

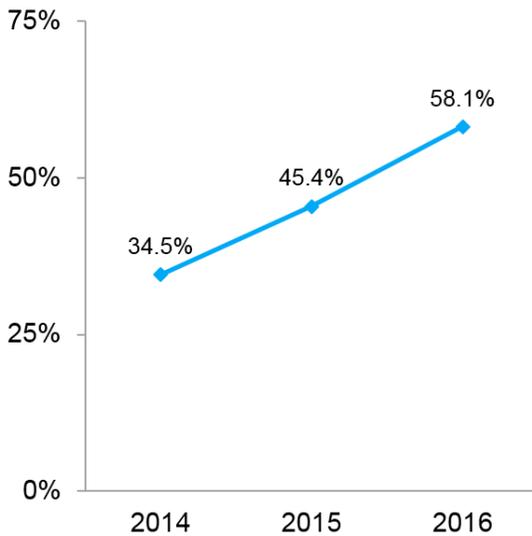
Majority of Drugs Now Subject to Coinsurance in Medicare Part D Plans

Percentage of drugs in Part D plans that require coinsurance increased significantly since 2014

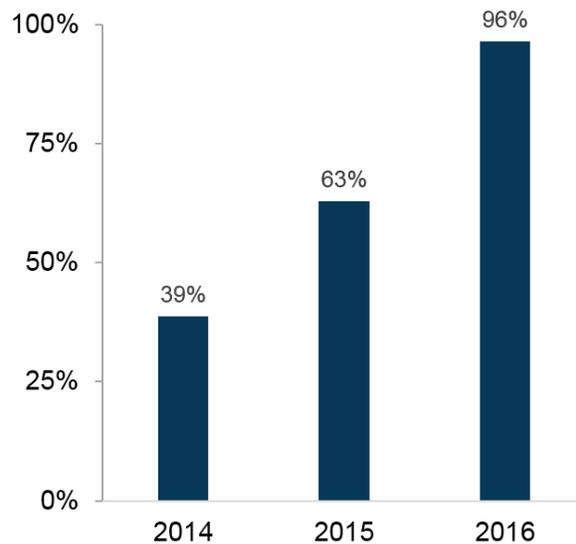
Medicare Advantage plans require coinsurance far less often than Part D plans

A new analysis from Avalere finds that a majority of prescription drugs covered by standalone Medicare Part D plans (PDPs) are subject to coinsurance, rather than copayments, in 2016. Coinsurance is when a beneficiary pays a percentage of the cost of the drug, rather than a fixed dollar amount, or copayment. Coinsurance often leads to patients paying more out of pocket compared to fixed dollar amount copayments. The average percentage of covered drugs facing coinsurance has risen sharply from 35 percent in 2014 to 58 percent in 2016 among PDPs. While most PDPs have historically applied coinsurance to high-cost drugs on the specialty tier, plans have extended coinsurance to drugs on lower tiers in recent years, including those covered on preferred and non-preferred brand tiers. Avalere notes that the increase in the use of coinsurance could have far reaching effects, considering 24.6 million Medicare beneficiaries enrolled in PDPs in 2016.

Average Percent of Covered Drugs Subject to Coinsurance in PDPs



Percent of PDP Enrollment in Plans Using More than One Coinsurance Tier



“As coinsurance becomes more common in Part D plans, consumers will find their drug costs are less predictable and will need to rely more on tools like the Medicare Plan Finder to help estimate out-of-pocket costs,” said Colin Shannon, senior manager at Avalere.

Health plans use formulary tiers to encourage use of lower-cost drugs and to negotiate rebates from drug manufacturers in exchange for placement on a lower tier. These strategies help keep premiums low for consumers. In recent years, the percentage of beneficiaries enrolled in PDPs



March 10, 2016

with more than one tier requiring coinsurance has spiked to 96 percent in 2016, up from 39 percent in 2014.

While Medicare rules cap the amount of coinsurance for specialty tiers at 33 percent of the cost of the product, the maximum on non-preferred brand tiers is 50 percent in 2016. By comparison, preferred brand tier coinsurance amounts are capped at 25 percent.

“These very high rates of coinsurance have shifted our understanding of Part D formulary coverage,” said Caroline Pearson, senior vice president at Avalere. “It will be important to monitor what drugs are being placed on various coinsurance tiers and how plans are using these tiers to manage cost and utilization in the program.”

Interestingly, Medicare Advantage prescription drug (MA-PD) plans use coinsurance much less frequently than standalone PDPs. In 2016, MA-PDs charge coinsurance for only 26 percent of covered drugs—typically for specialty drugs. MA-PD plans may have an incentive to cover drugs at a lower beneficiary cost because they are also responsible for the medical costs of their enrollees, and their incentive to tightly manage drug costs is lower due to their ability to buy down drug premiums using medical cost savings.

Methodology

This analysis was conducted using Avalere Health’s DataFrame® database, a proprietary database of all stand-alone PDPs and MA-PD plans that uses the Centers for Medicare & Medicaid Services (CMS) data on Medicare Part D plan, MA-PD plan, and formulary design. It also includes additional proprietary and public data sets.

Analysis of 2016 Part D and MA-PD plans uses enrollment data released in February 2016, formulary data released in October 2015, and updated benefit design data released in October 2015.

- Data reflect benefit design information as submitted by the plans to CMS.
- A PDP plan in this context is a single product offered in one of the 34 PDP regions.
- An MA-PD plan in this context is a single option with a unique contract and plan identification number offered in a county; a plan sponsor may offer more than one plan in a county and may serve multiple counties.
- Plans in U.S. territories, cost plans, special needs plans (SNPs), and Medicare-Medicaid plans (MMPs) are excluded from the analysis.

The top 10 PDPs in this analysis reflect February 2016 enrollment. In 2016, there are 886 PDPs available to enrollees. CMS has placed sanctions on 91 plans and does not report formulary information for those plans. In addition, only blank data is available for four PDPs. All 95 of these plans are excluded from this analysis. In 2016, there will be 1,679 MA-PD plans offered to enrollees. Data for ten plans was not included in the October 2016 formulary file released by CMS.

Avalere Health, an Inovalon Company, is a strategic advisory company whose core purpose is to create innovative solutions to complex healthcare problems. Based in Washington, D.C., the firm delivers actionable insights, business intelligence tools and custom analytics for leaders in healthcare business and policy. Avalere’s experts span 230 staff drawn from Fortune 500 healthcare companies, the federal government (e.g., CMS, OMB, CBO and the Congress), top consultancies and nonprofits. The firm offers deep substance on the full range of healthcare business issues affecting the Fortune 500 healthcare companies. Avalere’s focus on strategy is supported by a rigorous, in-house analytic research group that uses public and private data to generate quantitative insight. Through events, publications and interactive programs, Avalere insights are accessible to a broad range of customers. For more information, visit avalere.com, or follow us on Twitter @avalerehealth.

