Medicare Part D Formulary Decision Making: Understanding How PDP Sponsor Analytics Affects Negotiations

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Medicare Part D Overview

- Less than 10% of the U.S. Population but about 20% of total U.S. script volume (and growing)

- Program changes every year – Successful PDP sponsors improve each year
  - Understanding of Beneficiary Needs & Wants
  - Understanding of Financial Mechanics (very different than commercial)
  - More Sophisticated Analytics
2013 Headlines for Medicare Part D

1. Major Developments: Preferred (or Select) Network growth in 2013 – PDP sponsors are choosing sides

2. Brand Patent Expirations

3. Rebates Not Improving
Medicare Part D PDP Sponsor Objectives

- Control Cost to Achieve Attractive Return on Equity (ROE)

- Limit Risk and Surprises
  - Three Part D Risk Mitigation Features
    - Risk Score
    - Risk Corridor
    - Federal Reinsurance Subsidy
Part D Financial Drivers

- Rebates
- Admin Cost
- Active Formulary Management (including generic dispensing rate)
- Network Discounts
- Select Networks
Part D 2013 Standard Defined Plan Design

- $0 - $325 deductible  Plan pays 0%
- $325.01 - $2970  Plan pays 75%
- $2970.01 - $6733.75  Plan pays 21% generic & 2.5% brand
- $6733.76 +  Plan pays approximately 15%
## Part D Financial Mechanics

### Commercial Mechanics

<table>
<thead>
<tr>
<th></th>
<th>Brand</th>
<th>Generic</th>
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</thead>
<tbody>
<tr>
<td>Gross Discounted Cost</td>
<td>$100</td>
<td>$30</td>
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<tr>
<td>Rebate</td>
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<td>$0</td>
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<tr>
<td>Cost Share</td>
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<td>$10</td>
</tr>
<tr>
<td>Net Cost</td>
<td>$30</td>
<td>$20</td>
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### Part D Mechanics (coverage gap)

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<td>Rebate</td>
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<td>Net Cost</td>
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Analytics For Formulary Financial Considerations

- Profitability analysis to determine biggest losers

- Assess Potential Changes
  - Elementary approach – How many people were in each spending phase in 2011 and what is the aggregate impact

  - Flaws: Doesn’t reflect actual spending pattern in 2013 due to drugs coming off patent & pipeline drugs, not dynamic (e.g., one change impact only), doesn’t establish 2012 formulary as baseline for potential changes, doesn’t normalize to basic plan design and solve for impact on net plan liability
Comprehensive Approach

- Rules Based Seriatim Model with Plan Liability Focus
- Dynamic Databases
  - Interrelationships Between Formulary Changes
- Excel-Based Interface that Communicates with SAS Datasets
- Modeling Approach:
  - Claims Experience Database Assembly
  - Claim Projection
  - Formulary Change
  - Claim Adjudication
- Modeling Process
  - Target Therapeutic Classes
  - Model Formulary Change Options
Other Analytics & Initiatives

- Risk Score Improvement
- Star Rating Improvement
- Mail Order Conversion
Questions and Discussion