Michael Geruso Comments

Hill Briefing on high out-of-pocket costs and affordability issues affecting chronic disease patients. Hosted by Senators Shelley Moore Capito (R-W) and Chris Murphy (D-CT)

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Hello, I am an economist. I work on the design of payment systems in healthcare. I want to share some recent research findings that I think are helpful in understanding why it is that certain types of chronically ill patients have such a hard time finding a plan that affordably covers their prescription medications.

Our study examines ACA Exchanges, but much of what I'm saying is going to be relevant for Medicare Part D, for privatized state Medicaid programs, and really for any future scenario of an individual market that has as a core goal coverage for people with pre-existing conditions.

The crux of the issue is that when you don't allow insurers to price discriminate on health status—in order to protect chronically ill consumers—there must be a system in place to compensate insurers for taking on that high cost patient.

If that doesn't exist, or if it isn't working properly, then all of the prior research, including my past work, shows that insurers will find a way to discourage expensive patients from joining their plans. So for example, if insurers would lose $13,000 for enrolling a patient with MS, then their plans would be intentionally designed to be unattractive to those patients. In part, this could mean very poor coverage for the relevant drugs.

The solution that exists for this problem is generally not just to mandate a particular schedule of benefits to insurer. That can be part of it, but the research shows that insures seem to find many ways to get around mandated benefits. Any comprehensive solution generally has to remove the underlying perverse financial incentive through risk adjustment and reinsurance.

Risk adjustment compensates the insurer for high cost patients. It makes so that the insurer just breaks even on the patient. It's used in Medicare Advantage, in Medicare Part D, and the ACA Exchanges. Worldwide, it's an important part of any health insurance market where you use private insurers to delivery publicly subsidized health benefits.

What we show in this paper is that the current risk adjustment and reinsurance system works quite well for many patient types. But there are some outlier conditions for which it doesn't. For these patients, you can look at the claims data

and predict how unprofitable they will be to the insurer just on the basis of which medications they take. That is an exercise that we've done. For example, we find that for patients who take drugs like biological response modifiers, immunosuppressants, and interferons, the payment system leaves in place a very clear incentive for the insurer to not cover the relevant drugs, or to place them on a very high cost-sharing tier to try to dissuade those patients from enrolling.

When we examine the actual plan formularies used in the Exchanges, that's exactly what we see plans doing. Drugs that predict unprofitable patients end up on the specialty tier, and are subject to non-price barriers to access like step therapy or prior authorization.

The impact on out-of-pocket consumer costs can be substantial—potentially thousands of dollars per year. It can push patients up to their out of pocket maximum in every single year. That is because specialty tiers are usually associated with coinsurance (a number like 20%) rather than than copays (a number like $200). For an expensive drug, 20% coinsurance can mean more than a thousand dollars in out of pocket costs for a single month.

In summary, while the current regulatory framework does go a long way toward *weakening* insurer incentives to avoid chronically ill people (and is a significant improvement relative to the pre-ACA era), some very strong selection incentives remain for a few groups of patient. The bottom line for consumers unlucky enough to be in a condition category where the risk adjustment isn't working well is exposure to high out of pocket costs, and system in which no plan will offer good coverage for their condition