

Press release CMS Announces New Model to Lower Drug Prices in Medicare Part D and Transformative Updates to Existing Model for Medicare Advantage

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Models to provide seniors with more benefits while strengthening competition among plans

Today, CMS's Center for Medicare and Medicaid Innovation ("Innovation Center"), which tests innovative payment and service delivery models to lower costs and improve the quality of care, announced a new payment model and transformative updates to an existing model. The models are designed to enable Medicare Advantage and Part D plans, which are private plans that provide Medicare beneficiaries with medical and prescription drug coverage, to better serve patients and help them achieve good health.

"Expanding choices for patients, aligning incentives, and providing new flexibility for insurers in Medicare Advantage and Medicare Part D will deliver better value from these programs," said HHS Secretary Alex Azar. "The models being announced today create new incentives for plans, patients, and providers to choose drugs with lower list prices, and new ways to meet the unique healthcare needs of specific populations, prevent disease, and expand the use of telehealth. Today's announcement draws on successes we have already seen in Medicare and advances our priority of using HHS programs to build a value-driven healthcare system."

The model for Medicare Advantage plans is an update to the Medicare Advantage Value-Based Insurance Design or "VBID" model that CMS first launched in 2017. The model for Part D plans is called the Part D Payment Modernization model. These are both voluntary models to advance innovation – meaning certain Medicare Advantage and Part D plans can choose to participate, and patients can choose to enroll in participating plans. The models will be closely monitored, and if they clear certain thresholds for impact on quality, costs, and access to benefits, the models can be expanded in scope.

"The American healthcare system is very different today than it was thirteen years ago when the Medicare Advantage and Part D programs were launched in their current forms, but due to the slow pace of change in government, these programs have not been fully updated to reflect today's realities," said CMS Administrator Seema Verma. "Today's announcements are prime

examples of how CMMI can test policies to modernize CMS programs and ensure that our seniors can access the latest benefits. These two models ignite greater competition among plans, creating pressure to improve quality and lower costs in order to attract beneficiaries.”

The President’s Blueprint to Lower Drug Prices and Reduce Out-of-Pocket Costs called on HHS to increase competition, improve negotiation, create incentives for lower list prices, and reduce out-of-pocket costs. Through the Part D Payment Modernization model announced today, CMS is executing on the Blueprint. This model advances President Trump’s commitment to lower prescription drug prices, with Medicare beneficiaries, Part D plans, and CMS all benefiting from a more aligned system.

The Part D Payment Modernization model announced today advances President Trump’s commitment to lower prescription drug prices. Currently in Part D, once a patient’s prescription drug spending is high enough for the patient to enter the final phase of the benefit, known as the “catastrophic phase,” Medicare is responsible for 80 percent of drug costs. This introduces perverse incentives and leaves plans with little reason to negotiate lower costs for the highest-spending patients.

In fact, over the past 10 years (2008-2017), federal spending in the Part D catastrophic phase has nearly quadrupled from \$9.4 billion to \$37.4 billion, reflecting an average increase of 17 percent per year. In 2016, 3.2 million beneficiaries reached the Part D catastrophic phase, and the beneficiaries in catastrophic who did not qualify for the low-income subsidy faced average annual out-of-pocket drug costs of over \$3,000.

This issue of plans having limited responsibility in the catastrophic phase, and the related lack of incentives plans have to focus on high list prices, was raised in the President’s FY 2019 budget, and it has been highlighted by MedPAC and by multiple other stakeholders in response to CMS RFIs. Under the new model, which takes effect for the 2020 plan year, participating plans will take on greater risk for spending in the catastrophic phase of Part D, creating new incentives for plans, patients, and providers to choose drugs with lower list prices. Based on plan year performance, CMS will calculate a spending target for what governmental spending would have been without plans taking on this additional risk. Participating Part D plans will share in savings if they stay below the target but will be accountable for losses if they exceed the target. For the first time, the model also introduces a Part D rewards and incentives program to align this model with the changes to VBID, and to provide Part D plans with additional tools to control drug costs and help enrollees in choosing drugs with lower list prices.

The wide-ranging enhancements to the VBID model announced today will test a new series of service delivery approaches for Medicare Advantage plan beneficiaries for the 2020 plan year, including:

- Allowing plans to provide reduced cost sharing and additional benefits to enrollees in a more targeted fashion than has previously been allowed, including customization based on chronic condition, socioeconomic status, or both, and even for benefits not primarily

related to health care, such as transportation;

- Bolstering the rewards and incentives programs that plans can offer beneficiaries to take steps to improve their health, permitting plans to offer higher value individual rewards than were previously allowed; and
- Increasing access to telehealth services by allowing plans to use access to telehealth services instead of in-person visits, as long as an in-person option remains, to meet a range of network requirements, including certain requirements that could not previously be fulfilled through telehealth.

Beginning in the 2021 plan year, the VBID model will also test allowing Medicare Advantage plans to offer Medicare's hospice benefit. This change is designed to increase access to hospice services and facilitate better coordination between patients' hospice providers and their other clinicians.

Plans participating in the VBID program will be offered along with traditional Medicare Advantage plans. CMS will monitor whether plans that take up these more tailored coverage options are able to reduce costs and increase quality.

Medicare Advantage plans in all 50 states and territories may apply for the VBID model for 2020, thanks to a provision signed into law by President Trump in the Bipartisan Budget Act of 2018. Additionally, the model is now available to more Medicare Advantage plan types, including all Special Needs Plans and Regional PPOs in all states and territories. The Part D Payment Modernization and VBID models will run through 2024. Requests for Applications for participating in the VBID model for 2020 and the Part D Payment Modernization model for 2020 will be made available by CMS the week of January 21, 2019. Medicare beneficiaries will be able to select plans participating in these models for the 2020 plan year.

Today, CMS is also issuing an evaluation report for the first year of the VBID model. Plans in only 7 states could participate in the model for the first year (2017). The report shows that participating plans began to leverage the new tools that were introduced right away, with 45 plans participating and offering more benefits to enrollees. Most 2017 Medicare Advantage data are not yet complete for a full impact analysis, but the agency is continuing to assess the model. Today's update of VBID was informed by experience during the early years of the model.

For fact sheets on today's announcements, please visit <https://cms.gov/newsroom/fact-sheets/value-based-insurance-design-model-vbid-fact-sheet-cy-2020> and <https://cms.gov/newsroom/fact-sheets/part-d-payment-modernization-model-fact-sheet>.

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