

Medicare Part D Reform



Why is Part D Reform Needed?

The Medicare Part D prescription drug program is one of the most successful and popular federal programs covering 45 million beneficiaries. In recent years, however, the program's costs to the federal government have been rapidly increasing.¹

The increased costs have been fueled in part by higher drug prices and utilization, but are also due to incentives inherent in the structure of the Part D benefit. In particular, counting manufacturer coverage gap discounts toward the true out-of-pocket cap (TrOOP) has caused more beneficiaries to reach the catastrophic coverage phase of the benefit, and to do so more quickly. High priced drugs accelerate beneficiaries through the coverage gap and into the catastrophic phase, where Part D plans pay a much lower share of drug costs.² As more costs shift to catastrophic coverage, the federal government's overall spending increases, yet fewer dollars are available to directly subsidize beneficiary premiums.

Proposals to Reform Medicare Part D

CVS Health supports proposals to modernize Part D and to better align the incentives of all stakeholders to control drug costs and improve quality, including the following:

- 1. Establishment of an out-of-pocket (OOP) cap on beneficiary drug costs in the catastrophic phase.**
This will provide better financial protection for beneficiaries with high drug costs, and bring the Part D benefit in line with Medicare Parts A and B and most commercial drug coverage in this respect.
- 2. Increased plan liability in the catastrophic phase.** This would reduce or eliminate the current incentive for Part D plans to prefer high-cost, high-rebate drugs that accelerate beneficiaries into the catastrophic phase.
- 3. Manufacturer liability in the catastrophic phase.** This would provide manufacturers with an incentive to control drug prices and not encourage overutilization.
- 4. Pay-for-performance measures for pharmacies.** These measures should support and align with CMS objectives and drive pharmacies' performance toward achieving positive enrollee outcomes and improving quality of care.

Together, these reforms would improve the current program design by:



- Increasing consumer protections through the OOP cap



- Removing some incentives for drug manufacturers to set high prices, and



- Shifting risk from the government to Part D plans and drug manufacturers



- Ensuring the continuation of pharmacy quality performance programs

¹ Between 2007 and 2017, Part D plans' share of drug costs for non-LIS beneficiaries decreased from 53% to 29%, and for LIS beneficiaries from 30% to 19%. See "[Medicare and the Health Care Delivery System](#)," June 2020 MedPAC Report to Congress, p.119

² See "Medicare Part D – Direct and Indirect Remuneration (DIR)", CMS Fact Sheet, January 19, 2019.

CVS Health supports a Part D reform package that includes these must-needed changes. Several existing legislative proposals, shown below alongside the current benefit design, are some examples of how these reforms could be configured.

	Current Standard Benefit Design (2019 and Beyond)	Updated PDPRA or S. 2543	H.R. 3	H.R. 19/S. 3219
Deductible	Beneficiary: 100%	Beneficiary: 100%	Beneficiary: 100%	Beneficiary: 100%
Initial Coverage	Beneficiary: 25% Plan: 75%	Beneficiary: 20% Plan: 73%	Beneficiary: 25% Plan: 65%	Beneficiary: 15% Plan: 75%
Coverage Gap	Beneficiary: 25% Plan: 5% Manufacturer: 70%	Manufacturer: 7%	Manufacturer: 10%*	Manufacturer: 10%
<i>Catastrophic Threshold</i>		<i>Beneficiary OOP cap at \$3,100</i>	<i>Beneficiary OOP cap at \$2,000</i>	<i>Beneficiary OOP cap at \$3,100</i>
Catastrophic Coverage	Beneficiary: 5% Plan: 15% Medicare: 80%	Plan: Gradual increase to 66% by 2024 Medicare: Gradual decrease to 20% by 2024 Manufacturer: 14% beginning in 2022	Plan: 50% Medicare: 20% Manufacturer: 30%	Plan: 70% Medicare: 20% Manufacturer: 10%

Note: Standard benefit under current law applies to non-LIS beneficiaries only. Under the updated PDPRA and H.R. 3, manufacturer discounts would apply to both LIS and non-LIS beneficiaries. Manufacturer discounts would continue to apply for brand drugs, biologics, and biosimilars only. All bills were introduced in 2019 in the 116th Congress and will need to be reintroduced in the 117th Congress.

*Under H.R.3, manufacturer discounts during initial coverage would not count toward a beneficiary's TrOOP, unlike coverage gap discounts today.