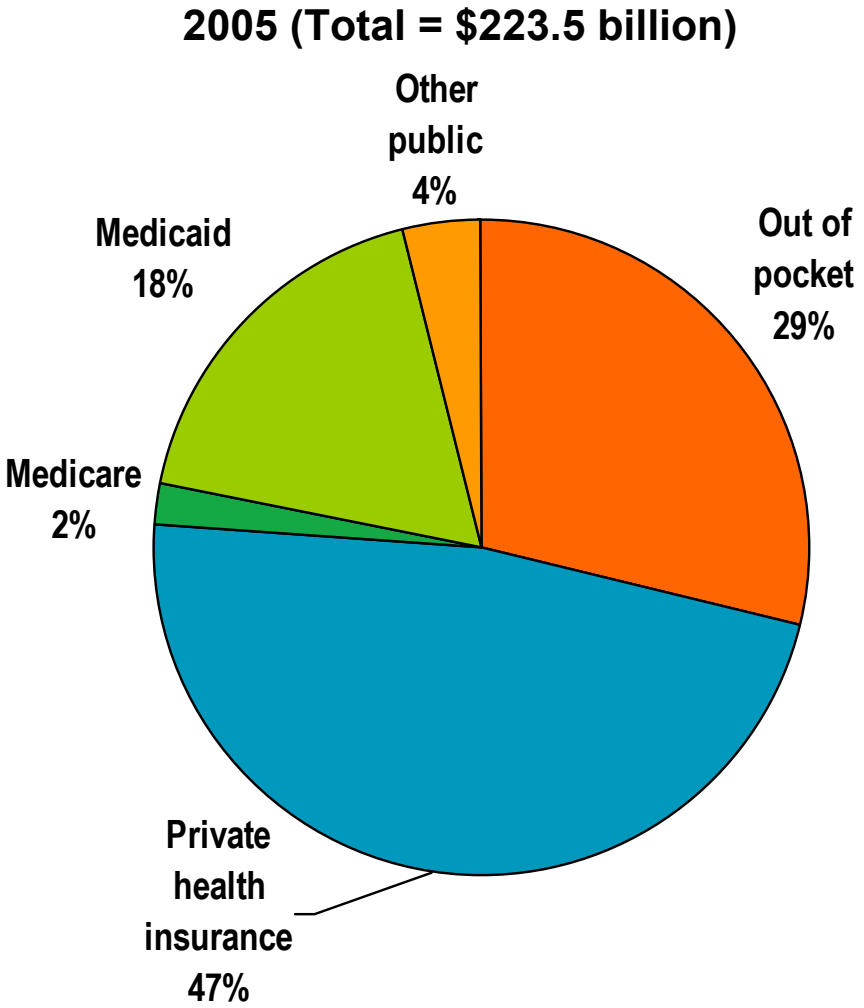
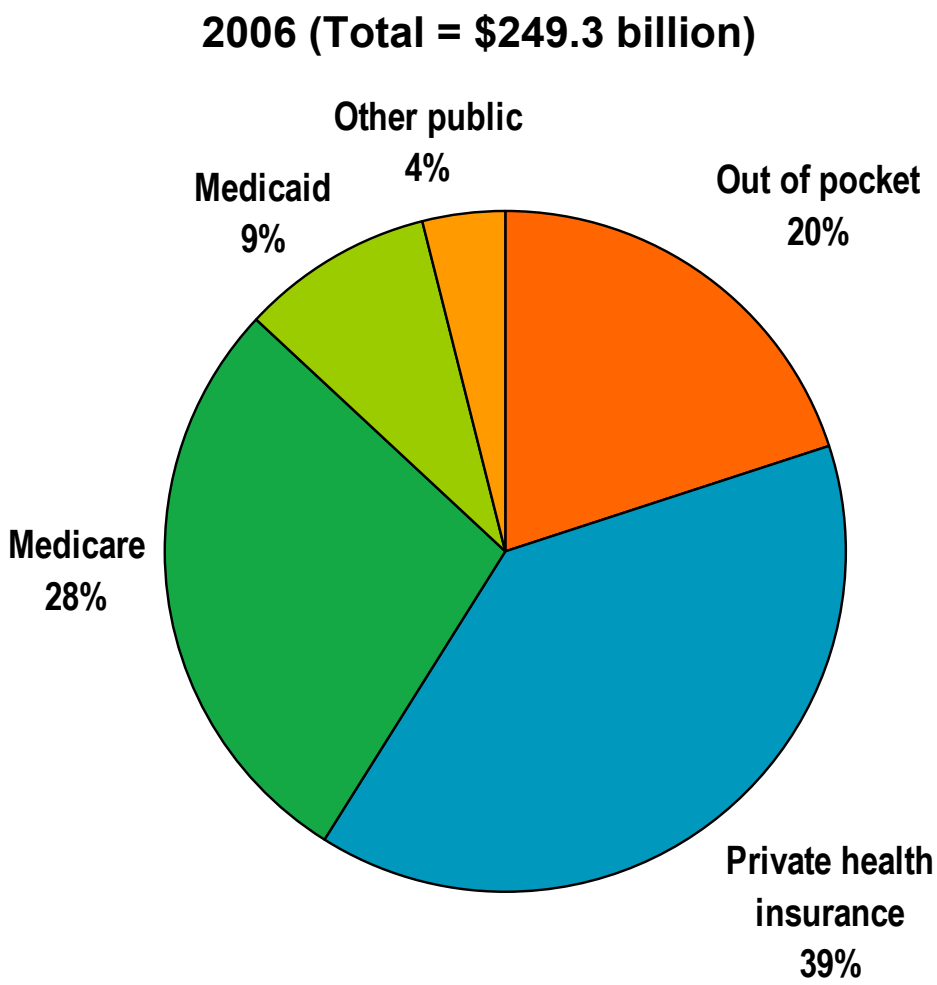
Medicare Modernization Act and Medicare Part D: Status of Implementation

November 1, 2005

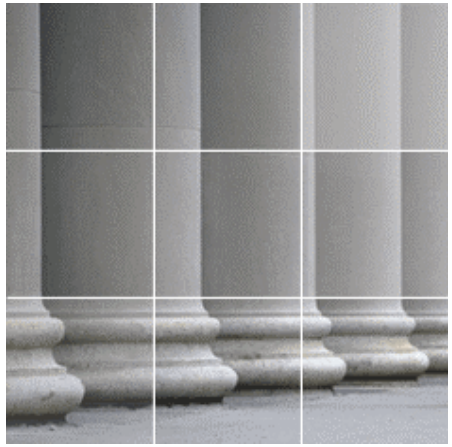
John Richardson
Avalere Health LLC

What Is At Stake: Projected U.S. Retail Rx Drug Spending by Payer, 2005 and 2006



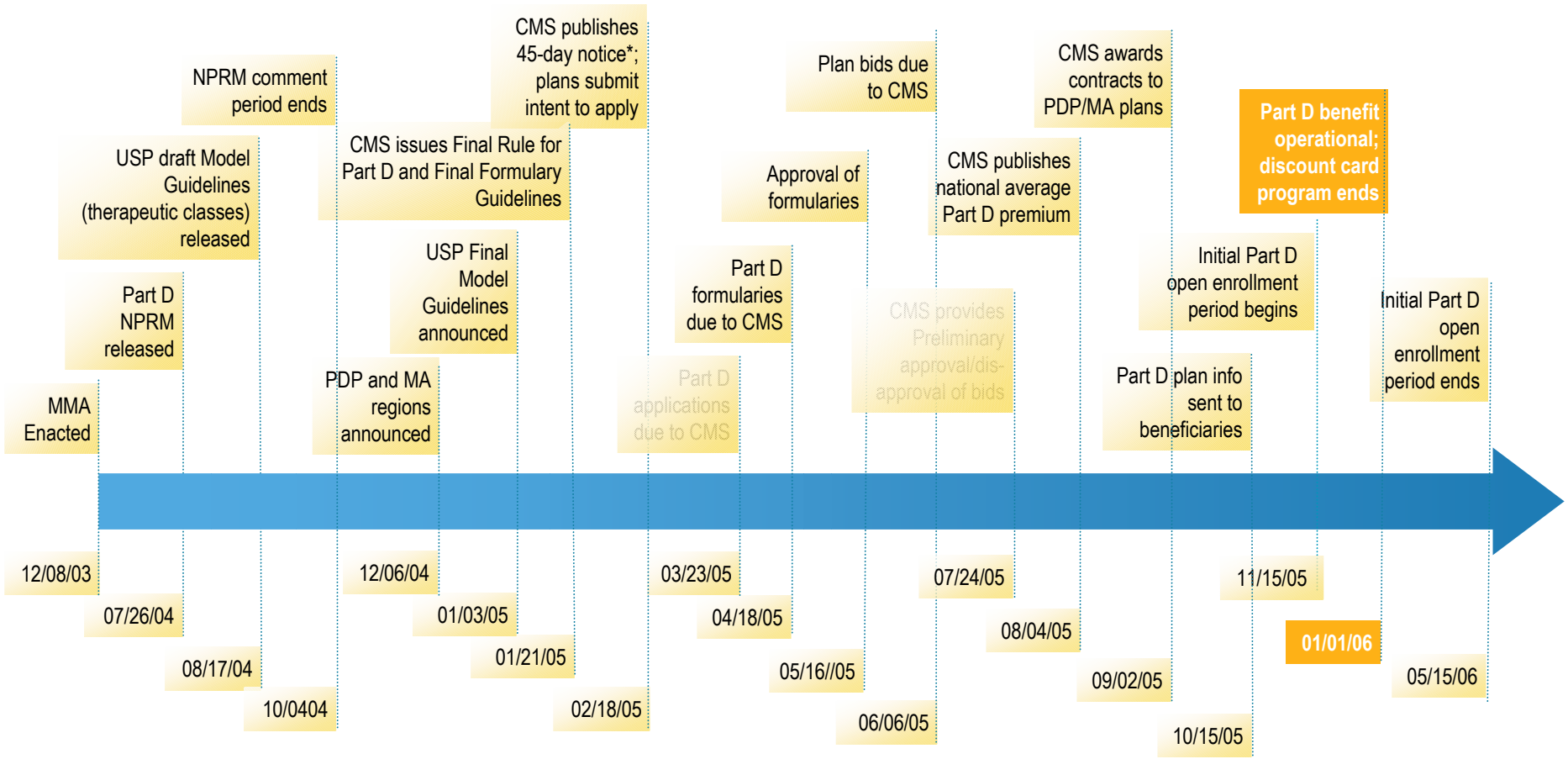


Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, *Health Affairs* Web Exclusive W5-75, 23 February 2005.



Status of Medicare Part D Implementation

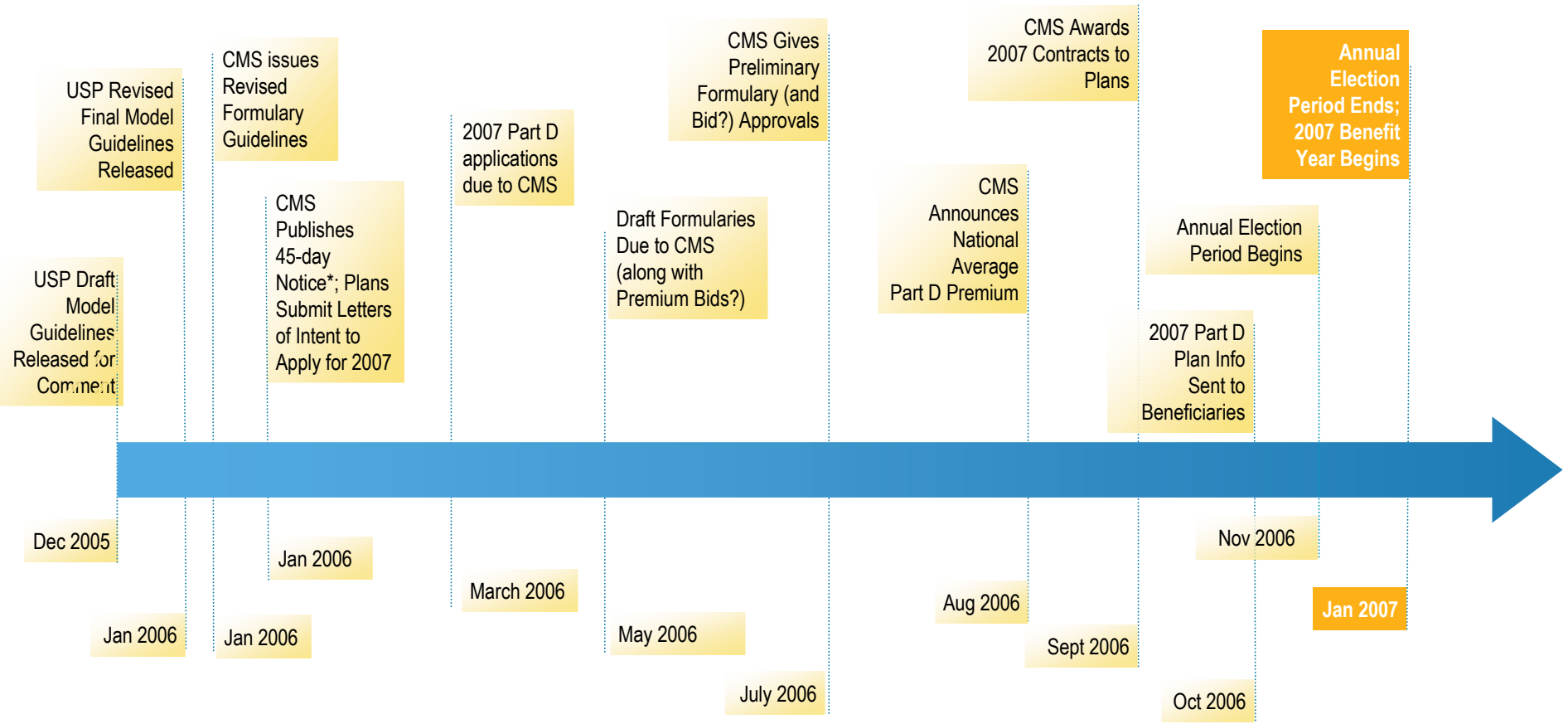
Rapid Implementation Timeline from 2003 to 2006…



Notes: MMA=Medicare Modernization Act; NPRM=Notice of Proposed Rule-Making.

*CMS notice of 2006 rate methodology and assumptions; public may comment.

…And The Cycle Continues in 2006-2007



Caveat: All dates subject to final CMS decisions. Assumes no legislative changes.

*CMS public notice of 2007 capitation rate methodology.

Current Policy Dynamics Around Part D Implementation

- No interest from Administration and Leadership in “opening up” Part D
  - » Fiscal conservatives: Delay Part D implementation to reduce spending
  - » Democrats: Give beneficiaries more time to make Part D plan choices
- Budget policy at federal and state levels always matters
  - » Some states (TX, NH) critical of “clawback” payments for dual eligibles
  - » Federal budget resolution focused on Medicaid drug / other costs
  - » Medicare offsets (not Part D) may be in play (e.g., $10B regional MA fund)
- Strong interest at federal level in key allied issues:
  - » Evidence-based medicine
  - » Focus on FDA and drug safety
  - » Electronic prescribing

Ominous Public Fiscal Environment Drives Policy

- Medicare Part D itself likely to be left alone—for now
- FY 2006 federal budget resolution: $10 billion in health entitlement spending cuts
  - » Senate and House committees proposing Rx drug spending reductions
- Medicare Advantage conundrum: Many plan options in 2006; too successful?
  - » Payment rate formula increases in MMA: How long will they last?
  - » Regional PPO “stabilization fund”: Some policymakers looking to eliminate
  - » Budget-neutrality adjustment for risk-adjustment phase-in: A cut is a cut
- State budgets still under extreme fiscal pressure
- States will lose Medicaid drug rebate revenue, gain new administrative costs, and incur controversial “clawback” liability for dual eligibles

CMS Relying on Administrative Guidance to Implement Key Aspects of Part D

Guidance Topic	Expected Release Date	Issued?
Application of Part D Rules to Employer Groups	February 2005	√
Risk Adjustment Model	February 2005	√
Formulary Review Criteria	February 2005	√
Part B vs. Part D Coverage	March 2005	√
Price Comparison Web Tool	May 2005	√
Marketing Materials	June 2005	√
Enrollment Process	July 2005	√*
Coordination of Benefits	July 2005	√*

CMS indicated in its Final Rule that it would issue separate sub-regulatory guidance to clarify a number of aspects of the Part D program.

CMS has issued guidance on an ongoing basis since January, and guidelines on a significant number of topics are still forthcoming.

Several key pieces of guidance, both released and expected, are listed at left.

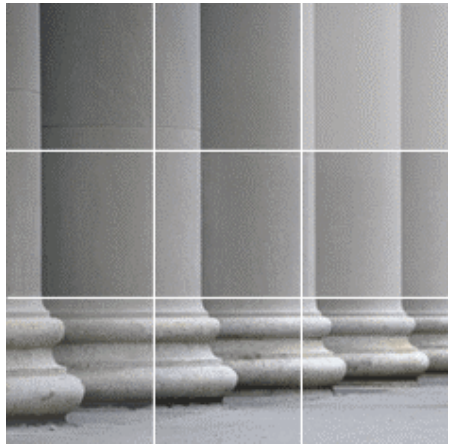
*Draft released; final guidelines forthcoming after brief public comment periods.

Medicare Part D Key Policy Concepts and Questions

- Key concept: Beneficiary (consumer) choice
  - » Beneficiaries must have choice of at least two plans (one must be drug-only PDP) in each of 34 regions
  - » Questions: Are there too many choices for 2006? How will beneficiaries and policymakers react when 2006 choices disappear in 2007, 2008, etc.?
- Key concept: Private-sector delivery system
  - » Drug benefits delivered through private, managed plans with government mitigating insurance risk through subsidies, reinsurance, and risk corridors; also will provide program oversight
  - » Questions: Will private plans be able to deliver lower drugs costs (compared to what?), universal access to medically necessary drug therapies, and measurable quality outcomes for all types of beneficiaries (dual eligibles, LTC residents, chronically ill, disabled)?

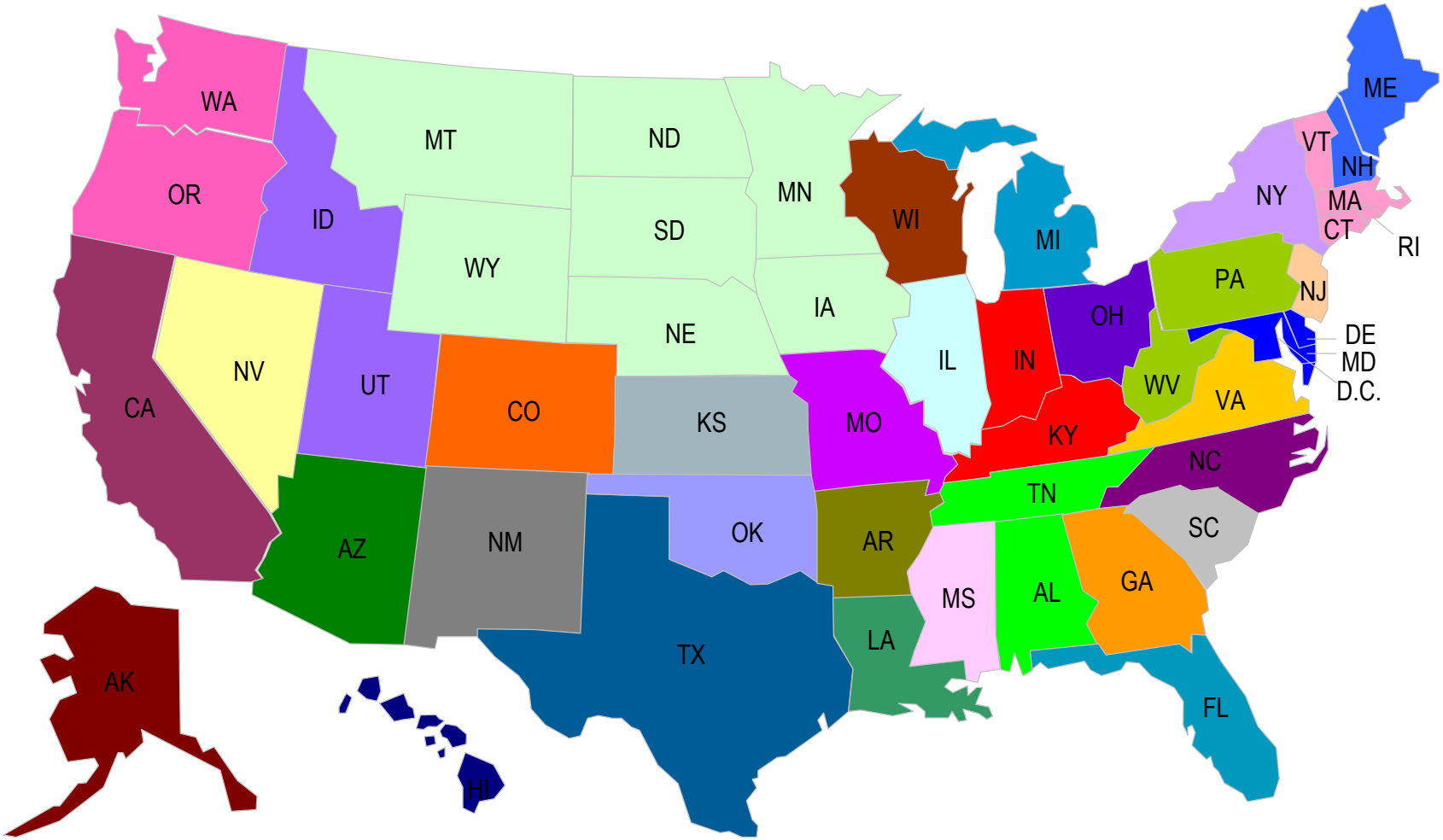
Medicare Part D Key Policy Concepts & Questions (cont.)

- Key concept: Beneficiary financial contributions required for participation
  - » Most beneficiaries who enroll will pay monthly premium for coverage, then deductibles and copayments if they use covered drugs
  - » Questions: Will CMS succeed in convincing all or most beneficiaries that Part D is insurance? What happens to program costs if they fail?
- Key concept: Attempt to preserve employer-sponsored retiree drug coverage
  - » Employers who retain sponsored drug coverage for retirees will receive tax-exempt federal subsidy
  - » Question: How quickly will employer-sponsored retiree drug coverage disappear, and what will be reaction of formerly-covered beneficiaries as they enroll in Part D?



Status of Medicare Part D Plan Marketplace

In 2006, There Will Be 34 PDP Regions With Multiple Plan Designs and Formularies

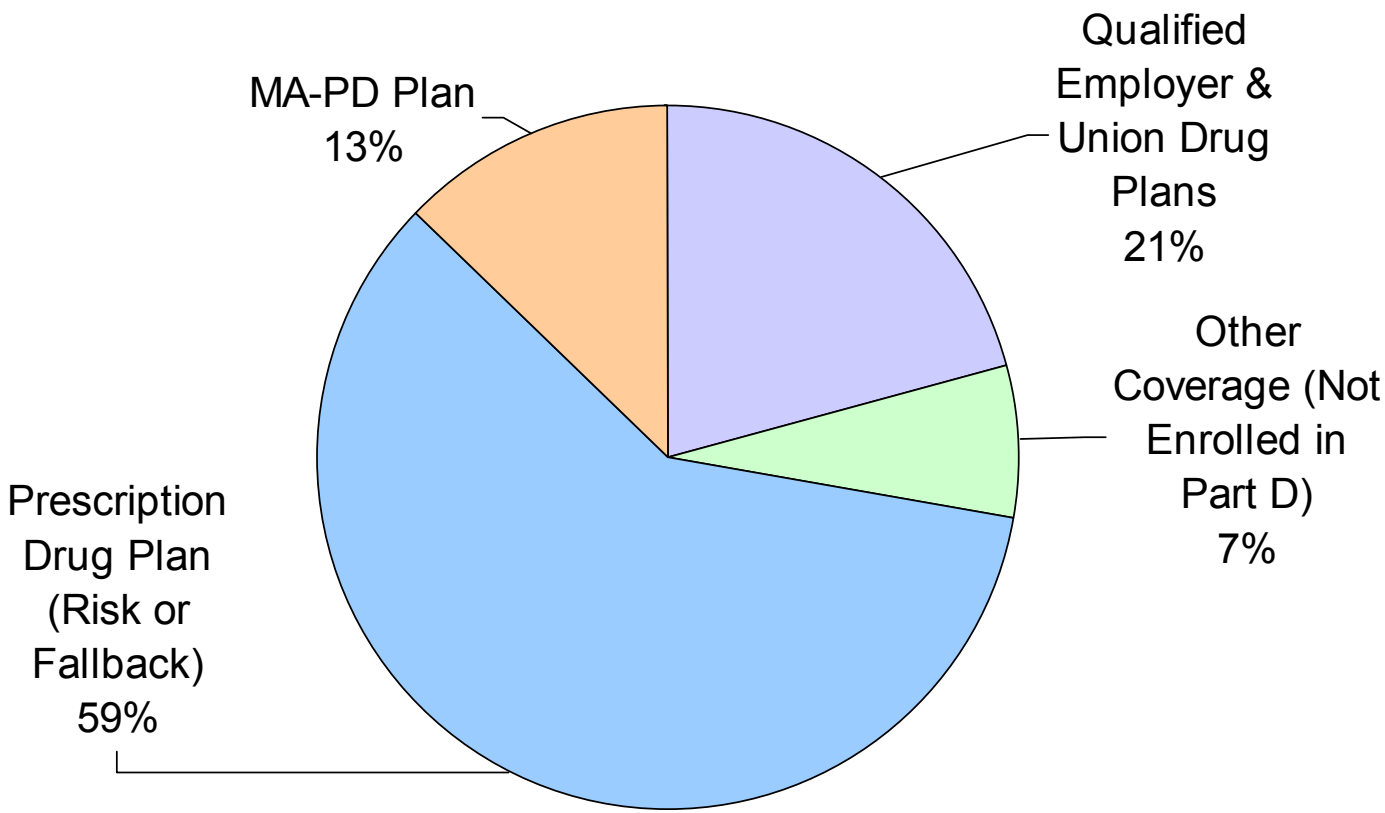


Note: Each territory is its own PDP region.
Source: CMS, http://www.cms.hhs.gov/medicarereform/mmaregions/, December 6, 2004.

CBO: PDPs Will Be Preferred Part D Plan Choice in 2006

Projected Sources of Medicare Beneficiaries' Rx Drug Coverage in 2006

(N=Total Part B Enrollment of 39.9 million)



Note: "Other Coverage" is VA and DoD health insurance programs.

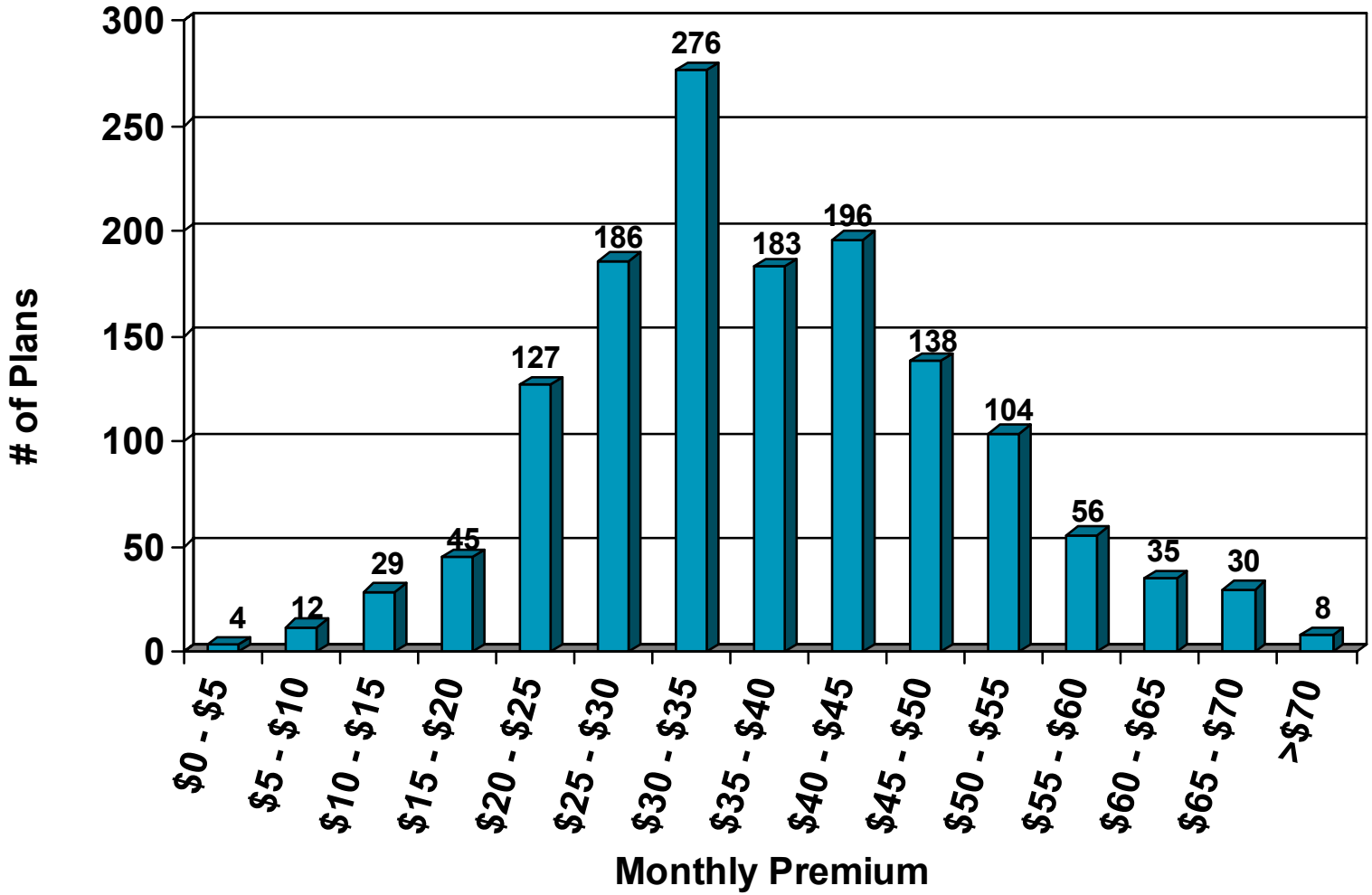
Source: Avalere Health analysis of Congressional Budget Office data in *A Detailed Description of CBO's Cost Estimate for the Medicare Prescription Drug Benefit*, July 2004,Table 7.

Summary of the Stand-alone Prescription Drug Plans

PDP Summary Statistics	Plan Statistics
Number of Regions: 34	Average Monthly Premium (unweighted): $37.38
Organizations Offering PDPs: 86	Zero-deductible Plans: 834 (58%)
National PDP Sponsors: 10	Plans with Tiered Copay Structures: 1,297 (91%)
Total Number of PDP Plans: 1,429	Plans Offering Mail-Order: 1,304 (91%)

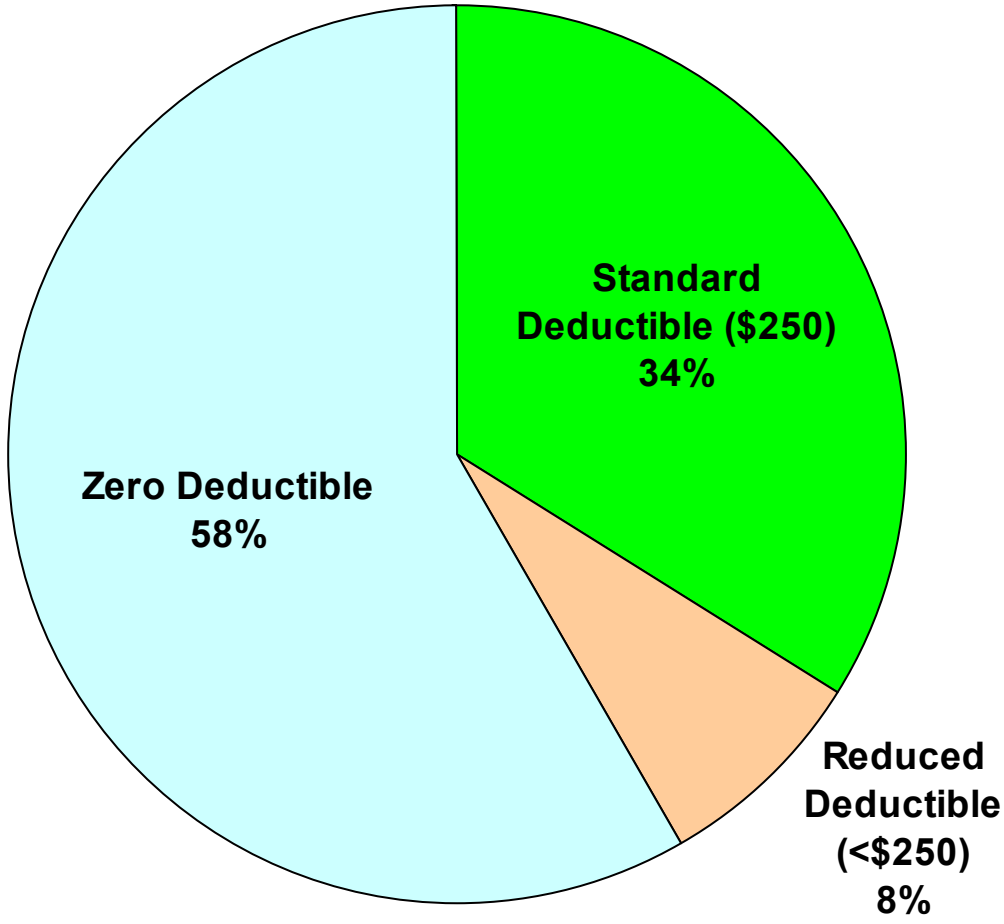
Source: Centers for Medicare and Medicaid Services, Avalere Health analysis

Distribution of PDP Monthly Premiums



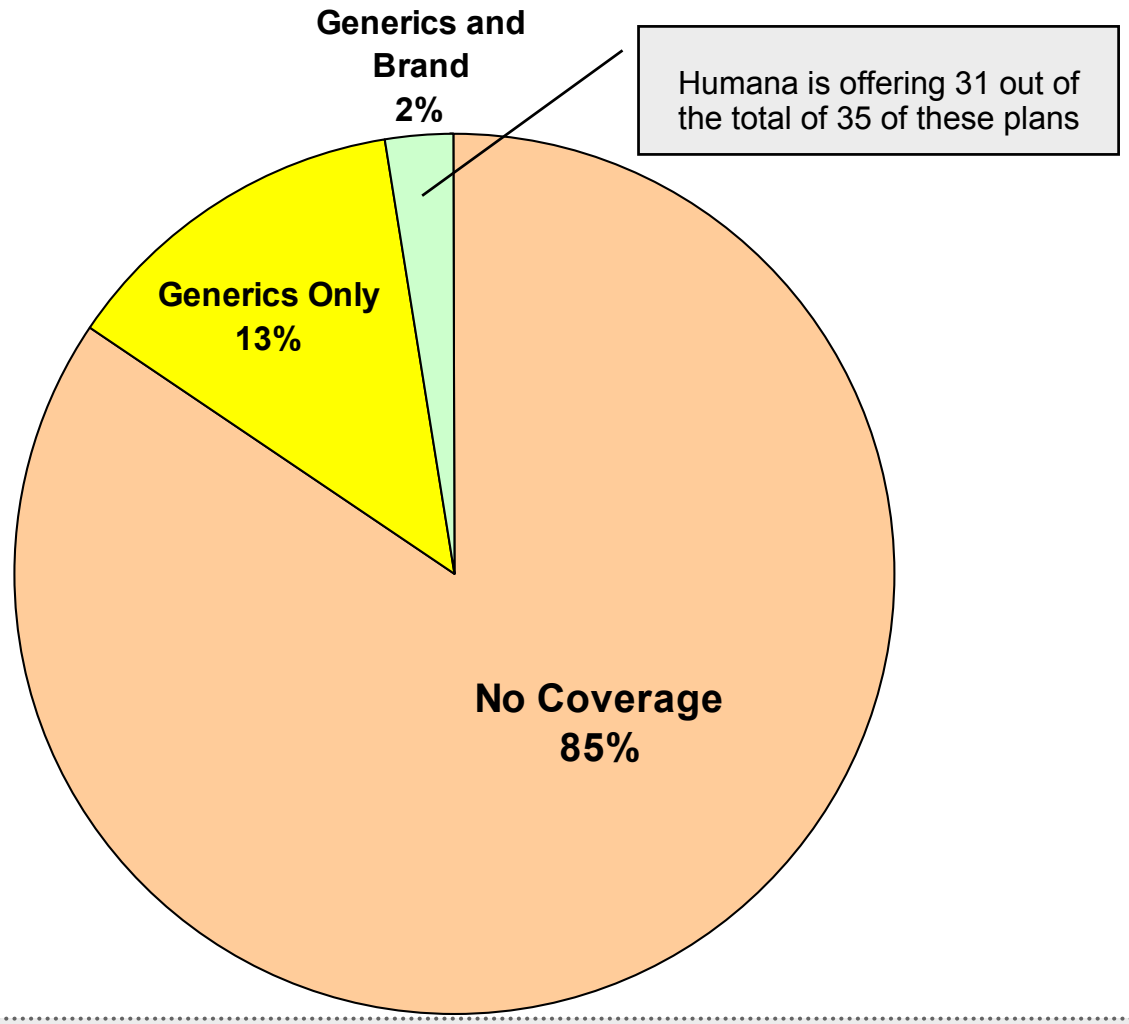
Source: Centers for Medicare and Medicaid Services

PDP Plan Design: Majority Eliminated Standard Deductible



Source: Centers for Medicare and Medicaid Services

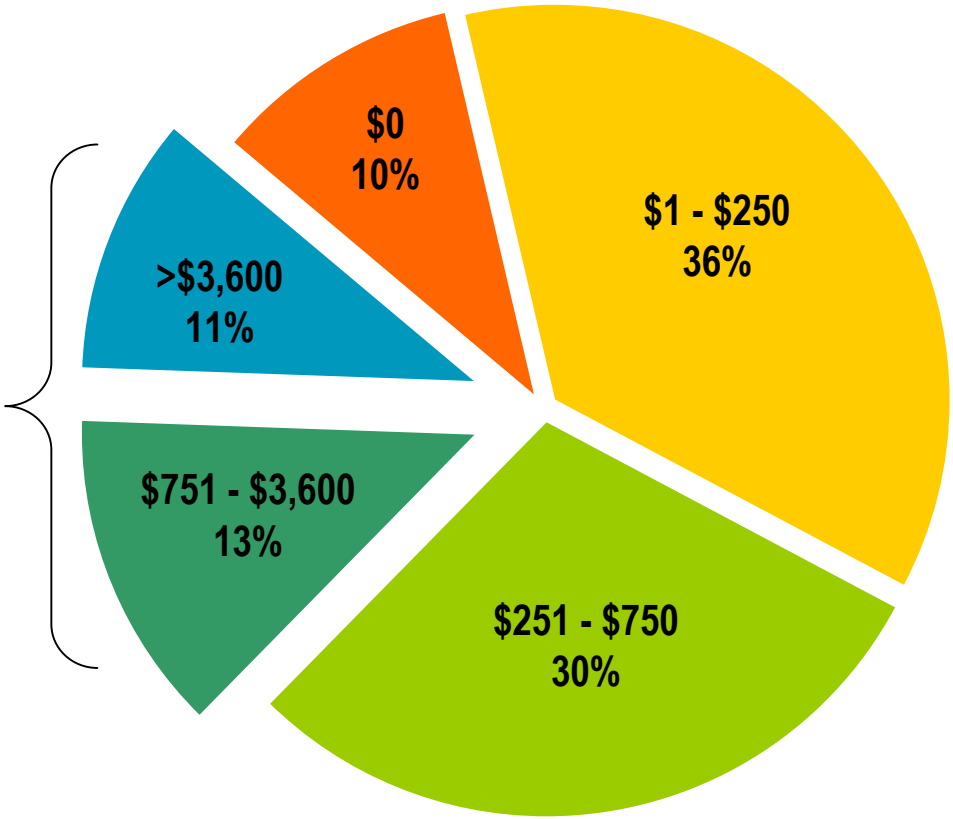
Vast Majority of PDPs Not Offering Coverage In “Donut Hole”



Source: Centers for Medicare and Medicaid Services

How Many Beneficiaries Could Have Drug Spending in the "Donut Hole" in 2006?

Projected Distribution of Beneficiary Drug Spending in 2006



Estimated 6.9 million (out of 29 million) beneficiaries could experience out-of-pocket drug spending in "donut hole"

Total projected enrollment = 29 million

Source: Kaiser Family Foundation and Actuarial Research Corporation. "Estimates of Medicare Beneficiaries' Out-of-Pocket Drug Spending in 2006." November 2004. Drug spending estimates exclude Part D premiums and assume no supplementation of Part D coverage.

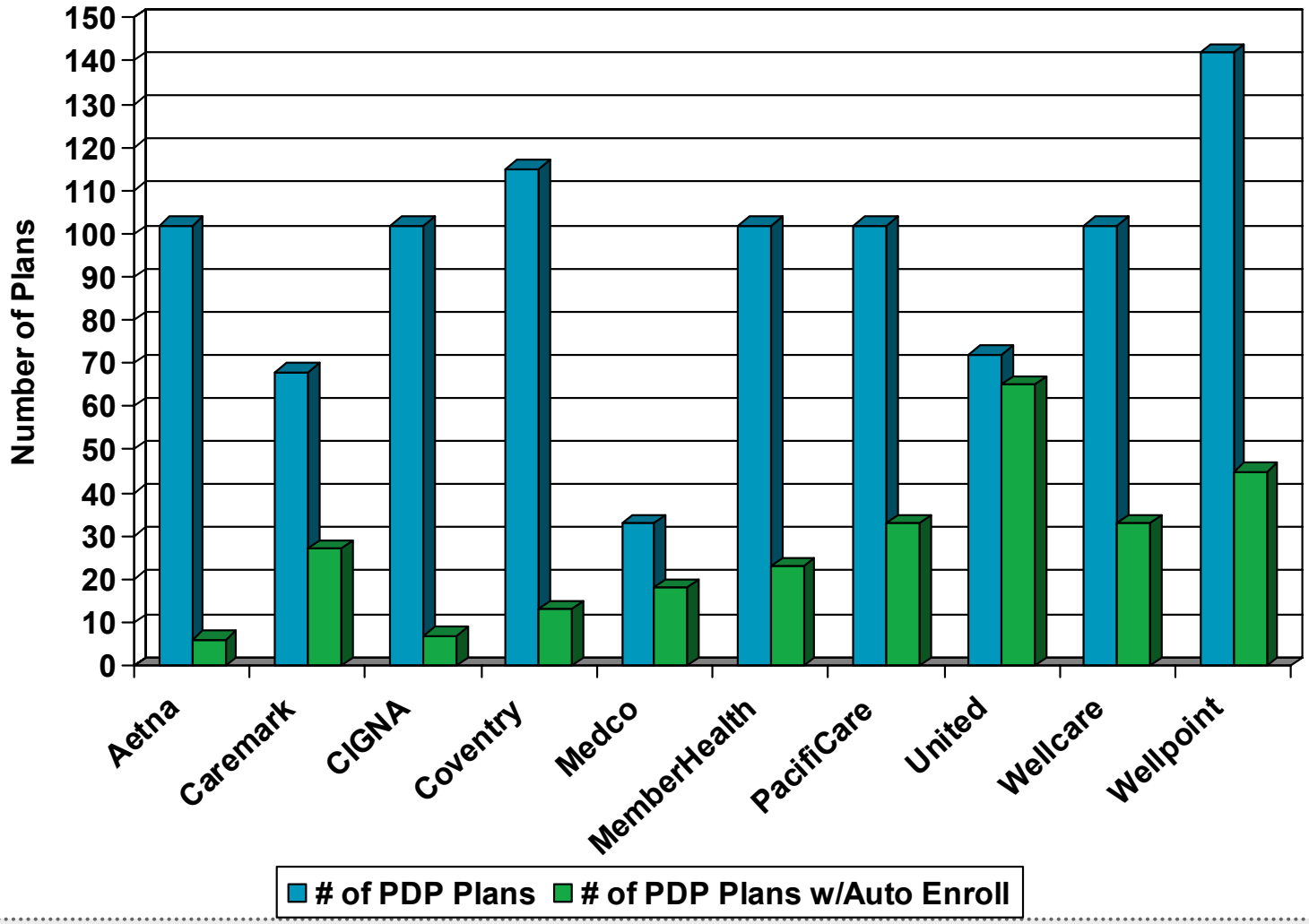
“Donut Hole” Coverage Concentrated in Few PDPs

Generics Coverage	
Aetna	68
Cigna	34
PacifiCare	34
Unicare	33
Other	17
Total # of Plans:	186

Generics and Brand	
Humana	31
Universal Health Care	1
Wellmark	1
Amerihealth	1
Blue Cross Blue Shield	1
Total # of Plans:	35

Source: Centers for Medicare and Medicaid Services

National Plans Made Different Decisions on Number of Plan Choices to Offer



Source: Centers for Medicare and Medicaid Services

Dual Eligibles: Many Organizations in Each Region Bid for Them

Region	States	# of Orgs offering plans for dual-eligibles	Region	States	# of Orgs offering plans for dual-eligibles
1	Maine & New Hampshire	12	18	Missouri	9
2	Connecticut, Massachusetts, Rhode Island, Vermont	9	19	Arkansas	12
3	New York	11	20	Mississippi	11
4	New Jersey	10	21	Louisiana	10
5	Delaware, DC, Maryland	14	22	Texas	14
6	Pennsylvania, West Virginia	14	23	Oklahoma	10
7	Virginia	14	24	Kansas	10
8	North Carolina	11	25	Iowa, Minnesota, Montana, North Dakota, Nebraska, South Dakota, Wyoming	11
9	South Carolina	14	26	New Mexico	8
10	Georgia	13	27	Colorado	10
11	Florida	6	28	Arizona	5
12	Alabama, Tennessee	8	29	Nevada	7
13	Michigan	13	30	Oregon, Washington	12
14	Ohio	9	31	Idaho, Utah	12
15	Indiana, Kentucky	12	32	California	8
16	Wisconsin	13	33	Hawaii	7
17	Illinois	12	34	Alaska	7

Source: Centers for Medicare and Medicaid Services

Low-Income Part D Beneficiaries Pay Reduced Cost-Sharing

Subsidies by % of FPL*	<100%	<135%	<150%	Institutionalized Dual Eligible Beneficiaries
Monthly Premium	$0	$0	Subsidy phased out at 150% FPL	$0
Deductible	$0	$0	$50	$0
Cost-Sharing In Initial Benefit (>$2,250)	$1 Generic $3 Brand	$2 Generic $5 Brand	15% Coinsurance	$0
Cost-Sharing In Coverage Gap ("Donut Hole")	$1 Generic $3 Brand	$2 Generic $5 Brand	15% Coinsurance	$0
Cost-Sharing In Catastrophic Benefit (>$5,100)	$1 Generic $3 Brand	$2 Generic $5 Brand	$2 Generic $5 Brand	$0

*2005 Federal Poverty Level = $9,570 for an individual and $12,830 for a couple. Asset test also applies.
Source: Kaiser Family Foundation. Medicare Fact Sheet: Low-Income Assistance Under the Medicare Drug Benefit, September 2005.

Drug Plan Finder Tool: A New Degree of Price Transparency?

Welcome to the Medicare Prescription Drug Plan Finder

Starting January 1, 2006, new Medicare prescription drug coverage will be available to everyone with Medicare, regardless of income, health status, or how you pay for prescription drugs today.

Everyone with Medicare needs to make a decision about prescription drug coverage. Even if you don't use a lot of prescription drugs now, you should still consider joining a plan.

Remember, to get the coverage, you must join a plan.

The Medicare Prescription Drug Plan Finder will help you:

- Learn about the new Medicare prescription drug coverage
- Find and compare prescription drug plans that meet your personal needs
- Enroll in the prescription drug plan that you select

Where would you like to begin?

Find a Medicare Prescription Drug Plan

Enroll in a Medicare Prescription Drug Plan **(Starting November 15, 2005)**

Learn how Medicare Prescription Drug Plans Work

Important coverage information for individuals who currently receive prescription drug coverage through Military retiree benefits (TRICARE), Veteran benefits (VA), or Federal employee retiree benefits (FEHBP)

Page Last Updated: October 16, 2005

Benefits of the new Medicare prescription drug coverage

- It is available to all people with Medicare.
- It will pay for about half your drug costs.
- Almost 1 in 3 people will qualify for extra help paying for their drug costs.
- It protects you against ever having very high drug expenses.
- It pays for brand-name and generic drugs.

Learn more about

Why you should enroll in a plan
Learn more >

How plans work
Learn more >

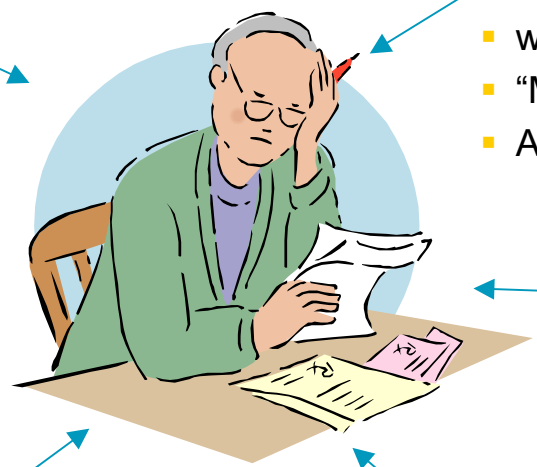
A Beneficiary Deciding "To D or Not to D?" Will Interact With a Number of Information Sources

CMS

- Outreach and education programs, funding for community-based orgs.
- 1-800-MEDICARE
- www.medicare.gov (Plan Finder Tool)
- "Medicare and You" Handbook
- Auto-enrollment for dual eligibles

Physicians/ Pharmacists/ Seniors Organizations

- Various sources of information on Part D and local plan options



SSA

- Determine eligibility for low-income subsidies
- Process enrollment in Part D

States

- Determine eligibility for low-income subsidies
- Assist with education, outreach, and enrollment (State Health Insurance Assistance Programs)

Part D Plans (PDPs & MA-PD)

- Marketing materials
- Insurance brokers, agents

Just A Few Important Issues We Did Not Touch On!

- Sustainability of Part D amid growing budget deficits, increasing beneficiary costs
- Dynamics of Part D plan and drug manufacturer price negotiations
- Impacts on Drug Manufacturer Patient Assistance Programs (PAPs) and State Pharmaceutical Assistance Programs (SPAPs)
- Impacts on States (administrative and fiscal)
- Impacts on LTC pharmacies and LTC facility residents
- Impacts of Medication Therapy Management Programs
- Interactions between Part D and Part B coverage and payment policies
- CMS' Medicare Part D "Data Initiative"
- Part D fraud and abuse issues, including marketing of Part D plans
- Interactions Between CMS, FDA, and AHRQ quality improvement initiatives
- Impact of Part D on dissemination of E-prescribing and other HIT