

Drug Forecasts

2016 Trustees Report

Table IV.B9.—Incurred Reimbursement Amounts per Enrollee for Part D Expenditures

Calendar Year	Private plans (PDPs and MA-PDs)						Retiree drug subsidy		Private plans (PDPs and MA-PDs)		Total	
	All beneficiaries			Low-income subsidy		Enrollment (millions)	Subsidy amount	Enrollment (millions)	Subsidy amount	Enrollment (millions)	Subsidy amount	
	Enrollment (millions)	Direct Subsidy	Reinsurance	Risk sharing and other	Enrollment (millions)							Subsidy amount
Historical data:												
2006	20.3	\$867	\$297	-\$80	8.3	\$1,817	7.2	\$527	28.6	\$1,297	35.8	\$1,142
2007	24.3	744	330	-20	9.2	1,820	7.1	548	33.5	\$1,264	40.6	\$1,139
2008	25.8	687	366	-6	9.7	1,858	6.8	553	35.5	\$1,269	42.3	\$1,154
2009	26.9	702	375	-27	10.0	1,955	6.7	578	36.9	\$1,295	43.6	\$1,185
2010	28.0	705	399	-2	10.4	2,020	6.8	570	38.4	\$1,351	45.2	\$1,233
2011	29.5	681	465	-31	10.6	2,093	6.2	577	40.1	\$1,374	46.3	\$1,267
2012	31.8	654	486	-35	11.0	2,045	5.6	537	42.8	\$1,347	48.4	\$1,253
2013	35.8	567	535	-20	11.5	2,023	3.3	517	47.3	\$1,311	50.6	\$1,259
2014	37.8	492	718	-1	11.8	2,052	2.7	570	49.6	\$1,410	52.3	\$1,366
2015	39.5	484	868	-12	12.1	2,139	2.2	621	51.6	\$1,527	53.8	\$1,490
Intermediate estimates:												
2016	41.3	430	936	-14	12.2	2,119	1.9	652	53.5	\$1,527	55.4	\$1,497
2017	43.2	352	1,030	9	12.5	2,197	1.6	693	55.7	\$1,572	57.3	\$1,547
2018	45.0	406	1,144	-2	12.9	2,347	1.3	757	57.9	\$1,726	59.2	\$1,705
2019	46.6	445	1,246	-2	13.2	2,494	1.1	818	59.8	\$1,867	60.9	\$1,848
2020	48.1	508	1,294	-3	13.6	2,637	0.9	872	61.7	\$1,984	62.6	\$1,968
2021	49.5	532	1,366	-4	14.0	2,768	0.9	918	63.5	\$2,087	64.4	\$2,070
2022	50.9	558	1,440	-4	14.4	2,902	1.0	967	65.3	\$2,194	66.3	\$2,176
2023	52.3	586	1,520	-5	14.8	3,045	1.0	1,020	67.1	\$2,309	68.1	\$2,290
2024	53.7	615	1,604	-5	15.1	3,195	1.0	1,075	68.8	\$2,429	69.8	\$2,410
2025	55.0	636	1,676	-6	15.5	3,319	1.0	1,116	70.5	\$2,529	71.5	\$2,509

2016 Trustees Report

Percentage Change

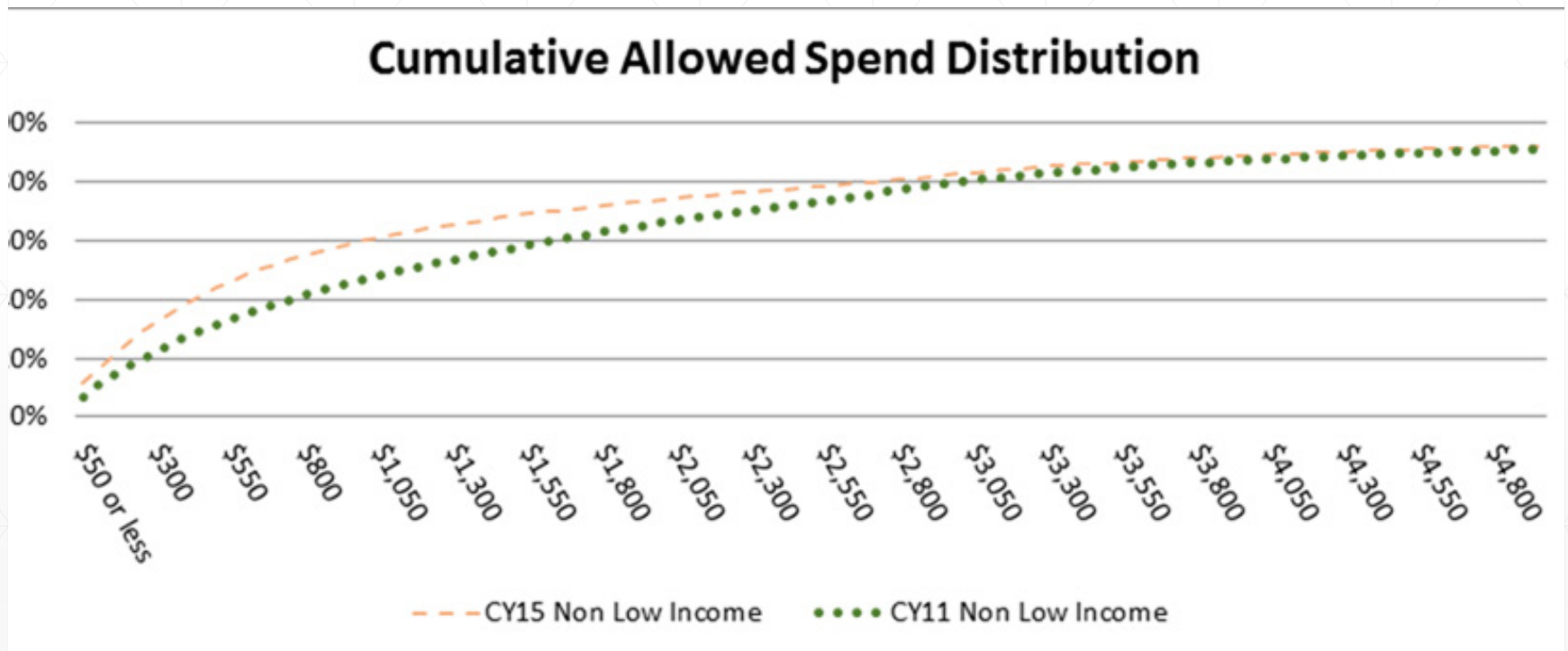
Calendar Year	Private plans (PDPs and MA-PDs)								Private plans (PDPs and MA-PDs)		Total	
	All beneficiaries				Low-income subsidy		Retiree drug subsidy		Enrollment (millions)	Subsidy amount	Enrollment (millions)	Subsidy amount
	Enrollment (millions)	Direct Subsidy	Reinsurance	Risk sharing and other	Enrollment (millions)	Subsidy amount	Enrollment (millions)	Subsidy amount				
Historical data:												
2006	--	--	--	--	--	--	--	--	--	--	--	--
2007	19.7%	-14.2%	11.1%	-75.0%	10.8%	0.2%	-1.4%	4.0%	17.1%	-2.5%	13.4%	-0.2%
2008	6.2%	-7.7%	10.9%	-70.0%	5.4%	2.1%	-4.2%	0.9%	6.0%	0.3%	4.2%	1.3%
2009	4.3%	2.2%	2.5%	350.0%	3.1%	5.2%	-1.5%	4.5%	3.9%	2.1%	3.1%	2.7%
2010	4.1%	0.4%	6.4%	-92.6%	4.0%	3.3%	1.5%	-1.4%	4.1%	4.3%	3.7%	4.1%
2011	5.4%	-3.4%	16.5%	1450.0%	1.9%	3.6%	-8.8%	1.2%	4.4%	1.7%	2.4%	2.7%
2012	7.8%	-4.0%	4.5%	12.9%	3.8%	-2.3%	-9.7%	-6.9%	6.7%	-2.0%	4.5%	-1.1%
2013	12.6%	-13.3%	10.1%	-42.9%	4.5%	-1.1%	-41.1%	-3.7%	10.5%	-2.7%	4.5%	0.5%
2014	5.6%	-13.2%	34.2%	-95.0%	2.6%	1.4%	-18.2%	10.3%	4.9%	7.5%	3.4%	8.5%
2015	4.5%	-1.6%	20.9%	1100.0%	2.5%	4.2%	-18.5%	8.9%	4.0%	8.4%	2.9%	9.1%
Intermediate estimates:												
2016	4.6%	-11.2%	7.8%	16.7%	0.8%	-0.9%	-13.6%	5.0%	3.7%	0.0%	3.0%	0.4%
2017	4.6%	-18.1%	10.0%	-164.3%	2.5%	3.7%	-15.8%	6.3%	4.1%	2.9%	3.4%	3.4%
2018	4.2%	15.3%	11.1%	-122.2%	3.2%	6.8%	-18.8%	9.2%	3.9%	9.8%	3.3%	10.2%
2019	3.6%	9.6%	8.9%	0.0%	2.3%	6.3%	-15.4%	8.1%	3.3%	8.2%	2.9%	8.4%
2020	3.2%	14.2%	3.9%	50.0%	3.0%	5.7%	-18.2%	6.6%	3.2%	6.3%	2.8%	6.5%
2021	2.9%	4.7%	5.6%	33.3%	2.9%	5.0%	0.0%	5.3%	2.9%	5.2%	2.9%	5.2%
2022	2.8%	4.9%	5.4%	0.0%	2.9%	4.8%	11.1%	5.3%	2.8%	5.2%	3.0%	5.1%
2023	2.8%	5.0%	5.6%	25.0%	2.8%	4.9%	0.0%	5.5%	2.8%	5.2%	2.7%	5.3%
2024	2.7%	4.9%	5.5%	0.0%	2.0%	4.9%	0.0%	5.4%	2.5%	5.2%	2.5%	5.2%
2025	2.4%	3.4%	4.5%	20.0%	2.6%	3.9%	0.0%	3.8%	2.5%	4.1%	2.4%	4.1%

Historical Part D Cost Patterns

- Direct subsidy relatively stable since adoption
 - Reinsurance costs increasing dramatically
 - Driven largely by specialty drug trend
 - Overall Part D costs to Medicare program modestly increasing
 - Direct subsidy and retiree drug subsidy increases are different
 - Covers similar drug costs by size
 - Individual versus employer experience
 - Part D plans have used a variety of strategies to keep bid premiums low
 - Number of drugs on formularies have declined from 5,000 to 2,000
 - This is anecdotal comment made in presentation at Conference of Consulting Actuaries meeting
 - Introduced low cost brand drugs to take advantage of combination of pharma discount and rebates
 - Increased deductibles for plans with low or no deductibles
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Historical Part D Cost Patterns

- Shape of claim distribution has changed



Medicare Part D Benchmark Trends¹

Year	NABP	NADS	NABA	REINS	NABA + REINS
2012	\$31.08	\$53.42	\$84.50	\$37.38	\$121.88
2013	\$31.17	\$48.47	\$79.64	\$42.60	\$122.24
2014	\$32.42	\$43.46	\$75.88	\$51.26	\$127.14
2015	\$33.13	\$37.05	\$70.18	\$59.74	\$129.92
2016	\$34.10	\$30.56	\$64.66	\$69.07	\$133.73
2017	\$35.63	\$25.45	\$61.08	\$78.65	\$139.73

NABA Trend	REINS Trend	NABA + REINS Trend
-2.9%	-6.0%	-3.9%
-5.8%	14.0%	0.3%
-4.7%	20.3%	4.0%
-7.5%	16.5%	2.2%
-7.9%	15.6%	2.9%
-5.5%	13.9%	4.5%

Assuming recent trends continue, Direct Subsidy turns negative ~2021/2022:

2018	\$37.62	\$19.20	\$56.82	\$90.71	\$147.53
2019	\$40.16	\$12.70	\$52.86	\$104.63	\$157.49
2020	\$43.31	\$5.86	\$49.18	\$120.68	\$169.85
2021	\$47.16	(\$1.41)	\$45.75	\$139.19	\$184.94

Note: NABP = (NABA + Reins) x 25.5% per MMA law.

Given this dynamic, MedPAC proposed in June for CMS to significantly reduce its reinsurance percentage in the catastrophic phase from 80% to 20% (as part of a broader set of changes to ensure program sustainability).²

NABP (National average bid premium). NADS (National average direct subsidy). NABA (National average bid amount). REINS (National average reinsurance amounts).

1. <https://www.cms.gov/Medicare/Health-Plans/MedicareAdvtgSpecRateStats/Downloads/PartDandMABenchmarks2017.pdf>, accessed October 7, 2016.

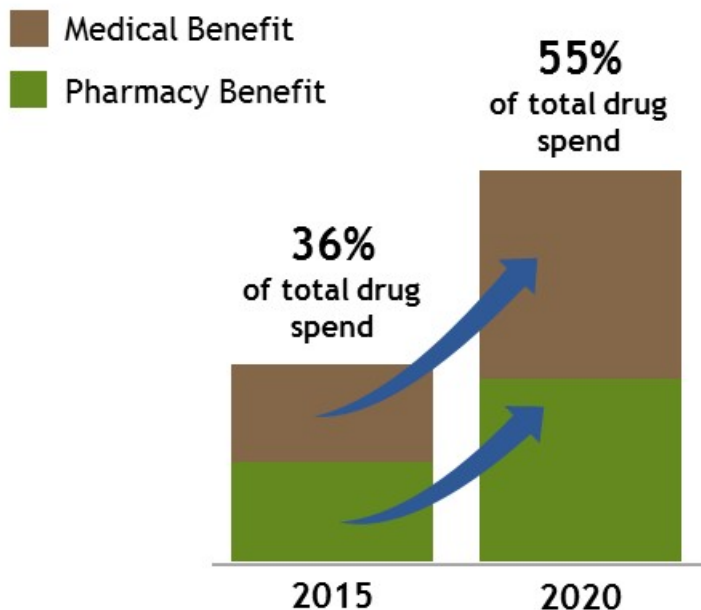
2. http://www.paccr.org/wp-content/uploads/2016/06/MedPAC-Chp.-6-Summary_final.pdf, accessed October 7, 2016.

Projected Part D Costs

- Flaw in government share of Part D?
 - Overall government share of Part D is 74.5% of total costs
 - Government share of reinsurance costs is 80%
 - Benefits under cost threshold is about 72% after 2020
 - Accounting for deductible and 75% benefit
 - Some of benefit is paid by pharma discount
 - Reinsurance benefit is about 95%
 - Government share of reinsurance costs is 76%
 - As portion of reinsurance grows, direct subsidy decreases
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Specialty Continues to Grow: By 2020, It Will Represent 55% of all Drug Spend¹

TOTAL INDUSTRY SPECIALTY SPEND¹



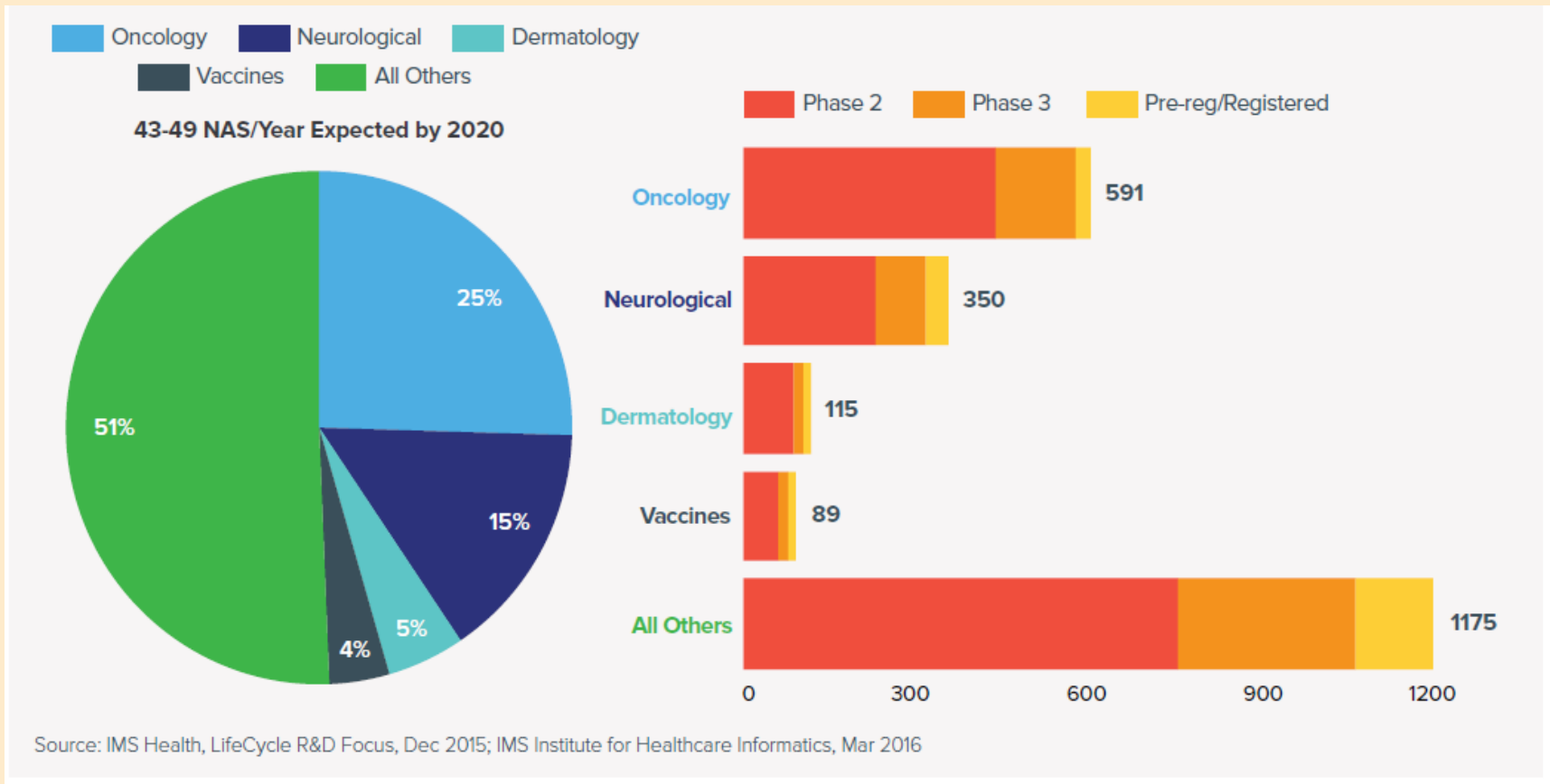
KEY FACTORS DRIVING TREND

- Increasing utilization
 - Robust pipeline
 - Expanding indications
 - Aging population
- Increasing prices
 - Brand-name drug price inflation
 - Higher cost for innovative drugs

New regulations and legislation will contribute to be uncertain, changing market dynamics.

1. "Medicines Use and Spending in the U.S." IMS, April 2016. NHE, Artemetrx, CVS Health Internal Analysis, 2016. Trend figures cited are for commercial cohort (health plans and employers). Gross trend is reported net of rebates. (Insights Issue 17, 2016). Data sharing is subject to applicable law, our information firewall and any applicable contractual limitations.

Robust Brand Pipeline: Late Phase R&D



R&D (Research and development)
 NAD (New active substances)

Further Considerations

- Are specialty drugs a different percentage of total drug spend for seniors compared to national population?
 - Different mix?
 - More technology impact on long-term trend?
 - Is there additional leveraging effect on reinsurance portion of Part D?
 - Catastrophic dollar limit increasing at different rate than higher cost drugs
 - Can Part D plans continue cost savings strategies under cost threshold?
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