



Evidence Matters

***Dual Eligibles, Rebates,  
and Utilization Changes  
under Medicare Part D***

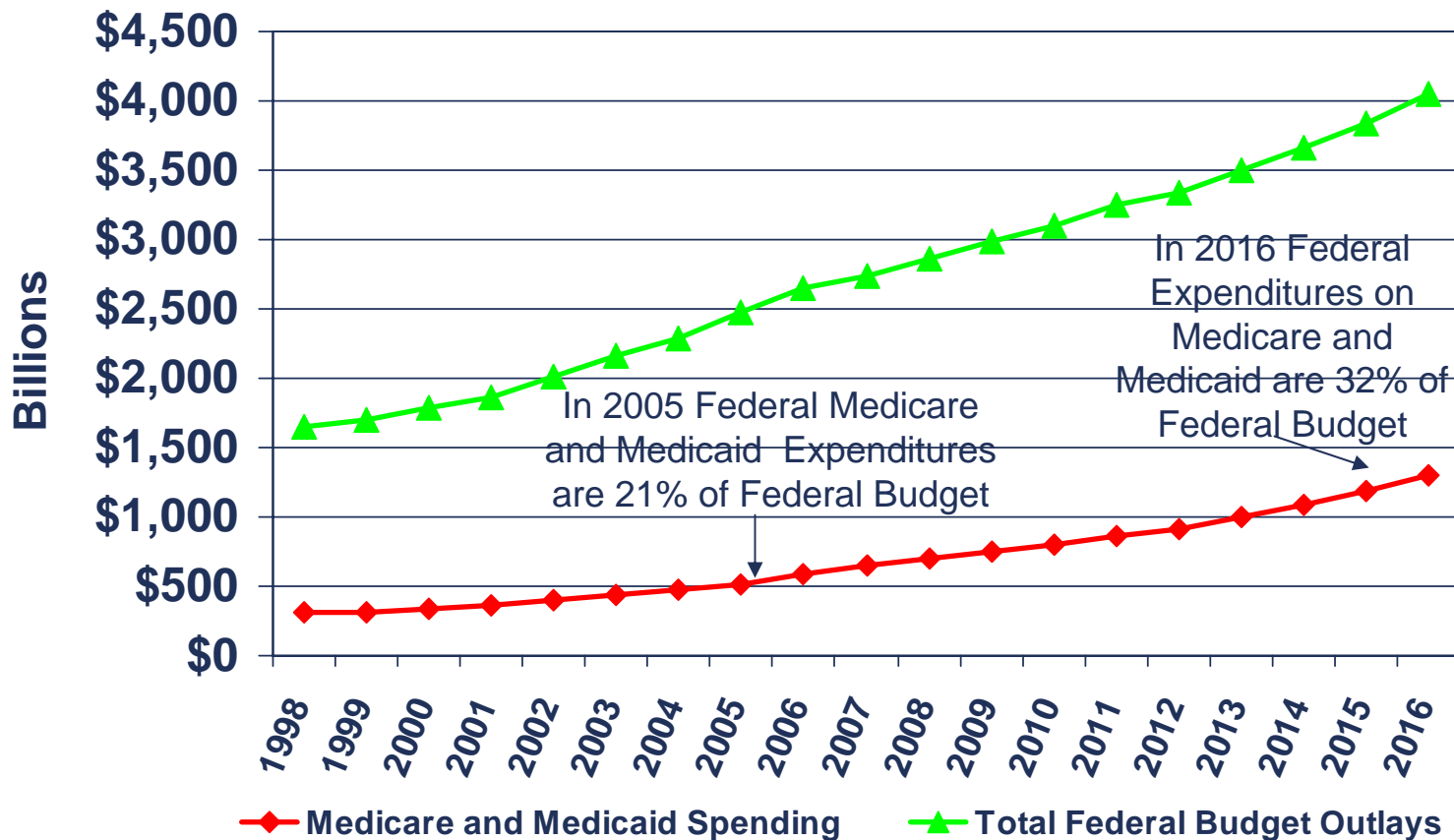


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# Purpose of Presentation

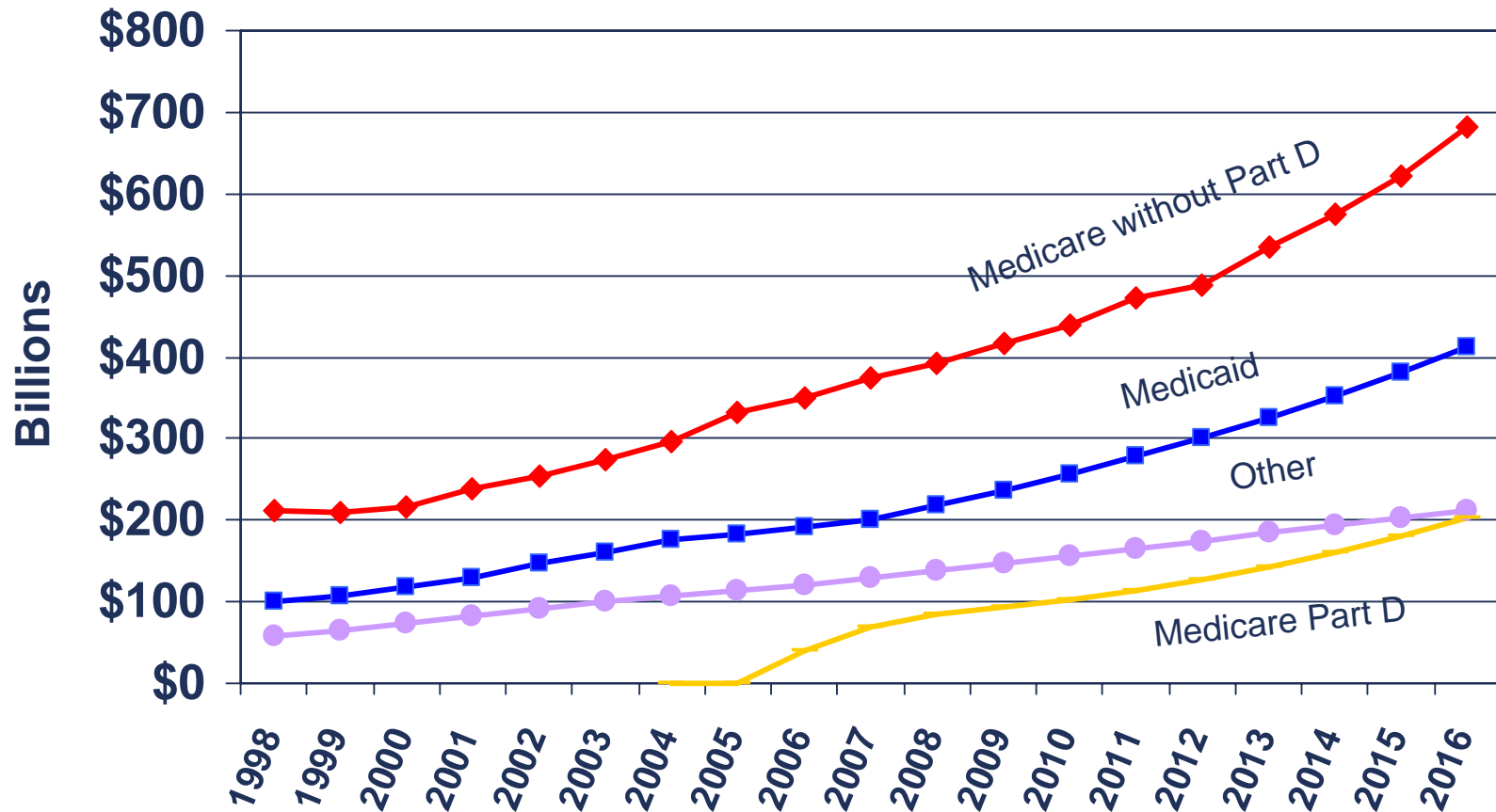
- Federal Health Care Expenditures
- Current Part D Enrollment
- Dual Eligibles
- Changing Structure of Rebates and Utilization
- The Future Role of PDPs

# Total Federal Budget and Total Federal Medicare and Medicaid Spending



\* Source: CBO Report: "The Budget and Economic Outlook: Fiscal Years 2007 to 2016", January 2006

# Federal Health Care Expenditures\*



\* Source: CBO. "Other" numbers from CMS. "Other" Federal expenditures on health care include SCHIP, as well as health care expenses in the Department of Defense and Department of Veterans Affairs

# 2005 and 2006 Baselines Part D: Ten Year Totals, in Billions of Dollars

	<b>Total Benefits</b>	<b>Part D Net Cost</b>	<b>Part D Net Costs with Non Scored Offsets</b>	<b>With MMA Effects*</b>
CBO 2005 Baseline*	\$1,117	\$849	\$624	\$437
2006 CBO Baseline*	\$1,278	\$979	\$713	\$437

\*Source: CBO and M&A Estimates



# Current Part D Enrollment

# Estimates of MMA Enrollment

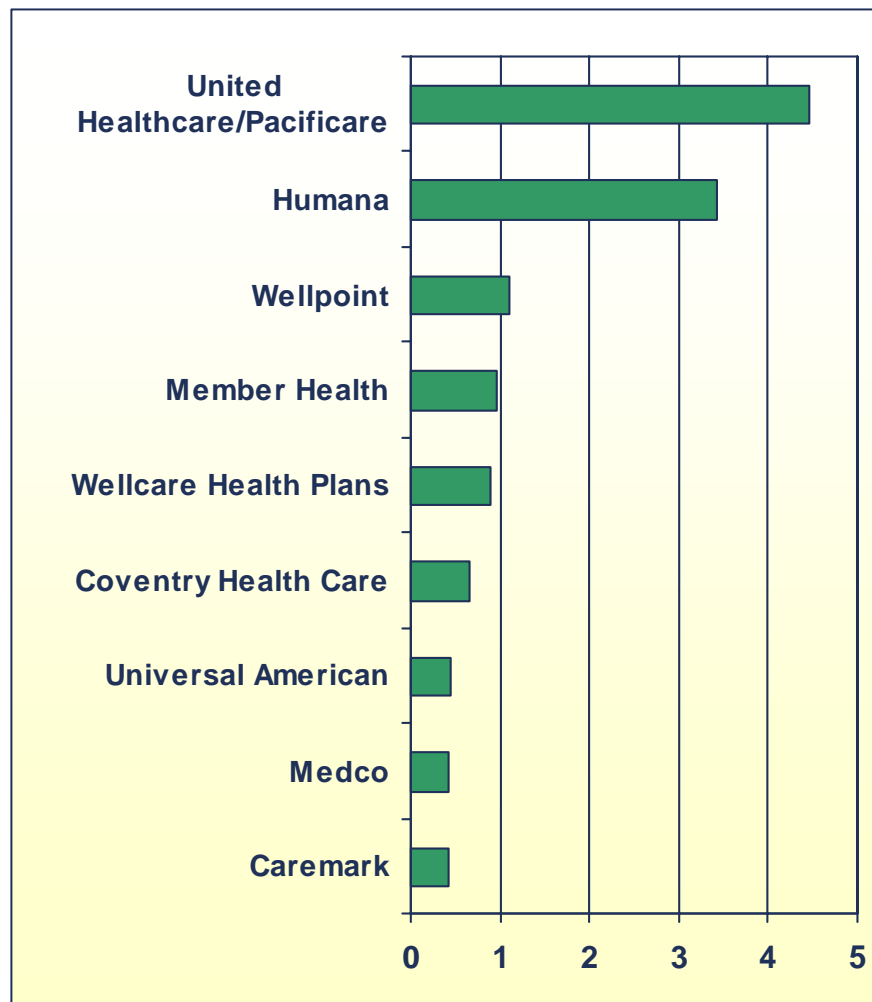
(As of June 11, 2006)

Supplemental Group	Total Enrolled (In millions)
Stand Alone PDP	10.4
Medicaid	6.0
Employer Sponsored Retiree Coverage	10.4
Medicare MA	6.1
Total Enrolled in Part D (6/11/2006)	32.9
Not Eligible for Part D*	5.3
Total Medicare Enrollment	43.1
Percent of Eligibles now enrolled	87.0%

\* 5.3 million Medicare beneficiaries are working with coverage or otherwise not eligible for Part D

# Large National Plans are Dominating the PDP Market, Particularly UnitedHealth and Humana

(Enrollees in Millions)



After the top two companies, the number of nationwide Medicare enrollees drops dramatically.

These plans were able to dominate the market effectively leveraging:

- Existing relationships with customers through Medigap policies or through discount cards,
- Partnerships with key retailers (Walgreens, Wal-Mart) and senior groups (AARP),
- Aggressive benefit designs (ultra-low premium, or no deductible,) and,
- Strategic acquisition (United's purchase of PacifiCare).

# Cumulative Total of Top 20 PDP Plans\*

August 2006

Parent Organization	Enrollment	Percent of Total PDP Enrollment	Cummulative Total
<b>UHC - Pacificare Total</b>	4,458,473	27.5%	27.5%
<b>Humana Inc. Total</b>	3,421,835	21.1%	48.6%
<b>Wellpoint, Inc. Total</b>	1,105,311	6.8%	55.4%
<b>Member Health, Inc. Total</b>	964,312	5.9%	61.4%
<b>WellCare Health Plans, Inc. Total</b>	902,841	5.6%	66.9%
<b>Coventry Health Care Inc. Total</b>	663,996	4.1%	71.0%
<b>Universal American Financial Corporation Total</b>	441,954	2.7%	73.8%
<b>Medco Health Solutions, Inc. Total</b>	415,087	2.6%	76.3%
<b>Caremark, Inc. Total</b>	412,776	2.5%	78.9%
<b>Wellmark, Inc Total</b>	329,458	2.0%	80.9%
<b>Health Care Service Corporation Total</b>	307,776	1.9%	82.8%
<b>Aetna Inc. Total</b>	304,471	1.9%	84.7%
<b>Health Net, Inc. Total</b>	287,580	1.8%	86.4%
<b>Longs Drug Stores Corporation Total</b>	209,757	1.3%	87.7%
<b>Torchmark Corporation Total</b>	200,364	1.2%	89.0%
<b>Sierra Health Services, Inc Total</b>	182,034	1.1%	90.1%
<b>CIGNA Total</b>	181,723	1.1%	91.2%
<b>QCC Insurance Company Total</b>	179,014	1.1%	92.3%
<b>Blue Cross Blue Shield of Michigan Total</b>	164,973	1.0%	93.3%
<b>Horizon Blue Cross Blue Shield of New Jersey, Total</b>	136,402	0.8%	94.2%

\* Source: CMS: August 2006 PDP enrollment total is 16.2 million

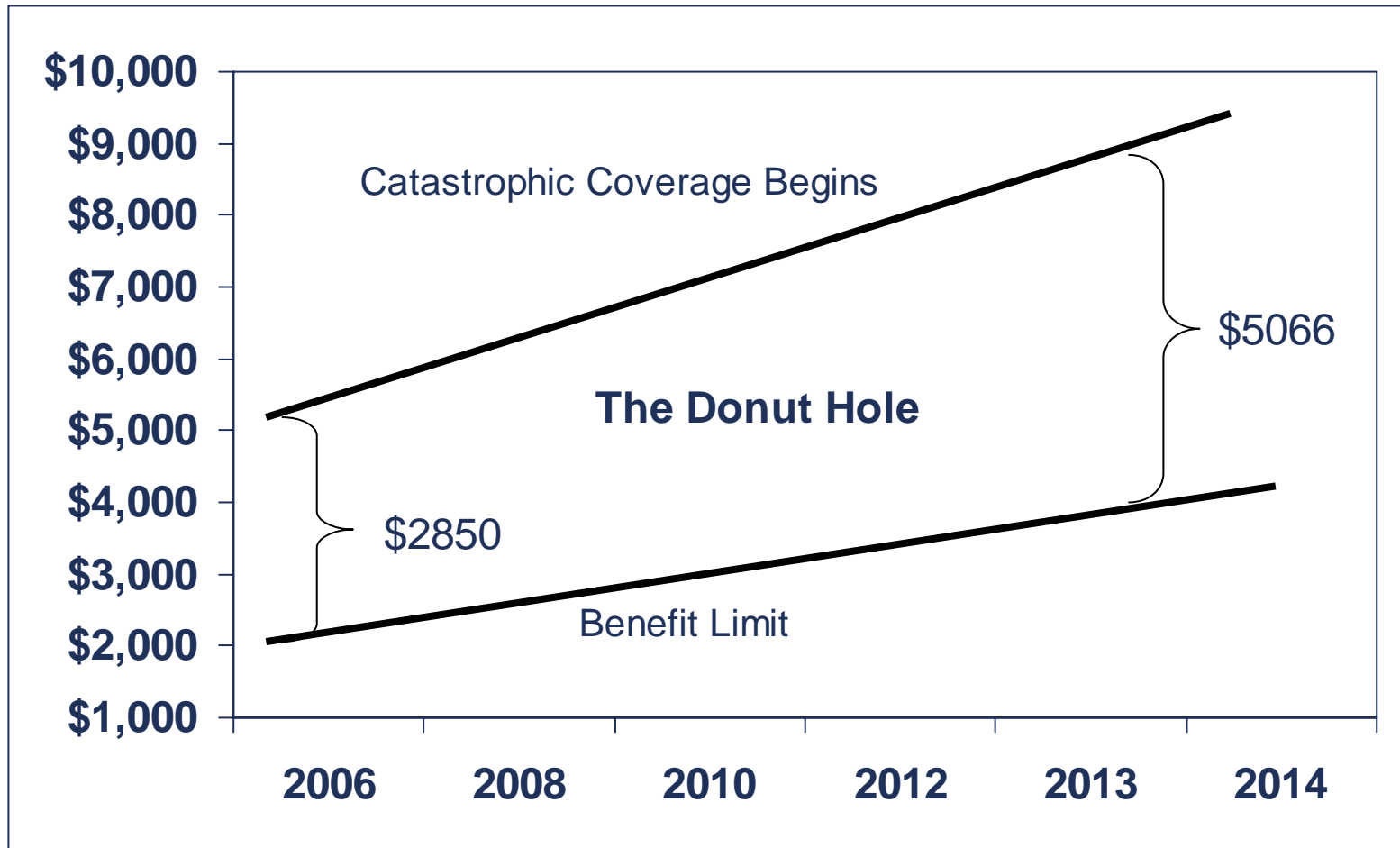
# Part D in 2007

- Opportunity to switch plans begins on November 15, and lasts for six weeks
- New coverage begins January 1
- Average premium will stay at about \$24 per month
- CMS says 80% of seniors will have access to plans with lower premiums than last year
- Three ways PDPs deal with donut hole
  - Full coverage (very, very few)
  - Partial coverage with lots of hoops for brand name drugs
  - Almost all (95%) plans require use of generics in the donut hole

# From the Beneficiaries' Point Of View

- Careful review of available PDPs is necessary
  - If there are only two drugs available in a class, formularies need offer only one, otherwise at least 2 drugs per class must be offered
  - PDPs can require an enrollee to try a preferred drug and experience negative effects before approving use of non-formulary drug (CMS could step in to waive this requirement)
  - Deletions from formularies may be made with 60 days notice
    - » In a letter to providers on April 27, CMS stated that current enrollees in a plan must be exempted from the formulary changes for the remainder of their plan's year.
  - PDPs can put newer, biotech and high cost drugs into a tier where there is no right to a lower co-pay, although beneficiary will have access to the PDP's "negotiated price," as defined by the PDP in the donut hole

# A Major Coverage Problem



# Who Should Enroll in Part D?

- Those with no insurance
- Those with poor plans
- Those with MediGap policies (Muse opinion)
- Those in Medicare Advantage (managed care) plans

# Who Should NOT Enroll

- Retirees with equal or better coverage
- Those who plan to be prescription free until they pass away



# Low-Income Benefit

- Benefits for low-income\* patients (up to 150% poverty level)
  - Sliding scale premium, up to \$420/yr
  - \$50 deductible
  - 15% cost sharing, up to catastrophic threshold
  - After out-of-pocket limit is reached, co-pays will be \$2/generic, \$5/non-generic

\* Income and asset level definitions will increase each year



# Dual Eligibles

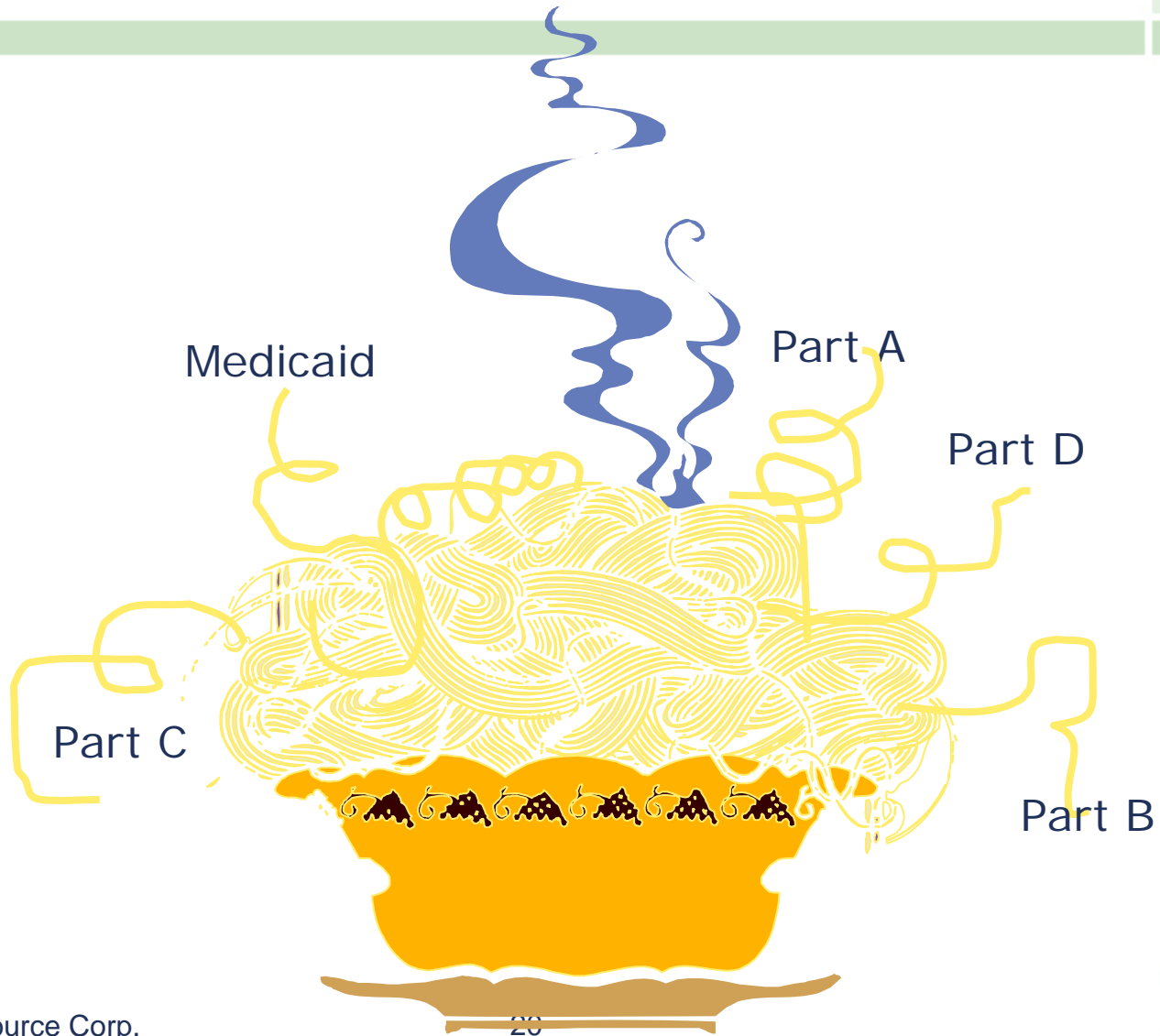
# Who Are the Dual Eligibles?

- Dual Eligibles are beneficiaries eligible for both Medicare and Medicaid
  - As of January 1, 2006 Dual Eligibles began receiving their prescription drug coverage under Medicare Part D
    - » States no longer receive matching funds for Rx for these Medicaid recipients
    - » States have to pick up the slack if they agree to provide more coverage than is allowed under the Part D plan

# Dual Eligibles and Part D

- Drugs under Medicare
- All other care still shared between Medicare and Medicaid
- Dual Eligibles face new restrictions
- Mental health problem
- Long term care problem

# Health Care Coverage for Dual Eligibles





# Changing Structure of Rebates and State Programs

# Part D and Rebates

- MMA takes market-based approach to payments for prescription drugs
  - Leaves negotiation for rebates up to PDPs, which will be affected by
    - » The PDP's buying power
    - » The type of drug being sought (new, breakthrough, generic alternative)
- A portion of savings from rebates received by PDPs must be passed on to beneficiaries
- For a state that provides a “wrap around” benefit under a State Pharmacy Assistance Program (SPAP) for its population, its rebate program will be complicated if it coordinates its benefit with a PDP
  - Can state claim rebate for drugs covered by both SPAP and PDP?

# SPAPs/PDPs and Formularies

- How will State Pharmacy Assistance Programs (SPAPs) and PDPs coordinate their formularies when a state adopts a “wrap around” plan?
  - SPAP formularies
    - » Some SPAPs receive supplemental rebates from drug manufacturers for a place on the state’s preferred drug list
    - » SPAP formularies are used to encourage use of generics
  - Part D rules do not *require* use of formularies, but PDPs will certainly have preferred drug lists that they have negotiated with manufacturers

# SPAP Enrollees and Part D

- SPAP enrollees not also covered by Medicaid must pass both asset *and* income tests to be eligible for the low-income subsidy in Part D
- In many states, costs are higher and cost sharing formulas more complicated for seniors who do not qualify for the low-income subsidy under Part D compared to their current coverage under SPAPs



# The Future Role of PDPs

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- How will the plans evolve?
- What affect will there be of increasing number of calls for PDPs to have a more transparent relationship with manufacturers?
- How will CMS evaluate them?
- *Surprise: more, rather than fewer, plans next year*