

# **Estimates of Medicare Beneficiaries' Out-of-Pocket Drug Spending in 2006**

## **Modeling the Impact of the MMA**

**November 22, 2004**

# Key Research Questions

- How is the MMA likely to affect out-of-pocket prescription drug spending among beneficiaries who are expected to enroll in Part D plans in 2006?
- What is the projected change in out-of-pocket spending for Part D participants at different income and low-income subsidy levels?
- How many Part D participants are projected to have drug spending in excess of the initial coverage limit (in the “doughnut hole”) and have spending above the catastrophic benefit level, and what are their characteristics?
- How is the MMA projected to affect out-of-pocket spending among beneficiaries who reach the catastrophic threshold in 2006?
- How is the MMA projected to affect out-of-pocket spending among beneficiaries who lack drug coverage prior to enrolling in Part D plans in 2006?

# Study Methodology

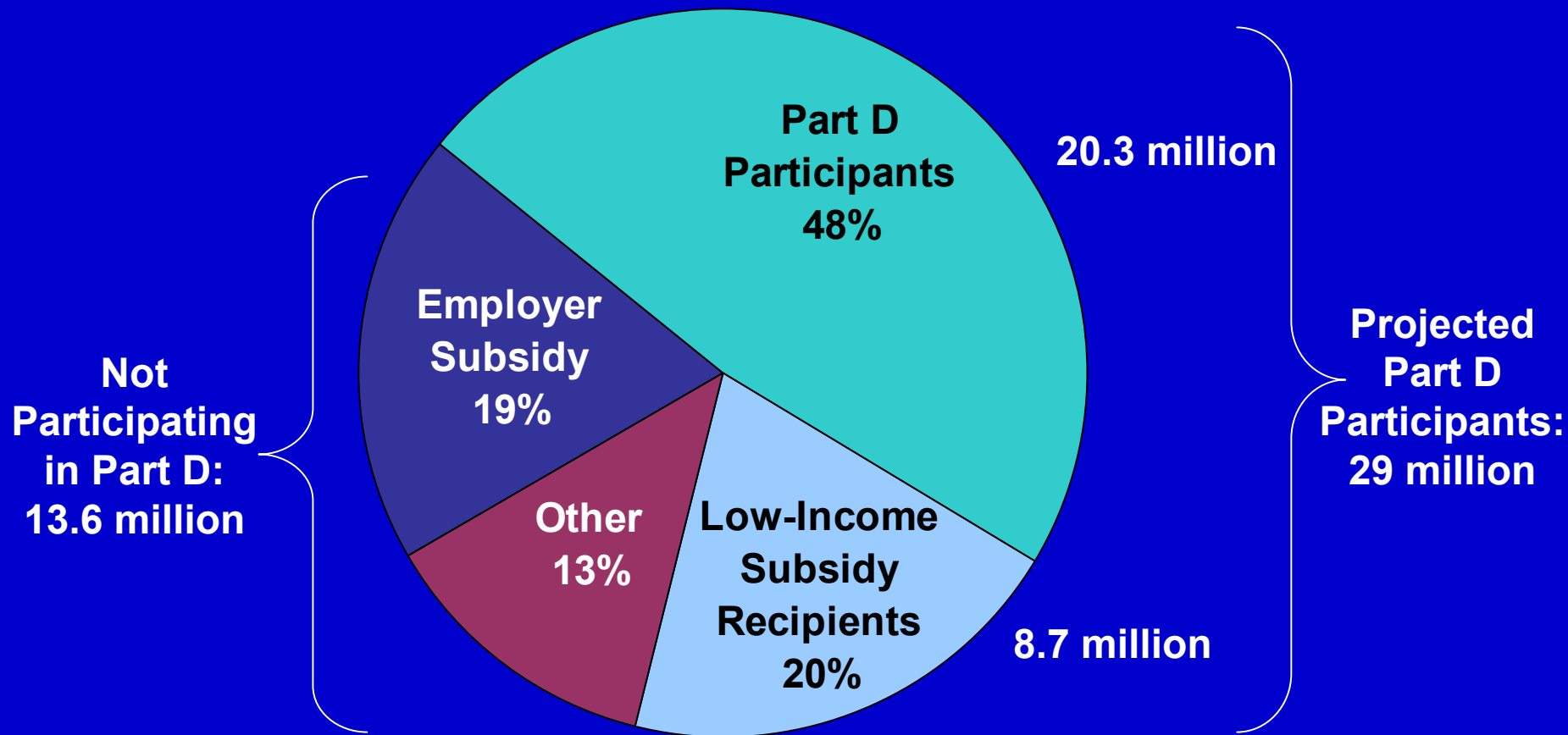
- Projections based on a model developed by Actuarial Research Corporation (ARC)
- Generally conforms to CBO assumptions and projections about:
  - Total Medicare enrollment
  - Prescription drug spending (total and out-of-pocket)
  - Part D participation
  - Number of low-income subsidy recipients
- Incorporates information about beneficiary characteristics from MEPS and MCBS
  - Sources of drug coverage prior to Part D enrollment
  - Demographics: income, race/ethnicity, health status, sex, age, urban/rural
- Estimates apply to a single year – 2006

# Notes about the Analysis

- Assumes all Part D participants enroll in a plan that provides the standard Part D benefit, or its actuarial equivalent
  - In 2006, Part D participants pay:
    - \$250 deductible
    - 25% of total drug costs between \$250 and \$2,250
    - 100% of total costs between \$2,250 and \$5,100
    - 5% of costs above \$5,100 (equivalent to \$3,600 in out-of-pocket spending)
- Assumes no supplementation of Part D coverage
- Excludes premiums for prescription drug coverage (baseline and under the MMA)
- Excludes out-of-pocket spending for drugs not covered by Part D plans (e.g., non-formulary drugs)

Figure 4

# Analysis Focuses on Beneficiaries Expected to Enroll in Part D Plans in 2006



**Total = 42.6 Million Medicare Beneficiaries**

Note: "Other" non-participants includes federal retirees with drug coverage through FEHBP or TRICARE. Low-income subsidy recipients include 6.4 million dual eligibles and 2.3 million others with incomes <150% FPL.  
SOURCE: Congressional Budget Office, July 2004.

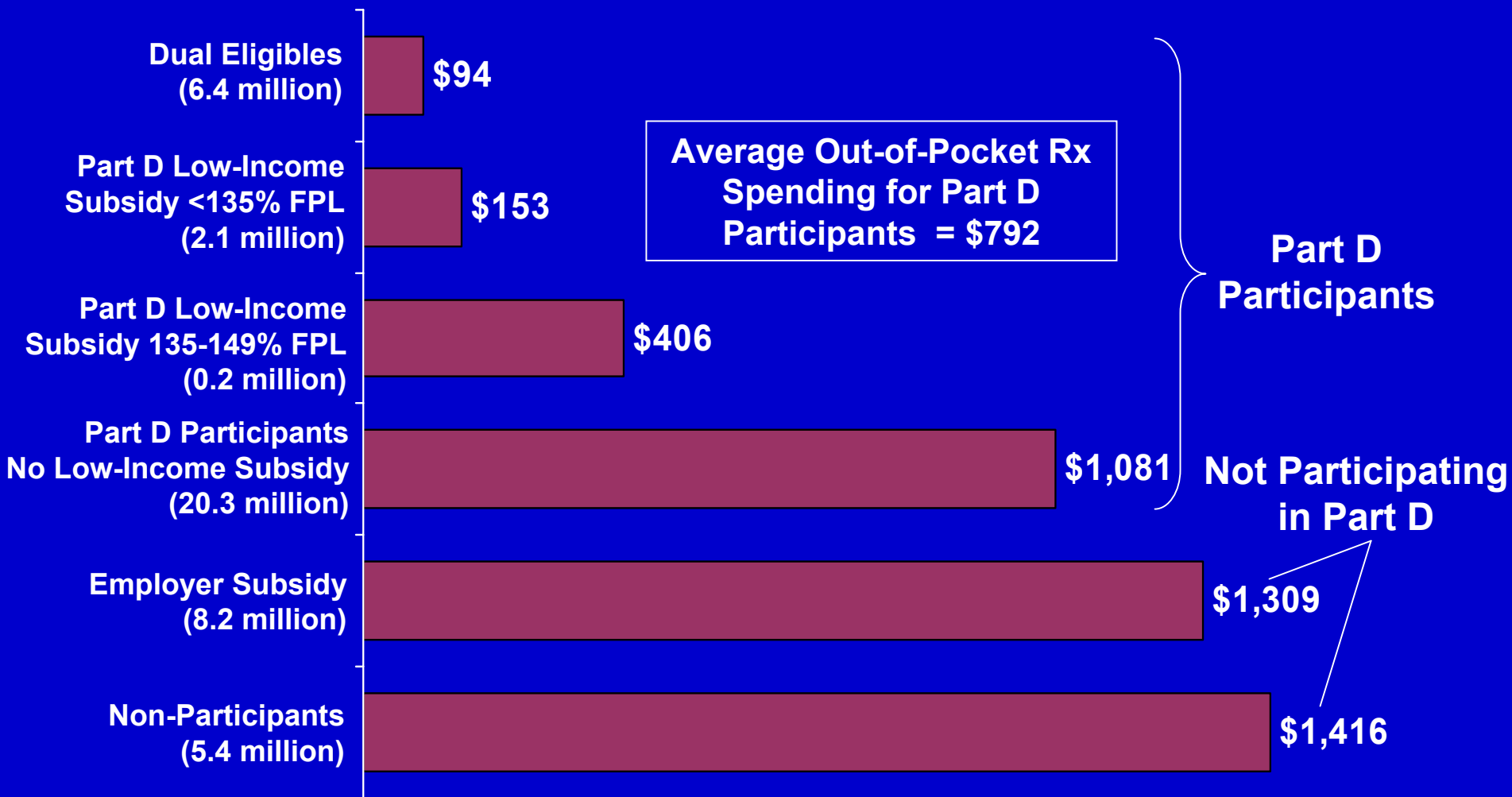
# Low-Income Subsidies and Related Assumptions

- **Who is eligible for low-income subsidies?**
  - Beneficiaries eligible for full Medicaid benefits (dual eligibles)
  - Part D participants with incomes <135% FPL
    - Up to \$12,569 (2004) and assets <\$6,000 for individuals
  - Part D participants with incomes 135%-150% FPL
    - Between \$12,569 and \$13,965 (2004) and assets <\$10,000 for individuals
- **Key assumptions in this analysis**
  - Assumes all dual eligibles (6.4 million in 2006) enroll in Part D plans and receive low income subsidy
  - Assumes an additional 2.3 million Part D participants with incomes <150% FPL receive low-income subsidies in 2006, but 5.7 million do not

# Key Findings

Figure 7

# Part D Participants are Projected to Have Lower Average Out-of-Pocket Drug Spending Under the MMA Than Non-Participants



Average Out-of-Pocket Rx Spending for Part D Participants = \$792

Part D Participants

Not Participating in Part D

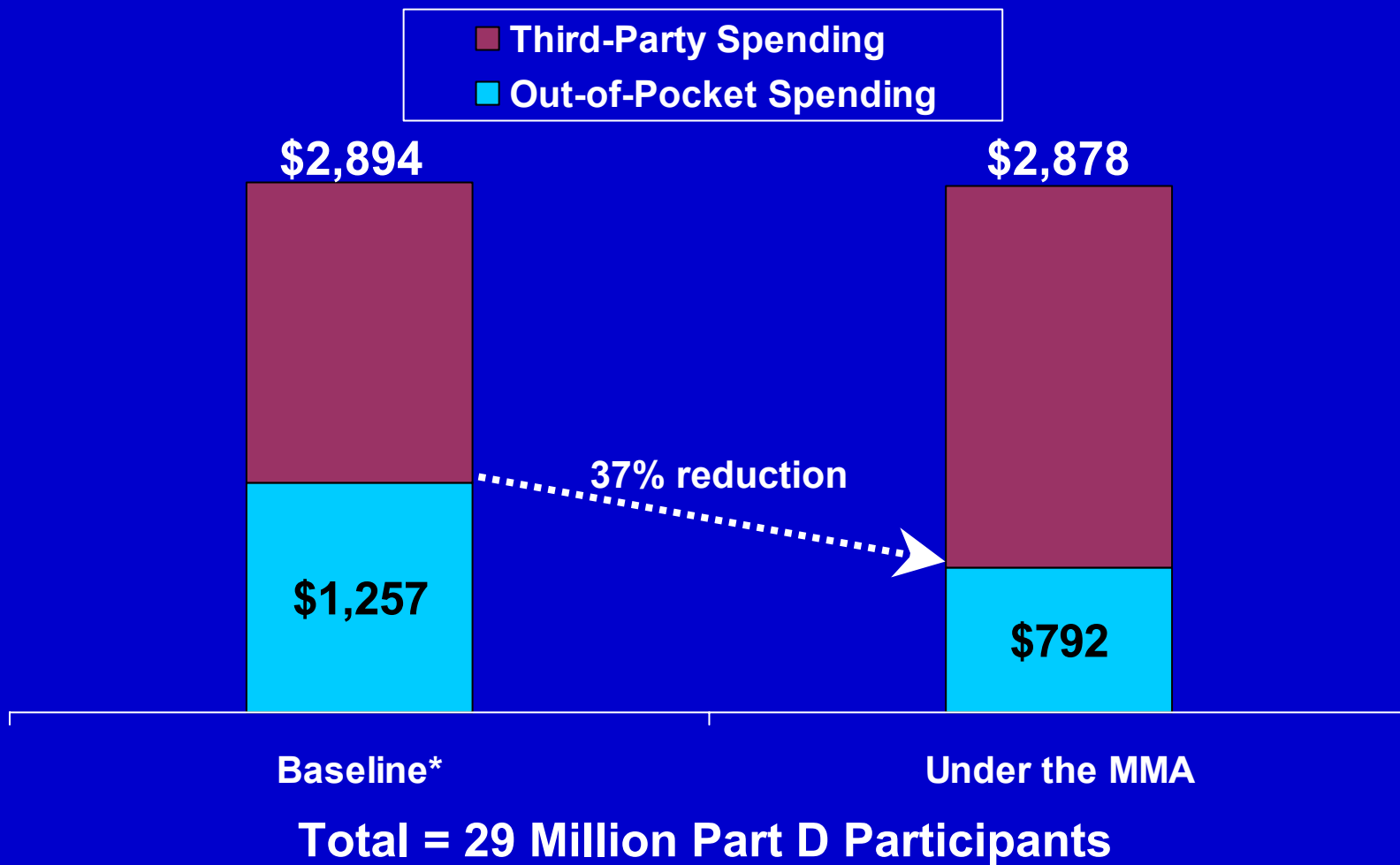
Note: Estimates exclude premiums and assume no supplementation of Part D coverage. Low-income Part D participants not receiving subsidies are included in "Part D Participants."

SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation, November 2004.



Figure 8

# Average Out-of-Pocket Drug Spending by Beneficiaries Expected to Participate in Part D is Projected to Fall by 37% Under the MMA



\*Baseline population includes 29 million beneficiaries projected to enroll in Part D plans in 2006.

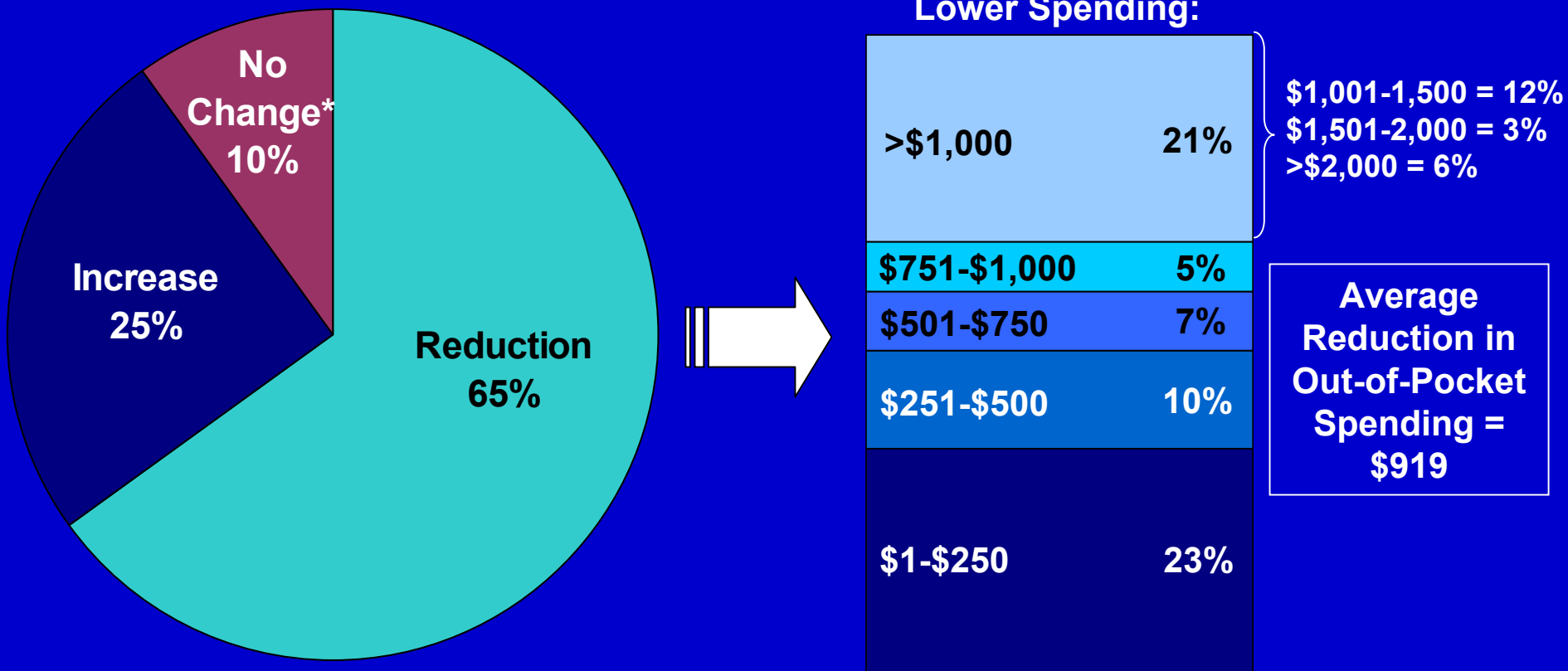
Note: Dollar amounts reflect CBO projections of drug spending in the absence of the MMA (baseline) and under the new law.

Estimates exclude premiums and assume no supplementation of Part D coverage.

SOURCE: Congressional Budget Office, July 2004.

Figure 9

# 2/3 of Part D Participants are Projected to Spend Less Under the MMA in 2006



\*Part D participants with no change in out-of-pocket spending have \$0 total spending.

Note: Estimates exclude premiums and assume no supplementation of Part D coverage.

SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation, November 2004.

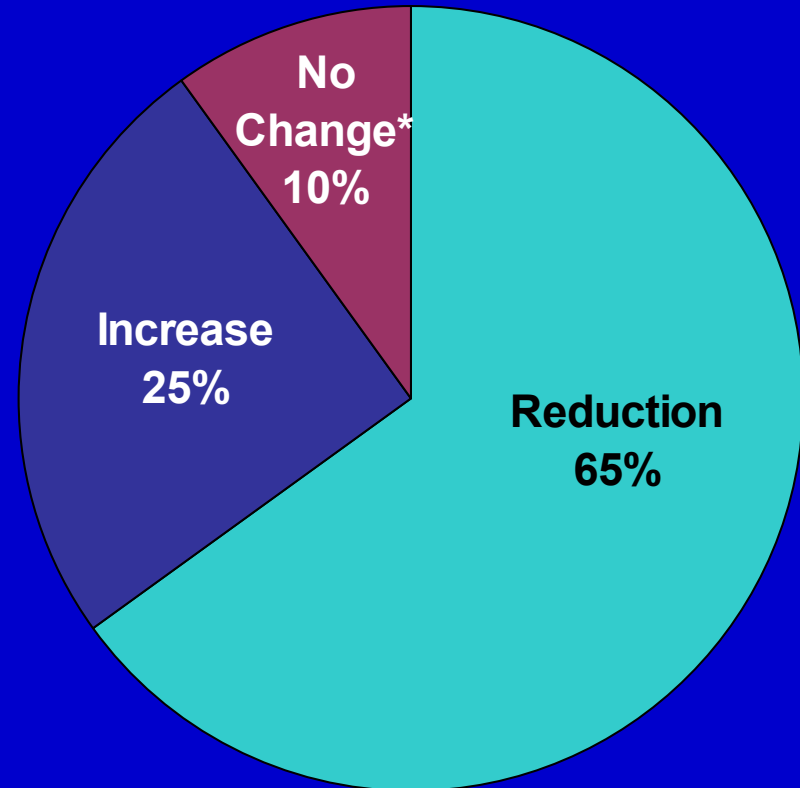
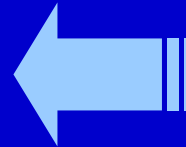
Figure 10

# 1 in 4 Part D Participants are Projected to Spend More Under the MMA in 2006

Percent of Total Part D Participants with Higher Spending:

>\$1,000	4%
\$251-\$1,000	4%
\$51-\$250	7%
\$1-\$50	10%

Average Increase in Out-of-Pocket Spending = \$492



Total = 29 Million Part D Participants

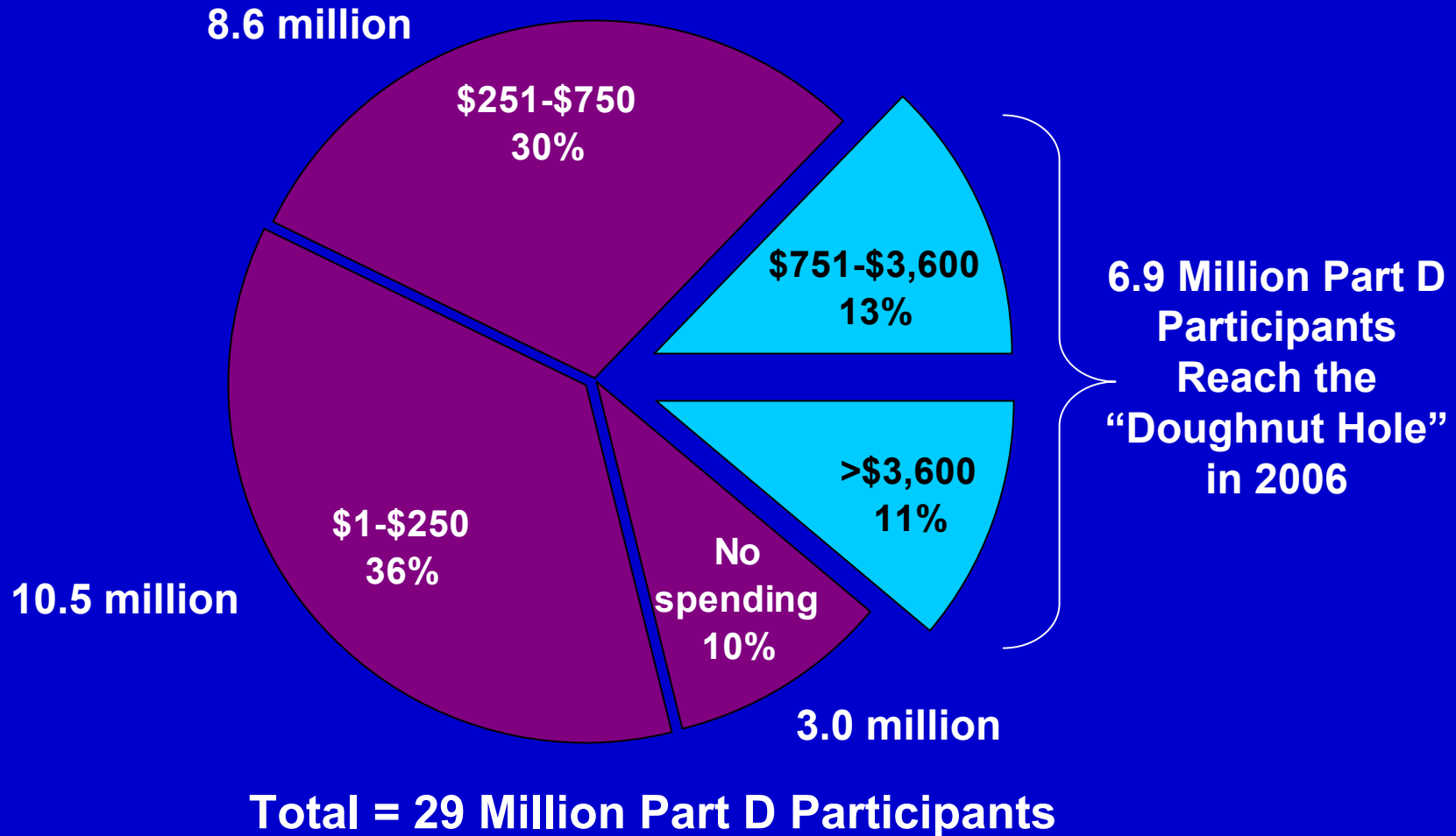
\*Part D participants with no change in out-of-pocket spending have \$0 total spending.

Note: Estimates exclude premiums and assume no supplementation of Part D coverage.

SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation, November 2004.

Figure 11

# Gap in Standard Part D Benefit Could Leave Many Part D Participants Vulnerable to High Out-of-Pocket Spending

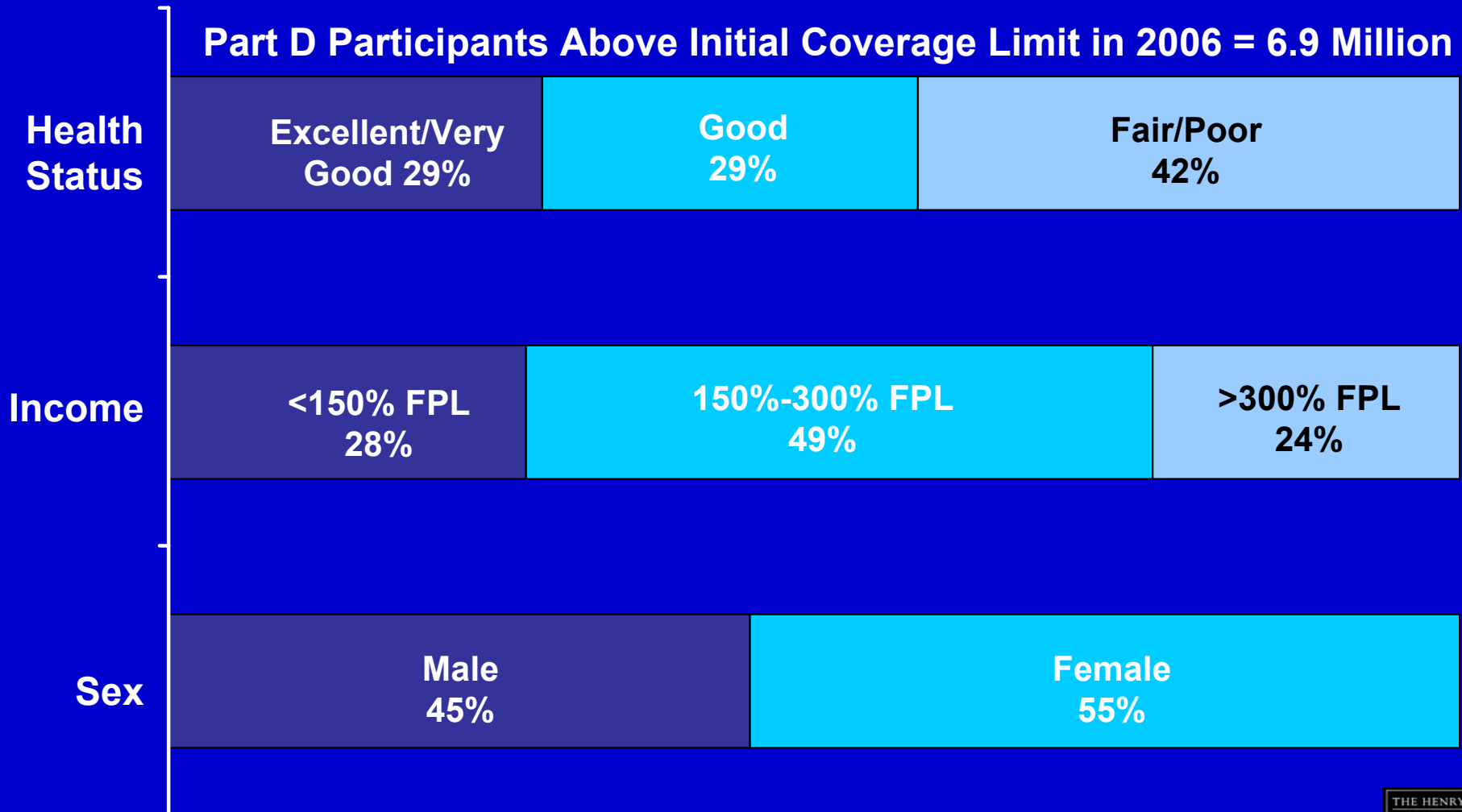


Note: Estimates exclude premiums and assume no supplementation of Part D coverage.  
SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation, November 2004.

Figure 12

# Part D Participants with Drug Spending Above the Initial Coverage Limit are Disproportionately in Poor Health; 1.9 Million Low Income, 3.8 Million Female

Part D Participants Above Initial Coverage Limit in 2006 = 6.9 Million

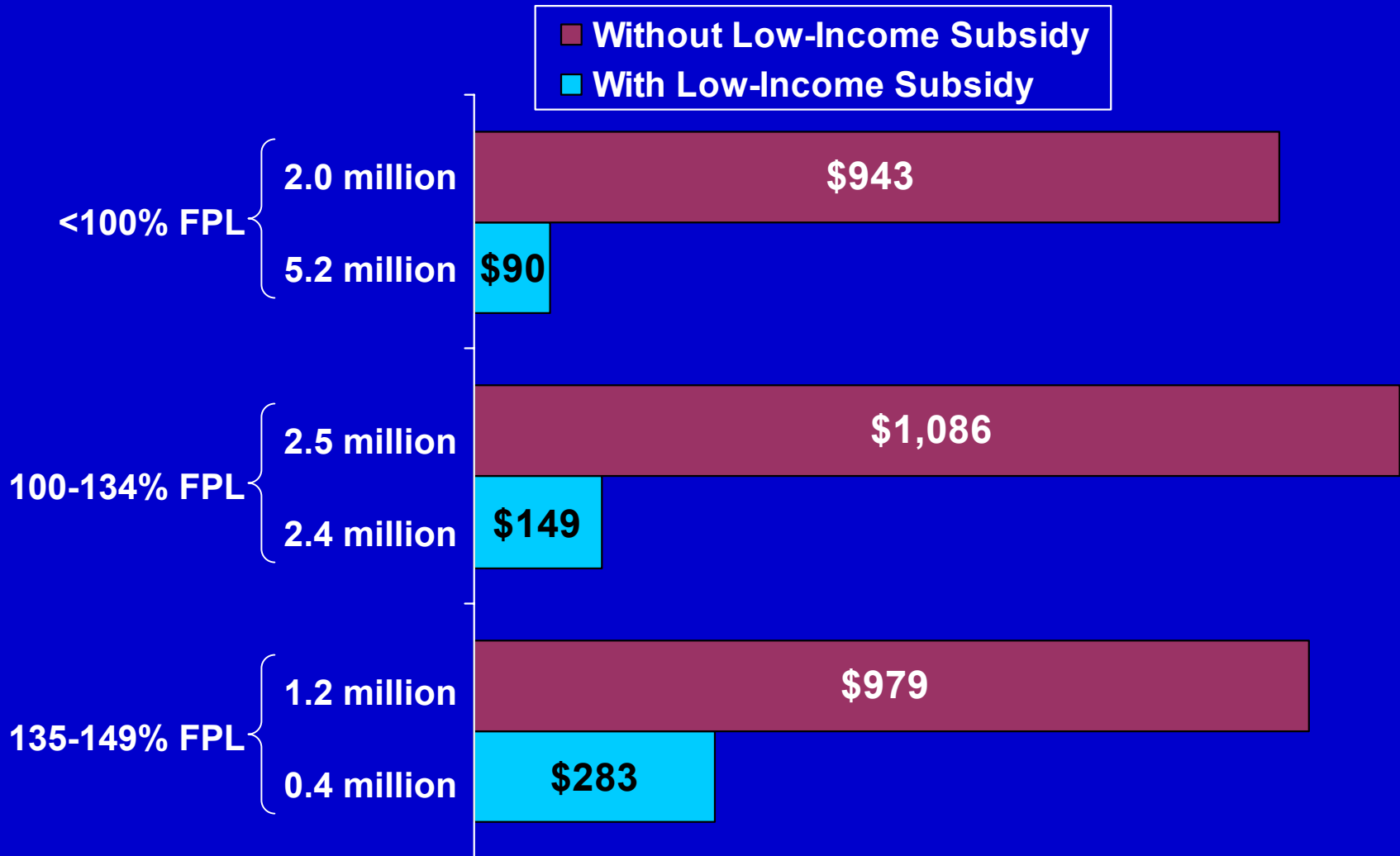


Note: Numbers may not add to 100% due to rounding.

SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation, November 2004.

Figure 13

# Low-Income Subsidy Recipients Fare Better Under the MMA than Low-Income Part D Participants Not Receiving the Additional Subsidies



Note: Estimates exclude premiums and assume no supplementation of Part D coverage.

SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation, November 2004.

Figure 14

# The MMA is Projected to Reduce Average Out-of-Pocket Spending but the Extent of the Reduction is Likely to Vary

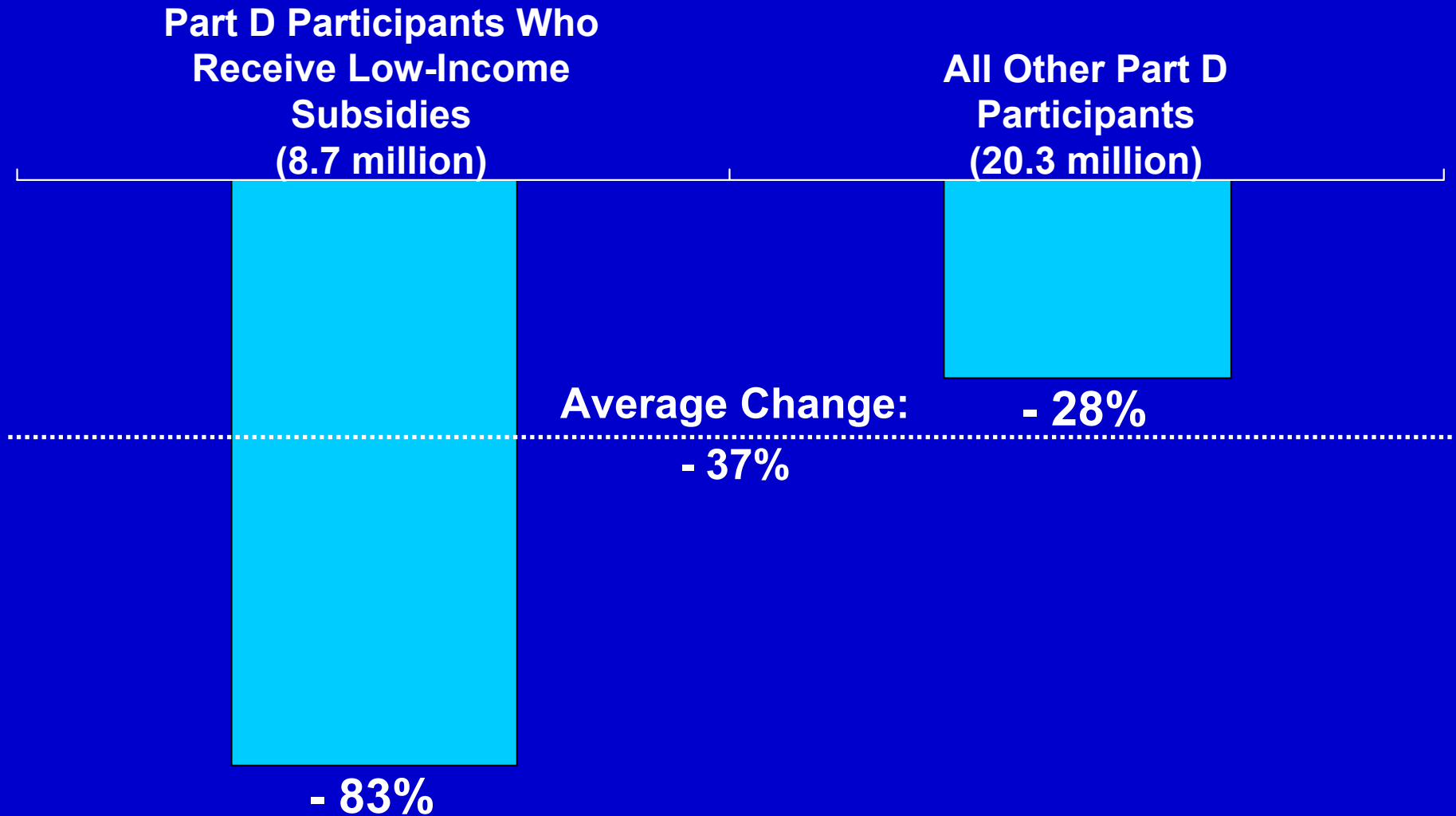
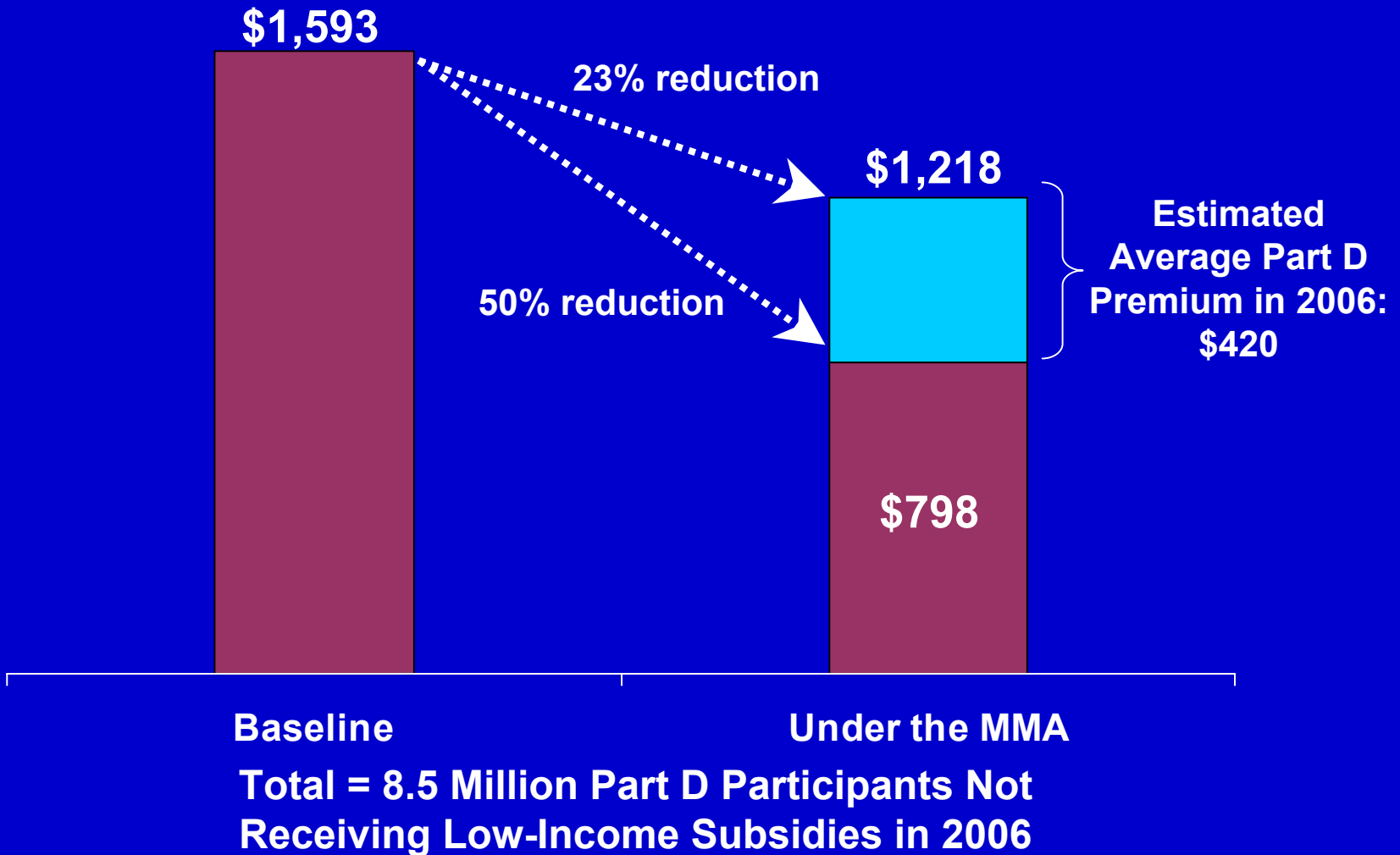


Figure 15

# The Part D Premium is Projected to Reduce the Value of the MMA for Beneficiaries Who Lack Drug Coverage Prior to Part D Participation



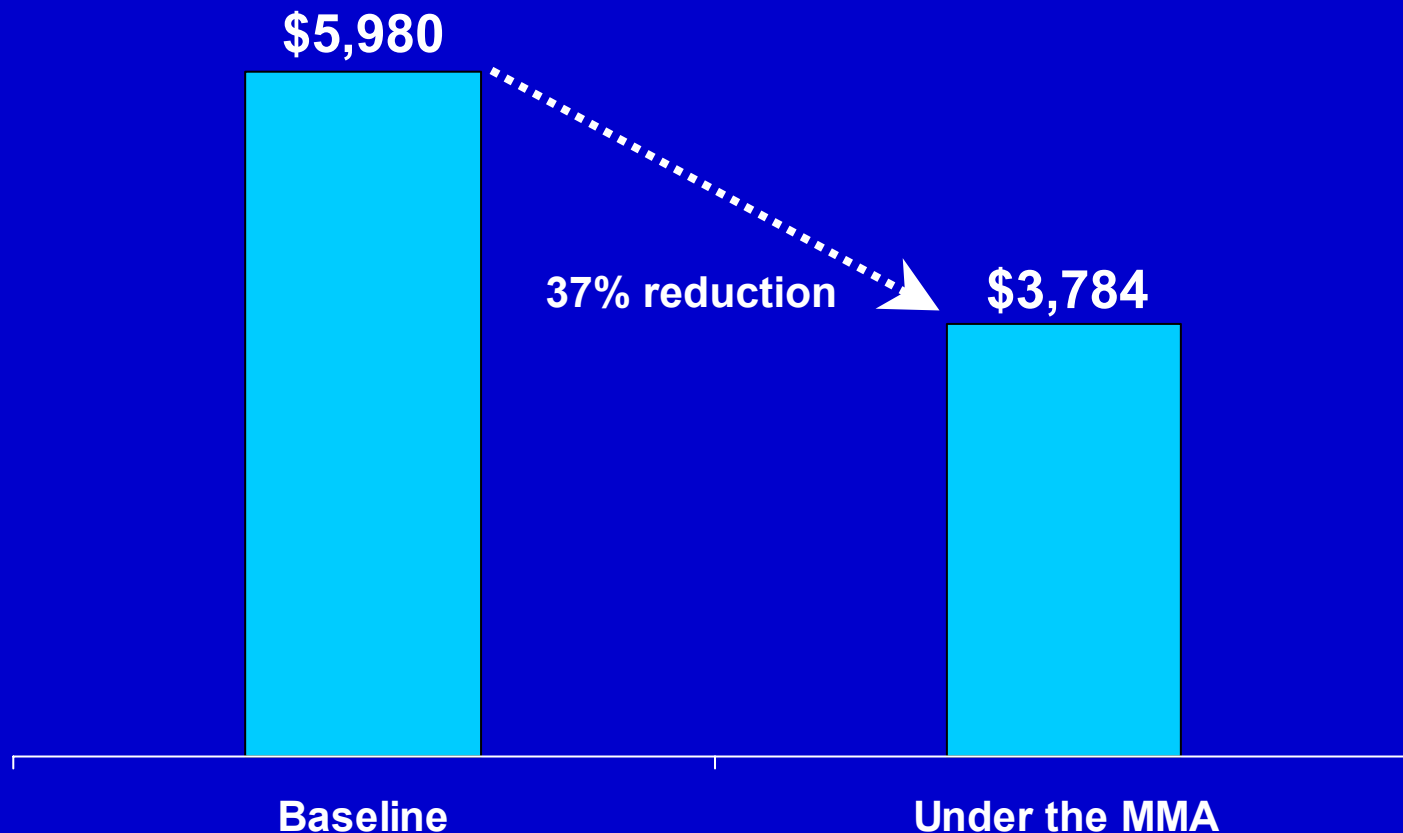
Note: Estimates assume no supplementation of Part D coverage.

SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation, November 2004.



Figure 16

# The MMA is Projected to Reduce Average Out-of-Pocket Spending by Part D Participants With Spending Above Catastrophic Threshold



**Total = 3.1 Million Part D Participants Who Exceed Catastrophic Threshold in 2006**

Note: Estimates exclude premiums and assume no supplementation of Part D coverage.  
SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation, November 2004.

# Implications of this Analysis

- Low-income beneficiaries expected to get substantial help under new law, as will those with very high drug costs
  - Not surprising, given benefit design and additional subsidies
  - Magnitude of savings more modest for others
- However, the benefit leaves substantial gaps
  - 6.9 million beneficiaries projected to have spending in the “doughnut hole”
  - 1 in 4 beneficiaries projected to spend more under the MMA than baseline in a single year
- Low-income subsidies make a big difference
  - Low-income beneficiaries without additional subsidies pay substantially more than low-income beneficiaries with subsidies
- Important to monitor beneficiaries’ out-of-pocket prescription drug spending as new Medicare drug benefit is implemented