

# Medicare Part D: Cost Management Issues

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# Plan Options for Managing Costs

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- Formularies
- Tiered cost sharing
- Prior authorization
- Quantity limits
- Step therapy
- Therapeutic substitution
- Generic substitution

# Basic Rules Plans Must Follow

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- Nondiscrimination criterion
- Therapeutic classification system
- Pharmacy & therapeutics (P&T) committee
- Actuarial equivalence
- Exceptions and appeals

# Nondiscrimination Criterion

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- *Statute*: Disapprove if design and benefits are likely to substantially discourage enrollment by certain beneficiaries
- *Rule*: Adequate coverage of the types of drugs most commonly needed by enrollees, as recognized in national treatment guidelines
- *Preamble*: Offer complete treatment options for a variety of medical conditions

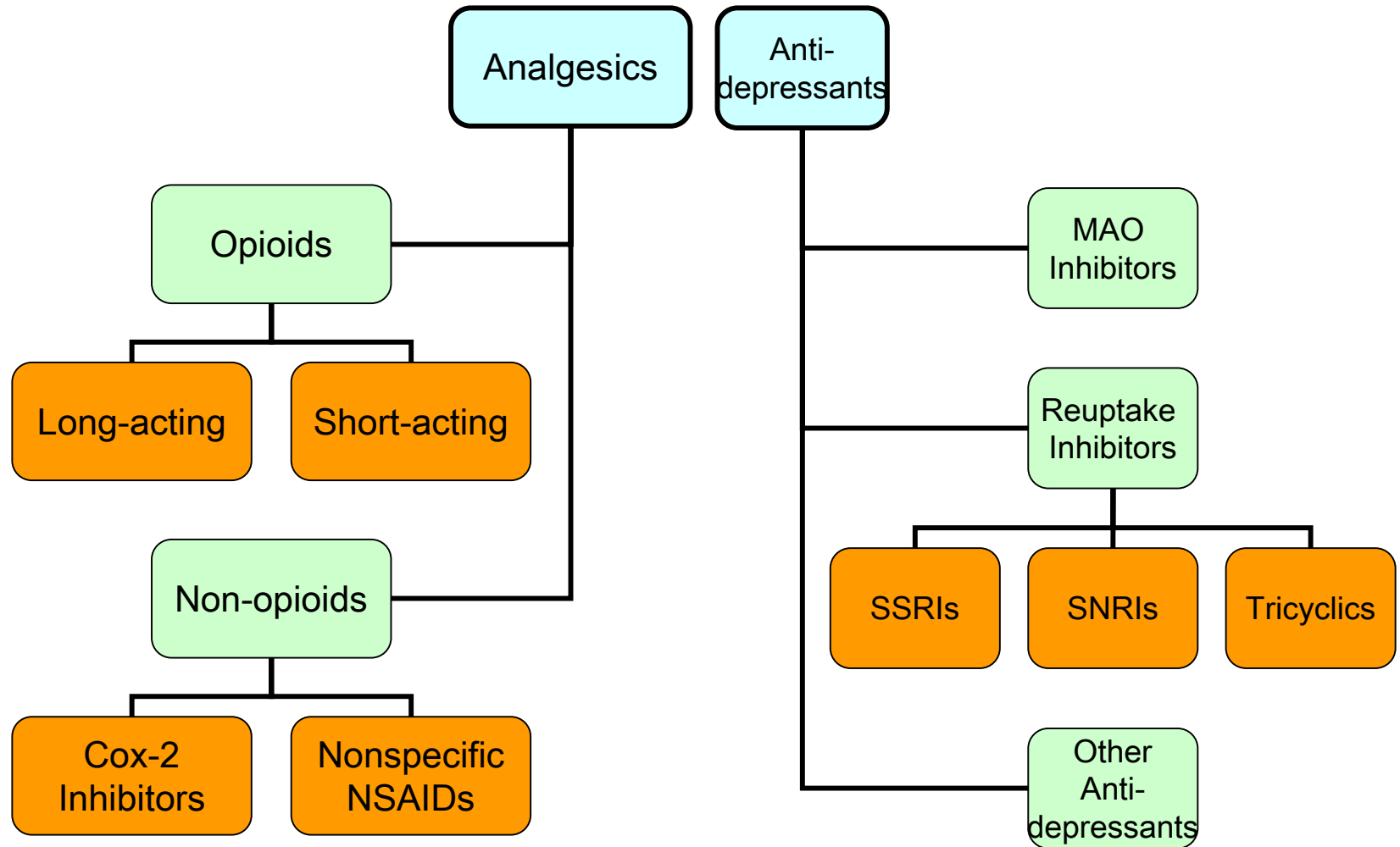
# Therapeutic Classification System

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- USP model guidelines
  - Level 1: 41 therapeutic categories
  - Level 2: Pharmacologic classes
    - Result: 146 category/class combinations
  - Level 3: Key drug types (119)
- Plans may substitute their own system

# Two USP Categories

(blue=category, green=class, orange=key drug type)



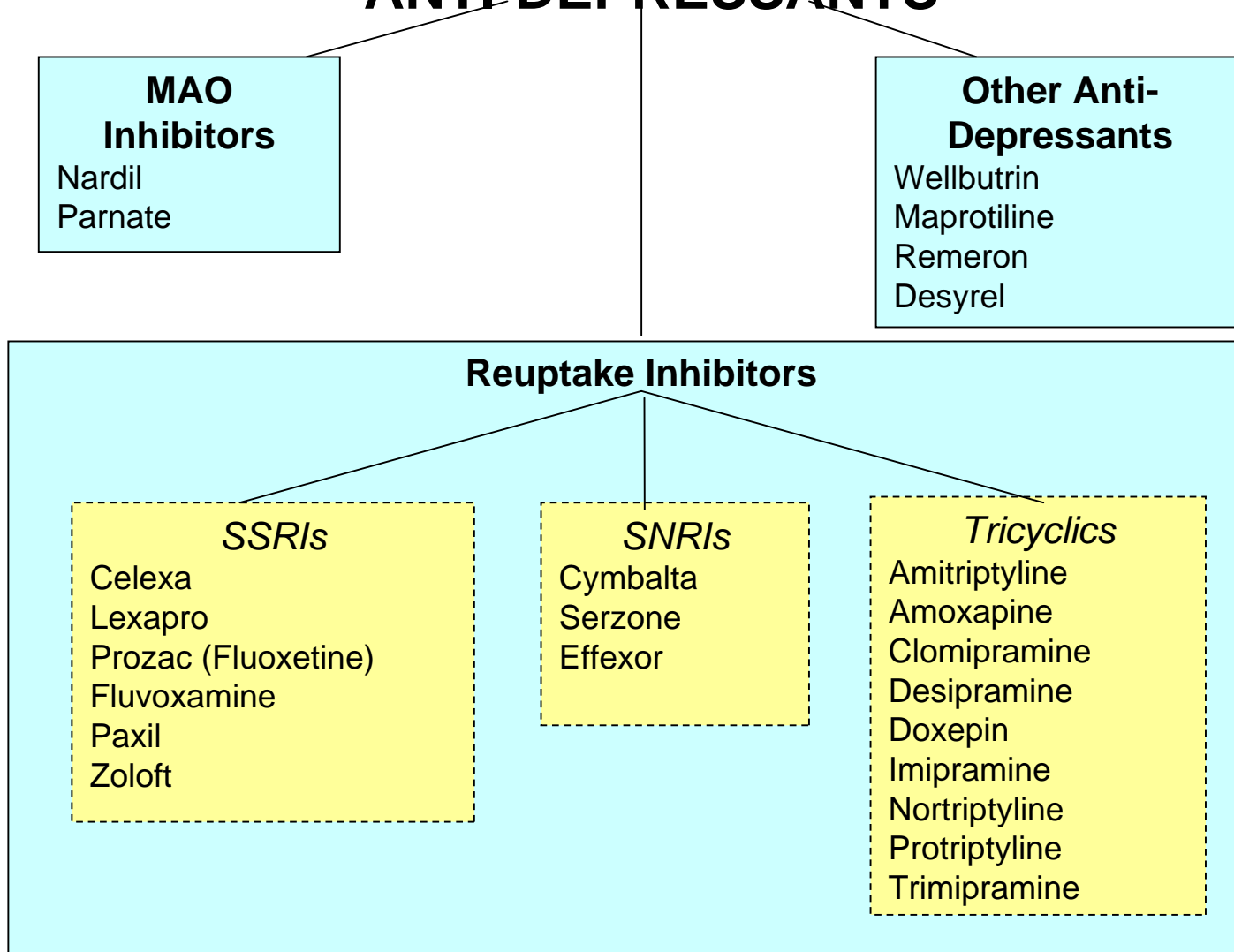
# Standards for a Formulary

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- 2 drugs per category
- 1 drug per key drug type
- Majority of drugs in selected classes
- Drugs cited in national treatment guidelines
- Drugs reflected across risk adjustment categories
- Drugs in commonly prescribed drug classes
- Special rule if tier for high-cost drugs

# Sample USP Category, 3 Classes, and 3 Key Drug Types

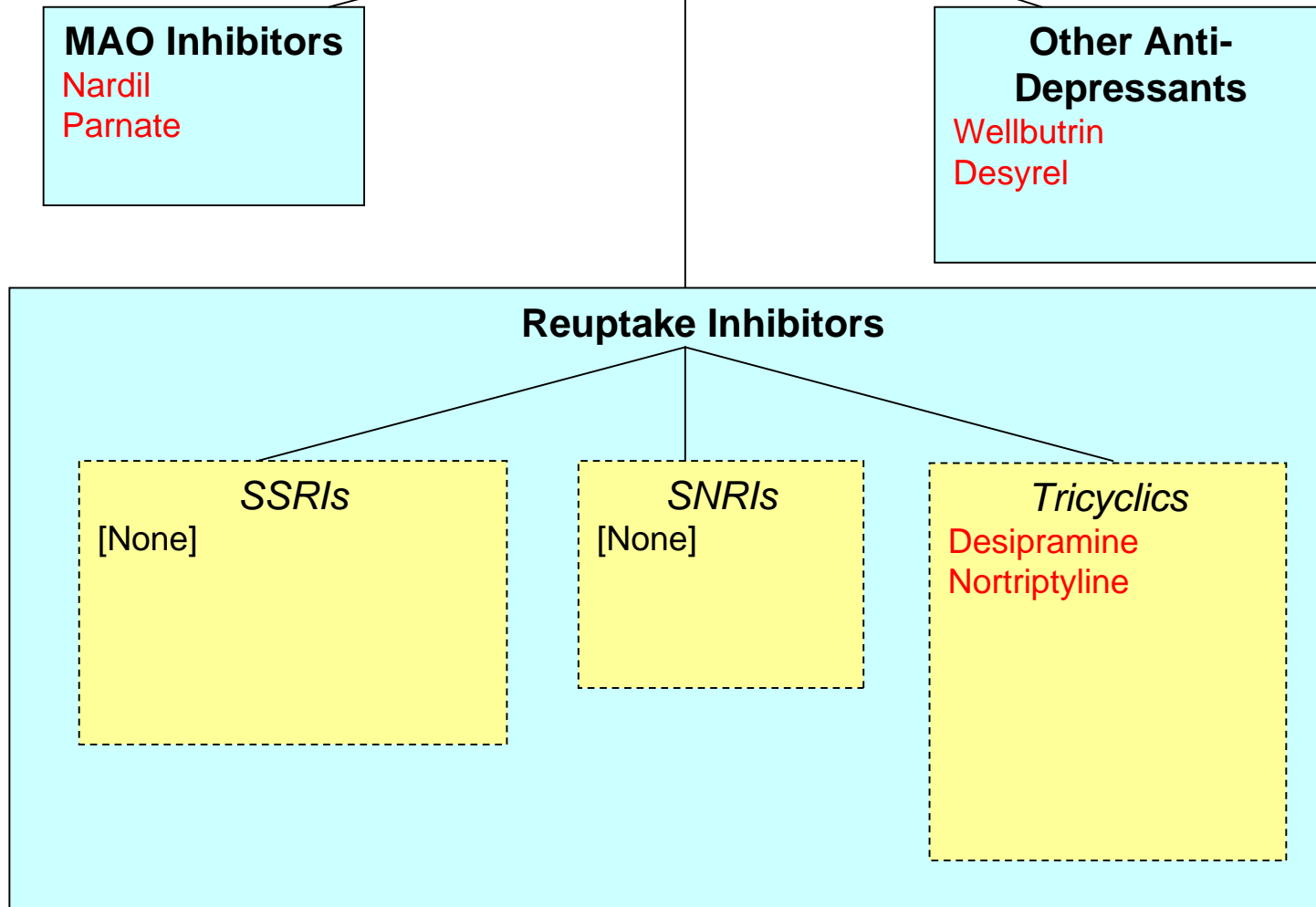
## ANTI-DEPRESSANTS





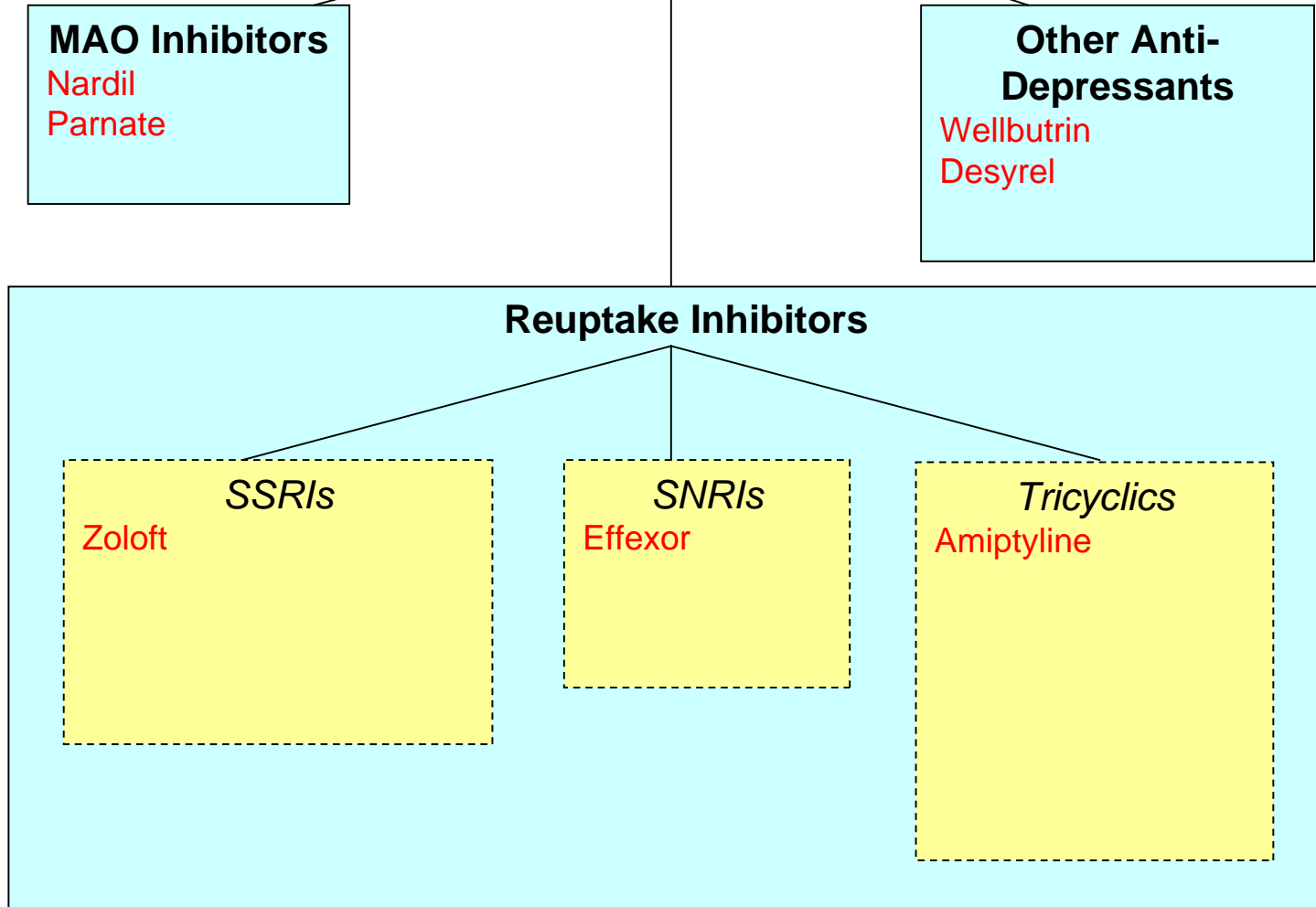
# Formulary Meeting Statutory Standard

## Anti-Depressants

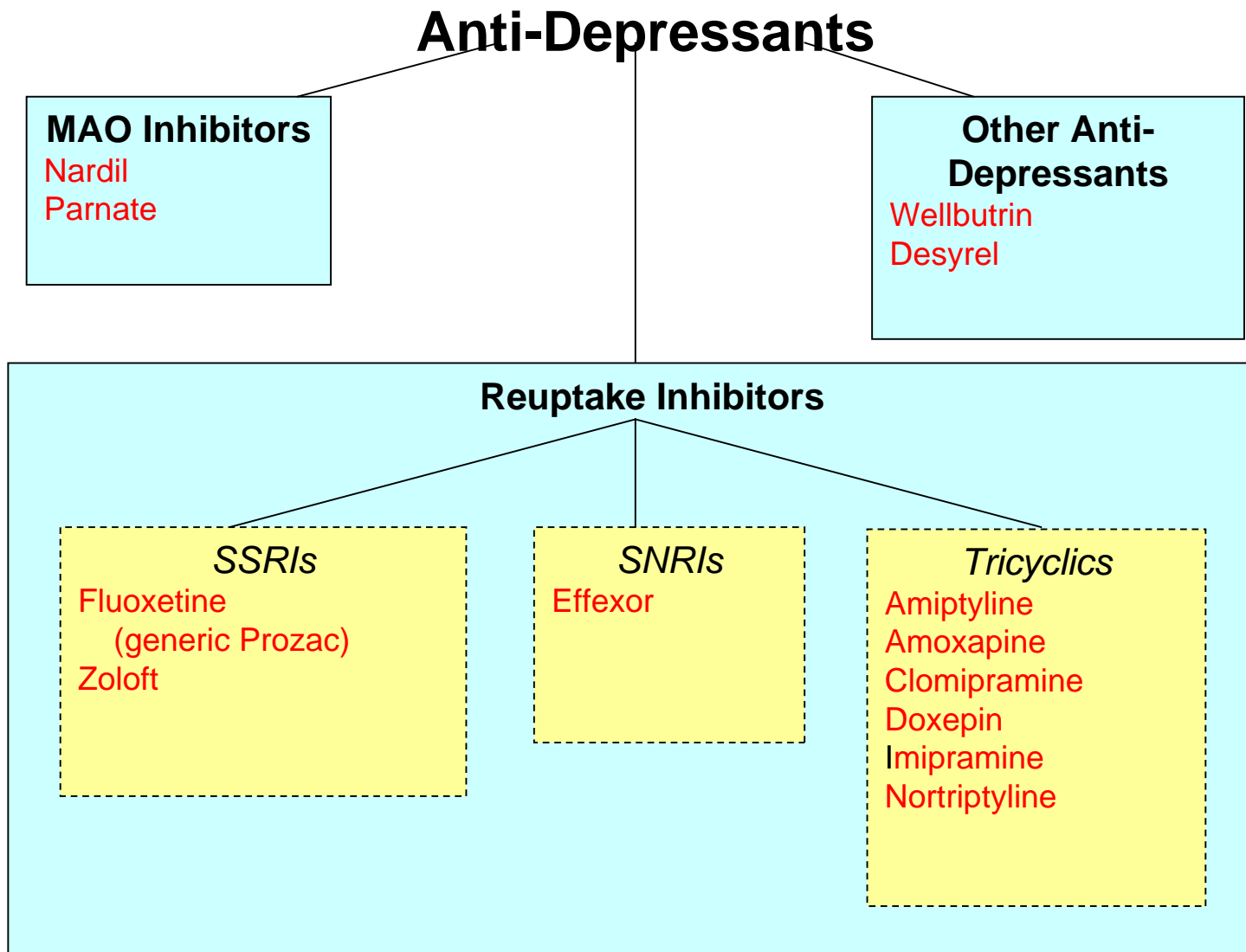


# Formulary Meeting Key Drug Type Standard

## Anti-Depressants



# Formulary Meeting Majority of Category Standard



# Tiered Cost Sharing and Actuarial Equivalence

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- Plans may modify coinsurance or other cost sharing
- Constraints imposed by actuarial equivalence
  - Plan may modify 25% coinsurance or substitute copays
  - May also lower deductible, change initial coverage limit, modify cost sharing in catastrophic range
  - Must account for shift in use
- Guidance: not all drugs can be in high tier
- Self-attestation by plan actuary; CMS review

# Actuarially Equivalent Tiered Cost Sharing Options

DRUG	STANDARD	PLAN 1	PLAN 2	PLAN 3
Nardil	25%	20%	2%	65%
Parmate	25%	20%	2%	65%
Paxil	25%	30%	35%	10%
Zoloft	25%	30%	35%	10%
Effexor	25%	20%	2%	65%
Amitriptyline	25%	5%	2%	65%
Doxepin	25%	5%	2%	65%
Wellbutrin	25%	20%	2%	65%
Remeron	25%	20%	2%	65%

# How Will the Consumer Be Protected?

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- Plans need to meet requirements
  - P&T committee decisions
- Plans will look to the market
  - Consider impact on enrollment
- CMS Review
  - Review basic requirements
  - Test formularies against guidance standards
  - Review against best practices
- Exceptions and Appeals

# Consumer Protection Issues

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- Will CMS have enough time and resources for a thorough review of formularies?
- Are some features hard to review in advance?
- How will midyear changes be handled?
- Will the formulary rules be adequate?
  - More drugs covered *versus* more competition & lower prices
- How much variation should there be across categories?
- Should actuarial equivalence be met in each class?
- Will exceptions and appeals process do the job?