

# MEDICARE

## Tracking Prescription Drug Coverage under Medicare Five Ways to Look at the New Enrollment Numbers

February 2006

On February 22, 2006, the U.S. Department of Health and Human Services (HHS) released updated figures showing the total number of Medicare beneficiaries with prescription drug coverage under new Medicare Part D plans and other sources. The debate in the media and the health policy community which followed the initial release of the Administration's numbers shows that there are several ways, each legitimate in its own right, to measure the reach of the new program. Because the debate may have done more to confuse than to inform, this issue brief examines several approaches to looking at these numbers and discusses each approach in terms of how it portrays the reach of the new program. It also includes a brief discussion of low-income participation rates, another key indicator of the program's success in providing help to low-income beneficiaries.

### Background

Today, an estimated 43 million seniors and younger people with disabilities on Medicare have access to prescription drug coverage under new Medicare Part D prescription drug plans.<sup>1</sup> The new Medicare drug benefit is voluntary; beneficiaries who want prescription drug coverage can enroll in Part D plans – either stand-alone prescription drug plans (PDPs) or Medicare Advantage prescription drug (MA-PD) plans.<sup>2</sup> Beneficiaries also have the option to keep drug coverage they may have, as long as it is at least as generous as the standard Medicare drug benefit, such as the coverage provided by employer or union-sponsored plans or through the Veterans Administration. They may also choose to go without coverage, or keep drug coverage that is less generous than the standard Medicare benefit, although they would pay a premium penalty if they wait and enroll in a Part D plan in a future year.

### Measuring Coverage

The following discussion of which considers five different approaches for measuring Part D enrollment and prescription drug coverage, shows:

- 60 percent of all Medicare beneficiaries (25.9 million) have prescription drug coverage from Part D or other creditable sources; 40 percent (17.5 million) do not have an identified source of creditable drug coverage.<sup>3</sup>
- The majority of those with creditable coverage most likely had drug coverage prior to this year under employer plans, Medicaid or Medicare Advantage plans.
- 15.9 million Medicare beneficiaries are enrolled in Part D plans; another 13.4 million would need to sign up for a Part D plan to reach the Administration's projected target of 29.3 million Part D enrollees in 2006.
- 5.4 million of the 22.9 million beneficiaries most likely to consider voluntarily enrolling in a Medicare drug plan (because they were not auto-assigned to a plan and did not have other coverage) have signed up for a Medicare Part D plan this year.

<sup>1</sup> Total Medicare enrollment is based on the CMS market/state/county penetration files.

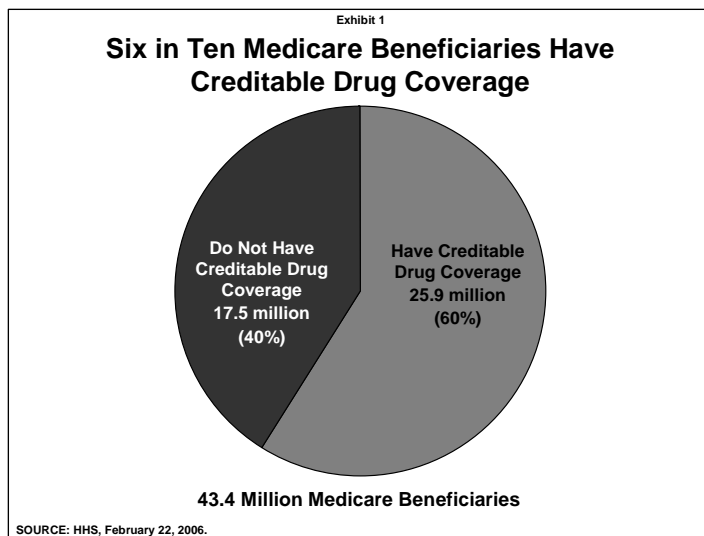
<sup>2</sup> Enrollment is not voluntary for dual eligibles who were auto-assigned to stand-alone prescription drug plans prior to January 1, 2006.

<sup>3</sup> Some number of those without an identified source of creditable coverage may have drug coverage through the Veterans Administration or other sources that is not accounted for in the enrollment numbers recently released by CMS.

## 1. What share of the total Medicare population has creditable prescription drug coverage?

The first approach looks at the share of beneficiaries with creditable coverage, which is defined as drug coverage that meets or exceeds the actuarial value of the standard Part D benefit. This approach is useful for assessing the extent to which the Medicare Modernization Act of 2003 (MMA) is achieving the goal of reducing the number of beneficiaries without relatively comprehensive prescription drug coverage. This measure takes into account coverage under Part D plans, as well as comparable drug coverage from other sources. HHS projected that 39.1 million Medicare beneficiaries (91 percent of the total Medicare population) would have creditable prescription drug coverage by the end of 2006, after the May 15 close of this year's enrollment period.

As of February 13, 2006, 25.9 million Medicare beneficiaries have creditable prescription drug coverage (60 percent of the total Medicare population), according to the Administration. The remaining 17.5 million Medicare beneficiaries (40 percent) are without a known source of creditable prescription drug coverage (Exhibit 1).



Of the 25.9 million beneficiaries with creditable drug coverage, 15.9 million are in Part D plans and 10 million are in employer plans.<sup>4</sup>

## 2. What share of the total Medicare population is enrolled in a Medicare Part D plan?

A second approach to looking at these numbers is to focus on enrollment in Part D stand-alone prescription drug plans or Medicare Advantage prescription drug plans. Enrollment in Part D plans is important to track because these plans are the primary vehicle for providing the drug benefit to people on Medicare. In addition, Part D plan enrollment is a critical consideration for plan stability, average Part D monthly premiums, and overall program costs.<sup>5</sup>

As noted above, the most recent figures released by HHS indicate that 15.9 million Medicare beneficiaries (37 percent) are enrolled in Medicare Part D prescription drug plans, as of February 13, 2006. This total includes 6.2 million Medicare beneficiaries with Medicaid (dual eligibles), 4.8 million Medicare Advantage enrollees,<sup>6</sup> and another 4.9 million beneficiaries who signed up for one of the new stand-alone drug plans (Exhibit 2).

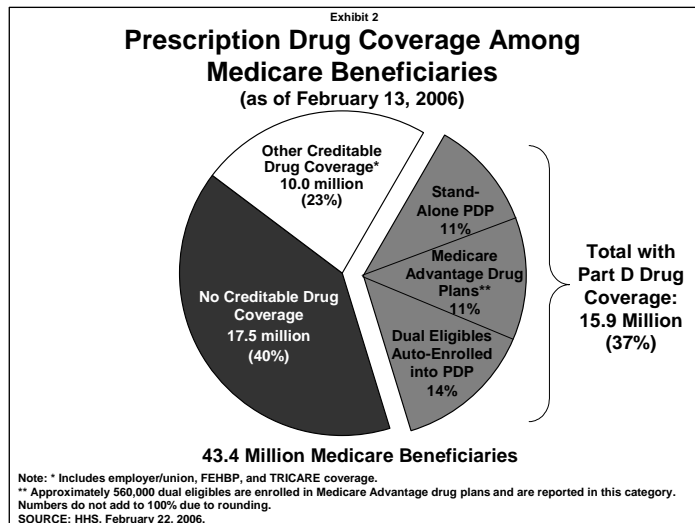
<sup>4</sup> The 10 million with other creditable coverage includes 6.4 million retirees in employer plans that take the subsidy, 3.1 million retirees covered under the Federal Employee Health Benefit Program or TRICARE, and another 500,000 retirees receiving creditable coverage under employer plans, but employers are not taking the subsidy.

<sup>5</sup> See *The Impact of Enrollment in the Medicare Prescription Drug Benefit on Premiums*, prepared by Avalere Health LLC for the Kaiser Family Foundation, October 2005.

<sup>6</sup> Excluding approximately 560,000 dual eligibles in Medicare Advantage plans.

A majority of Part D enrollees most likely had drug coverage in 2005 under Medicaid or Medicare Advantage plans. It is not possible to say how many of the 4.9 million beneficiaries who have enrolled in stand-alone drug plans to date are newly covered and how many had drug coverage from another source (such as a Medigap policy) in 2005.

Between January 17 and February 13, 2006, the number of Part D enrollees has increased by 1.6 million beneficiaries.

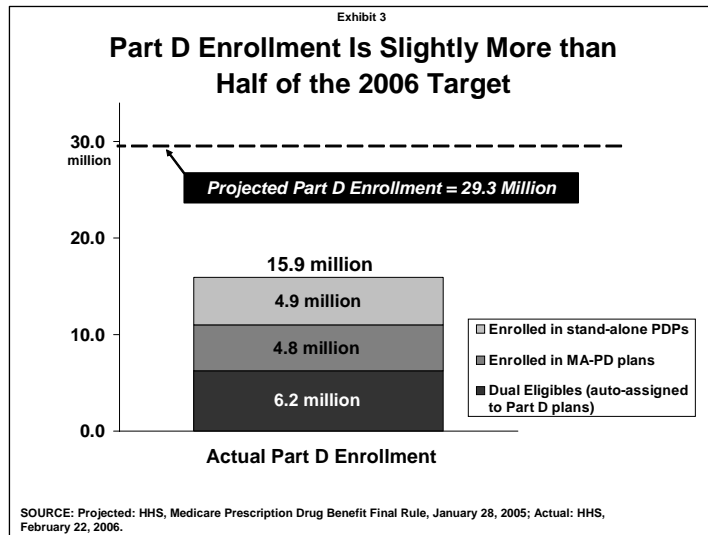


### 3. How do current Part D enrollment numbers compare to projections previously released by the Administration?

A third way to look at the numbers released by HHS is to consider how actual enrollment in Part D plans compares to the Administration’s earlier projections. HHS projected that 29.3 million Medicare beneficiaries would be enrolled in Medicare Part D plans by the end of 2006.<sup>7,8</sup> Current enrollment levels of 15.9 million beneficiaries as of February 13, 2006 amount to more than half (54 percent) of the 29.3 million Part D enrollment target for 2006 (Exhibit 3).

Another 13.4 million beneficiaries would need to sign up for a Part D prescription drug plan in order to reach the HHS Part D enrollment target of 29.3 million this year – or 4 million additional Part D enrollees in each of the three months between mid-February and May 15.

### 4. Among beneficiaries without another source of creditable drug coverage, what share voluntarily signed up for a Medicare drug plan?



A fourth approach tallies the number of beneficiaries who voluntarily signed up for a Medicare Part D plan among those without another source of creditable prescription drug coverage. This approach considers the enrollment decisions of individuals who are most likely to consider voluntarily enrolling in a Part D plan this year because they lack another source of creditable coverage. This measure is useful for understanding the extent to which beneficiaries opt for drug coverage under a voluntary system.

<sup>7</sup> U.S. Department of Health and Human Services, Medicare Prescription Drug Benefit Final Rule, January 28, 2005.

<sup>8</sup> The effective date would be May 15, 2006, the end of the initial enrollment period for that year.

This approach focuses on individuals who are most likely to consider voluntarily enrolling in a Medicare drug plan for 2006. This approach starts with the 43.4 million people on Medicare, and then subtracts from this base all dual eligibles (who did not need to choose a plan because they were auto-assigned) (6.2 million), all Medicare Advantage enrollees who were enrolled in a Medicare Advantage plan prior to 2006 (4.3 million), and all retirees with creditable coverage (10.0 million). Retirees were in a position to choose coverage under a Medicare plan but have strong incentives to keep their employer coverage, which is typically more generous than the standard Medicare drug plan.<sup>9</sup>

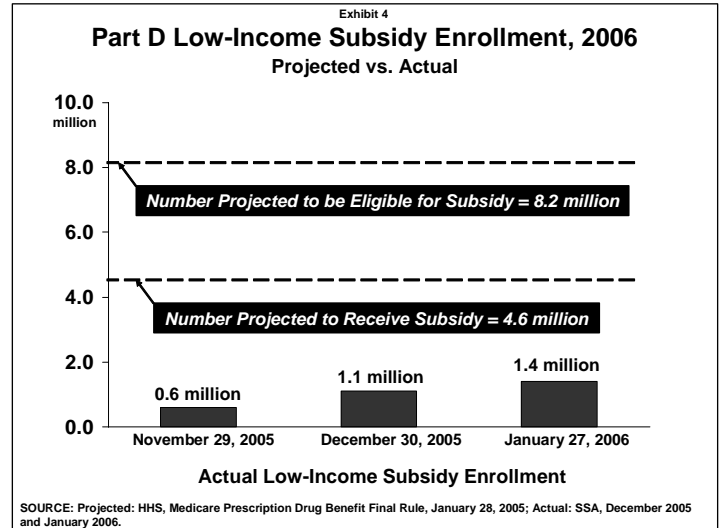
This leaves 22.9 million Medicare beneficiaries most likely to consider voluntarily enrolling in a Medicare drug plan for 2006. Of this total, 5.4 million (24 percent) have signed up for a Part D plan. This includes the 4.9 million who signed up for a stand-alone plan and an additional 0.5 million who enrolled in a Medicare Advantage drug plan as of February 13, 2006.

**5. Among beneficiaries who lacked prescription drug coverage in 2005, how many have signed up for a Medicare drug plan?**

A fifth approach considers whether beneficiaries who previously lacked prescription drug coverage signed up for a Medicare drug plan in 2006. This approach would be ideal for assessing how well the Medicare Modernization Act of 2003 achieves the goal of providing coverage to those who were without drug coverage before the new drug benefit went into effect. However, the number of Medicare beneficiaries lacking prescription drug coverage in 2005 is not available. According to the most recent national survey of Medicare beneficiaries, the 2002 Medicare Current Beneficiary Survey, an estimated 17.7 million non-institutionalized Medicare beneficiaries were without prescription drug coverage for full or part-year in 2002.<sup>10</sup> Unfortunately, data are not available to determine how many beneficiaries who lacked drug coverage prior to this year are now enrolled in a Medicare drug plan.

**Low-Income Subsidy Participation Rates**

In addition to Part D enrollment, the Administration has also released data showing the number of beneficiaries who are eligible for low-income subsidies under the new drug benefit. The Medicare prescription drug benefit includes substantial premium and cost-sharing subsidies for beneficiaries with low incomes (less than approximately \$15,000 for individuals) and modest assets (less than \$11,500 for individuals). In general, individuals must apply through the Social Security Administration (SSA) or state Medicaid programs to receive this additional assistance.<sup>11</sup>



<sup>9</sup> See 2005 Kaiser/Hewitt Survey on Retiree Health, *Prospects for Retiree Health Benefits as Medicare Prescription Drug Coverage Begins*, December 2005.

<sup>10</sup> Based on Kaiser Family Foundation analysis of the 2002 Medicare Current Beneficiary Survey. See *Medicare Chartbook*, July 2005. Of the 17.7 million without drug coverage in 2002, 7.1 million were without coverage for the full year and the remaining 10.6 million were without coverage for a portion of the year.

<sup>11</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 low-income subsidies, meaning they do not have to apply for this assistance.

HHS projected that 8.2 million beneficiaries would be eligible for the low-income subsidy, excluding those dually eligible for Medicare and Medicaid. Of that total, HHS estimated that 4.6 million would receive the low-income subsidy in 2006 (MMA Final Rule, 2005).

As of January 27, 2006, SSA had received 4.4 million applications and processed nearly 4.1 million. Of the 4.1 million reviewed applications, SSA found 1.4 million Medicare beneficiaries eligible for low-income subsidies for the new drug benefit, 2 million ineligible, and nearly 700,000 applicants did not require a decision because they were either already deemed eligible or filed a duplicate application (Exhibit 4). In an earlier analysis of applicants determined to be ineligible, SSA reported that 57% had excess resources, 32% had excess income, and 11% had excess income and resources.

## Discussion

There is significant interest in benchmarks that measure the number of beneficiaries with prescription drug coverage in 2006, either under Part D plans or other sources of creditable coverage. This policy brief reviews several possible ways to look at Part D enrollment and Medicare prescription drug coverage overall and considers the relative strengths of each approach.

The total number of beneficiaries with creditable prescription drug coverage from any source is probably the strongest indicator of the success of the MMA in reaching the broadest possible population. Currently, 60 percent of all Medicare beneficiaries have creditable drug coverage, while 40 percent do not have an identified source of creditable drug coverage. Between now and May 15, the number of beneficiaries with creditable drug coverage is expected to rise in conjunction with an increase in Part D plan enrollment, but there is clearly a long way to go before virtually all Medicare beneficiaries have prescription drug coverage.

Looking at Part D enrollment by itself is also useful for assessing the success of the new program in providing drug coverage to beneficiaries. Part D plans were created as the primary strategy for providing drug coverage to those who were previously without it. In addition, Part D enrollment is also important to monitor because of its potential impact on Part D premiums in future years. Lower than projected enrollment, if concentrated among beneficiaries with higher than average drug costs, could result in a fairly significant increase in premiums. Lower than expected Part D enrollment could also result in an exodus of some Part D plans from the Medicare program, which would not only minimize the number of choices that beneficiaries confront, but also disrupt coverage for enrollees covered by these plans. Part D enrollment would need to increase by about 4 million beneficiaries per month for each month between mid-February and May 15 to reach HHS's 29.3 million Part D enrollment target for 2006.

Because the Medicare prescription drug benefit is voluntary, looking at Part D plan enrollment among those without another source of drug coverage is useful for assessing whether the "opt in" approach that was adopted for the new drug benefit works well for reaching the Medicare population. To get prescription drug coverage, beneficiaries are generally required to "opt in" by choosing to enroll in a Medicare drug plan. By contrast, under Medicare Part B, individuals who receive Social Security and who are entitled to Medicare Part A are automatically covered under Part B, unless they "opt out" and choose *not* to enroll. This approach shows that just one in four (24 percent) of the 22.9 million beneficiaries most likely to consider voluntarily enrolling in a Part D drug plan have done so – as of February 13, 2006. A key question looking forward is how many more beneficiaries will "opt in" to obtain drug coverage by the May 15 enrollment deadline.

Finally, providing subsidies to low-income beneficiaries was a top priority during the debate leading up to passage of the Medicare drug benefit; however, the numbers released by the Administration indicate that fewer than 20 percent of the estimated 8 million eligible low-income beneficiaries have been determined by SSA to be eligible for this assistance. The subsidies are critical for making the drug benefit affordable to those with modest incomes and assets. The lower than projected participation rates have important implications for overall costs and for the success of the program in providing needed assistance to low-income beneficiaries who are most likely to face financial barriers to getting needed medications.

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