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# Out-of-Pocket Costs Among Medicare Part D Enrollees Reaching the Catastrophic Threshold

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**Avalere Health**  
An Inovalon Company

1350 Connecticut Ave, NW  
Washington, DC 20036

T | 202.207.1300  
[avalere.com](http://avalere.com)

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# Executive Summary

Policymakers are focused on reforming the Medicare Part D benefit to address increasing out-of-pocket (OOP) costs by adding a maximum OOP cap at the catastrophic threshold. Avalere conducted an analysis to characterize the beneficiaries most likely to be helped by such a policy. Approximately 3.6 million beneficiaries (8% of all Medicare Part D enrollees) reached the catastrophic phase of the benefit in 2017. Of those, approximately 800,000 beneficiaries were not eligible for the low-income subsidy (LIS) or enrolled in an employer-group waiver plan (EGWP) and were responsible for their full cost sharing, which averaged approximately \$4,000 in yearly costs.<sup>1</sup>

Beneficiaries who reached catastrophic early in the year faced even higher average annual OOP expenditures due to costs that were incurred after reaching catastrophic. For example, non-LIS enrollees who filled at least one script after reaching catastrophic in the first 3 months of the year incurred more than \$2,000 in OOP costs on average after reaching the catastrophic phase. This exposure to ongoing cost sharing in catastrophic contributed to higher annual OOP costs for these beneficiaries—in total, non-LIS enrollees who reached catastrophic in the first 3 months of the year averaged more than \$6,600 in OOP costs in 2017.

While an annual OOP cap would reduce spending for those with the highest OOP costs, affordability concerns would likely remain for some beneficiaries. About half (45%) of non-LIS beneficiaries who reached catastrophic in 2017 faced OOP costs prior to reaching catastrophic that exceeded more than \$1,000 in a month, and 19% of beneficiaries had OOP costs greater than \$2,500 in a single month. This points to the potential need for additional policy solutions to address affordability challenges associated with high OOP expenditures concentrated over a short period of time before beneficiaries reach catastrophic.

## Introduction

Today, the standard Part D benefit includes 4 phases: a deductible, the initial coverage phase, the coverage gap, and catastrophic coverage. Beneficiaries' progression through the benefit is based on their drug spending. In 2019, the total drug spending for an enrollee to reach catastrophic is expected to average over \$8,000—this amount is paid for through a combination of beneficiary OOP, plan payments, and manufacturer discounts.<sup>2</sup> Once in catastrophic, non-LIS beneficiaries are responsible for 5% of their total drug costs. This spending is currently

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<sup>1</sup> Employer group waiver plans (EGWPs) are Part D plans offered by employers to their retirees that often have more generous benefits with lower cost sharing requirements than standard Part D plans. Avalere's analysis therefore focuses on the nearly 800,000 non-LIS, non-EGWP beneficiaries who reached catastrophic in 2017.

<sup>2</sup> CMS. Announcement of Calendar Year (CY) 2019 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment Policies and Final Call Letter.

uncapped, meaning that patients who reach catastrophic continue to pay 5% of their drug costs until the end of the calendar year.

This program design has recently been under considerable discussion, with multiple legislative efforts in the House of Representatives and the Senate seeking to reform Medicare Part D by implementing a yearly maximum OOP cap. This cap would reduce annual OOP expenditures for beneficiaries who reach catastrophic, with the biggest benefit being felt by those who incur substantial OOP costs in catastrophic.

This brief includes findings from Avalere's analysis of beneficiary spending for those individuals who would be most likely to benefit from an OOP cap in Medicare Part D.<sup>3</sup> Avalere's analysis focused on the nearly 800,000 non-LIS beneficiaries who reached catastrophic in 2017 and were not enrolled in EGWPs. This group incurred an average of just over \$4,000 in OOP costs in 2017.

Avalere's analysis of the timing of these expenditures throughout the year highlights additional affordability challenges that some beneficiaries may face as they incur particularly high OOP in a short period of time. Notably, this type of affordability challenge would not be addressed by an annual OOP cap.

## Beneficiaries Reaching Catastrophic Incur Substantial Out-of-Pocket Costs

In 2017, 3.6 million beneficiaries (approximately 8% of all Part D enrollees) reached the catastrophic phase of the Medicare Part D benefit. Of these enrollees, 69% received the LIS and 1.1 million (31%) were non-LIS; approximately 800,000 of these non-LIS beneficiaries were not enrolled in EGWPs.<sup>4</sup>

Beneficiaries progress through the Part D benefit at different rates, depending on their drug utilization. Beneficiaries who reached catastrophic in 2017 and who used products in certain therapeutic areas were exposed to more significant OOP costs, with immunoglobulins; specialty respiratory agents;<sup>5</sup> immunomodulators and immunosuppressants; and antineoplastics (cancer drugs) accounting for the highest total OOP spending per beneficiary (Appendix Figure A).

Non-LIS beneficiaries who reached catastrophic in the beginning of the year also had more significant OOP spending on average due to OOP costs that were incurred after reaching catastrophic. Beneficiaries who filled at least one script after reaching catastrophic in January incurred about \$4,800 in OOP costs for prescriptions that fell in the catastrophic phase. In

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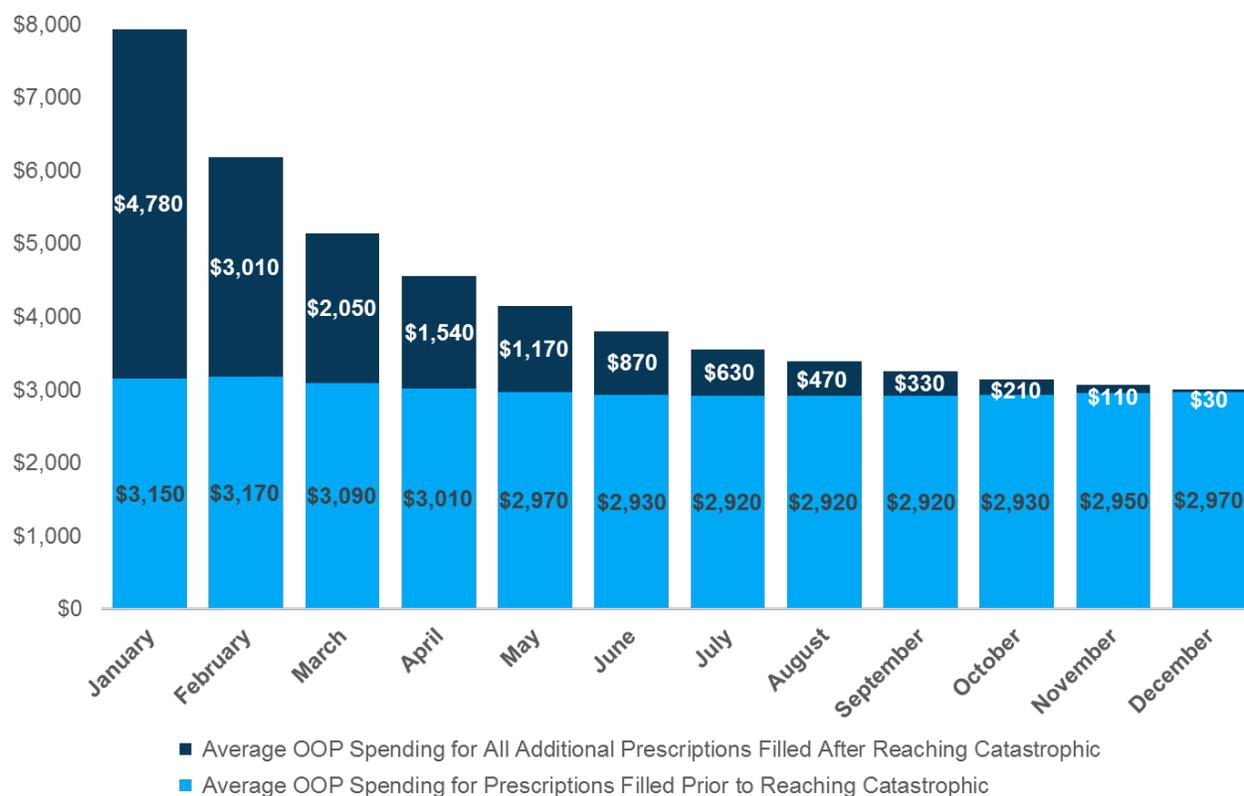
<sup>3</sup> Assumes an OOP cap placed around the amount a beneficiary would need to spend OOP to reach the current catastrophic threshold.

<sup>4</sup> Because enrollees in employer group waiver plans (EGWPs) typically have more generous benefits that lower their total OOP costs, the sample excluded EGWP enrollees who reached catastrophic in 2017

<sup>5</sup> Specialty respiratory agents include Alpha-Proteinase Inhibitors, Cystic Fibrosis Agents, and Pulmonary Fibrosis Agents.

comparison, enrollees who reached catastrophic in June or later incurred less than \$900 on average for scripts filled after reaching catastrophic (Figure 1).

**Figure 1. Average Beneficiary OOP Spending Prior to Reaching Catastrophic and in Catastrophic Based on Month Catastrophic Is Reached, 2017**



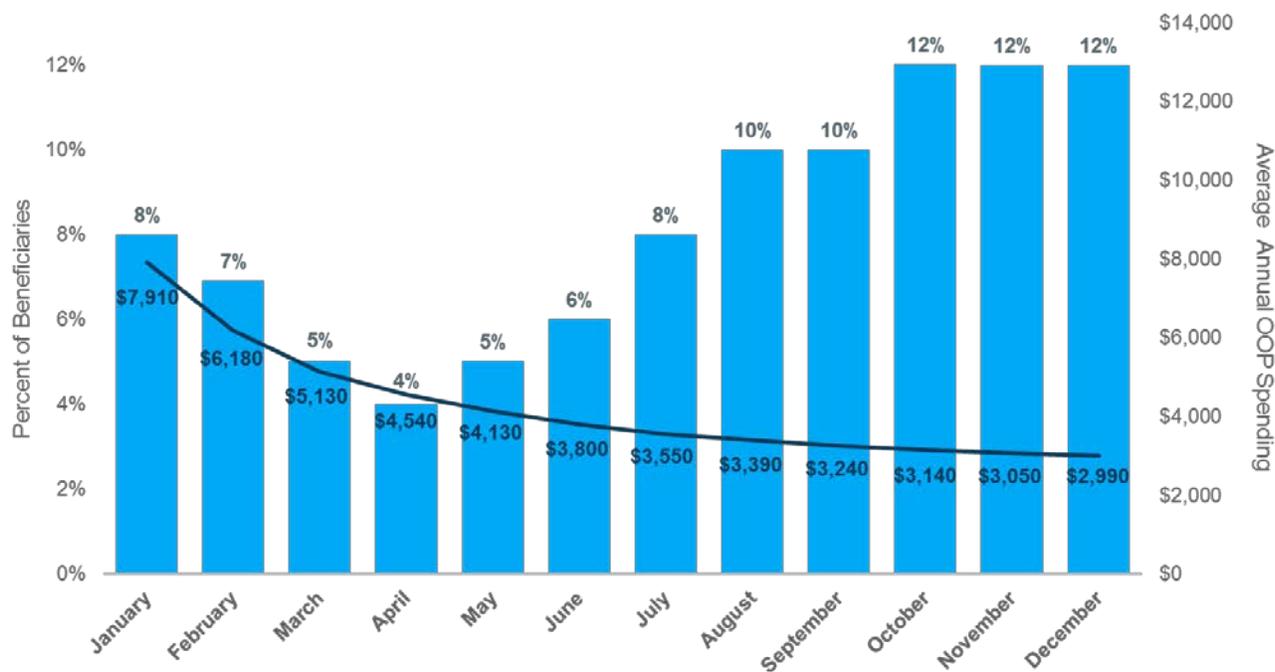
Note: OOP spending for claims spanning the coverage gap and catastrophic threshold was included in pre-catastrophic spending. Analysis of spending in catastrophic includes only OOP spending for claims filled after a beneficiary reached catastrophic. OOP spending is rounded to the nearest \$10. Avalere analysis of 2017 Medicare Part D Prescription Drug Event (PDE) data.

**By limiting exposure to additional cost sharing in catastrophic, an OOP cap could significantly reduce overall OOP expenditures for many beneficiaries who reach catastrophic, particularly for those who do so in the first few months of the year.**

This exposure to ongoing cost sharing in catastrophic contributed to higher average annual OOP costs for beneficiaries who reached catastrophic in the first few months of the year. Among all non-LIS beneficiaries who reached catastrophic in 2017, 8% (~64,000 beneficiaries)

did so in the first month of the year and 20% (~156,000 beneficiaries) reached catastrophic in the first 3 months of the year. The roughly 64,000 beneficiaries who reached catastrophic in January had the highest average annual OOP costs, incurring more than \$7,900 on average in 2017. Meanwhile, beneficiaries who reached catastrophic in December saw the lowest annual OOP costs of those beneficiaries who reached catastrophic, at less than \$3,000 on average (Figure 2).

**Figure 2. Percent of Non-LIS Beneficiaries Reaching Catastrophic by Month and Average Annual OOP Spending, 2017**



Note: OOP spending is rounded to the nearest \$10.  
 Avalere analysis of 2017 Medicare Part D Prescription Drug Event (PDE) data.

**On average, the earlier in the year beneficiaries reach the catastrophic phase of the benefit, the higher their annual OOP spending.**

## Concentrated Spending Can Create Affordability Challenges for Beneficiaries

Avalere's analysis finds that beneficiaries who reached catastrophic early in the year not only faced high annual OOP expenditures, but also incurred a significant amount of these OOP costs in a short period of time. For example, beneficiaries who reached catastrophic in January incurred an average of more than \$3,100 in OOP costs in a single month. High OOP cost sharing in a short period of time can create affordability challenges for beneficiaries, with many studies linking higher cost sharing to decreased adherence.<sup>6,7</sup>

Of the nearly 800,000 non-LIS enrollees analyzed, 45% (~350,000 beneficiaries) experienced at least a month in which their OOP spending for prescriptions prior to reaching catastrophic exceeded \$1,000, and almost 1 in 5 beneficiaries (nearly 150,000 beneficiaries) had at least a month of OOP spending for prescriptions that exceeded \$2,500 prior to reaching catastrophic (Figure 3).

**Figure 3. Beneficiaries Who Reached Catastrophic and Experienced at Least 1 Month of Spending Prior to Reaching Catastrophic that Exceeded \$1,000 and \$2,500, 2017**



Avalere analysis of 2017 Medicare Part D Prescription Drug Event (PDE) data.

Over a third (35%) of beneficiaries who had monthly OOP spending exceeding \$1,000 and nearly half (49%) of beneficiaries who had monthly OOP spending exceeding \$2,500 incurred these OOP expenditures in January.

<sup>6</sup>Doshi, Jalpa A., Pengxiang Li, Hairong Huo, Amy R. Pettit, and Katrina A. Armstrong. [Association of Patient Out-of-Pocket Costs With Prescription Abandonment and Delay in Fills of Novel Oral Anticancer Agents](#). *Journal of Clinical Oncology*. 2017. doi: 10.1200/JCO.2017.74.5091.

<sup>7</sup>Eaddy, Michael T., Christopher L. Cook, Ken O'Day, Steven P. Burch, and C.Ron Cantrell. [How Patient Cost-Sharing Trends Affect Adherence and Outcomes](#). *Pharmacy and Therapeutics*. 2012;37(1):45-55.

Half of all Medicare beneficiaries had an annual income below \$26,200 in 2016.<sup>8</sup> As a result, the level of OOP spending described above can account for a significant proportion of, and in some cases even exceed, a beneficiary's total monthly income.

## Conclusion

The findings from this analysis demonstrate that under the current Part D benefit design, non-LIS beneficiaries who reach catastrophic are exposed to high OOP costs, averaging just over \$4,000 in 2017. Further, some beneficiaries face additional affordability challenges because of high OOP spending concentrated in a short period of time (e.g., more than \$1,000 in a single month)—often in the first few months of the year. These individuals might benefit from additional policies that reduce their monthly expenditures. These types of additional affordability reforms could, for example, spread OOP costs over additional months or limit OOP spending on a monthly or per-script basis. Some of these policies might increase costs to the Medicare program while others would not be expected to affect federal spending. For example, a policy that spreads high OOP costs in a month over the remainder of the year could even out monthly costs over the plan year, while holding total OOP costs under the annual OOP cap constant.<sup>9</sup>

A cap on OOP spending would substantially limit overall OOP costs for many beneficiaries who reach the catastrophic phase of the benefit. However, without additional policy changes to the Part D benefit structure, a portion of these beneficiaries could continue to face OOP costs that are concentrated during one or more months of the plan year.

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<sup>8</sup> Kaiser Family Foundation. "[Medicare Beneficiaries' January 2018 Out-of-Pocket Health Care Spending as a Share of Income Now and Projections for the Future](#)." January 2018.

<sup>9</sup> On average, such an option would allow beneficiaries to spread approximately 40% of their annual OOP costs for prescriptions filled prior to reaching catastrophic over the remaining months of the year. This assumes an option implemented for non-LIS beneficiaries who reached catastrophic in January–November of 2017 and who had a month of spending prior to reaching catastrophic exceeding \$1,000. Assumes that all OOP spending in a month in which a beneficiary had OOP costs exceeding this amount would be smoothed over the remaining months of the year.

## Appendix

**Figure A. Therapeutic Areas Accounting for More Than 40% of a Beneficiary's Annual OOP Costs, Among Non-LIS Beneficiaries who Reached Catastrophic, 2017**

Therapeutic Area	Average Percent Contribution to a Beneficiary's Annual OOP Costs	Average Annual OOP Spending Per Beneficiary for Drugs in Therapeutic Area
Specialty Respiratory Agents*	86%	\$5,360
Immunoglobulins	66%	\$5,700
Antineoplastics	54%	\$3,920
Hematopoietic Agents (Growth Factors)	45%	\$2,300
Antidotes and Antagonists	44%	\$2,690
Psychotherapeutic and Neurological Agents, Miscellaneous**	42%	\$1,840
Digestive Aids	41%	\$1,340
Neuromuscular Agents	40%	\$1,112

\*Includes Alpha-Proteinase Inhibitors, Cystic Fibrosis Agents, Pulmonary Fibrosis Agents.

\*\*Includes Cardiovascular Combinations, Pulmonary Hypertension Agents, Prostaglandin Vasodilators, Sinus Node Inhibitors, and Impotence Agents.

Note: Total average OOP reflects spending on all scripts for drugs in a therapeutic area. Spending does not reflect OOP costs on a per-script basis.

Annual OOP spending per beneficiary is rounded to the nearest \$10.

Avalere analysis of 2017 Medicare Part D Prescription Drug Event (PDE) data.

**Figure B. Number of Non-LIS Beneficiaries Reaching Catastrophic in Each Month, 2017\***

<b>Month Catastrophic Reached</b>	<b>Number of Beneficiaries*</b>
January	64,000
February	49,800
March	42,300
April	34,400
May	41,100
June	49,300
July	59,700
August	74,300
September	79,100
October	93,600
November	95,500
December	95,500
<b>Total</b>	<b>778,400</b>

\*Numbers in each month are rounded to the nearest 100 beneficiaries. Total is based on unrounded numbers. Avalere analysis of 2017 Medicare Part D Prescription Drug Event (PDE) data.

## Methodology

Avalere used 2017 Part D Prescription Drug Event (PDE) data, under the terms of a Centers for Medicare & Medicaid Services (CMS) research data use agreement (DUA) to analyze differences in pre- vs. post-catastrophic spending patterns and utilization among non-LIS beneficiaries who reached catastrophic phase. The analysis captures non-LIS beneficiaries regardless whether they disenrolled at any point during the year or joined after January. The analysis excludes beneficiaries enrolled in employer group waiver plans (EGWPs). OOP amounts include other true out-of-pocket (TrOOP) spending, such as spending made on behalf of beneficiaries by State Pharmaceutical Assistance Programs (SPAPs) and other charity care. Any OOP spending for claims that spanned benefit phases was included as pre-catastrophic spending. Post-catastrophic spending therefore only reflects OOP costs for additional claims filled after the beneficiary reached catastrophic phase. Therapeutic areas were analyzed using the Generic Product Identifier (GPI) classification system in Medi-Span®.

## About Us

Avalere is a vibrant community of innovative thinkers dedicated to solving the challenges of the healthcare system. We deliver a comprehensive perspective, compelling substance, and creative solutions to help you make better business decisions. As an Inovalon company, we prize insights and strategies driven by robust data to achieve meaningful results. For more information, please contact [info@avalere.com](mailto:info@avalere.com). You can also visit us at [avalere.com](http://avalere.com).

## Contact Us

**Avalere Health**  
An Inovalon Company  
1350 Connecticut Ave, NW  
Washington, DC 20036  
202.207.1300 | Fax 202.467.4455  
[avalere.com](http://avalere.com)