Growing Reinsurance Payments in Medicare Part D


Medicare beneficiaries

- 70% use Part D

Part D is administered by private plans in competition

Medicare heavily subsidizes Part D plans

Average out-of-pocket premiums have been stable at ~$30/mo.

Government spending on Part D

- Direct subsidy
- Reinsurance
- $0 → $5000 cap → ?

From 2006-2013, Medicare support of Part D mostly came from direct subsidy for spending below the catastrophic cap

Reinsurance for spending above the cap now accounts for 2x government spending compared to direct subsidy

Reinsurance payments have increased 20% per year since 2007

Rapid reinsurance growth reflects insurers’ financial incentive to push coverage expenses above the $5000 catastrophic cap

CONCLUSIONS:

Growing reinsurance payments shrink plans’ liability for managing drug spending for high-cost enrollees

Premiums are an increasingly weak indicator of plans’ total costs

Jung and Feldman *Health Serv Res.*
Dec 2018.
The Case for Restructuring the Medicare Prescription Benefit

Premiums are an increasingly weak signal of plan total costs

Current market mechanisms are insufficient to address program costs

Reforms to Part D could address these issues

- Increase the catastrophic cap
- Reduce the government's liability above the cap
- Change coverage in the donut hole

Frakt and Miller Health Serv Res. Dec 2018.
The Case for Restructuring the Medicare Prescription Benefit

Connection between low premium growth and high reinsurance cost growth

8% Enrollees trigger reinsurance which accounts for 1/3 of $100B spending in Rx

Reforms to Part D Could Address These Issues

$5000 Increase the catastrophic cap

Reduce the government’s liability cap

Change coverage in the donut hole

Frakt and Miller Health Serv Res. Dec 2018.