



## Lawmakers Should Ensure A Part D Benefit Redesign Does Not Disincentivize High Value Medicines

October 22, 2019

There are many areas of the healthcare system that lawmakers are currently striving to reform.

One of these areas is redesigning the Medicare Part D drug program with a number of systemic changes, including helping seniors better manage their out of pocket costs.

Several months ago, the Senate Finance Committee advanced legislation – the Prescription Drug Reduction Act of 2019 – which among other things, included a proposal to redesign the Medicare Part D benefit. The redesign, among other things, eliminates the current coverage gap, caps out of pocket costs for seniors at \$3,100 and concerningly, places a new government liability on a select group of manufacturers.

Efforts to reform Part D should be welcomed, however any reform should be done in a way that does not create winners and losers in the marketplace by disincentivizing high value, innovative medicines for seniors as the Finance Committee package risks doing with its redesign

**The Medicare Part D program has been successful due to its original design that relies on market forces.** Part D is successful because it facilitates negotiation between different stakeholders. The system puts downward pressure on costs through competition between pharmacy benefit managers (PBMs), pharmaceutical manufacturers, plans, and pharmacies.

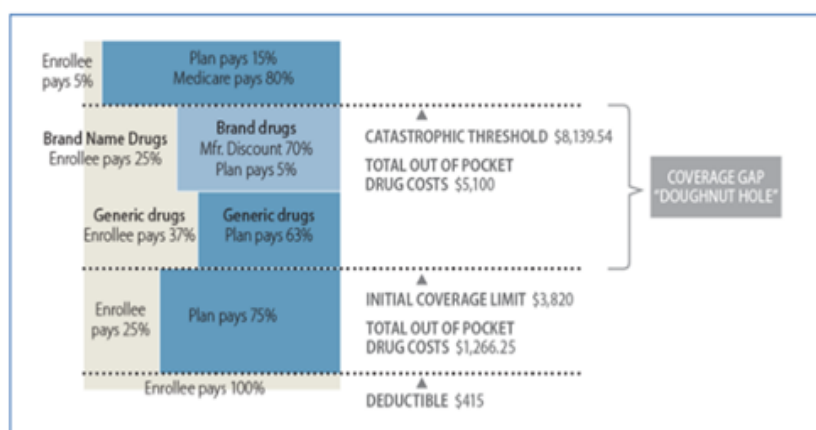
At the core of this program is the non-interference clause which prevents the Secretary of Health and Human Services (HHS) from interfering with these robust private-sector negotiations.

While this system is successful in maintaining low overall program costs, there is room to improve so the program remains competitive for innovation and manageable for seniors and their out of pocket expenses.

**However, the existing Part D benefit structure is needlessly complex for seniors, manufacturers, payers and taxpayers, and creates distortions in the market place.**

Under the existing system, seniors are required to pay a deductible up to \$415. Once this amount is reached, a senior enters the initial coverage gap where they are required to pay 25% of costs throughout the initial coverage threshold. The plan is required to cover the remaining 75% so the senior's maximum out of pocket cost up to this point is \$1,266.25 (\$415 + 25% of the initial coverage period).

Figure 1. Medicare Part D Standard Coverage Benefit for 2019





722 12<sup>th</sup> Street N.W.

Fourth Floor

Washington, D.C.

20005

T:(202)785-0266

F:(202)785-0261

[www.ATR.org](http://www.ATR.org)

Once the initial coverage threshold is exceeded, a senior enters the donut hole coverage gap.

Within the donut hole, consumers have been forced to pay out-of-pocket costs far exceeding other coverage thresholds.

In 2019, this coverage gap was hit at \$8,139.54 in total spending and \$5,100 in out-of-pocket costs. Past this threshold, seniors are required to pay 5% of the drug's list price, the plan pays 15% and Medicare pays for 80%.

As [noted](#) by AEI, once a patient reaches the catastrophic phase of the design, there is limited liability for plans which can result in additional and unnecessary out of pocket costs for enrollees.

Figure 1 shows that distortions exist at each level of the current benefit design for patients, manufacturers, payers and taxpayers.

**Lawmakers rightly want to improve this system. However, the proposed Senate Finance proposal does not adequately fix the existing distortions.**

The Senate Finance bill contains several reforms:

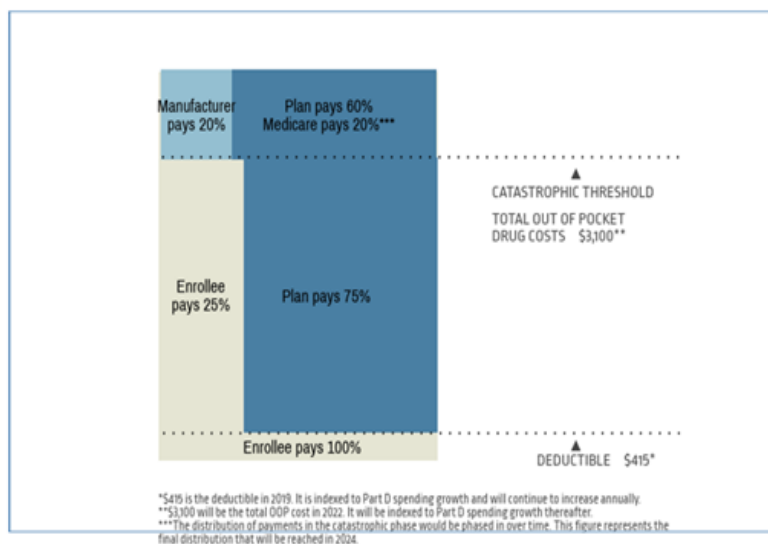
- This reform creates an out of pocket cap for seniors, which will help lower out of pocket spending for Americans.
- To pay for this cap, starting in this catastrophic threshold, a new 20% liability is imposed on manufacturers whose patients enter the catastrophic phase, with the plan paying 60% of costs and Medicare paying 20%.

The new, 20 percent liability is similar to the 70 percent donut hole liability that is currently present in the benefit design. However, unlike the current donut hole design, this 20 percent liability is imposed on every dollar of new spending.

The Senate Finance Committee's Part D redesign shifts manufacturer liabilities from many to a select and valuable few and does so by creating a new liability that only targets a segment of manufacturers whose patients enter the catastrophic phase. While the goal of this reform is worthwhile, the policy it takes to get there creates new liabilities to the government and leaves distortions in the benefit and thus the marketplace.

The pay for mechanism for redesign disproportionately falls on manufacturers of high value, innovative drugs, as [noted](#) by Avalere, which could harm innovation in some disease areas, including diseases with little or no treatment options for seniors.

**Figure 2. Medicare Part D Standard Coverage Benefit Redesign**





722 12<sup>th</sup> Street N.W.

Fourth Floor

Washington, D.C.

20005

T: (202) 785-0266

F: (202) 785-0261

[www.atr.org](http://www.atr.org)

While the Senate Finance Committee's out of pocket cap redesign appears to level the playing field, it does so with a dangerous side effect. As written, it is undeniable the Senate Finance Committee's new 20 percent liability requirement will directly affect investment patterns present and future for companies that are pursuing high value therapies for Part D populations under the current benefit design.

In fact, according to Avalere, the new increased liability in some classes of drugs could exceed 500%.

**A better solution to reform the Part D benefit would be to reform it in a way that does not punish (and disincentivize) the development high value treatments.**

As lawmakers continue to look for ways to further improve the existing Finance Committee Part D redesign package, they should not overlook its damaging creation of new liabilities placed solely on one group of stakeholders. A better option would not institute new liability that would greatly disrupt the marketplace which so many innovators have been working under.

In considering any redesign for Medicare Part D, policy makers should ensure they do as much as possible to reduce distortions in the marketplace and ensure companies continue to compete and develop high value medicines for America's seniors.