AIMED ALLIANCE
Alliance for the Adoption of Innovations in Medicine

Fact Sheet: Avoiding an "Out-of-Pocket Cliff" Facing Americans Enrolled in Medicare Part D Prescription Drug Plans

In 2020, millions of seniors and individuals with disabilities could face a large spike in what they pay for medications covered through their Medicare Part D plans, a situation known as the Part D "out-of-pocket cliff." The following fact sheet explains what is at stake if the cliff occurs and the importance of averting the problem through an annual out-of-pocket spending cap for beneficiaries covered through Part D plans.

What is Medicare Part D?
Established in 2003, Medicare Part D provides prescription drug coverage to more than 44 million seniors and persons with disabilities enrolled in the Medicare program.[1] Medicare Part D covers a wide range of oral and self-administered medications provided through private plans approved by the federal government. The program is available to Medicare beneficiaries who have a Part A (inpatient care in hospitals and other facilities) or Part B (services supplied and administered in outpatient clinics and doctors' offices) plan.

What Are the Four Coverage Phases?
Part D plans typically have four coverage phases: the deductible phase, the initial coverage period, the coverage gap (also referred to as the "donut hole"), and the catastrophic coverage phase. The amount that beneficiaries owe for their medications varies significantly depending on which phase they have reached.

The Deductible Phase
Many plans include a deductible phase. During this phase, beneficiaries pay a monthly premium, and must pay 100 percent of their medications' costs until they reach their deductible amount. If a plan does not have a deductible, then the plan begins in the initial coverage period.

Initial Coverage Period
After the deductible is met, beneficiaries enter the "initial coverage period." In this phase, beneficiaries pay either copays (fixed dollar amounts) or coinsurance equaling 25 percent of a drug's cost for each prescribed medication until they reach the initial coverage limit for covered medications, which is inclusive of the deductible amount.[2]

The Coverage Gap (Donut Hole)
Once beneficiaries reach the initial coverage limit on what most Part D plans will pay for prescription medications, they enter the coverage gap.[1] In 2019, the initial coverage limit is $3,820.[3] During the coverage gap, beneficiaries currently face high out-of-pocket costs, including 35 percent coinsurance for brand drugs and percent coinsurance for generic drugs. In 2019, coinsurance for brand medications will decrease from 44 percent to 25 percent.[4]

Beneficiaries must pay these amounts until they meet an out-of-pocket limit, which will be $5,100 in 2019.[1] Any amount paid by the beneficiary or on the beneficiary's behalf, including drug manufacturers' discounts for brand medications, counts toward the out-of-pocket limit.

The Catastrophic Phase
When beneficiaries reach the out-of-pocket threshold, they qualify for catastrophic coverage and pay a small copayment or 5 percent coinsurance for the rest of the calendar year.

The Reason for a Possible Part D Out-of-Pocket Cliff
Originally, when beneficiaries entered the donut hole, they had to pay the full price of their medications until they reached the out-of-pocket threshold for catastrophic coverage. This requirement changed in 2011 when the Patient Protection and Affordable Care Act (ACA) was enacted. The ACA contains a provision that permits beneficiaries in the donut hole to pay a coinsurance instead of the full price of their medication.[5] Moreover, the ACA provision helps individuals get out of the donut hole faster by counting 95 percent of the cost of the brand name drugs, including the discount that drug manufacturers provide, toward the out-of-pocket threshold.[6]

The ACA provision is set to expire at the end of 2019, creating a spike in out-of-pocket costs for seniors virtually overnight. Unless Congress acts quickly to fix the problem, the out-of-pocket threshold to reach catastrophic coverage will rise dramatically from $5,100 in out-of-pocket costs in 2019 to $6,350 in 2020, a one-year difference of $1,250.[1] This means patients will stay in the donut hole far longer and pay significantly more for their medications during this period.

The Consequences for Patients of the Part D Out-of-Pocket Cliff
The Kaiser Family Foundation reported that in 2016, more than 5.2 million Medicare beneficiaries reached the coverage gap,[7] providing a barometer of the number of seniors and individuals with disabilities at financial risk if the out-of-pocket cliff occurs in 2020. Although most Part D beneficiaries do not reach the catastrophic phase of coverage, the estimated 10 percent who do[1] face very high out-of-pocket spending during the coverage gap, leading to significant financial liability in a short period of time.

Consequently, if the out-of-pocket cliff occurs, beneficiaries with life-threatening illnesses are likely to delay or forgo needed treatments. Demonstrating what is possible, a study by IMS Health showed that even among individuals with cancer, the likelihood of abandoning medication increases four-fold when the cost share is greater than $500.[8] Studies also show that when patients abandon their medicines, they experience poorer health outcomes due to avoidable disease progression, health complications, and poorer quality of life.[9] According to a review published in the *Annals of Internal Medicine,* the decline in health outcomes resulting from patients abandoning treatment costs the health system up to $289 billion in additional medical expenditures annually.[10]

The Solution Is an Annual Out-of-Pocket Cap for Part D Plans
Similar to Medicare Advantage plans' cap on out-of-pocket costs, a cap should be established under the Part D program. Specifically, the Institute of Medicine (IOM) recommends that Congress remove the cost-sharing requirement for Part D beneficiaries who reach the catastrophic coverage level.[11] According to research by the Kaiser Family Foundation, this action would protect more than one million Part D beneficiaries whose costs now exceed the catastrophic threshold.[12] Similarly, the Congressional Budget Office (CBO) projects that adding an out-of-pocket cap to Part D, combined with a proposal to increase health plans' share of costs for catastrophic coverage, will achieve cost savings for the federal government of $1.5 billion

over 10 years.[13]

What Can You Do?
Patient advocates can help to prevent the Part D cliff by contacting Congress, educating representatives on the impact the cliff will have on millions of vulnerable Medicare beneficiaries, and explaining the urgent need to avert the cliff by establishing an annual out-of-pocket limit under the Part D program.

About Aimed Alliance
Aimed Alliance is a not-for-profit organization that seeks to improve access to quality health care. Aimed Alliance achieves this mission by conducting legal research and analysis; developing economically sound, patient-centered recommendations; and disseminating our findings to inform policymakers and increase public awareness.

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