Medicare premiums to remain stable in 2014

By Kelly Kennedy – July 30th, 2013

Medicare Part D premiums will average about $31 in 2014 — up from $30 for the past three years.

The Part D deductible will fall from $325 to $310 in 2014.

"There is continued very strong competition within the Part D plan," said Jonathan Blum, deputy administrator and director for the Center of Medicare. When the coverage gap program began, "there was lots of concern that filling in the doughnut hole would cause Part D costs to go up."

Instead, Blum said a transparent bidding process and competition among private insurers participating in the program kept costs low.

This follows news that more than 6.6 million people with Medicare have saved more than $7 billion on prescription drugs as a result of the gap coverage, or an average of $1,061 per beneficiary. The administration also announced this week that Medicare spending was the lowest it had been in 50 years.

"I think on the Medicare side, we are pretty proud of the story right now," Blum said.

The government has bargained for drug discounts through the pharmaceutical industry. When someone reaches the "doughnut hole," or the area after traditional coverage ends and before catastrophic coverage begins, they may purchase their medications at a deep discount.

In 2013, drugmakers agreed to give the government a 52.5% discount on premium drugs and 21% on generic drugs to participate in Medicare in 2013, and the government will pass the savings to seniors. In 2013, the gap, or doughnut hole, starts when a person's Part D initial coverage reaches $2,970. The law closes the gap by 2020.

However, the government's Medicare cost watchdog, while generally positive about the Part D program, has cautioned that discounts for name-brand drugs could trigger higher spending. The Medicare Payment Advisory Commission in its March report found that Medicare's reinsurance payments are the fastest-growing component of Part D spending, and that closing the coverage gap "likely contributed" to higher growth between 2010 and 2011. They expected an increase of 14% between 2012 and 2013 for reinsurance.

Much of the reinsurance costs come because of higher-cost specialty drugs, such as cancer treatments, that are not available as generics, Blum said, adding that Part D enrollees have a high rate of generics use.

According to MedPac, Medicare subsidizes 80% of drug spending beyond the catastrophic coverage threshold as a form of risk adjustment for insurers for higher-cost enrollees.

Critics of the law, including the libertarian Cato Institute, have argued that the half-off savings for brand-name drugs would encourage seniors to use those medications, rather than generic drugs, and therefore cost the government more money. HHS reports that the program saved seniors $2.5 billion on brand-name medications and only $105 million on generics. However, the majority of seniors who reach the doughnut hole use name-brand drugs, while those who use generic medications tend not to reach that gap.

Seniors who reach the catastrophic coverage area may ultimately be better for the program because when people take their medications as prescribed, they're less likely to need to be hospitalized or to have their conditions worsen on a long-term basis, Blum said.

MedPac also found there was a slowdown in the number of enrollees — from 30% to 28% — who entered the coverage gap after the law was enacted. The report and Blum said insurers have expanded their coverage to enrollees as a way to compete. The law requires 26% gap coverage, but the plans are providing as much as 34% coverage.