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To: Third Way

From: Actuarial Research Corporation

Subject: Final Scoring Memo: Medication Management

Date: March 11, 2015

Policy Background

Background information on the policy issue is described below and comes from Avalere's work.[1]

> The proposal to increase medication adherence among Medicare beneficiaries would strengthen and expand Medication Therapy Management (MTM) programs in Part D to require Part D plans to target adherence improvements for specific conditions where improved medication adherence is shown to decrease medical spending. The proposal would require all Part D plans to participate and allow plans to share in medical spending savings.

This analysis looks at extending the medication management policy to the under 65 population. Modeling specifications for expanding Medicare policies to the under 65 population are from Third Way.[2]

> For Medicaid, states would be required to adopt the same policy as Medicare. Exchange-based plans would be required to report on their outcomes on drug adherence using the same measures as Medicare and Medicaid. Given the short-term financial return to plans from decision aids, virtually all private plans should have sufficient reason to adopt similar drug adherence strategies once federal payments and quality measures are established. Employment-based plans should have sufficient incentive to adopt similar drug adherence strategies once federal payments and quality measures establish clear standards.

The estimates of projected savings as a result of extending the medication management policy to the under 65 population are shown in Table 1. In summary, projected savings to Medicare total $4.7 billion, projected savings to Medicaid total $1.1 billion, projected savings to private health insurance (PHI) total $1.5 billion and projected out-of-pocket (OOP) savings total $0.5 billion over the 10-year period (2015-2024). Total projected savings including Medicare, Medicaid, PHI and OOP total $7.8 billion.

Estimation Process and Results

Medicare and Medicaid

Using the estimates of total savings from Avalere,[3] we applied simplified assumptions to approximate potential per capita savings to the Medicare population affected by the proposed policy. Total Medicare enrollment for

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[1] Avalere Health. (October 1, 2014). *Estimated Federal Impact of Improving Medication Adherence in Medicare Part D.*

[2] D. Kendall email communication "Re: Thoughts on specs for Bundling option," November 5, 2014. Attachment: "ARC-Extending Third Way's Medicare Policies to under-65.doc."

the time period examined is derived from CMS projections. We estimated the Medicare population with each of the 6 conditions (diabetes, congestive heart failure (CHF), psoriasis, osteoporosis, asthma and inflammatory bowel disease (IBD)) using the estimated prevalence rates provided in Table 1 of the Avalere memo.[4] We estimated the condition specific, non-adhering Medicare population using the assumptions provided in Table 2 of the Avalere memo.[5]

Using the total savings due to the improved medication adherence in Part D, we approximated a per capita annual savings estimate. This savings estimate is then adjusted and applied to the Medicaid and PHI populations of interest, which is explained in greater detail below.

The per capita savings estimate calculated from the Medicare population of interest is adjusted by an illustrative factor of 0.2 to account for the smaller savings accrued to Medicaid (lower prevalence rates in under 65 population) and applied to the Medicaid population of interest. The condition specific, non-adhering Medicaid population is estimated using the same assumptions provided in Tables 1 and 2 of the Avalere memo.[6] This produces illustrative, projected savings to Medicaid of about $1.1 billion over the ten-year period (2015-2024). We also estimated the portion of Medicaid savings by the federal government and by states using the average Federal Medical Assistance Percentage (FMAP) for states in FY2015 (59%).[7] Of the $1.1 billion in savings to Medicaid, the federal share is $0.7 billion and the state share is $0.5 billion.

PHI

For the PHI population, the per capita savings estimate calculated from the Medicare population of interest is adjusted by an illustrative factor of 0.1 to account for the smaller savings accrued to PHI (lower prevalence rates in under 65 population and incentives already in place to improve medication adherence in private sector) and applied to the PHI population of interest. The condition specific non-adhering PHI population is estimated using the same assumptions provided in Tables 1 and 2 of the Avalere memo.[8] This produces illustrative, projected savings to PHI of about $1.5 billion over the ten-year period (2015-2024).

Out-of-Pocket

To estimate the effect of the medication management policy on OOP spending, we used an estimate of how much OOP is associated with each dollar of payment through Medicare, Medicaid and PHI. The assumed distribution of OOP savings is as follows: 5% of total Medicare savings, 2% of total Medicaid savings and 20% of total PHI savings. Projected OOP savings total $0.5 billion over ten years.

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[3] Avalere Health. (October 1, 2014). *Estimated Federal Impact of Improving Medication Adherence in Medicare Part D.*
[4] Avalere Health. (October 1, 2014). *Estimated Federal Impact of Improving Medication Adherence in Medicare Part D.*
[5] Avalere Health. (October 1, 2014). *Estimated Federal Impact of Improving Medication Adherence in Medicare Part D.*
[6] Avalere Health. (October 1, 2014). *Estimated Federal Impact of Improving Medication Adherence in Medicare Part D.*
[7] Average FMAP percentage for total US (51). Accessed: http://kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/
[8] Avalere Health. (October 1, 2014). *Estimated Federal Impact of Improving Medication Adherence in Medicare Part D.*

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Final Estimates for Third Way

Estimated change in spending due to Medication Management

ARC

Table 1: Estimated change in spending due to Medication Management by payer ($ in billions, by fiscal year)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
Medicare	-0.3	-0.5	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.6	-4.7
Medicaid-federal	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.7
total federal	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6	-5.3
Medicaid-state	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.5
Private health insurance	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-1.5
Out-of-pocket spending	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5
total-Medicare, Medicaid, PHI + OOP	-0.6	-0.8	-0.7	-0.7	-0.8	-0.8	-0.8	-0.9	-0.9	-0.9	-7.8