Part D Short-Range Projections
Standard Benefit Structure

• Deductible
• Initial coverage limit
• Coverage gap (to be closed by 2020)
• Catastrophic threshold (reinsurance)
Part D Bid

• Individual plans submit bids; EGWPs don’t
• Assumptions include:
  – Drug costs
  – Rebate
  – Administrative cost and profits
  – Projected risk score
• Bid amounts include:
  – Standardized bid
  – Reinsurance
  – Low-income cost-sharing subsidy (LICS)
Part D Bid (cont.)

• Bid = Plan benefits – Reinsurance
• National average bid and average premium announced after bids are reviewed
• Plan specific premium = Plan bid - national average bid + national average premium
Payments to Plans

- Direct subsidy: risk adjusted
- Beneficiary premiums
- Reinsurance advance payments
- LICS advance payments
- Low-income premium subsidy (LIPS)
- Coverage gap discount advance payments
- Year end reconciliation: reinsurance, LICS, risk corridor adjustments, and gap discount
Type of Plans

• Individual plans
  – Prescription drug plans (PDPs)
  – Medicare Advantage prescription drug plans (MA-PDs)
• Employer group waiver plans (EGWPs)
  – PDPs
  – MA-PDs
• Retiree drug subsidy (RDS) plans
Retiree Drug Subsidy Plans

- 28% subsidy between $360 and $7,400 in 2016
- Tax exempt through 2012
- No coverage gap discount
- 6.6 million enrollees in 2010; 1.9 million enrollees in 2016
D Benefits Model Methodology

- Historical spending data
- Enrollment
- Drug per capita trend
- Bid data
- Legislative impact
Enrollment

- Part D plans
  - MAPD vs. PDP
  - Aged vs. Disabled
  - Employer vs. non-employer
  - Four low-income groups
- RDS plans
Part D Trend

• The 2011 Technical Panel recommended that OACT should explore the potential for bottom-up models of both the NHE drug component and Part D to improve forecasts in the short run (3 years).

• The Panel also recommended that OACT should explore ways to build Part D experience into the intermediate range (4+ years) forecast.

• A new “micro” model was developed and put to use in TR2015.
Part D Micro Model

- Uses the PDE data
- Uses drug-specific and therapeutic-class-specific utilization and price data
- Projects the growth trend for each drug
- Considers the dynamics between brand-name and generic drug competition w.r.t. the patent expiration
- Incorporates any known market information for a specific drug
Part D Trend (cont.)

• Short-run trend is transitioned to NHE projections from years 4 to 6.

• Due to enrollment mix change and legislation, the final trend assumptions used in Part D projection could be slightly different, as illustrated in years 2021-2025 in the following chart.

• A new policy will carve out certain ESRD drugs to Part B in 2025 and cause a drop in Part D trend.
Rebate as a Percentage of Total Drug Cost

Year
Percent
0% 5% 10% 15% 20% 25%