

## Part D Program Assumptions

The key components of the Part D projections include the direct subsidy and reinsurance amounts paid to Part D providers (MAPD plans, EGWP and stand-alone Part D plans) and subsidies for low-income beneficiaries. Other components include risk sharing adjustments amongst the Part D providers and the retiree drug subsidy program for employers continuing to provide drug benefits under their retiree medical programs.

### Basic Assumptions

The projection assumptions are based on three sources: (1) prescription drug event data, (2) OAct's Part D short-term trend model and NHE projections and (3) historical Part D plan bid data.

2010–2011 Medicare Technical Panel suggested using Part D specific data for near-term spending trends. For the 2016 Trustees Report, the trend model suggested using a higher trend rate than the NHE model for 2016 through 2018 and converging to the NHE projections starting in 2021. The short-term differences are below:

**Table 1**  
**Per Capita Growth Projections**

Year	Trend Model	NHE
2016	6.3%	5.2%
2017	6.7	5.2
2018	9.1	6.2

Historical bids have been stable to decreasing since the inception of the program. The following table shows the historic benchmark premiums, base beneficiary premiums and direct subsidies.

**Table 2**  
**Historic Monthly Bid Amounts**

Year	Benchmark	Base Beneficiary Premium	Direct Subsidy	Reinsurance
2006	\$ 92.30	\$ 32.20	\$ 60.10	\$ 33.97
2007	80.43	27.35	53.08	26.82
2008	80.52	27.93	52.59	29.01
2009	84.33	30.36	53.97	34.73
2010	88.33	31.94	56.39	36.92
2011	87.05	32.34	54.71	39.77
2012	84.50	31.08	53.42	37.38
2013	79.64	31.17	48.47	42.60
2014	75.88	32.42	43.46	51.26
2015	70.18	33.13	37.05	59.74
2016	64.66	34.10	30.56	69.07
2017	61.08	35.63	25.45	78.65

The benchmark premium, base beneficiary premium and direct subsidy rates were taken from the 2016 Medicare Short Range and Long Range Assumptions document. The reinsurance rates were derived as the base beneficiary premium rate divided by 0.255 minus the benchmark premium rate.

The average manufacturer rebate in 2013 and 2014 was about 12.9 and 14.3 percent of drug costs, respectively. The projected rebates for 2015 plan bids was 15.5 percent. Projected 2016 rebates was 20.6 percent. The projections assume that rebates will continue at this rate.

Administrative costs are estimated based on surveys and expected to increase at about the cost of living so that administrative costs as a percent of total premium will decline in the future.

### **Historic Commentary**

Anecdotal comments regarding historical experience:

- 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
- Generic utilization has increased dramatically over last ten years

### Comparison to Commercial Experience

Express Scripts has been publishing commercial and Medicare cost trends separately since 2010. The following table compares the two groups.

**Table 3  
Historical Trends**

Years	Commercial			Medicare		
	Traditional	Specialty	Overall	Traditional	Specialty	Overall
2009–10	1.4%	19.6%	3.6%	0.3%	12.7%	1.5%
2010–11	0.1	17.1	2.7	0.9	20.0	3.0
2011–12	-1.5	18.4	2.7	-0.7	24.1	2.5
2012–13	2.4	14.1	5.4	0.0	14.7	2.6
2013–14	6.4	30.9	13.1	6.4	45.9	13.8
2014–15	-0.1	17.8	5.2	4.8	27.9	10.9
2009–15	1.4%	19.5%	5.4%	1.9%	23.8%	5.6%
2012–15	2.9	20.7	7.8	3.7	28.9	9.0

The Express Scripts reports also show the percentage of claimant coinsurance (copay) through 2013 as follows:

**Table 4  
Claimant Coinsurance**

Year	Traditional	Specialty	Overall
2009	22.5%	2.6%	20.2%
2010	22.1	3.3	19.2
2011	21.6	3.1	18.4
2012	22.0	3.6	18.0
2013	20.7	3.4	16.0

Note: Figures not provided in 2014 and 2015 reports.

Comparable data from the Health Care Cost Institute analysis of employer sponsored insurance also shows claimant coinsurance decreasing over time.

**Table 5**  
**HCCI Claimant Coinsurance**

Year	Generic	Brand	Overall
2010	36.5%	19.5%	25.1%
2011	38.3	17.8	24.1
2012	36.9	15.7	22.9
2013	35.4	13.7	21.2
2014	32.0	11.1	18.3
2015	30.7	9.4	16.3

During the similar time periods as above, the standard Part D benefit has also been improving so that beneficiary coinsurance was declining. Therefore, comparison of historic trends should have relatively same plan design impact on both commercial and Medicare experience.

Express Scripts also separates out their experience with stand-alone PDP, MAPD and EGWP starting with their 2012 report.

**Table 6**

Year	Plan Type	Traditional	Specialty	Overall
2012	MAPD	1.9%	25.8%	4.9%
	EGWP	-2.6	20.0	0.5
	PDP	-6.5	23.3	-2.6
	Total	-0.7	24.1	2.5
2013	MAPD	0.5%	18.6%	3.5%
	EGWP	3.2	20.2	6.0
	PDP	-0.8	12.4	1.6
	Total	0.0	14.7	2.6
2014	MAPD	7.0%	43.3%	13.9%
	EGWP	6.8	33.9	11.5
	PDP	8.6	60.0	18.8
	Total	6.4	45.9	13.8
2015	MAPD	-3.2%	24.3%	3.5%
	EGWP	7.9	27.2	12.6
	PDP	9.8	36.3	17.5
	Total	4.8	27.9	10.9

All plan types show distinct difference between traditional and specialty trends but no discernable differences by plan type within each drug category.

### **Possible Findings and Recommendations**

**Finding 1:** Near term projections are reasonable and reflect recommendations of 2010–11 Technical Panel in recognizing recent Part D experience.

**Further Support Need for Finding 1:** Better understanding of how the various assumptions for first five years of projection where recent bid data, claims data and NHE trends are used for each component of Part D projections.

**Recommendation 1:** Use higher trend rates than NHE for full select period (through ten years) and then grade down to NHE trends in ultimate year 25.

**Further Support Need for Recommendation 1:** Identify other studies that support different pharmacy trend rates for Medicare population and total population represented by NHE.

**Recommendation 2:** Use different trend rate for standard benefit components and reinsurance for full select period. Grade down to NHE trends in ultimate year 25.

**Further Support Need for Recommendation 2:** Identify other studies that support different pharmacy trend for standard benefit and reinsurance. Continued higher specialty drug trends appear to support higher reinsurance cost trends.

**Recommendation 3:** Use higher long-term trend assumption for reinsurance component than standard benefit component due to higher ongoing technology improvement in specialty drugs. Grade past ultimate year 25 for technology assumption. [Note: recommendation should state technology component levels]

**Further Support Need for Recommendation 3:** Identify other studies to support higher technology component of trends for reinsurance component of Part D and specialty drugs.

**Recommendation 4:** Rebate percentage should decline over time to reach ultimate assumption by year 10.

**Further Support Need for Recommendation 4:** Identify studies to indicate likely rebate changes in the future given increasing generic utilization and formulary changes.

**Table 7**  
**2016 Trustees Report**

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

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	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

Note: Table IV.B9. is as shown in Trustees Report. “Private Plans” and “Total” are weighted averages by enrollment of rates from original table.

**Table 7 (continued)  
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%