the Catastrophic Stage.

Catastrophic Coverage Stage
Once reaching this stage, members pay only a small copayment for covered prescription drugs for the remainder of the year.

On the payer side of things, Medicare Part D functions through private negotiation. While Part D Plans must comply with the government's basic benefit design, Part D plans individually negotiate discounts and rebates directly with drug manufacturers, which results in rebates of as much as 20 to 30 percent for brand-name pharmaceuticals. Part D's competitive design encourages plans to compete on premiums because beneficiaries tend to enroll in plans with lower premiums.

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Medicare Part D Facts

Enrollment: In 2018, 43 million of the 60 million people with Medicare have prescription drug coverage under a Medicare Part D plan; most (58%) are covered under a stand-alone prescription drug plan (PDP) but a growing share (42% in 2018) are in Medicare Advantage prescription drug plans (MA-PDs), which also provide other Medicare-covered benefits. More than 12 million Part D enrollees receive premium and cost-sharing assistance through the Part D Low-Income Subsidy (LIS) program. Three firms—UnitedHealth, Humana, and CVS Health—account for over half (55%) of all Part D (PDP and MA-PD) enrollees in 2018

Premiums: Monthly Part D PDP premiums average $41 in 2018, but premiums vary widely among the most popular PDPs, ranging from $20 per month for Humana Walmart Rx to $84 per month for AARP Medicare Rx Preferred. Overall, average monthly PDP premiums increased by a modest 2 percent in 2018.

Deductibles: More than 4 in 10 PDP and MA-PD enrollees are in plans that charge no Part D deductible, but a larger share of PDP enrollees than MA-PD enrollees are in plans that charge the standard deductible amount of $405 in 2018.

Cost sharing for generics and brands: Most Part D enrollees face modest cost-sharing amounts for generic drugs but can face much higher cost sharing for brands and non-preferred drugs, and a mix of copayments and coinsurance for different formulary tiers. For example, for PDP enrollees, median cost sharing ranges from $1 for preferred generics to $37 for preferred brands, and a 40% coinsurance rate for non-preferred drugs.

Specialty drugs: More than 4 in 10 Part D enrollees are in plans that charge 33 percent coinsurance for specialty tier drugs, defined by CMS as drugs that cost at least $670.

From "Medicare Part D in 2018: The Latest on Enrollment, Premiums, and Cost Sharing" by Juliette Cubanski, Anthony Damico, and Tricia Neuman writing for the Kaiser Family Foundation

Benefits to Medicare Part D

- 90% satisfaction rate based on user-friendliness and affordability
    - Ninety-four percent of seniors say their plan is convenient to use and strong majorities say their monthly premiums (85 percent) and copays (86 percent) are affordable

    - The profitability of Part D plans is supported heavily by manufacturer rebates, which keeps premium increases in check
    - Part D enrollment numbers have also not expanded the same way that other Medicare enrollment has, which allows for better predictability of cost
    - Finally, while Medicare A and Medicare B claims are typically reimbursement based, Part D is all on the more "controllable" pharmacy benefit where there has traditional been better ability to develop and enforce utilization management
- Patients have access to a broader range of plans that support their needs
    - Options through employer insurance or Medicare A and Medicare B are much more limited in scope, though , there is less variability in what consumers of Part D plans are looking for. Patients there are approaching it specifically looking for drug coverage options, so select pool of the total traditional Medicare beneficiary population
- Part D is not subject to geographic/provider or network specific variabilities as nondrug spend faces
- Additionally, many patients already know their typical annual drug spend and are able to select coverage plans that best fit their anticipated needs

Issues and Challenges

Part D still has similar challenges as other forms of coverage. There is low awareness of tools available (PlanFinder), which is similar to the limited awareness of care management tools and patient education resources available through insurance carriers, pharmaceutical patient assistance programs for drugs, etc.

Opportunities include tracking metrics under Part D budgets that can then be used to track in total cost of care for nondrug medical spend, and tie financial incentives around this

Another concern is that the Bipartisan Budget Act of 2018 will have negative implications on the ability of Part D to push patients to catastrophic stage, which fundamentally reduces the competitive principle

What Can Be Learned?

The Medicare Part D marketplace is notable in that there is a basic government design for the program, but it is administered by private payers that negotiate – individually – with pharmaceutical companies. With this structure, there are components that are appealing to progressives (increased healthcare insurance coverage, administrative oversight and protections for participants) and components that are appealing to conservatives (free-market competition). The case could be made that it is this amalgam of ideologies that is key to the program's success.

> " [A] mature capitalist economy is a government project."
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> -George F. Will, Washington Post Commentator

But how replicable is Medicare Part D as a model for the health system more broadly? Many experts are quick to point to Medicare Advantage as a similarly-structured health insurance program that incorporates a government-determined basic benefit design but invites private sector competition. Some are bullish on the notion, saying that a Medicare-Advantage-for-all program might be a possible "grand compromise" to achieve universal health insurance in the United States. Others are cautious, saying that Medicare Part D achieves its successes *because* it is so narrowly tailored, and efforts to replicate it will fail outside of its narrow economic ecosystem.

In the meantime, Medicare Part D maintains its status as a high-performing program and marketplace by most indices, with little indication that this will change in the near future.

Conclusion

The Medicare Part D program is popular amongst members, policymakers, and experts. Within its niche, it has achieved successes that other elements of the healthcare sector may envy. Whether these successes are replicable remains to be debated.

References

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