

Medicare Part D: Saving Money and Improving Health



Delivering on the Promise and
Building for the Future

DECEMBER 2013



Introduction

Medicare Part D offers prescription drug coverage that is delivering on its promise and poised for continued success. On December 8, 2003, President George W. Bush signed into law the Medicare Prescription Drug, Improvement, and Modernization Act (also called the Medicare Modernization Act or MMA) creating the Medicare Prescription Drug Coverage Program known as Medicare Part D. In creating the first-ever outpatient prescription drug benefit under Medicare, the law closed a significant gap in health insurance coverage for Medicare beneficiaries.

Ten years after the creation of Medicare Part D, we celebrate its successes and look forward to improving upon and building a program that will meet the needs of all its current and future beneficiaries. Each day, Part D provides millions of Medicare beneficiaries with access to vital prescription drugs.

Medicare Part D by the Numbers

35 million	Americans have outpatient prescription drug coverage because of Part D
\$30	Average monthly premium for a Part D plan
90 percent	Beneficiaries satisfied with their Part D coverage
96 percent	Beneficiaries say Part D provides “peace of mind”
11.8 million	Beneficiaries pay no Part D premium and have minimal cost-sharing
45 percent	Costs less than the original Congressional Budget Office projections

The Story of Medicare Part D

Since its creation in 1965, Medicare has provided security and access to health care for America’s seniors and people with disabilities. Medicare Part A provides access and coverage for inpatient hospital care. Part B provides access and coverage for physician visits and other community-based care. Until ten years ago, Medicare did not have a benefit covering outpatient prescription drugs.

Prescription drugs played an important but less significant role in health care at the time of Medicare’s inception. Through the years, the growth in the development and use of effective medications to treat common conditions, rare diseases, and more led to the clear need for a prescription drug benefit under Medicare. Today, prescription drugs are an integral part of treatment plans and access to medications is an essential component of modern health insurance coverage.

Prior to 2003, many seniors had prescription drug coverage offered through their former employers. Other Medicare beneficiaries obtained coverage through Medicaid or through a

patchwork of government and private programs. Nearly 30 percent of Medicare beneficiaries lacked drug coverage prior to the creation of Part D, and more lacked “good drug coverage” meaning they too often were not able to fill prescriptions or skipped doses.¹

Throughout the 1990s, the American public heard stories of Medicare beneficiaries unable to afford their medications and about those having to make impossible choices between food, shelter, and their health. Groups organized bus trips to Canada to help Medicare beneficiaries find less expensive drugs. Multiple pieces of legislation adding a drug benefit to Medicare were proposed in Congress. But legislation stalled because of cost concerns and deep divisions over the best way to provide drug coverage. In the meantime, many beneficiaries went without necessary medications.

On December 8, 2003, President George W. Bush signed into law the Medicare Modernization Act creating the first-ever Medicare outpatient prescription drug program called Medicare Part D. Today, as a result, more than 35 million Medicare beneficiaries have drug coverage,² and nine in ten beneficiaries have drug coverage either through Part D, or the Part D equivalent through former employers or other government programs.³

Improving Health

For most medical conditions, especially serious and chronic diseases, ample research demonstrates a clear link between medication adherence and improved health outcomes and quality of life. In the decade since the creation of Part D, evidence has grown to show that Part D improves health outcomes when beneficiaries take their medications as prescribed.

One positive health outcome measure is a beneficiary’s reduced need for other medical treatments. A study in the *Journal of the American Medical Association* found that Part D resulted in an average reduction in medical spending of \$1,200 for Medicare beneficiaries in both 2006 and 2007,⁴ who prior to Part D had limited drug coverage. Another study found that access to drugs through Part D was associated with a four percent reduction in hospital admissions.⁵

The positive health impact of prescription drugs is now widely accepted.⁶ In November 2012, the non-partisan Congressional Budget Office (CBO) for the first time acknowledged that, in

¹ Safran DG et al. “Prescription Drug Coverage and Seniors: Findings from a 2003 National Survey.” Health Affairs, 2005 Jan-Jun;Suppl Web Exclusives:W5-152-W5-166.; Stuart et al. “Dynamics in Drug Coverage of Medicare Beneficiaries: Finders, Losers, and Switchers.” HealthAffairs, 2001; 20(2):86-99.; Cubanski J et al. “Medicare Chartbook.” 2005, The Henry J. Kaiser Family Foundation.)

² CMS, “Medicare Advantage, Cost, PACE, Demo, and Prescription Drug Plan Contract Report - Monthly Summary Report (Data as of April 2013), <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/MCRAdvPartDEnrolData/Monthly-Contract-and-Enrollment-Summary-Report-Items/Contract-Summary-2013-04.html?DLPage=1&DLSort=1&DLSortDir=descending>

³ MedPAC 2013 report.

⁴ J.M. McWilliams et al. “Implementation of Medicare Part D and Nondrug Medical Spending for Elderly Adults with Limited Prior Drug Coverage,” *Journal of the American Medical Association*, 27 July 2011.

⁵ C. Afendulis et al. “The Impact of Medicare Part D on Hospitalization Rates,” *Health Services Research*, August 2011.

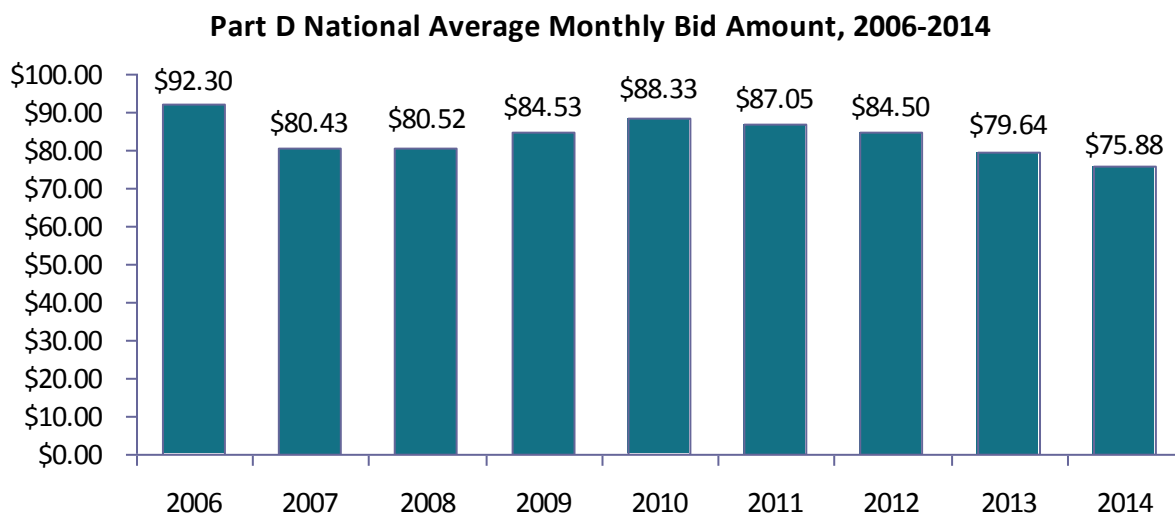
⁶ (Lau DT, Stubbings J. “Medicare Part D Research and Policy Highlights, 2012: Impact and Insights.” *Clin Ther.* 2012 Apr; 34(4):904-14)

preparing cost estimates for Medicare related legislation, CBO would offset these costs because of the reductions in health care costs that come from improved access to drug coverage.⁷

Providing Value

Medicare Part D has proven to be a great value. Despite cynicism that often accompanies government programs, Part D is an example of a program that generally works well. Since its inception, Part D has offered a wide range of premiums. In 2013, the average monthly premium was \$30.⁸ Also in 2013, 11.8 million Medicare beneficiaries qualified for low-income subsidies (LIS). LIS beneficiaries pay no premium for their Part D benefit and have minimal co-pays.⁹

Premiums in Medicare Part D are determined based on the bids offered by the private insurers who compete to provide the drug benefits. Over the years, the bid prices have decreased, resulting in lower premiums for beneficiaries. According to the Centers for Medicare and Medicaid Services' (CMS) Office of the Actuary, the average plan bid is lower today than in Part D's first year.



Sources: CMS Office of the Actuary memo, "Release of Part D National Average Monthly Bid Amount." The annual CMS/OACT memos for 2006-2014 are available at <http://www.cms.gov/Medicare/Health-Plans/MedicareAdvtgSpecRateStats/Ratebooks-and-Supporting-Data.html>

⁷ CBO "Offsetting Effects of Prescription Drug Use on Medicare's Spending for Medical Services." November 2012. <http://www.cbo.gov/publication/43741>

⁸ MedPAC "A Data Book: Health Care Spending and the Medicare Program (June 2013)" <http://www.medpac.gov/documents/Jun13DataBookEntireReport.pdf>

⁹ MedPAC "A Data Book: Health Care Spending and the Medicare Program (June 2013)" <http://www.medpac.gov/documents/Jun13DataBookEntireReport.pdf>

In addition to low premiums, Part D has kept out-of-pocket costs low for many beneficiaries. In 2011, the average monthly out-of-pocket cost was \$50 and an average of \$8 for those receiving low-income subsidies.¹⁰

For many beneficiaries, the savings from Medicare Part D helps improve their overall financial well-being. One study found that Part D reduced two-thirds of low-income beneficiaries saying they have difficulty paying for their medications.¹¹

While the story is positive for many, some Medicare beneficiaries' out-of-pocket costs are well above the average. High out-of-pocket costs is a significant issue for those who use many drugs or who have conditions requiring the use of specialty drugs usually placed on a plan's specialty tier within the drug formulary.

Unlike other drugs, specialty tier drugs are subject to significant co-insurance, leaving beneficiaries to pay thousands of dollars out-of-pocket. High out-of-pocket costs create an undue burden on some of Medicare's most vulnerable beneficiaries. Typical classes of drugs with high cost sharing tend to be for severe conditions, such as cancer, HIV/AIDS, rheumatoid arthritis, and multiple sclerosis. For many beneficiaries, the result is denied access to the most appropriate medications simply because the medication is now financially out of reach.

Despite the issue of the high cost sharing for specialty drugs, the overall value of Part D continues to improve for beneficiaries. The Affordable Care Act (ACA) requires the Part D coverage gap, also known as the doughnut hole, to be completely phased out by 2020. The coverage gap leaves many Medicare beneficiaries, who do not qualify for low-income subsidies, vulnerable to high out-of-pocket costs. In 2011, the coverage gap was reduced by half for brand name drugs making access to those medications easier. In 2020, beneficiaries will pay 25 percent the cost of brand name drugs. While 25 percent remains too high for many, these changes are a good beginning.

Medicare Part D has generally been a great value and positive experience for beneficiaries, and it has financially outperformed early cost estimates. Some estimate Part D has cost 45 percent or \$348 billion less than the original CBO cost estimates for the program's first decade (2004-2013).¹² According to CBO, 2012 spending came in at less than half of estimated program spending in 2004.¹³

Experts point to a number of reasons why actual spending may be lower than forecasted. Explanations include: lower than expected drug cost increases; increased use of generics; and,

¹⁰ MedPAC "A Data Book: Health Care Spending and the Medicare Program (June 2013)" <http://www.medpac.gov/documents/Jun13DataBookEntireReport.pdf>

¹¹ Foley, K. and Johnson, B. "Medicare Part D Improves the Economic Well-Being of Low Income Seniors." Truven Health Analytics. February 2012. <http://img.en25.com/Web/ThomsonReuters/PDF.pdf>

¹² CBO Medicare Baselines available at www.cbo.gov

¹³ CBO, "Updated Budget Projections: Fiscal Years 2012 to 2022" March 2012. P. 9. <http://www.cbo.gov/sites/default/files/cbofiles/attachments/March2012Baseline.pdf>

fewer people enrolling in Part D. Regardless, Part D is an example of a government program costing less and delivering as promised.

The ACA further strengthened the value of Medicare Part D for beneficiaries by requiring Part D plans spend at least 85 percent of their premium revenues on clinical services, drugs, and quality improvement activities or pay back the amount of any shortfall to the government.¹⁴ The goal is to ensure that plans spend as much as possible on beneficiaries and less on administration and profits.

Satisfaction and Peace of Mind

In 1965, when President Lyndon Johnson signed the legislation creating the original Medicare program, he said:

No longer will older Americans be denied the healing miracle of modern medicine. No longer will illness crush and destroy the savings that they have so carefully put away over a lifetime so that they might enjoy dignity in their later years. No longer will young families see their own incomes, and their own hopes, eaten away simply because they are carrying out their deep moral obligations to their parents, and to their uncles, and their aunts.¹⁵

It is this promise that, three decades later, Part D has helped make more complete. Medicare Part D has made beneficiaries more secure knowing they have access to their medications despite limited incomes. One survey found that 96 percent of Part D beneficiaries agree that the program helps them “feel peace of mind.”¹⁶

The success of Medicare Part D is measured in more than dollars and cents. It is measured by the experience of its beneficiaries. In a recent report issued by the Congressionally chartered Medicare Payment Advisory Commission (MedPAC), “surveys indicate that beneficiaries enrolled in Part D are generally satisfied with the Part D program and with their plans.”¹⁷ “Our analysis of the 2010 Medicare Current Beneficiary Survey shows that most enrollees are satisfied with the drug benefit (94 percent) and think the level of coverage meets their medication needs (95 percent)”¹⁸.

Other survey data are consistent with MedPAC findings. For example, a study conducted for Medicare Today by KRC Research in September 2013 found that 90 percent of Part D

¹⁴ Sections 1857(e)(4) and 1860D-12 of the Affordable Care Act.

¹⁵ President Lyndon B. Johnson's Remarks at the signing in of the Medicare Bill, July 30, 1965 found at <http://www.lbjlib.utexas.edu/johnson/archives.hom/speeches.hom/650730.asp>

¹⁶ Medicare Today, Sept. 2013 survey found at

<http://www.medicaretoday.org/MT2013/KRC%20Survey%20of%20Seniors%20for%20Medicare%20Today%20FINAL.pdf>

¹⁷ Report to the Congress: Medicare Payment Policy (March 2013) at http://www.medpac.gov/documents/Mar13_EntireReport.pdf citing Department of Health and Human Services 2010, Keenan 2007, Medical News Today 2009, PRNewswire 2010, Weems 2008

¹⁸ Report to the Congress: Medicare Payment Policy (March 2013) at http://www.medpac.gov/documents/Mar13_EntireReport.pdf

beneficiaries were satisfied with the program. Six in ten beneficiaries were very satisfied.¹⁹ The results were consistent among beneficiaries using Part D routinely to obtain necessary medications and for those rarely accessing the benefit. The survey, conducted each year since 2006, has found consistently high satisfaction levels spread evenly across the spectrum of political affiliation, economics levels, and demographics.

Building for the Future

Even with the success of Medicare Part D, there are still beneficiaries who experience challenges accessing prescription drugs under Part D. For example, some of Medicare's most vulnerable beneficiaries with chronic and rare diseases and disabilities are finding access to necessary medications increasingly challenging and expensive.

Medicare Part D has built a solid track record of success on which the program is already improving and can continue to improve in the future. Its tenth anniversary is a time to pause, celebrate, reflect, and dedicate ourselves to the work of completing the promise to Medicare beneficiaries.

Medicare Access for Patients Rx (MAPRx) Coalition

The Medicare Access for Patients Rx (MAPRx) Coalition brings together more than 45 national beneficiary, patient, family, caregiver and health professional organizations committed to protecting the health and well-being of individuals with chronic diseases and disabilities by improving access to affordable prescription drugs through Medicare Part D. MAPRx works collaboratively to advocate for policies that ensure access to affordable prescription drugs while helping people with chronic diseases and disabilities maintain their health and financial security.

MAPRx stands ready to work with Congress and the Administration to build on the promise of Medicare Part D. Along with its member organizations, MAPRx will work to:

- Prohibit gaps in coverage;
- Avoid onerous cost-shifting onto beneficiaries through design mechanisms like specialty tiers;
- Curb the use of restrictive medication utilization management; and,
- Improve program effectiveness, including access for beneficiaries eligible for low-income subsidies who have not yet enrolled.

To learn more about MAPRx and our policy principles, visit www.maprx.info.

¹⁹ Medicare Today, Sept. 2013 survey found at <http://www.medicaretoday.org/MT2013/KRC%20Survey%20of%20Seniors%20for%20Medicare%20Today%20%20FINAL.pdf>