

**Low-Income Subsidies for the Medicare Prescription Drug Benefit:
The Impact of the Asset Test**

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EXECUTIVE SUMMARY

Medicare will begin providing coverage for outpatient prescription drugs beginning January 2006 under a new Part D of the program. Beneficiaries will be able to obtain prescription drug coverage either from stand-alone insurance policies or through Medicare managed care plans. Subsidies will be available to beneficiaries who qualify based on low incomes and limited assets. These low-income subsidies will offer substantial assistance in paying the Part D premium and cost sharing associated with drug coverage.

Those who are dually eligible for Medicare and Medicaid will automatically be deemed eligible for low-income subsidies. Other low-income beneficiaries will have to meet both an income and asset test to receive assistance. Asset tests are generally used for low-income programs to focus benefits on truly low-income people and exclude those with limited incomes but substantial assets. Individuals who meet the income threshold but whose assets exceed a specified limit will not qualify for low-income subsidies (Exhibit E.S. 1).

To illustrate, a person whose income is below 135 percent of the federal poverty level (FPL) but has assets exceeding \$6,000 (individual) or \$9,000 (couple) would not meet the asset test and thus not be eligible for low-income subsidies – unless he or she were dually covered by Medicare and Medicaid. The definition of countable assets does not include the value of a house, automobiles, or household furnishings and possessions.

This report assesses how the low-income asset test works under the Medicare prescription drug benefit. It examines the number and characteristics of people likely to be excluded and whether the asset test is unduly restrictive in excluding people who are in need of assistance.

The study examines three main questions:

- How many and what percentage of Medicare beneficiaries will be eligible for low-income prescription drug subsidies?
- How many and what percentage of Medicare beneficiaries meet the income test but are precluded from such subsidies because they do not qualify under the asset test? What types of assets are primarily responsible for precluding eligibility?
- What are the characteristics of those who are excluded from the subsidies because they do not qualify under the asset test?

Exhibit E.S.1			
Overview of Low-Income Part D Benefits, 2006			
Low-Income Subsidy Levels	Monthly Premium	Annual Deductible	Copayments
Full-benefit dual eligible Income up to 100% FPL <small>(\$9,570/individual in 2005)</small>	\$0	\$0	\$1/generic \$3/brand-name; no copays after total drug costs reach \$5,100
Full-benefit dual eligible Income greater than 100% FPL	\$0	\$0	\$2/generic \$5/brand-name; no copays after total drug costs reach \$5,100
Income less than 135% FPL <small>(\$12,920/individual in 2005)</small> and assets <\$6,000/individual; \$9,000/couple	\$0	\$0	\$2/generic \$5/brand-name; no copays after total drug costs reach \$5,100
Income 135%-150% FPL <small>(\$12,920-\$14,355/individual in 2005)</small> and assets <\$10,000/indiv; \$20,000/couple	sliding scale up to \$35	\$50	15% of total costs up to \$5,100 catastrophic limit; \$2/generic \$5/brand-name thereafter
All others	\$35	\$250	25% up to initial coverage limit; 100% up to \$3,600 out-of-pocket spending

SOURCE: Kaiser Family Foundation Summary of the MMA 2003

Data and Methods

This study uses data from the Survey of Income and Program Participation (SIPP), a nationally representative panel survey that collects information on non-institutionalized individuals' incomes and assets. The current study uses interviews of the 2001 panel that occurred between October 2002 and January 2003, and refers to the period September to December 2002. All Medicare beneficiaries on SIPP were selected (n=9,278) for this analysis, including both seniors and those eligible due to disability. Each sample member's income was compared to the federal poverty level and his or her assets to the asset test threshold, adjusting for the anticipated experience in 2006, when the new prescription drug benefit goes into effect. Then, assets that were primarily responsible for precluding eligibility were assessed, as well as the characteristics of individuals who were precluded from the subsidies because they would fail the asset test.

Findings

Nearly 14 million non-institutionalized Medicare beneficiaries would qualify for low-income subsidized prescription drug benefits in 2006 based on income alone. That is, their incomes are below 150% of poverty (Exhibit E.S. 2).

- An estimated 2.37 million Medicare beneficiaries with incomes below 150% poverty are expected to be *ineligible* for low-income subsidies due to the asset test.
- Among these 2.37 million, approximately 70 percent have incomes below 135% of the federal poverty level; 30% having incomes between 135% and 150% of the federal poverty level.

Total non-institutionalized Medicare beneficiaries	39.18 m
Not eligible for low-income subsidies (based on income)	25.21 m
Potentially eligible for low-income subsidies (based on income alone or dual eligibility status)	13.97 m
Low-income beneficiaries not eligible for low-income subsidies due to asset test	2.37 m
Total eligible for low-income subsidies	11.60 m

Source: Rice and Desmond for the Kaiser Family Foundation, 2005.

- Those projected to be ineligible for low-income subsidies because of the asset test are disproportionately widows and widowers (46 percent).
 - Among these widows and widowers, 93% are female. The most likely scenario is that when a husband dies, income plummets, making the widow potentially eligible for the low-income prescription drug subsidies. However, her accumulated assets exceed

those allowed under the legislation. Aggravating the situation is that asset thresholds are lower for individuals than for couples.

- While asset tests are generally intended to focus benefits on those with low incomes and exclude those with substantial assets, a large proportion of the 2.37 million low-income beneficiaries who would not qualify for the additional subsidies had relatively modest assets.
 - Half of those with incomes exceeding the asset test have excess assets of \$35,000 or less, and 42% exceed the limit by \$25,000 or less.

Conclusions

The study's findings raise serious questions about the equity of the asset test. During their working years, Americans are encouraged to save for retirement and the possibility that they will face sizable long-term care expenses. Those to whom this message is most salient will have little or no income beyond what they receive from Social Security. By accumulating modest amounts of assets, either through bank accounts or retirement-savings vehicles, these same people have guaranteed that they will *not* qualify for the low-income Medicare drug subsidies – but a large majority use prescription drugs every day. Modifying or eliminating the asset test would help protect those disadvantaged by low incomes – especially widows – who would be excluded from additional subsidized prescription drug benefits due to the asset test.

I. INTRODUCTION

Amidst both fanfare and controversy, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 was signed into law by President Bush in December of that year. The centerpiece of the legislation was coverage of outpatient prescription drugs, a benefit absent from Medicare during the program's first 40 years. This new drug coverage takes effect in January 2006.

The legislation provides voluntary, subsidized prescription drug coverage that can be obtained either from stand-alone insurance policies or through Medicare managed care plans. The specific style of benefit has been referred to as having a "doughnut hole" because during a given year, there may be a portion of expenditures for which no coverage is provided. This gap, combined with other cost sharing features, means that many beneficiaries will still have to pay a sizeable portion of their prescription costs. An individual spending \$5,000 a year for covered drugs would pay a total of \$3,500 out-of-pocket, not including a premium averaging \$420 per year in 2006.

A subsidy intended to provide assistance for low-income Medicare beneficiaries is the focus of this report. This subsidy is necessary because otherwise, drug coverage would not be affordable for such individuals, and would be far more costly than is now the case for beneficiaries who are dually covered by Medicare and Medicaid. Once the prescription drug provisions are implemented in January 2006, individuals who are dually covered by Medicare and Medicaid will receive their drug benefits through the Medicare program rather than through Medicaid, as is currently the case.

In order to qualify for low-income subsidies, a beneficiary must meet specific income and asset guidelines. The low-income subsidies will offer substantial assistance in paying the

Part D premium and cost sharing associated with drug coverage. The level of assistance will vary depending on an individuals' income and assets. Individuals who meet the income threshold but whose assets exceed a specified limit would not qualify for low-income subsidies.

As an example, a person who is not dually eligible for Medicare and Medicaid, and who has income below 135% of the federal poverty level (FPL), will fail the test and thus not be eligible for the low-income subsidies if she has assets exceeding \$6,000 (individual) or \$9,000 (couple). The definition of countable assets does not include the value of a house and automobiles, or household furnishings and possessions.

This study addresses three key questions regarding the asset test:

- How many and what percentage of Medicare beneficiaries will be eligible for low-income prescription drug subsidies?
- How many and what percentage of Medicare beneficiaries are precluded from such subsidies because they do not qualify under the asset test? What types of assets are primarily responsible for precluding eligibility?
- What are the characteristics of those who are excluded from the subsidies because they do not qualify under the asset test? Are there variations by age, gender, race, education, family composition, geographic location, supplemental health insurance status, and/or health status?

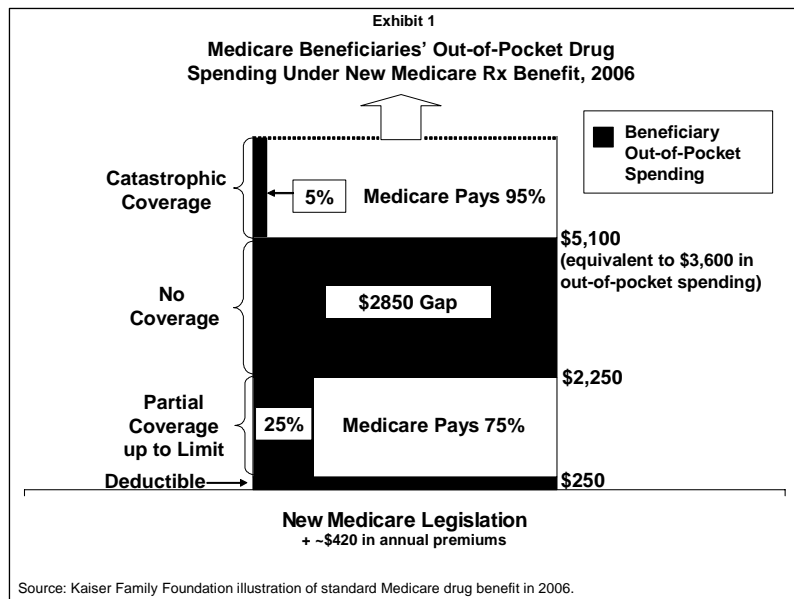
The remainder of the report is organized as follows. Section II provides additional background information on the low-income subsidies under the new law, an indication of the extent to which eligibility for the low-income subsidies can reduce drug expenditures, and previous research relevant to this study. Section III discusses the data and methodology employed. The answers to the research questions are provided in Section IV, and Section V provides the study's conclusions and policy implications.

II. BACKGROUND

Low-Income Subsidies Under the Law

The new Medicare drug benefit will go into effect on January 1, 2006. As noted in Exhibit 1, which illustrates standard Medicare drug coverage to be provided at that time, there is a \$250 annual deductible; 25% coinsurance for the next \$2,000 in spending during the year (i.e., 75% coverage); no coverage for the next \$2,850 in annual spending; and five percent coinsurance (i.e., 95% coverage) for all covered drug spending exceeding \$5,100 during 2006. It is estimated that premiums for stand-alone plans will cost beneficiaries approximately \$35/month in 2006.¹ All of these amounts are indexed with inflation, defined as the annual growth in per capita Medicare prescription drug spending.

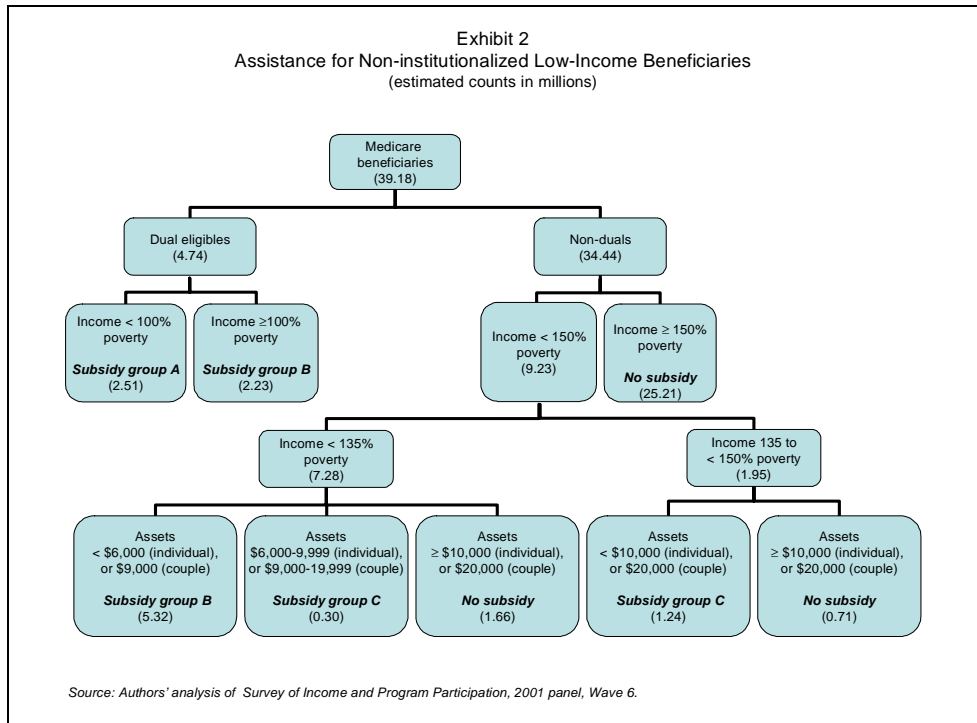
Certain low-income individuals are eligible for substantial subsidies. As illustrated in Exhibit 2, there are two groups of Medicare beneficiaries eligible for low-income subsidies. The first



includes those who qualify automatically because they are eligible for Medicaid, Supplemental Security Income, QMB, SLMB, or QI;² such individuals are frequently referred to as those “dually eligible” for Medicare and Medicaid. The second includes others who

have incomes below 150% of the FPL and assets less than \$10,000 (individual) or \$20,000 (couple). To provide some context, the federal poverty level in 2005 was \$9,570 for a single person, and \$12,830 for a two-person family.³

The subsidy a person qualifies for depends on his or her income and asset levels. Exhibits 2 and 3 provide labels for three different benefit levels (Subsidy groups A, B, and C). A fourth group – eligible individuals who are institutionalized – is not included because data limitations necessitate that this report focus on the non-institutionalized population.⁴



As shown in Exhibit 2, Subsidy group A consists of dual eligibles with incomes below 100% of the FPL. Subsidy group B is comprised of two-subgroups: dually-eligible individuals with incomes above 100% of the FPL; and those not dually eligible, but with incomes below 135% of the FPL (\$12,920/individual; \$17,321/couple, in 2005) and assets below \$6,000 (individual) or \$9,000 (couple). Similarly, two subgroups of non-dually

eligible individuals make up Subsidy group C: those with incomes below 135% of the FPL and assets between \$6,000 and \$10,000 (individual) or \$9,000 and \$20,000 (couple); and those with incomes between 135 and 150% of the FPL, and assets less than \$10,000 (individual) and \$20,000 (couple). The following non-dually-eligible individuals do not qualify for the subsidies: those with incomes above 150% of the FPL, and those with assets exceeding \$10,000 (individual) or \$20,000 (couple).

Exhibit 3 shows the drug benefit for each of the three subsidy groups in 2006. Those in Subsidy groups A and B pay no premiums and are responsible only for relatively small out-of-pocket copayments for each prescription they receive, varying from \$1 to \$2 for generic and \$2 to \$5 for brand name drugs.⁵ Subsidy group C pays more, including a premium that is proportional to how close their income is to 135% of the FPL (vs. 150%); 15% of drug spending between their \$50 annual deductible and the \$3,600 out-of-pocket cost threshold (which could result in a maximum payment of about \$530); and copayments of \$2 (generic) or \$5 (brand name) per prescription, thereafter. No one receiving a low-income subsidy is subject to the doughnut hole of no coverage.

Exhibit 3
Subsidized Prescription Drug Benefits in 2006

Subsidy Group*	Premium	Deductible	Cost Sharing Below Out-of-Pocket Threshold⁺	Cost Sharing Above Out-of-Pocket Threshold
A	\$0	\$0	\$1 (generic) \$3 (brand name) [^] per prescription	\$0
B	\$0	\$0	\$2 (generic) \$5 (brand name) per prescription	\$0
C	Sliding scale [#]	\$50	15% coinsurance	\$2 (generic) \$5 (brand name) per prescription

* See Exhibit 2 for a definition of who falls into each subsidy group.

⁺ The out-of-pocket threshold is \$3,600 in 2006.

[^] The statute also requires that insurers apply the generic copayment levels to preferred multiple source drugs.

[#] The scale ranges from a zero-premium level at 135% of the FPL, to the full premium at 150% of the FPL that is paid by beneficiaries ineligible for the low-income subsidies.

Impact of Eligibility on Potential Out-of-Pocket Expenditures

Eligibility for low-income subsidies is likely to have a dramatic impact on out-of-pocket expenditures for prescription drugs. CMS estimates that on average, beneficiaries receiving the low-income subsidy would spend just \$170 out-of-pocket in 2006, compared to \$1,122 without the subsidy – plus savings in premiums of up to \$440/year.⁶

Similarly, a report jointly prepared by the Actuarial Research Corporation and the Kaiser Family Foundation in November 2004 employed an actuarial projection model to examine the impact of the legislation on out-of-pocket costs.⁷ This study concluded that near-poor persons who receive the low-income subsidies would pay far less out-of-pocket than those who do not qualify. Among those with incomes between 100% and 134% of the FPL, annual out-of-pocket costs for prescription drugs are expected to average \$149 for those receiving the subsidies, compared to \$1,086 for those not receiving them. The figures for

beneficiaries with incomes between 135% and 149% of the FPL are \$283 and \$979, respectively.

To further illustrate the importance of the low-income subsidies, the following example shows how much a Medicare beneficiary would be expected to pay per year for medication to treat a common chronic condition: high cholesterol. The most frequently-prescribed drug for treating high cholesterol is Lipitor.⁸ The cost of a 90-day supply over the Internet is \$276 (20 mg.), or \$1,104/year.⁹ Most users of statins are prescribed brand-name drugs, like Lipitor, but there are generic equivalents, which can be purchased for \$94 for a 90-day supply, or \$376/year.¹⁰ The amount of money that a beneficiary would pay out-of-pocket, under various scenarios, is shown in Exhibit 4.

Exhibit 4

**Estimated Annual Out-of-Pocket Costs of Prescription Drugs to Treat High Cholesterol,
by Subsidy Level**

Subsidy Group*	Cost Sharing Requirements	Out-of-Pocket Costs per year, Lipitor⁺	Out-of-Pocket Costs per year, Generic Statin
A	\$0 deductible \$1 (generic) & \$3 (brand name) per prescription	\$12	\$4
B	\$0 deductible \$2 (generic) & \$5 (brand name) [^] per prescription	\$20	\$8
C	\$50 deductible 15% coinsurance	\$208	\$99
No low-income subsidy, assuming no other drug costs	\$250 deductible 25% coinsurance	\$464	\$282
No low-income subsidy, assuming expenditure falls in “doughnut hole”[#]	\$2850 gap in coverage	\$1,104	\$376

* The out-of-pocket threshold is \$3,600 in 2006.

⁺ The cost of Lipitor on the website, www.drugstore.com is \$276 for a 90-day supply. The figures in the table assume that Lipitor would not receive the same preferred status as does the generic statin, by the insurer providing the prescription drug coverage.

[^] The statute also requires that insurers apply the generic copayment levels to preferred multiple source drugs.

[#] This assumption is based upon an individual having other drug costs over \$2,250 so that the expenditures on Lipitor fall in the doughnut hole of no coverage.

Those eligible for the two most generous levels of subsidies would pay almost nothing for the drugs: \$12 – 20 per year for Lipitor, and \$4 – 8 per year for the generic. Beneficiaries in the less generous subsidy category would pay much more (\$208 or \$99, respectively), but still far less than those who do not receive the low-income subsidies (including, of course, those who are ineligible due to the asset test). How much these people would pay would depend on their other drug spending during the year. If they had no other spending, the cost

would be \$464 (Lipitor) or \$282 (generic). If, however, other drug spending put them into the doughnut hole, they would face the full cost of the drug: \$1,104 or \$376.

CBO Estimates of the Impact of the Asset Test on Eligibility for Low-Income Subsidies

The Congressional Budget Office (CBO) has estimated how many otherwise qualified low-income beneficiaries will not receive the low-income prescription drug subsidies because they will fail the asset test. It should be kept in mind, however, that CBO's estimates were published before the final regulations were issued by CMS. This is particularly important because the regulations are, in some ways, more generous than the previous asset test requirements employed by state Medicaid programs and the federal Supplementary Security Income (SSI) program. Whereas the other programs include as countable assets the value of the first automobile exceeding \$4,500, and the total value of a second car, the regulations do not include any value from automobiles. As a result, fewer beneficiaries are likely to be excluded.

In estimates published on November 20, 2003, just a few days before Congressional passage, CBO estimated that 1.8 million of the 15.1 Medicare beneficiaries with incomes below 150% of the FPL (12%) would be ineligible for the low-income subsidies because their assets were too high. This includes:

- 0.4 million of the 7.7 million beneficiaries (5%) with incomes below the FPL;
- 0.4 million of the 3.6 million beneficiaries (11%) with incomes between 101 and 120% of the FPL;
- 0.5 million of the 2.0 million beneficiaries (25%) with incomes between 121 and 135% of the FPL;
- 0.5 of the 1.8 million beneficiaries (28%) with incomes between 136 and 150% of the FPL.¹¹

In a later report released in July 2004, it further estimated that nearly all dual eligibles would enroll in the drug benefit program, but that only 45% of other eligible low-income beneficiaries would do so. This surprisingly low expected enrollment projection is based on past experiences with QMB and SLMB program participation, coupled with the lower benefit levels provided to Subsidy Group C (Exhibit 2).¹² This 45 percent rate is somewhat lower than the 57 percent estimate provided in CMS's final regulations.¹³ Neither set of estimates, however, provides detailed calculation methodology.

III. DATA AND METHODS

Data

The data set used in this study is the Survey of Income and Program Participation, conducted by the U.S. Census Bureau. The purpose of SIPP is “to provide accurate and comprehensive information about the income and program participation of individuals and households in the United States, and about the principal determinants of income and program participation.”¹⁴ SIPP also collects information on individuals’ assets, a necessity for the conduct of the present study. The sampling frame for SIPP includes only the non-institutionalized population.

SIPP is a nationally representative panel survey. To ensure adequate representation, it over-samples those with low incomes. This report is based on the 2001 panel, whose members are interviewed three times annually over three years. Most of the data in this study are based on interviews that occurred between October 2002 and January 2003 and refer to the period September – December 2002. The overall sample size in the SIPP file from which the data were extracted is 69,143 cases, of which 9,278 are Medicare beneficiaries, and 2,929 have incomes below 150% of the federal poverty level.¹⁵

Methods

The study is designed to address how many, and what percentage, of Medicare beneficiaries will be precluded from low-income prescription drug subsidies because their assets exceed the legislation’s thresholds. (A more detailed methodology is provided in the Appendix.) All non-institutionalized Medicare beneficiaries on SIPP were selected, including both seniors and those eligible due to disability (N=9,278). The first task was to estimate the

number of low-income beneficiaries eligible for the subsidies if there were no asset test. Two groups are potentially eligible: those who receive Medicaid, SSI, QMB, SLMB, and QI; and those who do not receive any of these benefits but who have incomes below 150% of the FPL. SIPP indicates if a person has Medicaid or SSI, but not QMB, SLMB, or QI. This does not present a formidable problem, however, because an individual eligible for one of these programs must have an income below 135% of the FPL and therefore can be captured with SIPP through their income.¹⁶

The estimated number of Medicare beneficiaries in this study is based upon 2002 data from SIPP. These figures were then adjusted upward to provide the estimated number of beneficiaries in 2006, based on projections provided in the *2004 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*. According to the CMS regulations, income is defined in accordance with SSI rules. Under those rules, certain exclusions are made from income, including the sum of each of the following: the first \$20 per month of any type of income, the first \$65 per month of earned income,¹⁷ and half of earnings above \$65 per month.

Each sample member's income was compared to the FPL. According to the final CMS regulations, income includes that of both the individual and spouse (if any).¹⁸ The FPL is based on family size, and naturally is higher for larger families. The final regulations define family size to include the individual, his/her spouse, and related persons in the household who depend on the individual for half or more of their financial support, which, due to data limitations, are confined to the individual's own children under age 18.

The second task was to estimate how many otherwise eligible individuals will be excluded from subsidized prescription drug benefits due to the asset test. The final regulations define eligible assets as follows:

“[W]e intended to only consider liquid resources (that is, those that could be converted to cash within twenty days) and real estate that is not an applicant’s primary residence as resources that are available to the applicant to pay for the Part D premiums, deductibles and copayments. Thus, we would not consider their non-liquid resources (for example, a second car) to be available to the applicant for this purpose.”¹⁹

As a result, only the following assets from SIPP are counted for both the individual and his/her spouse: bank accounts; stocks; bonds; mutual funds; retirement accounts such as IRAs, Keoghs, and 401(k)s; rental and vacation property; and other investments. Although it is not explicitly included in SIPP, the cash value of life insurance policies is counted as an asset, but not the face value of term-life insurance. Finally, to convert the asset amounts from 2002 dollars to 2006 dollars (to compare to 2006 asset thresholds), they were multiplied by the predicted rate of growth in consumer prices over this four-year period (1.092).²⁰

The final task was to determine the assets that are primarily responsible for precluding eligibility and the characteristics of individuals who are precluded from the subsidies because they fail the asset test. Sociodemographic characteristics (age, gender, race/ethnicity, marital status, family composition, education, geographic location); health status/usage (self-reported health status, hospitalizations, physician visits, prescription drug use); and possession of supplemental health insurance were all examined.

IV. FINDINGS

Overall Impact of the Asset Test on Eligibility for Low-Income Drug Subsidies

There are an estimated 13.97 million non-institutionalized Medicare beneficiaries who would qualify for low-income subsidized prescription drug benefits in 2006 based on income alone, as shown in Exhibit 5. Among this group, an estimated 2.37 million are expected to be ineligible for low-income subsidies due to the asset test. This represents 17 percent of otherwise eligible individuals. Approximately 70 percent of the 2.37 million who are ineligible because of the asset test have incomes below 135% of the FPL, with the remaining 30% having incomes between 135% and 150% of the FPL.

This figure of 2.4 million individuals failing the asset test in 2006 is somewhat higher than the 1.8 million calculated by CBO in its July 2004 report. The authors have had discussions

Exhibit 5 Projected Eligibility for Low-Income Subsidies, 2006	
Total non-institutionalized Medicare beneficiaries	39.18 m
Not eligible for low-income subsidies (based on income)	25.21 m
Potentially eligible for low-income subsidies (based on income alone or dual eligibility status)	13.97 m
Low-income beneficiaries not eligible for low-income subsidies due to asset test	2.37 m
Total eligible for low-income subsidies	11.60 m
Source: Rice and Desmond for the Kaiser Family Foundation, 2005.	

with CBO staff in order to better understand these differences. A major reason appears to relate to different methods for calculating income. As noted earlier, this report is informed by CMS regulations that had not been released at the time of the CBO report, and which indicate that in determining eligibility for subsidized drug benefits, income is to be defined in

accordance with SSI regulations. Under those regulations, the first \$20 per month of any type of income, the first \$65 per month of earned income, and half of earnings above \$65 per month are excluded. Using these exclusions, more low-income beneficiaries fall below 150% of the FPL, and therefore could be excluded for the drug subsidies by the asset test. Because they tend to have higher incomes relative to other near-poor individuals and families, they are in fact more likely to have assets in excess of the thresholds. Had these exclusions not been made, an estimated 2.1 million beneficiaries would have failed the asset test. Thus, this appears to explain half of the difference between the two sets of estimates.

There are several other reasons that may explain the different estimates. The CBO estimates include the institutionalized population whereas the present report does not. Because low-income institutionalized seniors tend to have very low asset levels, this results in CBO estimating a lower percentage of people failing the asset test. The two studies employ different data sets that are based on different sampling frames. CBO uses multiple data sources including the Medicare Current Beneficiary Survey, modified by CBO projections of population growth; the Current Population Survey, to adjust income estimates; and SIPP, for asset measurement. The present report relies on SIPP alone. In addition, this report uses more recent data on assets than did CBO, and differences are likely to have arisen from CBO's estimates of asset growth.

Characteristics of Beneficiaries Excluded from Drug Subsidies Due to the Asset Test

Exhibit 6 provides the characteristics of individuals who are ineligible for the low-income prescription drug subsidies due to the asset test (labeled as group D in the table), as well as three other groups of beneficiaries: those who are dually eligible for Medicare and

Medicaid and who therefore will automatically receive the low-income subsidies (group B); those who are not dually eligible but who qualify to receive the low-income subsidies due to low incomes and assets (group C); and those whose incomes exceed 150% of the FPL, who therefore do not qualify because of their incomes (group E). The first two columns (group A) provide figures for the total Medicare non-institutionalized population – that is, the sum of the four subgroups (groups B-E).

Exhibit 6

Characteristics of Non-Institutionalized Medicare Beneficiaries by Low-Income Subsidy Status
(estimated counts in thousands)

	Low-Income Beneficiaries									
	Total		Dual eligible		Non-dual eligible, low-income subsidy eligible		Non-dual eligible, low-income subsidy ineligible due to asset test		Not low income, not eligible for low-income subsidy due to income test	
	A		B		C		D		E	
Total number	39,176	100%	4,737	100%	6,863	100%	2,368	100%	25,208	100%
Under 65	5,074	13.0	2,007	42.4	1,126	16.4	137	5.8	1,804	7.2
65 - 74	17,818	45.5	1,361	28.7	2,466	35.9	927	39.2	13,065	51.8
75 - 85	12,528	32.0	1,001	21.1	2,325	33.9	967	40.9	8,235	32.7
85 and older	3,757	9.6	369	7.8	947	13.8	336	14.2	2,104	8.4
Male	16,907	43.2	1,762	37.2	2,320	33.8	696	29.4	12,219	48.1
Female	22,269	56.8	2,976	62.8	4,543	66.2	1,672	70.6	13,079	51.9
White	29,165	74.5	2,305	48.7	4,488	65.4	1,921	81.1	20,451	81.1
African American	3,818	9.8	1,036	21.9	1,104	16.1	83	3.5	1,596	6.3
Hispanic	3,973	10.1	629	13.3	674	9.8	269	11.4	2,401	9.5
Other ethnicity	2,220	5.7	768	16.2	598	8.7	95	4.0	760	3.0
Married	21,316	54.4	1,177	24.9	2,225	32.4	892	37.7	17,022	67.5
Divorced/separated	4,351	11.1	1,148	24.2	1,117	16.3	250	10.6	1,835	7.3
Widowed	11,343	29.0	1,518	32.0	2,986	43.5	1,099	46.4	5,740	22.8
Never married	2,166	5.5	894	18.9	535	7.8	127	5.4	610	2.4
Lives alone	11,871	30.3	1,880	39.7	2,862	41.7	1,084	45.8	6,045	24.0
Lives with spouse	21,316	54.4	1,177	24.9	2,225	32.4	892	37.7	17,022	67.5
Other	5,989	15.3	1,680	35.5	1,776	25.9	392	16.6	2,141	8.5
Through 8th grade	5,196	13.3	1,485	31.4	1,534	22.4	241	10.2	1,935	7.7
Some high school	5,569	14.2	998	21.1	1,578	23.0	407	17.2	2,587	10.3
HS graduate	13,445	34.3	1,250	26.4	2,323	33.9	982	41.5	8,890	35.3
Some college	8,758	22.4	758	16.0	1,127	16.4	508	21.5	6,365	25.3
College graduate	6,207	15.8	246	5.2	300	4.4	230	9.7	5,431	21.5

	Low-Income Beneficiaries									
	Total		Dual eligible		Non-dual eligible, low-income subsidy eligible		Non-dual eligible, low-income subsidy ineligible due to asset test		Not-low income, not eligible for low-income subsidy due to income test	
	A		B		C		D		E	
Lives in a MSA	22,830	58.3	2,706	57.1	4,046	59.0	1,314	55.5	14,765	58.6
Not in a MSA	16,346	41.7	2,031	42.9	2,817	41.1	1,054	44.5	10,443	41.4
Midwest region	8,697	22.5	827	17.7	1,285	18.9	612	26.3	5,973	24.0
Northeast region	7,896	20.4	883	18.8	1,451	21.3	485	20.8	5,077	20.4
South region	14,925	38.6	1,899	40.5	3,106	45.6	814	34.9	9,105	36.6
West region	7,198	18.6	1,079	23.0	965	14.2	420	18.0	4,734	19.0
Has private health ins.	28,255	72.1	1,046	22.1	3,598	52.4	1,842	77.8	21,769	86.4
No private insurance	10,921	27.9	3,691	77.9	3,265	47.6	526	22.2	3,439	13.6
Excellent/v.good Health	10,956	28.0	719	15.2	1,287	18.8	670	28.3	8,280	32.9
Good health	13,425	34.3	1,261	26.6	2,246	32.7	934	39.5	8,984	35.6
Fair health	9,331	23.8	1,595	33.7	2,012	29.3	493	20.8	5,232	20.8
Poor health	5,464	14.0	1,162	24.5	1,319	19.2	271	11.4	2,711	10.8
Hospitalized past year	7,753	19.8	1,193	25.2	1,484	21.6	476	20.1	4,600	18.3
Not hospitalized	31,423	80.2	3,545	74.8	5,379	78.4	1,892	79.9	20,608	81.8
0-1 MD visits in past year	6,355	16.2	744	15.7	1,426	20.8	386	16.3	3,799	15.1
2-3 visits in past year	7,891	20.1	828	17.5	1,345	19.6	502	21.2	5,215	20.7
4-5 visits in past year	8,173	20.9	829	17.5	1,317	19.2	513	21.7	5,513	21.9
6-11 visits in past year	8,004	20.4	935	19.7	1,416	20.6	506	21.4	5,147	20.4
12 visits in past year	8,754	22.3	1,400	29.6	1,359	19.8	462	19.5	5,533	22.0
Prescription drugs daily	31,028	79.2	3,852	81.3	5,223	76.1	1,845	77.9	20,108	79.8
Not daily use of drugs	8,149	20.8	886	18.7	1,640	23.9	523	22.1	5,100	20.2

Source: Authors' analysis of Survey of Income and Program Participation, 2001 Panel, Wave 6.

There are two sets of relevant comparisons: (1) low-income beneficiaries who fail the asset test (group D) vs. other non-dual eligible, low-income beneficiaries who pass the test (group C); and (2) low-income beneficiaries who fail the asset test (group D) vs. those who do not qualify for it because their income exceeds 150% of the FPL (group E). Most of the comparisons are statistically significant at the 5% level.²¹ The only exceptions are for comparison (1): MSA, hospitalized in the past year, number of physician visits in the past year, and daily use of prescription drugs; and for comparison (2): race (significant at 10% level), MSA, region, health status, hospitalized in the past year, and number of physician visits in the past year and daily use of prescription drugs.

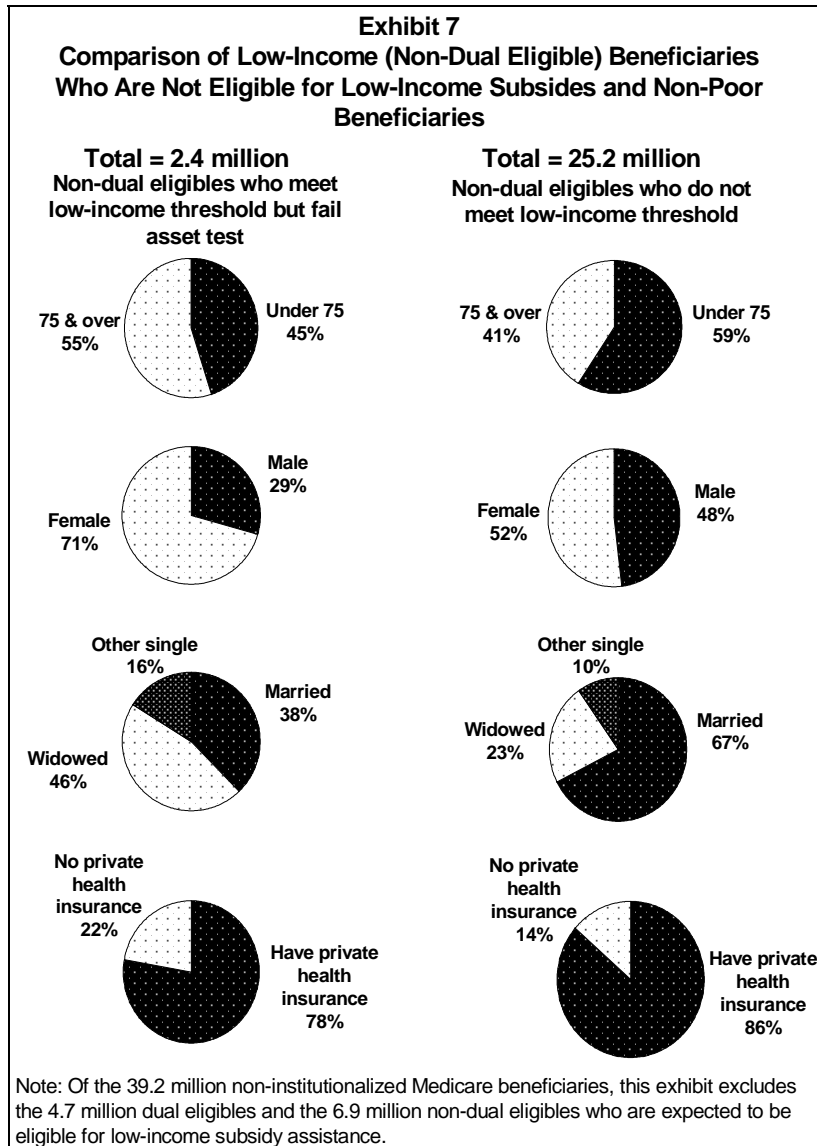
Comparison with Other Low-Income Beneficiaries

Those with low incomes who are expected not to meet the asset test have somewhat different characteristics than other low-income beneficiaries who are eligible to receive the low-income drug subsidies and who are not dually eligible for Medicaid. Those failing the asset tests are more likely to be older, female, unmarried, and living alone. In these respects one might view them as more vulnerable, but in other respects they tend to be better off. They have higher education levels, are in better health, and are more likely to have private insurance. They are also more likely to be white. To illustrate, 55 percent of those failing the asset test are age 75 or older, compared to 48 percent of the low-income group who do not fail the test; 73 percent graduated from high school, far higher than the 55 percent figure for the other group.

Comparison with Beneficiaries with Incomes above 150% of the FPL

This comparison is important because low-income beneficiaries who will not meet the asset test will receive the same coverage (and lack of subsidies) as those who do not have low incomes. In nearly all ways, those failing the asset tests are much more vulnerable than beneficiaries with higher incomes. They are far more likely to be older, female, widowed, and living alone. They also have lower education levels and are less likely to have private health insurance.

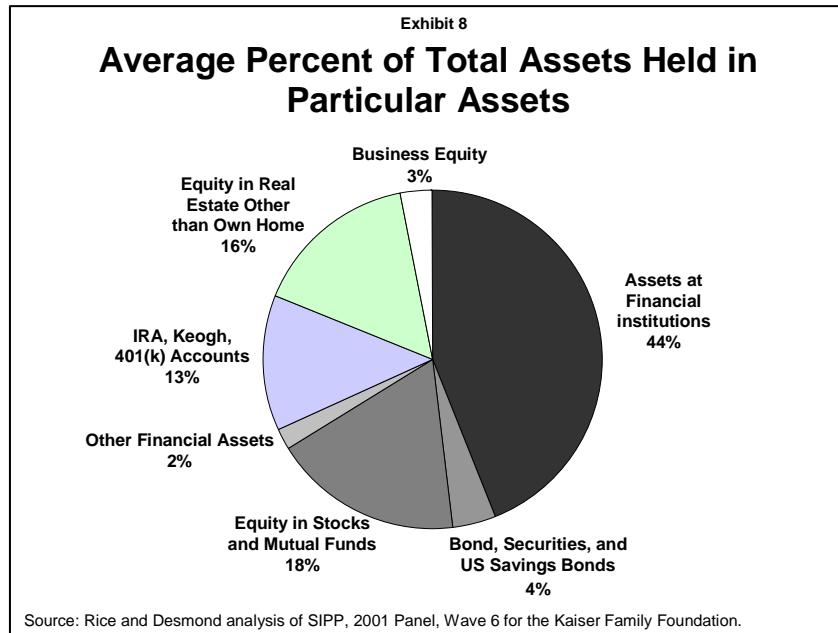
Some of the key differences are illustrated in Exhibit 7. Fifty-five percent of those failing the asset test are age 75 and older, compared to 41 percent of beneficiaries with higher incomes. Seventy-one percent failing the test are female, compared to 52 percent of non low-income beneficiaries. The most dramatic difference concerns marital status. Nearly half (46%) of those failing the asset test are widowed, twice the share (23%) for those with higher incomes. Forty-three percent of those who would fail the asset test are female widows. A related finding not shown here is that fact that those failing the asset test are far more likely to live alone (46%) than are higher-income beneficiaries (24%). Finally, Exhibit 7 shows that 22 percent of people failing the test have no private insurance, compared to 14 percent of higher income beneficiaries.



A clear pattern thus emerges. Those who fail the asset test are disproportionately older widows who live alone. The most likely scenario is that when a husband dies, income plummets, making the widow potentially eligible for the low-income prescription drug subsidies. However, her accumulated assets exceed those allowed under the legislation. Aggravating the situation is that asset thresholds are lower for individuals than for couples (Exhibit 2). These people are very vulnerable to financial catastrophe but, because they have some accumulated savings, are ineligible for the subsidized prescription drug benefits.

Types of Assets that Preclude Eligibility for Low-Income Drug Subsidies

Exhibit 8 shows the types of assets that are held by beneficiaries failing the asset test. The pie wedges show the average percent of total portfolio held in various categories of assets by the 2.37 million otherwise eligible Medicare beneficiaries whose assets exceed the thresholds in the legislation. These beneficiaries hold, on average, 44 percent of their total assets with



financial institutions; that is, checking and savings bank accounts and the like. Most of the remainder are other financial assets such as stocks, mutual funds, and retirement accounts such as IRAs, Keoghs, and 401(k) accounts. On average, only 19 percent of assets are equity in real estate (other than one’s own house, which is not counted) and ownership of a business.

Exhibit 9
Percent of Beneficiaries Who Would Lose Low-Income Subsidies Solely on the Basis of Their Ownership of Particular Assets

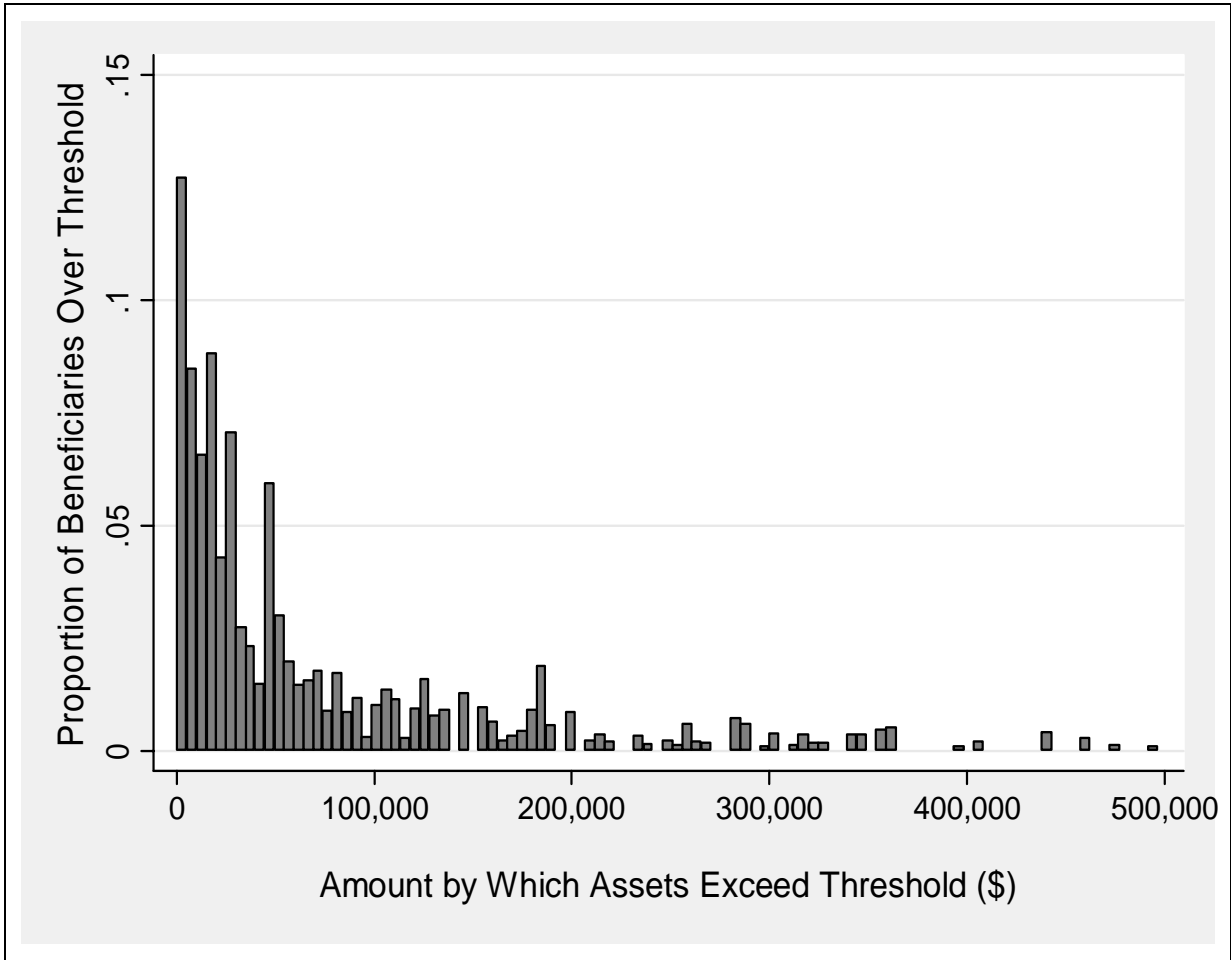
Assets at financial institutions	49%
Bonds, securities, US savings bonds	5
Equity in stocks and mutual funds	25
Other financial assets	3
IRA, Keogh, 401(k) accounts	20
Equity in real estate other than own home	19
Business equity	4

Source: Authors' analysis of Survey of Income and Program Participation, 2001 Panel, Wave 6.

In some instances, one type of asset alone puts a beneficiary over the threshold. Almost half (49%) of those who fail the asset test would fail it solely on the basis of their assets in financial institutions. No other type of asset would, alone, disqualify more than 25% of individuals.

Exhibit 10 illustrates by how much individuals fail the asset test.²² Each bar represents \$5,000 in assets. Thus, the first bar indicates that of the people who fail the asset test, about 13% exceed it by \$5,000 or less; the second bar shows that another 9% exceed it by \$5,000 - \$10,000, etc. The noteworthy pattern that emerges is that a large proportion of the 2.37 million people who are excluded from the low-income drug subsidies have assets that are not excessively high by most definitions. In fact, half of those who fail the asset test have excess assets of \$35,000 or less. These savings would not pay for a year of nursing home care in most areas of the country. The amounts by which the unmarried fail the asset test are even more modest: 41% exceed the threshold by \$25,000 or less.

Exhibit 10
Low-Income Beneficiaries with Assets Exceeding the Threshold



Note: Beneficiaries whose assets exceed the low-income subsidy threshold by more than \$500,000 are not included.

Source: Authors' analysis of Survey of Income and Program Participation, 2001 Panel, Wave 6.

These asset levels are, by most standards, very modest. Suppose that a woman (the typical case) exceeds the asset test by \$35,000, which is the median amount. Liquidating these assets to pay for the prescription drug spending in the doughnut hole would reduce her current income through forgone interest; moreover, it would leave her with a very small financial buffer should she become ill and fall subject to large out-of-pocket costs, or suffer

any other financial reversal. She would eventually be eligible for the subsidized prescription drug benefits, but at a cost of having spent down nearly all of her life savings.

V. CONCLUSIONS

This study estimates that in 2006, when the new Medicare prescription drug benefit goes into effect, 2.37 million low-income Medicare beneficiaries will not qualify for subsidized coverage because they fail the asset test. As a result, these individuals will face the same “doughnut hole” cost-sharing requirements as wealthier beneficiaries. This means that in addition to paying full monthly premiums, they will be responsible for substantial out-of-pocket costs – e.g., \$3,600 of the first \$5,100 of annual prescription drug spending on covered drugs in 2006.

The study further examines the types of beneficiaries who will be excluded by the asset test, as well as the types of assets responsible. Perhaps the most noteworthy finding is that the asset test will fall most heavily on those who are widowed. Whereas only 29 percent of Medicare beneficiaries are widowed, nearly half – 46% – of those failing the asset test are widowed and nearly all of these (43% of the 46%) are women. Widows, tend to be older, live alone, and have more chronic illnesses necessitating prescription drug purchases, but have less family support as well. Put another way, the life event (death of a husband) leads to reduced income and thus more of a need for subsidies, but as written, the legislation effectively excludes many widows from these subsidies.

It is hardly surprising that most individuals who do not meet the asset test have relatively modest assets, which tend to be bank accounts rather than stocks, mutual funds, and bonds. They have little in the way of private retirement accounts such as IRAs and 401(k)s, real estate beyond their own home, and almost no equity in businesses. This would be expected among a population of low-income individuals.

The study's findings raise serious questions about the equity of the asset test. During their working years, Americans are encouraged to save for retirement and the possibility that they will face sizable long-term care expenses. Those to whom this message is most salient will have little or no income beyond what they receive from Social Security. By accumulating modest amounts of assets, either through bank accounts or retirement-savings vehicles, these same people have guaranteed that they will *not* qualify for the low-income Medicare drug subsidies – but the vast majority use prescription drugs every day. Using more common parlance, they find themselves in a “Catch-22.” If they do save, they are disqualified from the subsidies. If they do not save, they will receive the subsidies but will have almost nothing to fall back upon besides their Social Security checks. And this burden tends to fall on the most vulnerable of seniors: older, low-income widows living alone.

This dynamic appears to be inequitable, given the groups of seniors who are most affected, and unfair because it penalizes both savings and widowhood. Modifying or eliminating the asset test would help protect those disadvantaged by low incomes who would be excluded from subsidized prescription drug benefits due to the asset test.

APPENDIX PROCEDURES FOR USING SIPP TO EVALUATE MEDICARE ASSET TEST

The data set used for simulating the impact of the asset test on eligibility for the low-income subsidy was the Survey of Income and Program Participation (SIPP), 2001 panel, Wave 6. SIPP provides reasonably accurate estimates of asset ownership, especially for the low-income population²³. Assets not included in the SIPP Wave 6 asset module include the value of defined contribution pension accounts (other than 401(k) and thrift accounts, which are included), the cash value of life insurance, and some annuities and trusts.

Wave 6 provides the most current data available as of this writing on asset ownership. SIPP interviews its subjects 3 times a year, in 4 rotations. The reference period for Wave 6 is late 2002: September-December. For asset ownership and demographic/health characteristics, the measures in SIPP represent a snapshot as of the late 2002 reference period. Some items were available on the asset module; others were picked up by linking to the SIPP core module. Asset information for each individual's spouse was merged onto the individual's record. Weights were taken from the asset module.

Income is reported monthly in the core module. For each person (and each person's spouse), we added up monthly income over the past 12 months (this involves using core file Waves 4, 5, and 6). Where income data are missing for a month, we filled in with income averaged over the non-missing months.²⁴

We selected persons covered by Medicare during the reference month ["Was ... covered by Medicare in this month?"].

Variable definitions

Our task was to identify and describe Medicare beneficiaries eligible for full and limited subsidies for Medicare drug coverage, and to identify and describe beneficiaries excluded from these subsidies by the asset test. Eligibility is based on enrollment in other programs (Medicaid, SSI, QMB, SLMB, QI), income relative to poverty guidelines, and asset ownership.

ENROLLMENT IN OTHER PROGRAMS

Full benefit dual eligibles are defined as recipients of Medicaid, SSI, QMB, SLMB or QI. We can identify in SIPP those who are covered by Medicaid ["Was ... covered by Medicaid in this month?"] or SSI [Federal SSI monthly coverage flag]. We were unable to identify enrollment in the QMB, SLMB, or QI programs using SIPP.

The consequence of our being unable to directly identify QMBs, SLMBs, and QIs on SIPP is that these individuals were not categorically assigned to the full subsidy group, but were subjected to the income and asset tests. If there are any persons that might have been in one of those programs, but who have assets that exclude them from the subsidies, we will

overstate the impact of the asset test. But this is unlikely because these programs tend to have stricter asset tests than does the Medicare prescription drug legislation. What will happen with these individuals is that the poorest of them will be able to do no better than subsidy group B (see Exhibits 2 and 3) whereas if they had been categorically eligible, they might have gotten into subsidy group A. This does not pose much of a problem because the study focuses on who will be excluded from the subsidies, rather than into which subsidy category individuals will fall.

INCOME RELATIVE TO POVERTY GUIDELINES

Per the regulations, we counted the income of the individual and his/her spouse, if any. For the federal poverty level, we used the 2002 HHS Poverty Guidelines²⁵. The poverty level varies by family size; CMS's regulations define family size to include the individual, his/her spouse, and related persons in the household who depend on the individual for ½ or more of their financial support. We do not have the data in SIPP to determine portion of financial support; instead we approximate the regulations' definition of family size by including the individual, his/her spouse, and the individual's own children under 18 in the family.

The legislation and regulations refer to Section 1612 of the Social Security Act, which are the SSI rules for determining income. In that section, income is defined as earned and unearned, and a list of exclusions from income is given. Per the legislation, we subtracted \$20/month of unearned income, \$65/month of earnings and half the amount over \$65. In determining poverty status, we used 2002 income and 2002 poverty guidelines. The \$20 and \$65 amounts in 2006 were adjusted to 2002 dollars.

ASSETS

CMS's regulations state (70 FR 4369, January 28k 2005):

“[W]e intended to only consider liquid resources (that is, those that could be converted to cash within twenty days) and real estate that is not an applicant's primary residence as resources that are available to the applicant to pay for the Part D premiums, deductibles and copayments. Thus, we would not consider their non-liquid resources (for example, a second car) to be available to the applicant for this purpose.”

We note that the exclusion of the second car in particular is different from what is done for other programs.

From SIPP, we are including dollar amounts of the following assets:

- Interest earning accounts
- Non interest earning accounts
- Bonds/US securities
- Face value of US savings bonds
- Stocks/mutual funds
- IRAs

Keoghs
401Ks
Rental property
Vacation/undeveloped property
Other investments

The asset cutoffs in the legislation are given in 2006 dollars as \$6,000; \$9,000; \$10,000; and \$20,000. We inflated SIPP assets (which are in 2002 dollars) to 2006 using CBO actual and forecast Consumer Price Index values, providing percentage changes in the CPI for 2003-2006²⁶. This yields a cumulative inflation factor from 2002 to 2006 of 1.092.

Simulations

1. Identify dual eligibles.
2. Identify persons with regard to poverty:
 - Less than 100%
 - 100% to less than 135%
 - 135% to less than 150%
 - 150% and higher
3. Identify persons with regard to asset limits:
 - Less than \$6,000 (individual) or \$9,000 (couple)
 - \$6,000 - \$10,000 (individual) or \$9,000 - \$20,000 (couple)
 - \$10,000 and higher (individual) or \$20,000 and higher (couple)
4. Determine eligibility for low income subsidy groups A, B, and C using just the dual eligible and income criteria.
5. Determine eligibility using all criteria including the asset test.

NOTES

¹ Beneficiaries can also receive drug benefits through managed care plans, which are now called “Medicare Advantage” plans. These include both HMOs and PPOs. Because the drug benefit is part of a larger benefit package, its cost is built into the overall premium for the plans.

² QMB is the Qualified Medicare Beneficiaries program; SLMB is the Specified Low-Income Medicare Beneficiary Program; and QI is the Qualifying Individuals program. Eligibility criteria for these programs can be found at:

<http://www.cms.hhs.gov/dualeligibles/bbadedef.asp>.

Note that our estimate of the dual eligible population is lower than may be expected because it counts only the non-institutionalized. In their June 2004 report to Congress (found at http://www.medpac.gov/publications/congressional_reports/June04_entire_report.pdf), the Medicare Payment Advisory Commission estimated from the 2001 MCBS Cost and Use file that there were 6.2 to 7.0 million dual eligibles (depending on how they defined dual eligibility), of whom nearly one quarter were institutionalized. Our estimates are consistent with these.

³ The U.S. Department of Health and Human Services “2005 HHS Poverty Guidelines” can be found at: <http://aspe.hhs.gov/poverty/05poverty.shtml>

⁴ The main data set used in this study, the Survey of Income and Program Participation, is based on a sampling frame of the U.S. civilian non-institutionalized population.

⁵ The statute also requires that insurers apply the generic copayment levels to preferred multiple source drugs.

⁶ 70 FR 4468, January 28, 2005.

⁷ Mays, J., M. Brenner, T. Neuman, J. Cubanski, and G. Claxton. “Estimates of Medicare Beneficiaries’ Out-of-Pocket Drug Spending in 2006.” Kaiser Family Foundation, November 2004.

<http://www.kff.org/medicare/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=48947>

⁸ This information is from the website, Rxlist.com. See: <http://www.rxlist.com/top200.htm>

⁹ This information is from the website, Drugstore.com. See: <http://www.drugstore.com/pharmacy/prices/drugprice.asp?ndc=00071015773&trx=1Z5006>

¹⁰ This information is from the website, Qualitygenerics.com. See: <http://www.qualitygenerics.com/generic-lipitor.shtml>

¹¹ Congressional Budget Office. Letter to Hon. Don Nickles, Chairman, Committee on the Budget, U.S. Senate. November 20, 2003.
<http://www.cbo.gov/showdoc.cfm?index=4814&sequence=0>

¹² Congressional Budget Office. "A Detailed Description of CBO's Cost Estimate for the Medicare Prescription Drug Benefit." July, 2004.
<http://www.cbo.gov/showdoc.cfm?index=5668&sequence=0>

¹³ 70 FR 4468, January 28, 2005.

¹⁴ <http://www.sipp.census.gov/sipp/intro.html>

¹⁵ The weighted counts are 37.6 million Medicare beneficiaries, and 11.1 million with incomes below 150% of the poverty level.

¹⁶ The consequence of our being unable to directly identify QMBs, SLMBs, and QIs on SIPP is that these individuals will not be categorically assigned to the full subsidy group, but will be subjected to the income and asset tests. If there are any persons that might have been in one of those programs, but who have assets that exclude them from the subsidies, we will overstate the impact of the asset test. But this is unlikely because these programs tend to have stricter asset tests than does the Medicare prescription drug legislation. What will happen with these individuals is that the poorest of them will be able to do no better than subsidy group B (see Exhibits 2 and 3) whereas if they had been categorically eligible, they might have gotten into subsidy group A. This does not pose much of a problem because the study focuses on who will be excluded from the subsidies, rather than in which subsidy category individuals will fall.

¹⁷ In Section 1612 of the Social Security Act, earned income includes wages, net earnings from self employment, and royalties.

¹⁸ 70 FR 4368, January 28, 2005.

¹⁹ 70 FR 4369, January 28, 2005.

²⁰ Predicted inflation factors come from the Congressional Budget Office:
<http://www.cbo.gov/ftpdocs/18xx/doc1824/EconProjectionsTables.pdf>

²¹ Groups were compared using Chi-square tests that corrected for the SIPP sampling design.

²² Exhibit 9 includes only those sample members from SIPP exceeding the asset test threshold by \$500,000 or less. There were eight sample with assets in excess of this amount, and they are excluded from the graph to make it fit onto a single page. These eight individuals, when weighted by the SIPP sampling weights, represent 1.6 percent of those who fail the asset test.

²³ See: Czajka, J.A., J.E. Jacobson, and S. Cody, “Survey Estimates of Wealth: A Comparative Analysis and Review of the Survey of Income and Program Participation,” Washington, DC: Mathematica Policy Research, for a careful examination of the accuracy of SIPP asset measurements.

²⁴ 94% of the sample have complete income data for all 12 months.

²⁵ <http://aspe.hhs.gov/poverty/02poverty.htm>

²⁶ <http://www.cbo.gov/ftpdocs/18xx/doc1824/EconProjectionsTables.pdf>



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