PART D PAYMENT MODERNIZATION MODEL

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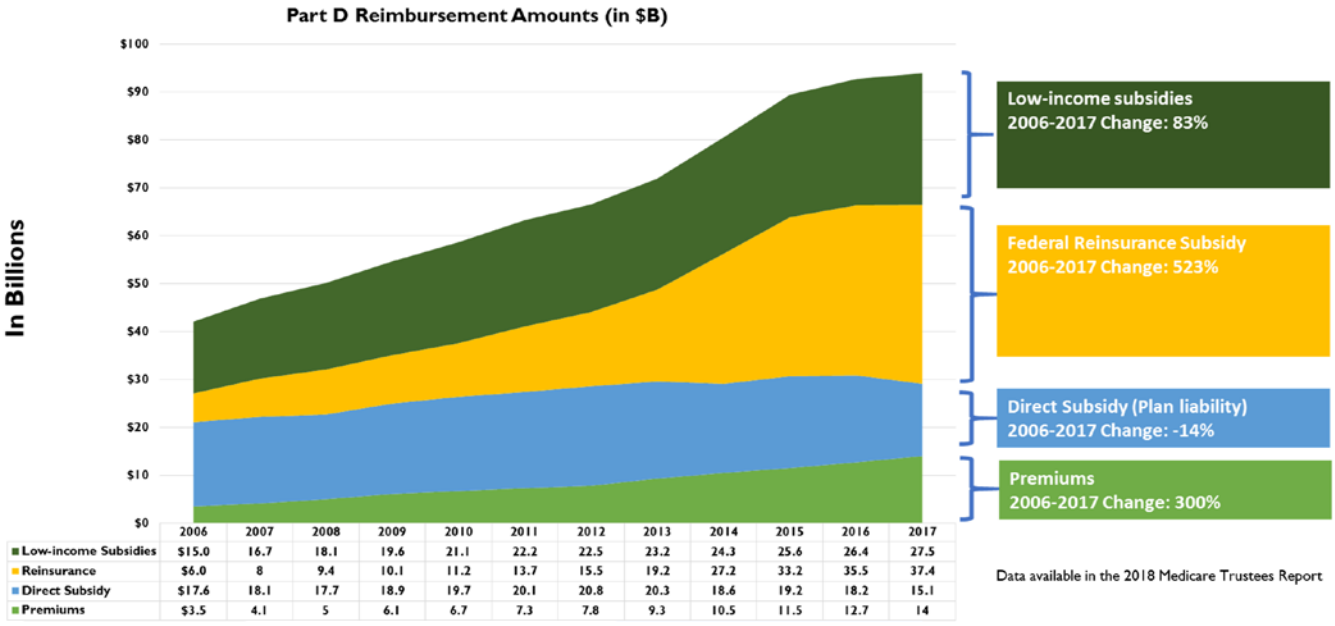
Innovative Flexibilities Allow Greater Control Over Reinsurance Costs

CMS recently released an RFA[1] for the Part D Payment Modernization (PDPM) model which includes several unique opportunities intended to incentivize plans to actively manage beneficiary out-of-pocket costs and overall drug costs, particularly drug costs in the catastrophic phase of the benefit. While the PDPM is an ongoing demonstration that has been active for the last two years, CMS added additional flexibilities to the 2022 application in the hopes of garnering more interest and participation from plans.



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Low-income Subsidies	$15.0	16.7	18.1	19.6	21.1	22.2	22.5	23.2	24.3	25.6	26.4	27.5
Reinsurance	$6.0	8	9.4	10.1	11.2	13.7	15.5	19.2	27.2	33.2	35.5	37.4
Direct Subsidy	$17.6	18.1	17.7	18.9	19.7	20.1	20.8	20.3	18.6	19.2	18.2	15.1
Premiums	$3.5	4.1	5	6.1	6.7	7.3	7.8	9.3	10.5	11.5	12.7	14

Figure 1 – Reinsurance spending has far outstripped growth from other payment sources over the last several years

[1] https://innovation.cms.gov/media/document/partd-payment-modernization-cy22rfa

Key Features

The central element of this demonstration is that CMS will retrospectively develop a target benchmark intended to represent the amount of federal reinsurance subsidy the participating organization would have received without the model. Plans will share savings and losses on the federal reinsurance portion of the catastrophic phase of the Part D benefit in relation to this target benchmark. Importantly, CMS has not yet shared detailed information on how the federal reinsurance benchmark will be calculated except to those plans who are provisionally accepted into the program. Therefore, a quantitative assessment of the risk/reward trade-offs of participation in the demonstration is currently not possible. However, for the 2022 bid year CMS waived the down-side risk associated with model participation to incentivize more sponsor participation and due to uncertainty on the impact of POS rebates on federal reinsurance subsidy amounts. Because of the waiver of adverse risk sharing impacts for sponsors, for 2022 CMS will institute a minimum savings threshold that has not been confirmed yet but is expected to be 0.5 based on historical data. CMS does intend to re-implement downside risk in 2023 and 2024, which are the final years of the optional demonstration. However, given the zero risk design of the demonstration in 2022 and the asymmetric design of the risk share in 2023 and 2024, now may be a low-risk/high-reward time for plans to consider participating in the PDPM. The risk-sharing parameters for both 2022 and 2023-2024 are included in the tables below:

Table 1: 2022 Projected Risk Share Design

Outcome	Percentage	Plan Share
Savings	0.5-3%	30% of savings
Savings	3%+	80% of savings
Losses	0%+	0% of losses

Table 2: 2023-2024 Projected Risk Share Design

Outcome	Percentage	Plan Share
Savings	0-3%	30% of savings
Savings	3%+	80% of savings
Losses	0%+	10% of losses

All PDP and MAPD plans across the nation, including all SNP types, are eligible to join [2]the program. However, if PDP sponsors choose to participate in a PDP region, all of the sponsor's PDP plans in that

[2] EGWP, 1876 Cost, PACE, Medicare-Medicaid, fee-for-service, Medicare Medical Savings Account, religious fraternal benefit, and 1833 prepayment plans are not eligible

region must participate. Similarly, participating MA-PD sponsors must include all MA-PD plans in that region in the demonstration.

Key Flexibilities

Apart from the reinsurance benchmarking and plan participation requirements, the Part D Payment Modernization model is structured to allow sponsors substantial flexibility in designing offerings to moderate total drug costs and beneficiary out-of-pocket costs. Plans can choose which of the following flexibilities they want to utilize in order to better manage catastrophic spending.

- Formulary Flexibilities
    - Removing drug inclusion restrictions around five of the six protected drug classes in 2022, and removing drug inclusion restrictions from the remaining protected class (anti-retrovirals) in 2023.
    - Only one drug (instead of a minimum of two drugs) is required to be on the formulary per drug class.
- Medication Therapy Management+ (MTM+) Programs
    - Allows plans to target enrollees using advanced beneficiary characteristics instead of only the three core elements of MTM programs. Intended to drive increased engagement with the plan from those members who would benefit most.
- Cost-Sharing Smoothing
    - Allows members to make payments in installments over the entire year with the hope of increasing adherence.
- Limited Initial Days' Supply
    - Allows plans to limit first fill days supply to less than 30 days given sound clinical and drug utilization review rationale.
- Rewards and Incentives Program
    - Allows plans to incentivize increased adherence and switching to generic/biosimilar drugs.
- LIS Cost-sharing Incentive
    - Plans can reduce point-of-sale member cost share below the standard LI copays and still receive LICS dollars up to the maximum statutory LIS beneficiary copay.

- Coverage Determinations
    - Increased to 96 hours instead of 72 to limit denials and administrative headaches.
- De Minimis Policy
    - Model participants can waive a greater *de minimis* amount than non-model participants in order to retain LI members and reduce population fluctuations away from model participants.

Key Considerations

- Formulary
    - The primary method of controlling reinsurance costs under this program is to substitute high rebate brands for low drug cost generics and concentrate utilization in chosen therapeutic classes to a small subset or single drug.
    - Specific sponsor formulary design that will likely require a custom formulary from the PBM, which drives up PBM admin costs.
    - Wakely Formulary Profitability, Rebates, and Opportunities (PRO) tool can help plans make these tough decisions and understand if the trade-off is worthwhile.
- Stars
    - Member satisfaction is heavily weighted in 2022 Stars, and formulary disruption is a significant obstacle to achieving a high score. CMS intends to control for this and other negative impacts related to model participation.
    - Drug adherence measures affect nearly 50% of a plan's Star score; this program gives plans opportunities to improve adherence.
- Regulatory Changes
    - Part D is ripe for regulatory change considering this is one of the only areas of bi-partisan agreement and there are significant known structural issues.
    - POS Rebates in 2023 may drive plans to implement similar changes on their own (i.e., shift away from high rebate brands and towards low drug cost generics). The demonstration may allow plans to get a head start on those changes and profit financially.
    - Many of the flexibilities included in the model come from MedPAC suggestions. MedPAC is frequently a leader in proposals for coming regulatory changes in the Medicare space– some of these flexibilities may end up being instituted through legislative or regulatory changes in the near future.

- Adherence
    - Nearly all of the flexibilities in this program are directly intended to increase adherence (LIS Cost-Sharing), will indirectly increase adherence as a result of lowering drug costs (Formulary Flexibilities), or will drive engagement between the plan and low adherence members (MTM+).
    - Increased adherence significantly reduces medical costs, and could save the plan money over time.
- Long-term Strategy
    - Although the model is designed so that plans do not have to participate each year, the changes required to be successful in this program are sweeping enough that this likely requires a multi-year commitment.

Timeline

The window for participating in the model is closing quickly – a preliminary, non-binding Notice of Intent (NOI) is due March 1st. If your plan is interested in the model but is not yet confident in the opportunity, Wakely suggests sponsors submit this preliminary notice of intent at the following location: https://cms.gov1.qualtrics.com/jfe/form/SV_enENv30OlWrXHqB.

Plans submitting an NOI will be contacted by CMS regarding the results of the NOI review, and will be asked to complete a more formal provisional application by April 16th. CMS will allow incremental changes to proposed model components and interventions, or withdrawal of the application, up to the bid submission deadline on June 7th.

Please contact Casey Gardner at casey.gardner@wakely.com or David Walters at david.walters@wakely.com with any questions or to follow up on any of the concepts presented here.