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On behalf of the EmblemHealth family of companies we greatly appreciate this opportunity to respond to the bipartisan draft Part D legislation issued for comment by the leaders of the House Ways & Means and Energy & Commerce Committees on May 23. EmblemHealth is the largest community-based nonprofit health plan in the country, and with our partner ConnectiCare, serves approximately 3.1 million individuals who live in New York, Connecticut, New Jersey, and Massachusetts. The issues addressed in this draft legislation are of critical importance to the 250,000 Medicare beneficiaries in New York and Connecticut who rely on our innovative approach to providing high quality health care services.

The bipartisan draft legislation would establish an out-of-pocket cap for Part D beneficiaries and phase down government funding of expenses above the existing Part D catastrophic threshold from 80% to 20% over four years. We strongly agree with the goals of the legislation. Medicare beneficiaries with the highest prescription drug needs should have the peace of mind of knowing that their out-of-pocket expenses will not exceed threshold amounts. We also strongly agree that taxpayers have paid too much for the rising costs of the most expensive medications. However, these goals are best accomplished by extending drug manufacturer contributions in the Coverage Gap to the catastrophic phase of the benefit. Expanding Part D plan liability as envisioned in the bill will increase beneficiary premiums and jeopardize the success of the Part D program without addressing the drug manufacturer pricing practices that are the root cause on increasing Medicare beneficiary and taxpayer costs.

Pharma pricing practices are the cause of higher Medicare Part D costs. This is most true for high-needs beneficiaries.

A recent study[1] finds rebates are negotiated on only 11% of prescriptions dispensed in Medicare Part D in 2016. Drug companies generally do not pay rebates on the highest cost medications which have no clinically appropriate therapeutic alternative. Pharma manufacturers can therefore maximize their market power and set prices on these drugs without regard to market forces.

Part D spending on high-cost drugs has increased significantly in recent years. A January 2017 report[2] from the Office of Inspector General (OIG) found total spending (includes beneficiary and government costs) on medications with monthly costs of more than $1,000 in the

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[1] Milliman. Prescription Drug Rebates and Part D Drug Cost Analysis. July 16, 2018.
[2] Department of Health and Human Services Office of Inspector General, "High-Price Drugs are Increasing Federal Payments for Medicare Part D Catastrophic Coverage," (OEI-02-16-00270, January 2017), p. 12.

catastrophic phase of the Part D benefit grew from $5 billion in 2010 to more than $33 billion in 2015. A recent analysis[3] of CMS data shows this trend has continued, with high-cost drugs accounting for 35% of total Part D expenditures in 2017, up from 15% in 2012. Prices for Part D covered drugs costing more than the catastrophic threshold, about $8,000 in 2017, increased by over 1,000% during the same period compared to an 83% cumulative price increase for all medications covered under the program.

These findings are not surprising given the different incentives of drug companies and Part D plan sponsors to contain costs. Drug companies and their shareholders gain when drug costs increase. Data demonstrate the industry is achieving its goals, reporting profit margins of 15-25%.[4] Part D plans sponsors have incentives in the competitive market to keep premiums low. While some have argued the Part D benefit structure provides incentives for plans to encourage high-cost drugs, the facts do not support the observation. For example, while the costs of the Medicare Part D program were increasing by an annual rate of 8% during 2012-2016 and brand name drug prices were increasing by ***an annual rate of over 20%,*** the average Part D premium was increasing by an annual rate of just more than 1%.[5] Plans have also encouraged the use of generic drugs when appropriate. Eighty-eight percent[6] of medications dispensed in the Medicare prescription drug program are clinically appropriate, lower-cost generic drugs.

These data indicate increasing Part D liability in the catastrophic phase of the benefit will not bring down high drug costs. Drug companies should be responsible for funding the taxpayer and beneficiary burdens they caused. The best way to do that is to extend the Coverage Gap Discount Program into the catastrophic benefit.

Significantly increasing Part D plan liability is likely to increase beneficiary premiums and jeopardize the program's high satisfaction levels.

Medicare Part D has been extremely successful since its inception in 2006. Surveys[7] have consistently found that more than eight in ten Part D enrollees are satisfied with the program and their Part D plan. Moreover, the program has cost taxpayers far less than anticipated, with total government spending approximately $400 billion less than projected during its first ten years.

Keeping premiums low is crucial to maintaining the program's success. Today, approximately 70% of all Medicare beneficiaries are enrolled in a Medicare Part D plan.[8] This broad risk pool helps plans keep premiums under control. However, as experience in the Affordable Care Act's Individual Market demonstrates, high premiums tend to drive away individuals without an

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[3] AHIP analyses of CMS Medicare Part D Drug Spending Dashboard. Available online at: https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Information-on-Prescription-Drugs/MedicarePartD.html

[4] See Business Insider, "Here's how much the 10 largest pharmaceutical companies spend on R&D." Found at http://www.businessinsider.com/largest-pharmaceutical-companies-by-prescription-sales-and-rd-2017-7

[5] EmblemHealth analysis of data in the 2017 Trustees Report and HCCI 2016 Annual Report.

[6] 2019 Medicare Trustees Report, footnote 60 on page 141

[7] For example, please see Medicare Today Senior Satisfaction Survey found at http://medicaretoday.org/wp-content/uploads/2016/07/8.21.18-Senior-Satisfaction-Survey-Fact-Sheet.pdf

[8] Analysis of CMS data found here.

immediate need for coverage. That means those individuals remaining in the risk pool are more likely to have higher prescription drug expenses, creating a "death spiral" in which higher and higher premiums make Part D coverage less attractive to those with lower needs and more expensive for everyone including those with high prescription drug costs. That result would be at odds with the legislation's goal to reduce costs for individuals who are taking high-cost medications.

We appreciate this opportunity to provide comments on the bipartisan draft legislation. Please contact Howard Weiss at hweiss@EmblemHealth.com or 646-447-1074 and Cara Berkowitz at cberkowitz@EmblemHealth.com or 646-447-7399 if you have any questions.