
Patient Out-of-Pocket Assistance in Medicare Part D: Direct and Indirect Healthcare Savings

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Avalere Health
An Inovalon Company
1350 Connecticut Ave, NW
Washington, DC 20036

T | 202.207.1300
F | 202.467.4455

avalere.com

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Executive Summary

Beneficiaries enrolled in Medicare Part D, the program's prescription drug benefit, who have high drug costs may face significant out-of-pocket (OOP) expenses. Foundations like Patient Services, Inc. (PSI) provide financial assistance for premiums and cost-sharing, which can help reduce Part D medication costs for beneficiaries. This analysis examines the impact of foundation-sponsored financial assistance on patient out-of-pocket costs and federal government spending. It finds that by reducing patient out-of-pocket costs, foundation assistance improves medication adherence, which in turn lowers total Medicare costs by reducing medical spending.

PSI helps pay for medications for patients with 26 conditions.

PSI helped over 13,500 Part D patients in 2017 by providing \$70.9M in cost-sharing assistance. This includes 6,400 cancer patients receiving \$39.3M in PSI assistance and 5,100 patients with respiratory conditions receiving \$23.1M in assistance.

PSI helps reduce patients' OOP costs and improve access to needed therapies.

PSI's assistance improves medication adherence and increases access by allowing patients to fill necessary prescriptions according to the prescribed regimen, whether for the supported therapies or for other needed medications that help manage side effects or chronic conditions. Every \$1,000 in PSI assistance provided annually to Part D beneficiaries allows those patients to fill 3.5 additional prescriptions, on average.

PSI assistance reduces Medicare spending on medical services.

PSI assistance for Part D medications reduces spending on Medicare Parts A and B, which pay for hospitalizations and visits to the doctor, along with other services. Avalere estimates that \$1M in PSI assistance reduces spending on Part A and Part B services by \$1.83M. In 2017, this translated to nearly \$130M in total Medicare Part A and B savings.

PSI assistance creates net savings for the Medicare program

Even when accounting for higher Part D drug spending due to increased adherence, \$1M in PSI assistance saves the federal government \$0.48M across the Medicare program. This means that PSI's assistance in 2017 led to \$33.9M in federal savings.

Background

In 2017, Medicare Part D provided prescription drug coverage to 44.5M beneficiaries who are elderly, disabled, or have end-stage renal disease.ⁱ Though this coverage is heavily subsidized by the federal government, many patients with expensive or complex health needs face high out-of-pocket (OOP) costs for their medications. To assist with OOP expenditures, patient assistance foundations provide financial assistance to make medications affordable at the pharmacy counter.

Medicare Part D

Under Medicare Part D beneficiaries are eligible to purchase subsidized prescription drug coverage through a standalone prescription drug plan (PDP) or through their Medicare Advantage plan (MA-PD), offered by commercial insurers who contract with the federal government.

The 2018 Part D standard benefit includes a deductible and an initial period of coverage with 25% coinsurance on the first \$3,750 in total drug costs. When a beneficiary's OOP expenses (plus coverage gap discounts) exceed \$5,000, catastrophic coverage begins when cost-sharing is capped at 5% for all the drug spending that follows. In between the initial coverage phase and catastrophic coverage, beneficiaries are responsible for a greater share of their drug spending, 35% for brand drugs in 2018, and 25% in subsequent years.ⁱⁱ This coverage phase is commonly referred to as the “donut hole” or coverage gap. The federal government subsidizes almost three-quarters of the costs of the Part D standard benefit, with beneficiaries paying for the remainder through monthly premiums.

All Part D plans must provide coverage with actuarial value that is at least as generous as the standard benefit, but plans have discretion within these bounds. Plans can set their own formularies, or drug lists, and can vary cost-sharing based on formulary tiers within limits. Medicare permits cost-sharing as high as 50% for drugs on some tiers or does not require plans to cover all drugs.ⁱⁱ

Unlike commercial drug coverage offered outside of Medicare, Part D coverage does not cap OOP expenditures for beneficiaries. This means that many Part D beneficiaries are exposed to high amounts of OOP spending, especially if they need expensive medications. Further, under the Part D benefit design, cost-sharing varies throughout the year, which can lead to drug access and affordability problems for the patients.

To alleviate the financial burden for the patients, Medicare provides an additional subsidy to certain beneficiaries, known as the low-income subsidy (LIS) or “Extra Help.” This program reduces cost-sharing and/or premiums for eligible beneficiaries, generally those with income below 150% of the federal poverty level. Currently, only 28% of Part D beneficiaries receive the LIS, while the remaining, many of which have moderate incomes, may be exposed to high cost-sharing for their medications.

Patient Assistance Foundations

To ease financial burden for the patients, non-profit organizations called patient assistance foundations provide cost-sharing assistance to individuals with conditions that require expensive drug therapies. They often help patients who are uninsured, have commercial or employer-sponsored insurance, or are enrolled in Medicare Part D. To qualify for assistance, patients typically need to have low to moderate incomes and have a condition supported by the foundation.

One of the leading organizations that offers financial assistance to help patients afford the cost of their medications is Patient Services, Inc. (PSI). Established in 1989, PSI provides cost-sharing assistance to thousands of patients with conditions that require expensive drugs, including cancers and rare diseases. Like other patient assistance foundations, PSI uses contributions from a variety of sources, including pharmaceutical manufacturers and individual donors, to reduce the financial burden for patients.

Analysis of Patient Assistance Impact

Avalere used its proprietary Part D financial model and PSI-provided data to assess the direct and indirect impact of drug OOP assistance on Part D beneficiaries and the federal government.

Impact on Part D Beneficiaries

Over the last five years, PSI has provided almost \$305M in assistance to Medicare Part D beneficiaries, with annual OOP assistance increasing from more than \$36M in 2013 to almost \$71M in 2017.

Figure 1: PSI's Assistance Over Time (in millions)



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In 2017, PSI helped more than 13,500 Part D beneficiaries with 26 different diseases, including cancers, rare diseases, and inheritable conditions, many of which require therapies that are expensive and may be placed by Part D plan sponsors on formulary tiers that require high cost-sharing.

Specifically, more than half of the OOP assistance that PSI provided in 2017—\$39.3M or 55%—was directed towards patients with various types of cancer, including leukemia. Cancer patients made up almost half of all the patients who received assistance from PSI in 2017.

Over 5,100 patients with respiratory conditions received \$23.1M in PSI assistance in 2017, making these patients the second largest group receiving PSI assistance. The remaining patients—more than 2,000—received \$8.5M to assist with treatments for a wide variety of conditions.

Table 1: PSI Drug Copayment Assistance by Disease Category, 2017

Disease Category	Amount of PSI Assistance (millions)	Patients Assisted
Cancer	\$39.3	6,385
Respiratory Conditions	\$23.1	5,146
Nervous System Conditions	\$2.6	1,312
Genetic Conditions	\$2.3	200
Endocrine Conditions	\$2.2	286
Immunodeficiency Conditions	\$0.8	79
Digestive and Urinary Conditions	\$0.5	146
Total	\$70.9	13,554

Source: Avalere analysis of PSI data

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Out-of-pocket costs may prevent some patients from adhering to prescribed medications, including skipping doses, splitting doses, and failing to fill scripts. Avalere’s analysis found that direct reduction in patient’s financial responsibility for Part D drug OOP costs due to PSI’s assistance can improve medication adherence and increase access by allowing patients to fill the necessary prescriptions according to the prescribed regimen, whether for the supported therapies or for other needed medications that help manage side effects or chronic conditions. We estimated that for every \$1,000 in PSI assistance provided annually to Part D beneficiaries, those patients can fill 3.5 additional prescriptions, on average.ⁱⁱⁱ This increased drug utilization, in turn, drives significant savings on medical services covered by Medicare.

Impact on Federal Expenditures

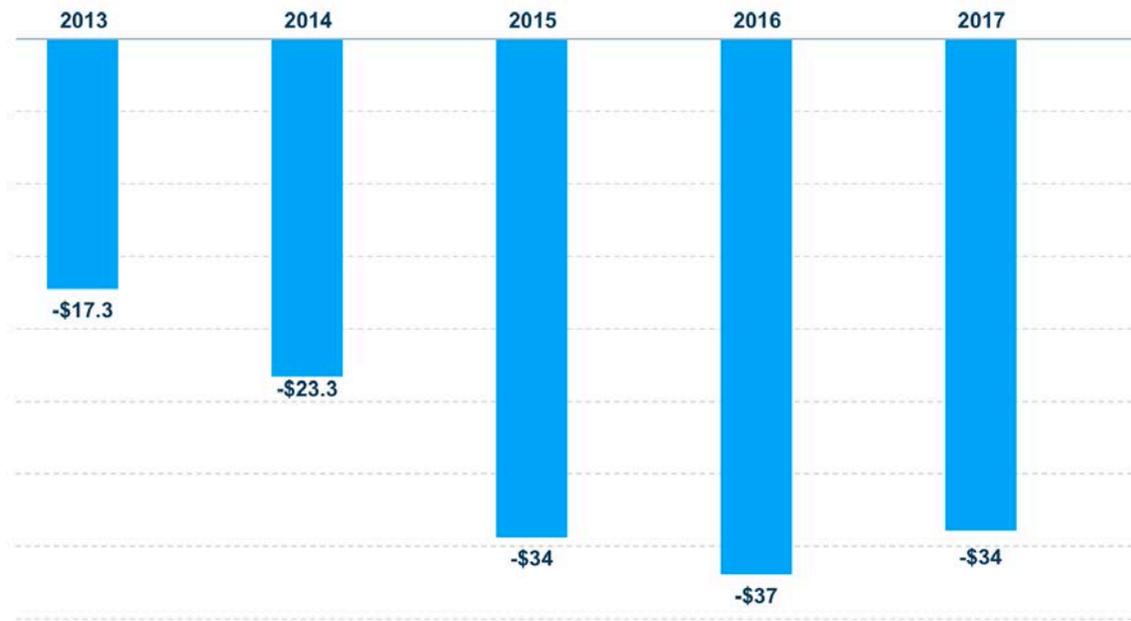
Drug OOP assistance reduces the financial burden on the patient and makes prescription drugs more accessible, improving adherence, and increasing overall drug utilization. This translates to additional drug spending for the federal government since it subsidizes most of the Part D program costs. However, prescription drugs are only one part of a patient's overall health care spending. Patients with costly and/or chronic conditions are also admitted to a hospital, have outpatient procedures performed, visit their doctors, and need regular lab tests performed. For instance, a patient that does not adhere to their prescribed drug regimen may be more likely to be admitted to the hospital or may need to receive surgeries for their conditions. Research has identified a relationship between prescription drug utilization and spending on medical services. In general, increased prescription drug use is associated with lower medical spending in the Medicare program.^{iv}

Since medical services for Medicare beneficiaries are covered either through Part A or B of the program, the federal government does see savings when beneficiaries are able to access the drugs they need and avoid unnecessary medical visits, tests, and treatments. Using its proprietary model of the Part D program and PSI's financial assistance data, Avalere estimated the effect that PSI support has had on the federal government's net spending across the Medicare program.

**“\$1M in PSI assistance provided to Part D patients
saves the government nearly \$0.5M.”**

Our analysis indicates that \$1M in PSI assistance provided to Part D patients saves the federal government \$0.48M. In other words, as a result of PSI's assistance, the estimated federal savings are about half of the value of PSI's support itself. This is because drug OOP assistance creates substantial savings on the medical services side.

Figure 2: Impact of PSI Assistance on Net Medicare Spending, 2017 (in millions)



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PSI's assistance in 2017 alone has led to almost \$34M in federal net savings (see Figure 2). Though PSI's assistance increased Medicare spending on prescription drugs in Part D, it saved \$130M in reduced medical costs for Parts A and B both, fee-for-service (FFS) and Medicare Advantage, more than enough to result in substantial net savings for the government. Overall, PSI's assistance for Part D beneficiaries from 2013 to 2017 has allowed the federal government to save almost \$146M.

Conclusion

PSI's assistance reduces the financial burden for Medicare Part D beneficiaries, many of whom lack the resources to purchase the necessary medications. Our analysis found that PSI assistance increases the number of prescriptions that patients fill, improving access and adherence and leads to reduced spending on medical services covered under Part A and B of the program, creating net savings for the federal government.

Approach and Methodology

To estimate the impact PSI's patient OOP assistance has on the Medicare program, Avalere used data provided by PSI, Part D Public Use File (PUF), and Avalere's proprietary financial model of the Part D program, which estimates beneficiary OOP costs and federal outlays.

Overview of Avalere's Proprietary Part D Model

Avalere used its proprietary model of the Medicare Part D program to estimate the effect that PSI's financial support has on key stakeholders, namely the federal government and the program beneficiaries. The model uses a sample of summary claims data on prescription drug utilization and costs from the 2013 Medicare Current Beneficiary Survey (MCBS) to simulate the beneficiary experience under the Part D standard benefit. The MCBS data sample used in the model reflects approximately 80% of the entire Part D market once extrapolated to the population using survey weights.

Avalere's model is based on financial and structural parameters of the Part D standard benefit accounting for differences in specific Part D subpopulations. We apply Centers for Medicare & Medicaid Services (CMS) and the Congressional Budget Office (CBO) assumptions and estimates around healthcare utilization and costs. Specifically, we incorporate CBO-published arc elasticity of demand assumption for prescription drugs, to reflect the relationship between beneficiary OOP costs and drug utilization. We assume that medications taken by patients receiving PSI assistance reflect the general elasticity trend developed by the CBO for all prescription drugs where a 1% increase in OOP costs is associated with a 0.3% decrease in drug utilization for most beneficiaries and a 0.15% decrease for high-cost beneficiaries. This elasticity formula can be converted to estimate how a decrease in OOP costs affects drug utilization. Avalere's model finds that, in 2017, direct OOP cost decrease due to PSI support have allowed beneficiaries to fill nearly 250M prescriptions. This additional drug utilization increased Part D spending by \$96M.

Further, we estimate the impact of increased prescription drug utilization on utilization and costs of other medical services covered. After CBO, we assume that 1% increase in drug utilization is associated with a 0.2% decrease in overall spending on services covered by Medicare Parts A and B. The increase in drug utilization in Avalere's model results in a nearly \$130M decrease in Part A and B spending for the affected beneficiaries. Consequently, Part A and B savings offset the Part D spending increase resulting in \$34M net savings to the Medicare program.

Data Analysis

PSI provided Avalere with deidentified data on disease-specific Part D drugs supported, and patient-level annual support amounts between 2013 and 2017. Avalere used a subset of PSI's 2013 data for the modeling purposes. Specifically, we identified 41 out of 69 disease specific drugs supported by PSI in the 2013 MCBS extract. The MCBS extract analyzed consisted of

2,653 sample patients representing 12.4 million individuals after extrapolation to the whole population, which is 1/3 of total Part D population in 2013.

We assumed that PSI support for the drugs identified in our model was distributed across all of the beneficiaries in the MCBS sample who were taking a particular drug. We calculated PSI support per each Part D beneficiary using PSI's data and Part D PUF to estimate proportional support amounts across the program. Since our model calculations of OOP costs include those paid by patient assistance organizations, we estimated the effect the PSI support has on the Medicare program by modeling the increase in beneficiaries' OOP costs due to elimination of PSI support amounts. This approach allowed us to approximate the actual effect of the reduction in OOP spending that beneficiaries are experiencing due to PSI support on their drug utilization and total drug costs as well as on the costs of Part A and Part B medical services under Medicare, which are all tied to federal government outlays. The true impact of the PSI funding is likely larger than estimated given that MCBS sample used in the Avalere's model reflects approximately 80% of the whole Part D market.

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Avalere Health
An Inovalon Company
1350 Connecticut Ave, NW
Washington, DC 20036
202.207.1300 | Fax 202.467.4455
avalere.com