



ISSUE BRIEF No. 8

# CAPPING OUT-OF-POCKET DRUG COSTS FOR MEDICARE BENEFICIARIES

MARCH 2020



**A**ccess to medically necessary healthcare is critical for successful patient outcomes, yet access is often impeded or blocked entirely by cost sharing in the form of high deductibles, co-pays and coinsurance. Despite its value as a tool to limit discretionary healthcare spending, excessive cost sharing often creates insurmountable barriers between patients and medications, diagnostic tests, office visits, surgery and other needed services. There is significant concern that cost sharing limits access to medically necessary and appropriate treatment for seriously ill and economically vulnerable patients.

The PAN Foundation believes that out-of-pocket costs should not prevent individuals with life-threatening, chronic and rare diseases from obtaining their prescribed medications.

PAN advocates for strategies that will increase access to medically necessary medications among economically vulnerable Medicare beneficiaries by reducing their out-of-pocket (OOP) drug costs:<sup>1</sup>

- Out-of-pocket costs for prescription medications should be capped through the use of monthly and/or annual limits.
- All health conditions should have at least one highly-effective innovator drug on a fixed co-payment tier.
- Out-of-pocket costs for prescription medications should be spread more evenly throughout the benefit calendar year.

This Issue Brief explores how the absence of a cap on OOP drug costs impacts Medicare beneficiaries' access to needed medications, and strategies to address this critical problem.



## Do Medicare Beneficiaries Currently Have a Cap on Annual OOP Medication Expenses?

No. Medicare Part D drug plans are complex, and they can impose significant OOP costs on some beneficiaries. These OOP costs come from premiums, deductibles, as well as co-payments and coinsurance.<sup>2</sup> Medicare beneficiaries represent the only group of insured people in the U.S. that is not protected by a cap on annual OOP costs.<sup>3</sup>

When Medicare beneficiaries who are enrolled in Part D drug plans meet their True Out-of-Pocket (TrOOP) threshold for the year—currently set at \$6,350 in OOP spending—they enter the “Catastrophic Coverage Phase,” and remain in this phase until the end of the calendar year. In this phase, beneficiaries pay 5 percent coinsurance (coinsurance is a percentage of the cost of a prescription medication) on their medications until the end of the year.<sup>4</sup>

Although the 5 percent coinsurance that is imposed during the catastrophic phase may seem small, because it is a percentage of the cost of a beneficiary’s prescription medications, this amount can balloon to many thousands of dollars for some patients because there is no annual cap during this coverage phase. OOP drug costs during the catastrophic phase are especially challenging for certain groups of Medicare beneficiaries. These include beneficiaries who need high-cost specialty medicines, and economically vulnerable patients who are not eligible for the Low-Income Subsidy (LIS), a program that helps people with limited incomes pay for their prescription medications. The absence of an annual OOP cap for prescription medications means that these beneficiaries face great uncertainty about whether they can afford to buy the drugs that have been prescribed for them by their doctors.

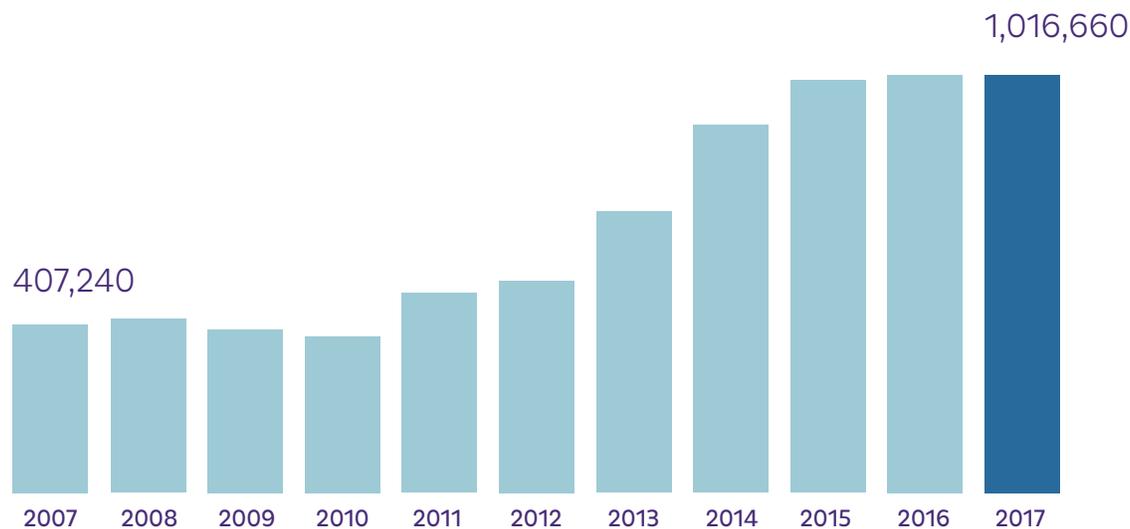


## How Many People Would Benefit from a Cap on Annual OOP Drug Costs?

One way to understand the potential benefit of an annual cap on OOP drug costs is to consider how many non-LIS Medicare beneficiaries reach the catastrophic coverage phase. Research has shown that the number of non-LIS beneficiaries that is reaching this phase has increased substantially over time.<sup>5,6</sup> This means that more beneficiaries have very high OOP drug costs because they are exposed to 5 percent coinsurance for the rest of the calendar year. These are the older adults who stand to benefit most from implementation of a cap on OOP drug costs, and data from the Kaiser Family Foundation (KFF) provide detail on the extent of this potential benefit.

**Figure 1**

**In 2015, 2016 and 2017, 1 million Medicare Part D enrollees had high out-of-pocket drug costs (above the catastrophic threshold)—more than twice the number in 2007**



NOTE: Estimates exclude enrollees who receive low-income subsidies.

SOURCE: KFF analysis of 2007–2017 prescription drug claims data from the CMS Chronic Conditions Data Warehouse.

Visualization adapted from Henry J Kaiser Family Foundation

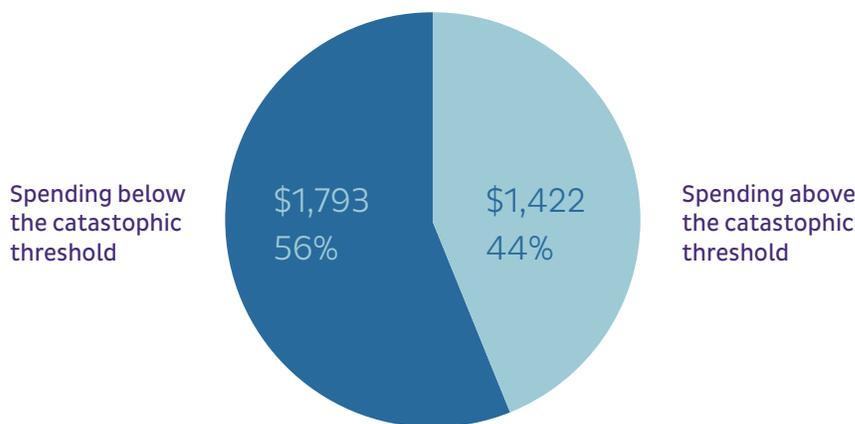
KFF data show that in 2017, 3.6 million Medicare Part D enrollees—8% of all people enrolled in Part D drug plans—reached the Catastrophic Threshold and were exposed to 5 percent coinsurance for the rest of the year. Of the 3.6 million people who reached the catastrophic phase, 1 million did not receive LIS subsidies to protect them against high OOP drug costs. The number of these extremely economically vulnerable older adults more than doubled between 2007 and each year from 2015–2017 (Figure 1). Although these enrollees accounted for only 2 percent of all people in Part D plans in 2017, they incurred 20 percent of Part D enrollees’ total OOP drug spending in that year.

On average, the 1 million non-LIS Part D enrollees each spent more than \$3,200 OOP on their prescriptions in 2017. This relatively small group of Part D enrollees incurred \$1.4 billion in OOP drug costs above the catastrophic threshold in 2017, with 44 percent of their total OOP drug spending happening after they reached this threshold (Figure 2). KFF and other researchers have shown that the amount of spending that occurs during the catastrophic phase has also been increasing over time.<sup>7</sup>

**Figure 5**

### Distribution of Average Out-of-Pocket Spending Below/Above the Catastrophic Threshold by Part D Enrollees with High Out-of-Pocket Drug Costs in 2017

Average out-of-pocket spending by high-cost enrollees in 2017 = **\$3,214**



NOTE: “High out-of-pocket drug costs” refers to Part D enrollees without low-income subsidies who incurred drug spending above the catastrophic coverage threshold.

SOURCE: KFF analysis of 2017 prescription drug claims data from the CMS Chronic Conditions Data Warehouse.

Visualization adapted from Henry J Kaiser Family Foundation

### These data provide a firm rationale for a cap on OOP drug spending:

- Larger numbers of older adults are reaching the catastrophic phase, and these beneficiaries incur a disproportionate share of all OOP drug spending.
- The number of Medicare beneficiaries impacted by the lack of an OOP cap on drug costs is growing rapidly, as is the OOP drug spending among these individuals.
- Economically vulnerable older adults pay a large share of their OOP drug costs during the catastrophic phase despite a seemingly low coinsurance rate of 5 percent.
- People who reach the catastrophic phase incur many thousands of dollars in OOP costs because there is no cap on these expenses.

## What are the Practical Implications of Reaching the Catastrophic Coverage Phase?

Aside from substantial financial burdens, Medicare beneficiaries face other practical challenges when they reach the catastrophic coverage phase because of the financial hardships that come with continued exposure to OOP drug costs.<sup>8</sup> Research has shown that beneficiaries who are not shielded from high OOP drug costs are more likely to experience interruptions in treatment or to abandon treatment, consequences that are linked to less favorable clinical outcomes for these seniors.<sup>9,10,11,12,13</sup>

These burdens are especially severe for older adults with cancer and those who need expensive medications. This is because the 5 percent coinsurance that is imposed during the catastrophic phase can translate into thousands of dollars in OOP costs for these patients.

## Are There Ways to Cap OOP Drug Costs?

Yes. Several proposals suggest ways to cap OOP drug costs on an annual basis, a monthly basis or a per-prescription basis.

### Annual Cap

A report<sup>6</sup> on Medicare beneficiaries who reached the catastrophic coverage phase estimated the costs and benefits of implementing an annual OOP cap at the catastrophic threshold. The results demonstrated that capping cost sharing at the catastrophic threshold would increase Part D plans' spending, but that increases in premiums would likely cover these costs. The researchers found that increased premiums would have a nominal impact on patients: premiums would rise by only \$0.40–\$1.31 per member per month (1 to 4 percent), with a lower cost if the policy applied to both LIS and non-LIS beneficiaries. Not only would the increased premium be relatively small when spread across millions of beneficiaries, but it would also offer a high level of protection for non-LIS beneficiaries with high OOP drug costs, as well as added protection from high OOP drug spending for all Part D beneficiaries. The researchers illustrated the value of an annual OOP spending cap for the broader Part D population by showing that 16 percent of non-LIS beneficiaries who reached the catastrophic phase arrived at this threshold with a single claim. An annual cap would therefore protect a substantial proportion of all Part D enrollees from the possibility of having to shoulder the costs of a single, very costly medication. Recognizing the heavy financial burdens that are imposed by OOP drug costs, the Medicare Payment Advisory Committee has recommended a “hard cap” on OOP costs once Part D enrollees reach the catastrophic coverage threshold.<sup>14,15</sup>

## Monthly Cap

The structure of Medicare Part D drug plans can result in an uneven distribution of OOP expenses during the year, with some beneficiaries paying very high OOP costs for their drugs in the early part of the year. This can place a particularly severe financial burden on patients in a relatively short period of time, enhancing the risk of treatment interruptions or abandonment. A monthly cap on OOP drug costs is another approach that has been proposed to help “smooth out” the high upfront OOP drug costs that many Part D enrollees experience at the beginning of the calendar year.

Data on the “seasonality” of OOP drug costs showed that some beneficiaries incur many thousands of dollars in OOP drug costs in January alone, a pattern that forces these patients to have enough cash on hand early in the year to access their prescription medications. Researchers found that for some beneficiaries, the first prescription that is filled at the beginning of the calendar year nearly equals or exceeds their monthly Social Security benefit. These patients are at increased risk of abandoning their treatment, something they might be less likely to do if their OOP costs were capped monthly and distributed more evenly throughout the year. Implementation of monthly and annual spending limits would help protect these patients from overwhelming costs in any one month by allowing them to spread the costs more evenly over the course of the year until they reached their annual spending cap. Such a policy would cost \$1.96 per non-LIS beneficiary per month, and presumably less if the policy were implemented for all Part D enrollees.<sup>16</sup>

## Benefits for Younger Adults

Medicare Part D drug plans are not the only setting where OOP caps on prescription medications have been discussed. In fact, several states have implemented caps on OOP drug spending in “marketplace” health plans under the Affordable Care Act. Covered California—the health insurance marketplace for the state of California—is one state that has implemented these caps. In 2017, per-prescription cost-sharing caps were implemented for platinum, gold, silver and bronze plans. Under the new caps, cost sharing per 30-day period cannot exceed \$500 for bronze plans and \$250 for silver, gold and platinum plans. Other states—Delaware, Louisiana and Maryland—have limited cost sharing per 30-day supply of specialty medications; Maine and Vermont have capped annual OOP drug spending; and Colorado and Montana require some insurers to offer plans with co-pays of \$250 or less.<sup>17</sup>

Importantly, research on the early impact of California’s caps on prescription drugs has shown that Covered California insurers did not expect the cost-sharing cap to increase prescription drug spending beyond the increases in other states. This research also found that OOP drug spending caps would have a small impact (1.1 percent–1.3 percent) on premiums for the average member.<sup>17</sup>



The PAN Foundation is an independent, national 501 (c)(3) organization dedicated to helping underinsured people with life-threatening, chronic and rare diseases get the medications and treatments they need by assisting with their out-of-pocket costs and advocating for improved access and affordability.

For more information about this Issue Brief, contact Amy Niles, Executive Vice President, at [aniles@panfoundation.org](mailto:aniles@panfoundation.org).

## Supporting Literature

<sup>1</sup>Patient Access Network Foundation. Available at: <https://panfoundation.org/index.php/en/advocacy/advocacy-resources>. (accessed February 29, 2020).

<sup>2</sup>Patient Access Network Foundation. Cost sharing and access to prescription medications. Available at: <https://panfoundation.org/files/PAN-Issue-Brief-1.pdf>. (accessed February 29, 2020).

<sup>3</sup>Doshi JA, Pettit AR, Li P. Addressing Out-Of-Pocket Specialty Drug Costs In Medicare Part D: The Good, The Bad, The Ugly, And The Ignored. Available at: <https://www.healthaffairs.org/doi/10.1377/hblog20180724.734269/full/>. (accessed February 29, 2020).

<sup>4</sup>Patient Access Network Foundation. "Seasonality of out-of-pocket drug costs for Medicare beneficiaries. Available at: <https://panfoundation.org/files/PAN-Issue-Brief-6.pdf> (accessed February 29, 2020).

<sup>5</sup>Cubanski J, Neuman T. How Many Medicare Part D Enrollees Had High Out-of-Pocket Drug Costs in 2017? Available at: <https://www.kff.org/medicare/issue-brief/how-many-medicare-part-d-enrollees-had-high-out-of-pocket-drug-costs-in-2017/>. Accessed March 12, 2020.

<sup>6</sup>Trish E, Xu J, Joyce G. Growing Number Of Unsubsidized Part D Beneficiaries With Catastrophic Spending Suggests Need For An Out-Of-Pocket Cap. *Health Affairs* 2018;(37)7:1048–1056.

<sup>7</sup>Trish E, Xu J, Joyce G. Medicare beneficiaries face growing out-of-pocket burden for specialty drugs while in catastrophic coverage phase. *Health Affairs* 2016;(35)9:1564–1571.

<sup>8</sup>Patient Access Network Foundation. Links between financial hardship and out-of-pocket drug costs. Available at: <https://panfoundation.org/files/PAN-Issue-Brief-5.pdf>. (accessed February 29, 2020).

<sup>9</sup>Doshi JA, Hu T, Li P, Pettit AR, Yu X, Blum M. Specialty Tier-Level Cost Sharing and Biologic Agent Use in the Medicare Part D Initial Coverage Period Among Beneficiaries With Rheumatoid Arthritis. *Arthritis Care Res (Hoboken)*. 2016 Nov;68(11):1624–1630.

<sup>10</sup>Doshi JA, Li P, Huo H, Pettit AR, Kumar R, Weiss BM, Huntington SF. High cost sharing and specialty drug initiation under Medicare Part D: A case study in patients with newly diagnosed chronic myeloid leukemia. *Am J Manag Care*. 2016 Mar;22(4 Suppl):s78–86.

<sup>11</sup>Doshi JA, Li P, Ladage VP, Pettit AR, Taylor EA. Impact of cost sharing on specialty drug utilization and outcomes: a review of the evidence and future directions. *Am J Manag Care*. 2016 Mar;22(3):188–97.

<sup>12</sup>Doshi JA, Takeshita J, Pinto L, Li P, Yu X, Rao P, Viswanathan HN, Gelfand JM. Biologic therapy adherence, discontinuation, switching, and restarting among patients with psoriasis in the US Medicare population. *J Am Acad Dermatol*. 2016 Jun;74(6):1057–1065.

<sup>13</sup>Li P, Wong Y, Jahnke J, Doshi JA. Association of high cost-sharing and target therapy initiation among Medicare patients with metastatic renal cell carcinoma. *J Clin Oncol* 2016;34(15 suppl):4562–4562.

<sup>14</sup>Medicare Payment Advisory Committee: The Medicare prescription drug program (Part D): Status report. Available at: [http://www.medpac.gov/docs/default-source/reports/mar19\\_medpac\\_ch14\\_sec.pdf?sfvrsn=0](http://www.medpac.gov/docs/default-source/reports/mar19_medpac_ch14_sec.pdf?sfvrsn=0) Accessed March 12, 2020.

<sup>15</sup>Medicare Payment Advisory Committee: Report to the Congress: Medicare and the Health Care Delivery System. Available at: <http://www.medpac.gov/docs/default-source/reports/june-2016-report-to-the-congress-medicare-and-the-health-care-delivery-system.pdf> Accessed March 12, 2020.

<sup>16</sup>Doshi JA, Li P, Pettit AR, Dougherty S, Flint A, Ladage VP. Reducing Out-of-Pocket Cost Barriers to Specialty Drug Use Under Medicare Part D: Addressing the Problem of "Too Much Too Soon." *Am J Manag Care*. 2017;23(3 Suppl):S39–S45.

<sup>17</sup>Dieguez G, Pyenson B, Bochner A, Simon K. The impact of California's prescription drug cost-sharing cap. Available at: <https://www.milliman.com/insight/the-impact-of-californias-prescription-drug-cost-sharing-cap> (accessed February 29, 2020).