Study identifies flaws in Medicare prescription drug program

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Millions of Medicare recipients have been forcibly reassigned to different prescription drug plans because Part D reimbursements to insurance companies covering low-income patients are lower than the actual costs incurred, according to a study released online today by *Health Affairs*. The report describes how a system designed to encourage competition and to subsidize care for low-income Medicare patients instead has led companies to raise their premiums in an effort to price themselves out of the low-income segment of the Part D market.

"These insufficient payments create a perverse incentive for plans to avoid or shed low-income patients," says John Hsu, MD, of the Mongan Institute for Health Policy (IHP) at Massachusetts General Hospital (MGH), lead author of the study. "Millions of our poorest elderly have been reassigned to different drug plans since the program began. These patients often have limited income and multiple medical conditions requiring several medications, so they can ill afford the turmoil associated with changing drug plans."

Medicare Part D prospectively pays private insurance companies to provide prescription drug coverage. That payment is risk-adjusted based on each patient's diagnoses during the prior year. Most Medicare patients choose their own Part D plan from available options and pay an individual premium in addition to the amount paid by Medicare. For low-income patients, Medicare fully or partially subsidizes premiums and copayments and also assigns these patients to one of the least expensive available plans. Low-income patients tend to need more prescription drugs, so Medicare's payments to the companies are increased by 8 percent for fully subsidized patients and 5 percent for partially subsidized patients.

Hsu explains, "The original hope was that private plans would compete for all Medicare patients by lowering premiums or at least limiting premium increases. The lower-cost plans would benefit by attracting more patients overall and also by receiving generous subsidies for covering many low-income patients. Unfortunately, this hope has not become reality. Instead, the system induces companies to play 'hot potato' with the poorest of our elderly."

The study analyzed actual prescription costs for millions of Medicare patients enrolled in a selection of Part D plans. Results showed that the costs for covering fully subsidized patients were 21 percent higher than for nonsubsidized patients, and costs for partially subsidized patients were 9 percent higher – significantly more than the current payment increases of 8 and 5 percent, respectively. The researchers note that these discrepancies probably explain why each year fewer companies keep premiums low enough to stay in the subsidized, low-income market. Being assigned to a different plan may require changes to patients' drug regimens, since plans often cover different drugs for specific health problems, and require patients to learn a new system for obtaining their drugs.

"According to these findings, the Part D prospective payment should be revised to fix these perverse incentives," says Hsu, who is the director of the Clinical Economics and Policy Analysis Program at the Mongan IHP and on the faculty at Harvard Medical School. "This could be accomplished by increasing the subsidies for covering low-income patients or by improving the risk adjustment approach by, for example, incorporating information on prior drug use. But no matter what approach is taken, it is critical that there is careful monitoring of the actual incentives and of both intended and unintended consequences. This is true for Part D, as well as for the programs envisioned within the Patient Protection and Affordable Care Act."

Provided by Massachusetts General Hospital