Background on Part D Donut Hole Change

The Part D donut hole is slowly closing under current law. The Bipartisan Budget Act speeds that up, but also makes fundamental changes to the Part D program that have wider, far reaching impacts for taxpayers and Medicare beneficiaries.

Currently, beneficiaries pay 35 percent of the cost of brand name drugs in the donut hole. Sec. 53116 of the Budget Act would accelerate the closing of the Part D donut hole. Beneficiaries would pay 25 percent of the negotiated price for a drug in the coverage gap for plan years starting in 2019.

But health plan risk decreases from 20 percent to 5 percent. The difference would be paid for by drug manufacturers.

Part D Coverage Gap Liabilities: Current Law vs. Proposed

	2018 Prior Law	2019 Prior Law	2019 BBA Law
Beneficiary	35%	30%	25%
Health Plan / Taxpayer	15%	20%	5%
Manufacturer	50%	50%	70%

Fewer Incentives to Manage Costs.

- The Bipartisan Budget Act would shift liability from Part D plans onto manufacturers. Drug manufacturers would pay 70 percent and beneficiaries would pay 25 percent in 2020 and beyond. Plan liability would decrease to five percent starting in 2019. This is a permanent change to the benefit structure that warrants careful examination.

- If plan liability is near zero percent, what incentives do plans have to manage costs? Limiting risk to near zero could easily have the unintended consequence of producing bad – sometimes reckless – outcomes. Is that what Congress really wants for Part D?

Are We Replacing Markets with Government?

- First, with this change, it may be that the overall actuarial value of the standard Part D benefit would fall below the current 74.5% specified by the Medicare law. Congress originally set that value when crafting the Part D law so that seniors could obtain "real insurance". Plans must deliver a real benefit so that seniors can get the medicines they need to stay well and out of expensive care settings, such as hospitals.

- The law, however, says that if plans cannot meet this actuarial value in each area, Part D's public option could be triggered. That part of the statute requires a government contracted plan to step in where competitive, private plans cannot or will not. Government would essentially take over in that

area to deliver the benefit.

- Fortunately, this proposition has never been triggered. Do we want to take that risk? Conservatives may ask whether Congress is enabling a single payer model to replace a successful, market-based program that relies on competition, not government, to keep costs low.

- Second, because 95% of the spending in the coverage gap would now count toward the beneficiaries' true out of pocket limit (TrOOP), instead of the 75% previously, seniors will move through the Part D benefit phases more rapidly. More beneficiaries will end up in the catastrophic coverage phase, where - you guessed it - plan liability is just 15 percent, but taxpayers pay 80%. Put another way, we would replace private risk with public (taxpayer) risk.

Lawmakers should reconsider this provision over the next few weeks and allow stakeholders and Congress an opportunity to work together in the light of day on real solutions to reduce costs, promote affordability, and ensure basic fairness for all involved in the Medicare Part D ecosystem.