Impact of Manufacturer Rebate Proposed Rule on Part D Benefit Parameters

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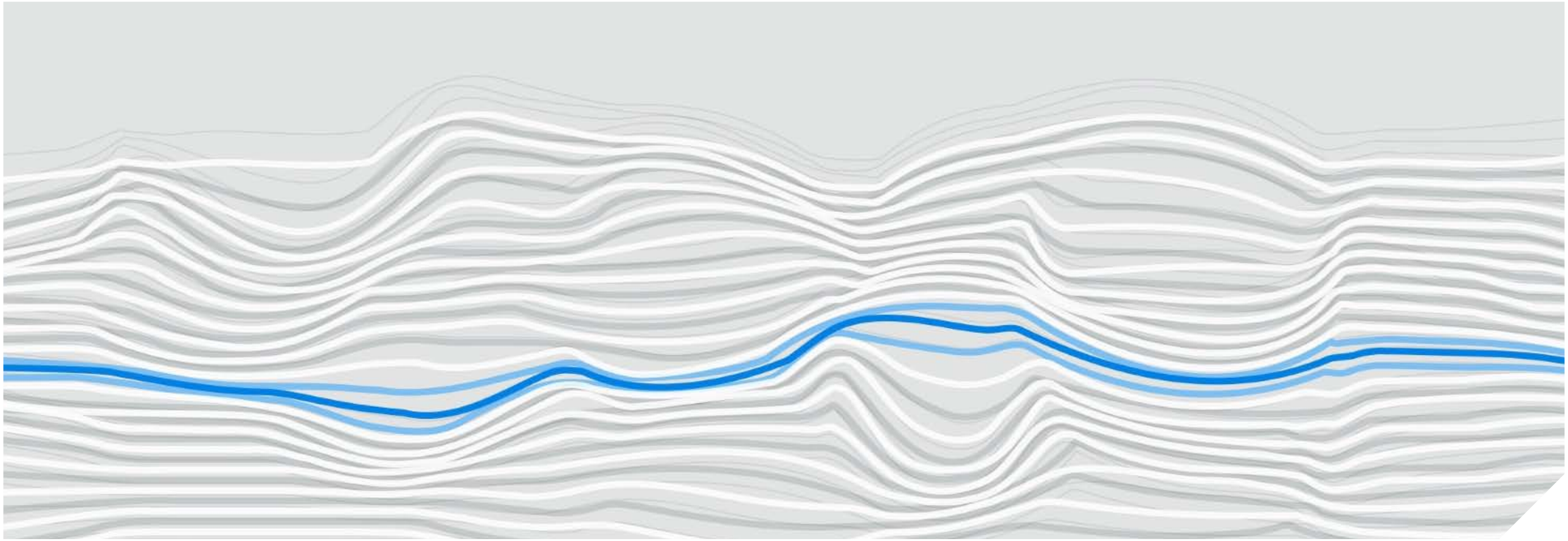

Background

On January 31, 2019, the Department of Health and Human Services (HHS) proposed changes to current Anti-Kickback Statute safe harbors on manufacturer rebates. The proposed rule would essentially only permit manufacturer rebates to be reflected at the point of sale (POS).[1]

PhRMA commissioned Milliman to model the following scenarios to understand the expected impact of this rule on the standard Part D benefit parameters. These scenarios are the same as the following four scenarios presented in the proposed rule:

Scenario 1	100% of rebates are transferred to the POS, no corresponding behavioral changes
Scenario 2	In addition to transferring rebates to POS, PBMs and plans alter formulary designs to encourage use of lower-cost products
Scenario 3	In addition to the increased formulary controls from Scenario 2, PBMs and plans are able to obtain stronger price concessions
Scenario 4	Rebates are transferred to POS, but manufacturers are able to keep a portion of current rebate levels, resulting in lower total price concessions

The standard Part D benefit has four phases. The benefit parameters are updated each year by the Centers for Medicare and Medicaid Services (CMS) based on historical changes in gross Part D spending. The benefit phases and parameters for 2020 non-low income members are as follows:

Deductible	A $435 deductible during which members pay 100% of allowed claim costs
Initial Coverage	Members pay 25% of allowed costs with plans paying the remaining 75%, until the initial coverage limit (ICL) of $4,020 is reached
Coverage Gap	Members pay 25%, manufacturers pay 70% of brand costs, and plans pay remaining costs, until the true out-of-pocket (TrOOP) threshold of $6,350 is met. TrOOP is based on combined member and manufacturer claim spending.
Catastrophic	Members pay about 5%, plans pay about 15%, and the government pays 80% through federal reinsurance.

Benefit parameters are indexed by an annual percentage increase (API) in average expenditures for Part D per eligible beneficiary.

Scenario 4 is the most similar to modeling by OACT presented in the proposed rule.[1]

Scenarios 1 through 4 represent a range of some possible outcomes.[2] How the Part D market will react to current and future legislation remains uncertain.

Over the next three years, the defined standard deductible, ICL, and TrOOP are expected to decrease under all modeled scenarios, which is a change from historical patterns.

Beyond 2023, the parameters are expected to increase following a more typical trend pattern.

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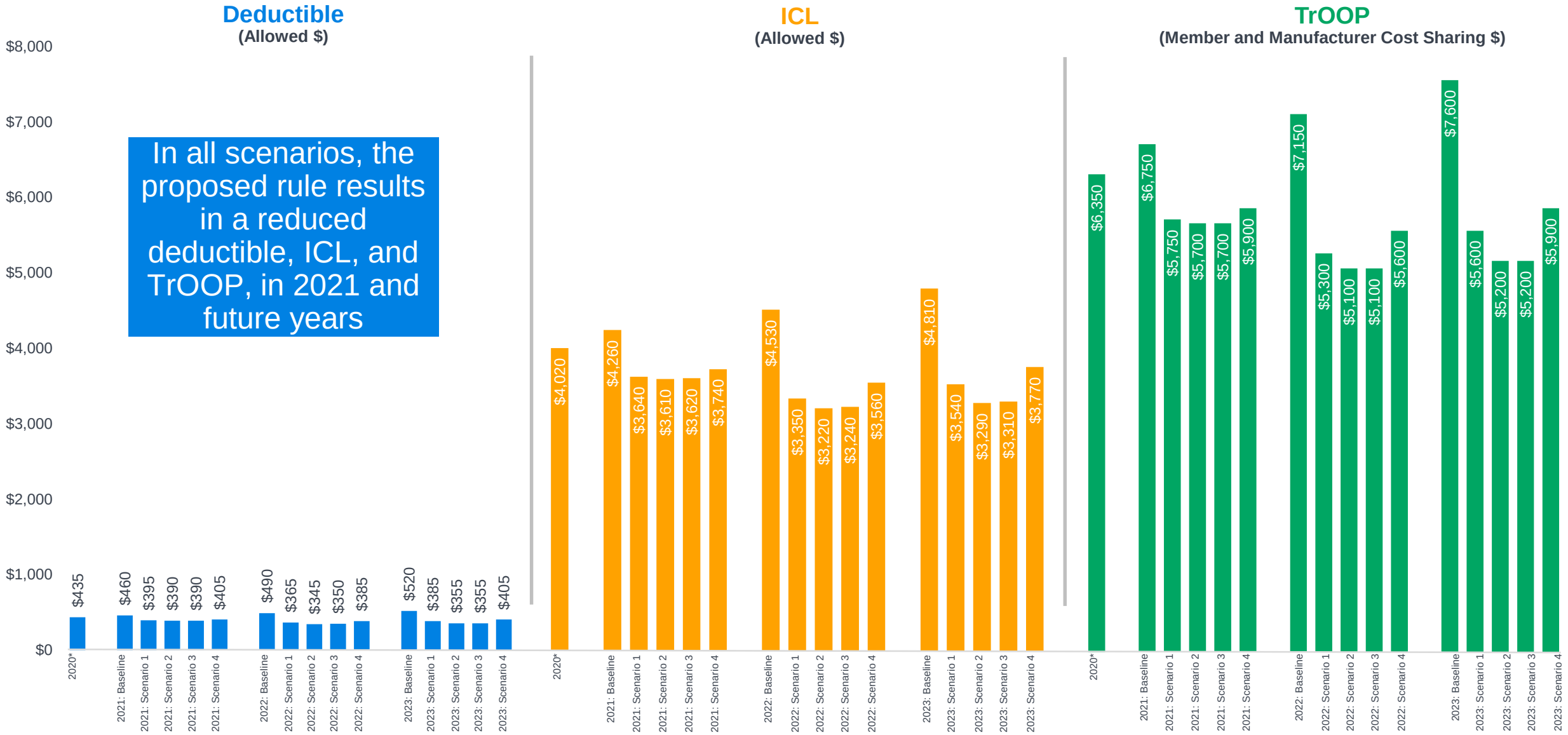
[1]https://www.govinfo.gov/content/pkg/FR-2019-02-06/pdf/2019-01026.pdf

Projected Part D Defined Standard Benefit Parameters



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[1] https://www.govinfo.gov/content/pkg/FR-2019-02-06/pdf/2019-01026.pdf; [2] Baseline reflects no changes to manufacturer rebates.

*2020 benefit parameters are based on the 2020 Advance Notice. We assume 2020 benefit parameters will not be impacted even if the proposed rule is implemented in 2020. Note, the deductible and ICL are measured based on total allowed costs, while the TrOOP is based on combined member and manufacturer claim spending.

Member Impacts

Proposed rule rebate changes will have the greatest benefit to a small number of members who are utilizers of high-cost brand drugs that carry rebates

However, the reduction in defined standard benefit parameters will impact a greater number of members

Members may also have lower copayments to the extent plans need to adjust cost sharing to meet actuarial equivalence test requirements

Member Cost Sharing Examples[1] (Defined Standard) – Plan Year 2021:

Current environment:

- Generic medication cost: $500
- Deductible: $460
- Coinsurance (after deductible): 25%
- Member cost sharing:
  - 100% of cost below deductible: $460
  - 25% of cost above deductible: ($500 - $460) * 25% = $10
  - Total: $460 + $10 = **$470**

Move rebates to POS and reduce deductible:

- Generic medication cost: $500
- Deductible[2]: $390
- Coinsurance (after deductible): 25%
- Member cost sharing:
  - 100% of cost below deductible: $390
  - 25% of cost above deductible: $28
  - Total: $390 + $28 = **$418**

[1]The example above only illustrates the impact on member cost sharing for a hypothetical medication, though member premium should be taken into account when considering total member costs. Increases in member premium could potentially offset cost sharing savings.

[2] Deductible represents the lowest modeled projection and is consistent with scenarios 2 and 3.

Appendix

2019 Through 2029 Projected Part D Defined Standard Benefit Parameters

Year	Annual Percentage Increase (API)					Deductible					ICL					TrOOP				
	Baseline	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Baseline	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Baseline	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Baseline	Scenario 1	Scenario 2	Scenario 3	Scenario 4
2019						$415	$415	$415	$415	$415	$3,820	$3,820	$3,820	$3,820	$3,820	$5,100	$5,100	$5,100	$5,100	$5,100
2020*	3.2%	-9.4%	-10.1%	-10.0%	-6.9%	$435	$435	$435	$435	$435	$4,020	$4,020	$4,020	$4,020	$4,020	$6,350	$6,350	$6,350	$6,350	$6,350
2021	6.2%	-7.9%	-10.9%	-10.6%	-4.7%	$460	$395	$390	$390	$405	$4,260	$3,640	$3,610	$3,620	$3,740	$6,750	$5,750	$5,710	$5,720	$5,910
2022	6.0%	5.7%	2.2%	2.1%	5.8%	$490	$365	$345	$350	$385	$4,530	$3,350	$3,220	$3,240	$3,560	$7,150	$5,300	$5,090	$5,120	$5,630
2023	5.8%	5.6%	3.9%	3.3%	5.6%	$520	$385	$355	$355	$405	$4,810	$3,540	$3,290	$3,310	$3,770	$7,600	$5,600	$5,200	$5,230	$5,960
2024	5.8%	5.5%	5.0%	4.1%	5.6%	$550	$405	$370	$365	$430	$5,090	$3,740	$3,420	$3,420	$3,980	$8,050	$5,910	$5,410	$5,400	$6,300
2025	5.1%	4.9%	5.1%	4.4%	4.9%	$580	$425	$390	$380	$455	$5,390	$3,950	$3,590	$3,560	$4,200	$8,500	$6,240	$5,680	$5,620	$6,650
2026	5.2%	5.0%	5.2%	5.0%	5.0%	$610	$445	$410	$395	$475	$5,660	$4,140	$3,770	$3,720	$4,410	$8,950	$6,540	$5,970	$5,870	$6,980
2027	5.9%	5.7%	5.9%	5.9%	5.7%	$645	$465	$430	$415	$500	$5,960	$4,350	$3,970	$3,910	$4,630	$9,450	$6,870	$6,280	$6,160	$7,330
2028	5.9%	5.7%	6.0%	5.9%	5.7%	$680	$490	$455	$440	$530	$6,280	$4,600	$4,210	$4,140	$4,900	$9,980	$7,260	$6,650	$6,520	$7,750
2029	5.9%	5.7%	6.0%	6.0%	5.8%	$720	$520	$480	$465	$560	$6,620	$4,860	$4,460	$4,390	$5,180	$10,540	$7,670	$7,050	$6,910	$8,200

*We apply the same year-over-year API to estimate each benefit parameter, but actual calculated changes will vary slightly between parameters due to rounding.

Methodology and Caveats

Methodology

This work is an extension of the modeling done for ASPE as cited in the proposed rule.[1] The projected gross drug costs used in each scenario and year are fully consistent with this prior study, which used Part D pricing tools to project stakeholder costs for a number of potential behavioral scenarios assuming manufacturer rebates are reflected at the point of sale. The benefit parameters were calculated using projected year-over-year change in gross costs under each modeled scenario. Given the parameters are tied to growth in gross drug costs, there is a significant decrease corresponding to the percentage decrease in point of sale costs.

Note, API is based on the 12 months ending in July of the prior year. Since it is not on a calendar year basis, the impact is spread over two years and the parameters drop in both 2021 and 2022 (reflecting the new point-of-sale costs in the first and second halves of 2020). The parameters then increase in future years according to typical trend patterns.

1 https://aspe.hhs.gov/system/files/pdf/260591/MillimanReportImpactPartDRebateReform.pdf

Caveats & Limitations

These slides are intended to provide information on how Part D benefit parameters could change under the defined scenarios. This information is intended for the internal use of PhRMA and should not be distributed, in whole or in part, to any external party without the prior written permission of Milliman.

We do not intend this information to benefit any third party, even if we permit the distribution of our work product to such third party. In preparing this information, we relied on a proprietary database of Part D claims and public information from CMS. Our results may not be accurate if this information is inaccurate or incomplete.

The authors are actuaries for Milliman, members of the American Academy of Actuaries, and meet the Qualification Standards of the Academy to render the actuarial opinion contained herein. To the best of their knowledge and belief, this information is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

This information has been prepared under the terms of the consulting services agreement between Milliman and PhRMA, dated January 19, 2016 and extended effective December 19, 2018.