

# MEDICARE

## Prescription Drug Coverage Among Medicare Beneficiaries

June 2006

As of January 1, 2006, all 43 million people on Medicare have access to the new Medicare Part D prescription drug benefit offered by stand-alone prescription drug plans (PDPs) or Medicare Advantage prescription drug (MA-PD) plans. The new Medicare drug benefit is voluntary; individuals may choose whether or not to enroll in a Part D plan. For beneficiaries who previously had no drug coverage, Part D represented a new opportunity to get help with their drug costs. For many beneficiaries, Part D replaced the drug coverage they had under Medicare HMOs, Medigap, or Medicaid.<sup>1</sup> Others could keep the drug coverage they had from an alternative source, such as an employer or the Veterans Administration, provided it was “creditable” – that is, at least as generous as standard Part D coverage.<sup>2</sup> And still others elected to go without any creditable source of drug coverage this year, which is an option because the drug benefit is voluntary, although those without creditable coverage could be subject to late enrollment penalties. The 2006 enrollment period ended May 15, 2006.

The U.S. Department of Health and Human Services (HHS) reported that, as of June 11, 2006, 22.5 million Medicare beneficiaries have prescription drug coverage from a Medicare Part D plan.<sup>3</sup> Another 10.4 million have creditable drug coverage from an employer plan. HHS also estimates that 5.4 million beneficiaries have creditable drug coverage from an alternative source, such as the Veterans Administration. Altogether, the Administration reports that about 90% of the 43 million people on Medicare now have creditable prescription drug coverage.

### PART D ENROLLMENT

The latest enrollment figures released by HHS indicate that 22.5 million beneficiaries are enrolled in Medicare Part D prescription drug plans. This includes:

- 10.4 million beneficiaries who enrolled in stand-alone Medicare PDPs
  - 6.6 million beneficiaries dually eligible for Medicare and Medicaid who were assigned to Part D plans<sup>4</sup>
  - 5.5 million beneficiaries enrolled in Medicare Advantage plans with drug coverage (excluding dual eligibles)<sup>5</sup>
- = **22.5 million beneficiaries in Medicare Part D plans**

Of this total, HHS estimates that 1.9 million beneficiaries in Part D plans are in employer/union plans that supplement or wrap around the Part D benefit.

### OTHER CREDITABLE PRESCRIPTION DRUG COVERAGE

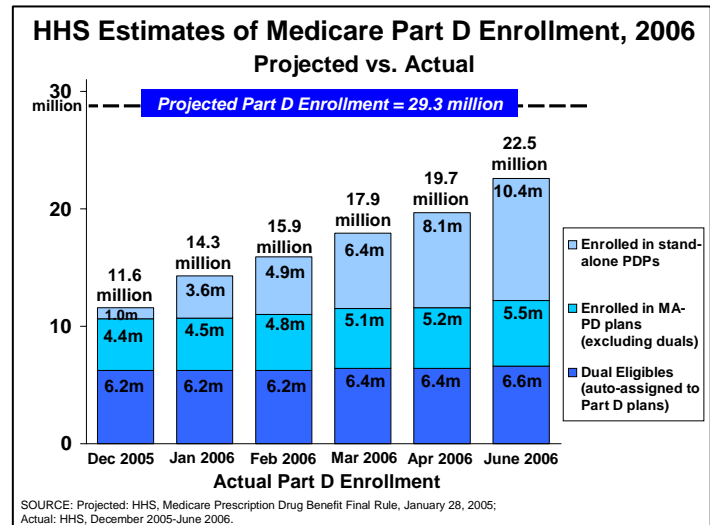
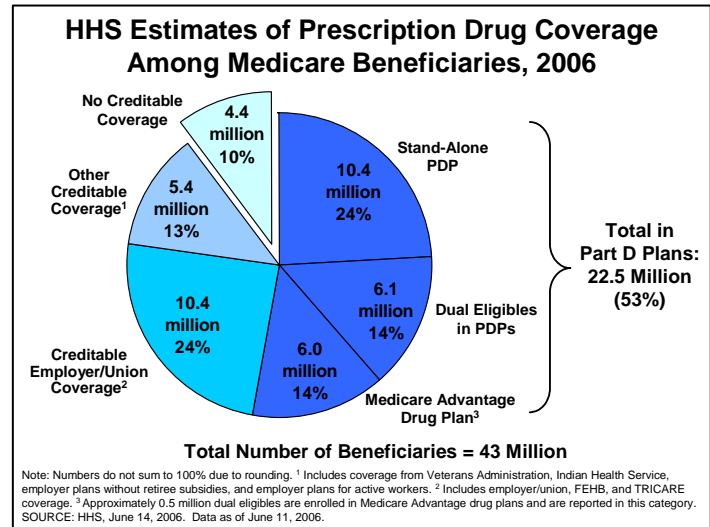
HHS reported that another 10.4 million beneficiaries have creditable prescription drug coverage from employer or union-sponsored plans. This includes:

- 6.9 million beneficiaries in Retiree Drug Subsidy (RDS) plans (not Part D plans)
- 3.5 million beneficiaries with Federal retiree coverage (1.6 million with FEHB; 1.9 million with TRICARE)

= **10.4 million beneficiaries with creditable drug coverage under employer/union plans**

HHS also estimates that 5.4 million beneficiaries have creditable drug coverage from alternative sources, including the Veterans Administration (2.0 million), employer group health plans for active workers with Medicare as the secondary payer (2.6 million), the Indian Health Service (0.1 million), retiree plans without the subsidy (0.1 million), and state pharmaceutical assistance programs (0.6 million).

**With Part D plan enrollment at 22.5 million and 15.8 million beneficiaries estimated to have creditable drug coverage through an employer plan or alternative source, the number of people on Medicare with no source of creditable drug coverage as of June 11, 2006 is between 4 million and 5 million, or approximately 10% of the total Medicare population.**



## LOW-INCOME SUBSIDIES

The Medicare prescription drug benefit includes substantial premium and cost-sharing assistance for beneficiaries with low incomes (less than approximately \$15,000 for individuals) and modest assets (less than \$11,500 for individuals). In general, individuals may apply through the Social Security Administration (SSA) or state Medicaid programs to receive the low-income subsidy (LIS); to date, nearly all applications have been screened by SSA.<sup>6</sup>

As of May 26, 2006, SSA had received over 5.1 million applications for LIS. SSA found 1.8 million Medicare beneficiaries eligible, 2.3 million ineligible, and nearly 0.9 million applicants who either were already deemed eligible or filed a duplicate application. SSA has reported that a majority of applicants found ineligible had excess resources.

HHS recently estimated that 13.2 million beneficiaries are eligible for LIS in 2006. **Of this total, 9.3 million are receiving LIS**, including 6.6 million full dual eligibles, 0.9 million partial dual eligibles and SSI recipients, and 1.8 million beneficiaries determined eligible by SSA.

Of the 2.7 million beneficiaries who are not full-dual eligibles, HHS reports that 2.2 million are enrolled in PDPs and 0.5 million are enrolled in MA-PD plans. HHS estimates that another 0.6 million beneficiaries are LIS-eligible but have creditable drug coverage from an alternative source.

**Based on HHS's estimate of 13.2 million beneficiaries eligible for LIS in 2006, this leaves roughly 3.3 million eligible beneficiaries who are not receiving this assistance. This means that a vast majority – 75% – of the estimated 4.4 million beneficiaries who did not enroll in a Part D plan by May 15<sup>th</sup> are likely to qualify for LIS benefits.** HHS has granted a special enrollment period to beneficiaries who qualify for LIS in 2006, which enables them to enroll in a plan throughout the year and also waives the late enrollment penalty.<sup>7</sup>

## DISCUSSION

As of June 11, 2006, HHS estimates that more than 38 million beneficiaries have prescription drug coverage, either through Medicare Part D prescription drug plans, creditable employer/union plans, or alternative creditable sources. A majority of these beneficiaries had drug coverage in 2005, either through Medicaid, Medicare Advantage plans, or employer plans. Among the 11.6 million individuals who are new enrollees in Part D plans (10.4 million in PDPs and 1.2 million in MA-PDs), it is unknown how many had drug coverage prior to signing up for a Part D plan and how many are newly covered. Based on recent estimates from HHS, between 4 million and 5 million of the 43 million people on Medicare, or 10%, are not enrolled in a Part D plan and do not have prescription drug coverage. Because the enrollment period has ended for 2006, these beneficiaries face a penalty if they enroll later, unless they belong to a special group that qualifies for a waiver of the penalty for 2006, including those determined to be eligible for LIS.

Tracking the overall number of people on Medicare with prescription drug coverage under Part D plans and other sources is important to ensure that the new benefit reaches the entire Medicare population. However, the voluntary nature of the benefit means that beneficiaries can choose whether or not to enroll on an annual basis, although they will incur financial penalties if they go without coverage for some period of time. Part D enrollment will remain an important measure over time because these plans are the primary means of providing prescription drug coverage to Medicare beneficiaries who have no other source of creditable coverage. Maximizing participation and maintaining stable enrollment in Part D plans is also important because the overall level of enrollment could affect the amount that beneficiaries pay in monthly premiums over time – particularly if enrollment in the early years or in certain plans is skewed toward higher-cost beneficiaries. Lower-than-expected or unstable enrollment in Part D plans could also have a significant impact on plan availability over time and on the overall cost of the program.

State-by-state Medicare drug plan enrollment data are available through the Foundation's statehealthfacts.org website at <http://www.statehealthfacts.org/medicare>.

<sup>1</sup> Beneficiaries who had Medicaid drug coverage in 2005 (known as "dual eligibles") were automatically switched to Part D plans for 2006.

<sup>2</sup> Employers offering creditable coverage in 2006 could apply to the federal government to receive tax-free subsidies equal to 28 percent of allowable drug costs between \$250 and \$5,000 per retiree.

<sup>3</sup> U.S. Department of Health and Human Services, June 14, 2006. Enrollment numbers are as of June 11, 2006.

<sup>4</sup> Of the 6.6 million dual eligibles assigned to Part D plans, 478,000 are enrolled in MA plans and 6.1 million are enrolled in PDPs.

<sup>5</sup> Includes 1.2 million newly enrolled in MA plans since November 2005.

<sup>6</sup> Individuals dually eligible for Medicare and Medicaid, those who receive premium and/or cost-sharing assistance from Medicaid through the Medicare Savings Programs (QMB, SLMB, QI), and those eligible for cash assistance (SSI) are deemed eligible for LIS and do not have to apply.

<sup>7</sup> A special enrollment period and penalty waiver has also been granted to beneficiaries living in areas affected by Hurricane Katrina.

