Medicare Part D "Donut Hole"

By: Jennifer Proto, Principal Analyst
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Issue

Explain the Medicare Part D “donut hole” and how repealing the federal Affordable Care Act (ACA) would impact it.

Summary

The Medicare Part D “donut hole” refers to a prescription drug coverage gap that occurs after a beneficiary exceeds the plan’s initial coverage limit. During this coverage gap, a beneficiary must pay the full cost of his or her prescription drugs until reaching the plan’s maximum out-of-pocket spending limit. The ACA has been gradually closing the donut hole by providing beneficiaries with additional savings each year from 2010 to 2020 (see below for additional details).

In January 2017, the U.S. Department of Health and Human Services (HHS) reported on the impact of narrowing the Part D coverage gap. Specifically, the department reported that, since the enactment of ACA, more than 11.8 million Medicare Part D beneficiaries nationwide have received discounts totaling over $26.8 billion on prescription drugs, a cumulative average of $2,272 per beneficiary. Of this total, Connecticut beneficiaries received $372.3 million in total discount savings through December 2016. In 2016, HHS reported 65,248 Connecticut beneficiaries received $82,754,877 in discounts on prescription drugs, averaging $1,268 per beneficiary.

The impact of repealing, and possibly replacing, the ACA on the Part D donut hole would depend on the specific changes, when they take effect, and which populations they apply to. However, a December 2016 Kaiser Family Foundation issue brief suggests that repealing the ACA (e.g., reinstating the donut hole) would likely:

1. increase cost sharing for beneficiaries who reach the donut hole (MedPAC reports these high-cost enrollees accounted for 53% of Part D program gross spending in 2015);

2. reduce Part D spending on costs in the coverage gap; and

3. as a result, reduce Part D premiums (which currently cover 25.5% of the program's costs).

Background

Part D Coverage Stages

According to the Center for Medicare Advocacy, the 2017 standard benefit is defined in terms of benefit structure and includes the following four stages:

1. Deductible Phase: beneficiaries pay 100% for prescription costs until reaching a $400 maximum annual deductible;

2. Initial Coverage Period: beneficiaries pay 25% coinsurance of the next $3,300 in total prescription drug costs or $825 in out of pocket payments;

3. "Donut Hole": beneficiaries have a gap in coverage and pay for 100% of the next $3,725 in formulary drugs, subject to a 60% brand discount or 49% generic discount under the ACA; and

4. Catastrophic Coverage: after exceeding $4,950 in out-of-pocket costs for formulary drugs through stages 1 to 3 ($400 + $825 + $3,725) beneficiaries qualify for catastrophic coverage under which they pay the greater of (1) 5% of the cost for formulary drugs or (2) $3.30 for generics and $8.25 for brand name drugs for the remainder of the plan year.

ACA and Donut Hole Closure

The ACA gradually closed the donut hole for beneficiaries by providing the following assistance:

1. a one-time $250 rebate for Part D enrollees with any spending in the coverage gap in 2010;

2. 50% drug manufacturer rebate off negotiated prices on brand-name drugs covered under Part D plans for Part D enrollees with spending in the coverage gap, beginning in 2011 (federal Health Care Education and Reconciliation Act of 2010 (HCERA), § 3301, as modified by § 1101);

3. reduced coinsurance in the coverage gap for generic drugs beginning in 2011 and for brand-name drugs beginning in 2013, and reduced beneficiary coinsurance rate for both brands and generics from 100%in 2010 to 25% in 2020, until enrollees qualify for catastrophic coverage; and

4. reduced catastrophic coverage threshold between 2014 and 2019 (HCERA, §§ 3301 and 3315, as amended by § 1101).

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