Section 5

Medicare and Prescription Drugs

SECTION 5: MEDICARE AND PRESCRIPTION DRUGS

Medicare beneficiaries are highly dependent on prescription drugs to manage their acute and chronic health conditions, yet, until 2006, Medicare does not cover the cost of outpatient prescription drugs. Virtually all beneficiaries (91 percent) take at least one medication. Despite the relatively heavy use of pharmaceuticals, nearly half of all beneficiaries lacked drug coverage for at least part of the year in 2002: 18 percent of beneficiaries lacked drug coverage for the full year and another 27 percent lacked drug coverage for at least part of the year. Beneficiaries accessed full- or part-year drug coverage through a variety of sources, including employer-sponsored plans (34 percent), Medicaid (14 percent), Medicare HMOs and other managed care plans (12 percent), and individually-purchased Medigap policies (12 percent). In addition, as of March 2005, 34 states had adopted some type of program to assist beneficiaries with the cost of prescription drugs, although large programs exist in only a few states.

More than half of all beneficiaries who lacked drug coverage for the full year in 2002 had incomes of less than $20,000 (individual and spouse); 21 percent had incomes of $10,000 or less. Beneficiaries with incomes between $10,001 and $20,000 are at greatest risk of being without drug coverage for the full year, because they are less likely than the lowest-income beneficiaries to have Medicaid, and less likely than higher-income beneficiaries to have employer-sponsored retiree health coverage. Beneficiaries age 85 or older are more likely than their younger counterparts to lack drug coverage for the full year. Beneficiaries living in rural areas also are substantially more likely than those living in urban areas to lack drug coverage.

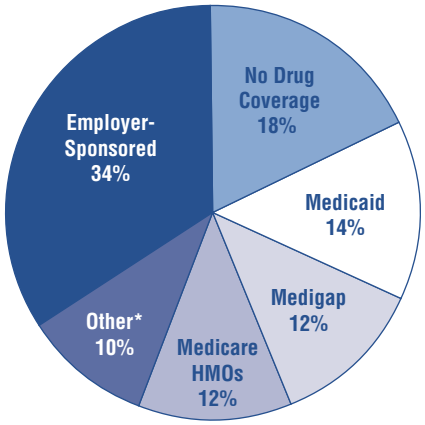
Lack of drug coverage is a concern because beneficiaries without it fill fewer prescriptions due to costs and have higher out-of-pocket drug spending, on average, than those with coverage. Medicare beneficiaries without drug coverage filled one-third fewer prescriptions, on average, than beneficiaries with some form of drug coverage—a difference in drug use that persists across a range of individual characteristics, including health status and income.

Average per capita drug spending among Medicare beneficiaries in 2005 is estimated to be $2,864. However, drug spending is highly skewed and concentrated among a small share of beneficiaries. In 2005, nearly one in five beneficiaries (18 percent) had total drug expenditures exceeding $5,100, accounting for more than half of all drug expenditures incurred by the Medicare population. At the lower end of the spectrum, another one in five beneficiaries (20 percent) had total expenditures of $250 or less in 2005, accounting for only 1 percent of total drug expenditures. As noted in Section 4, out-of-pocket spending for prescription drugs is also highly skewed. Just over half of all beneficiaries spent less than $1,000 out of pocket in 2002, while almost 10 percent of beneficiaries spent $5,000 or more.

Beginning in January 2006, Medicare beneficiaries will have access to drug coverage through private prescription drug plans (PDPs) or Medicare Advantage plans that cover prescription drugs (MA-PDs). Under the standard benefit design, beneficiaries who enroll in a Medicare prescription drug plan will pay a monthly premium, an annual deductible, and coinsurance or copayments for their covered drugs. Standard amounts for deductibles, benefit limits, and catastrophic thresholds are indexed to rise with the growth in per capita Medicare drug benefit spending. Medicare will provide premium and cost-sharing subsidies to assist those beneficiaries who have limited incomes and financial resources. Medicare will contract with risk-bearing drug plans in each of 34 regions nationwide to provide the new prescription drug benefit. Premiums, cost-sharing requirements, and formularies are expected to vary across plans, subject to certain limitations imposed by the federal government.

Of the estimated 43.1 million Medicare beneficiaries in 2006, 29.3 million are expected to enroll in Medicare prescription drug plans that year, according to the Administration. Another 9.8 million are expected to get prescription drug coverage from an employer plan. Of the 14.5 million beneficiaries estimated to be eligible for low-income subsidies, 10.9 million are expected to receive them. The net federal cost of the Medicare drug benefit is estimated to be $37 billion in 2006, increasing to $67 billion in 2010, and totaling $724 billion for the decade from 2006 to 2015. Financing for the Medicare drug benefit will come from several sources, including premiums paid by beneficiaries, contributions from states, and general revenues.

Figure 5.1
Prescription Drug Coverage Among Non-Institutionalized Medicare Beneficiaries, 2002

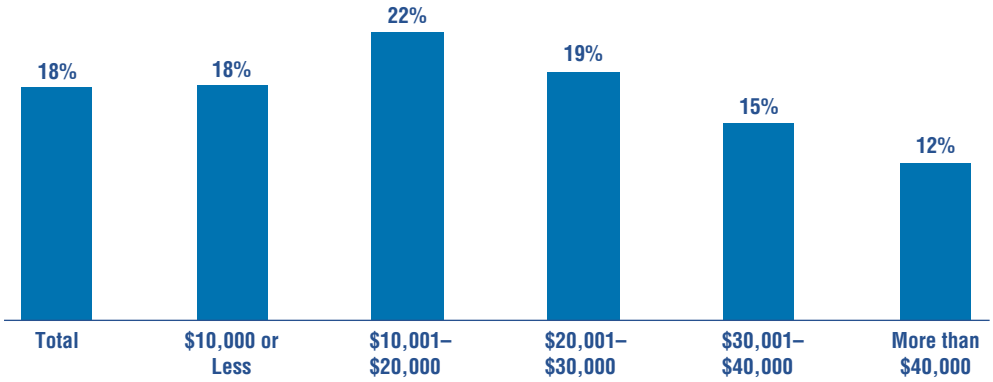


Total = 39.4 Million Non-Institutionalized Medicare Beneficiaries, 2002

Note: *Includes public programs such as Veterans Administration, Department of Defense, and State Pharmaceutical Assistance Programs for low-income elderly. Analysis includes community residents only.
SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2002 Cost and Use File.

In 2002, almost one in five non-institutionalized Medicare beneficiaries (18 percent) lacked coverage for prescription drug expenses for the full year and another 27 percent lacked coverage for part of the year. Beneficiaries with drug coverage obtained it from a variety of sources: employer-sponsored plans (34 percent), Medicaid (14 percent), Medicare HMOs (12 percent), individually-purchased Medigap policies (12 percent), and other public sources (10 percent).

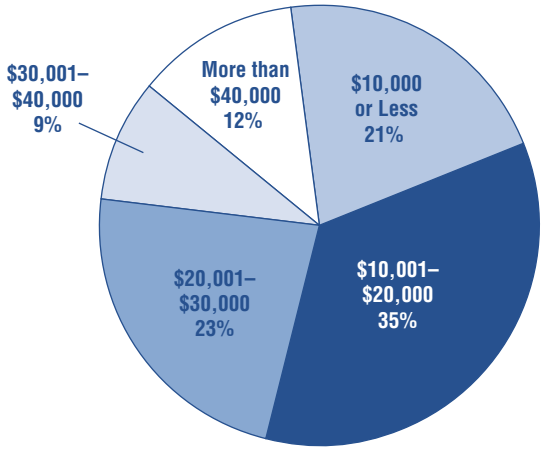
Figure 5.2
Percent of Non-Institutionalized Medicare Beneficiaries Without Prescription Drug Coverage, by Income, 2002



Note: Analysis includes community residents only.
SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2002 Cost and Use File.

A smaller share of low-income beneficiaries have prescription drug coverage than those with higher incomes. In 2002, a greater share of beneficiaries with annual incomes between $10,001 and $20,000 lacked drug coverage than those with incomes of $10,000 or less, because Medicaid currently covers prescription drugs for many of Medicare's lowest-income beneficiaries.

Figure 5.3
Distribution of Non-Institutionalized Medicare Beneficiaries Without Prescription Drug Coverage, by Income, 2002

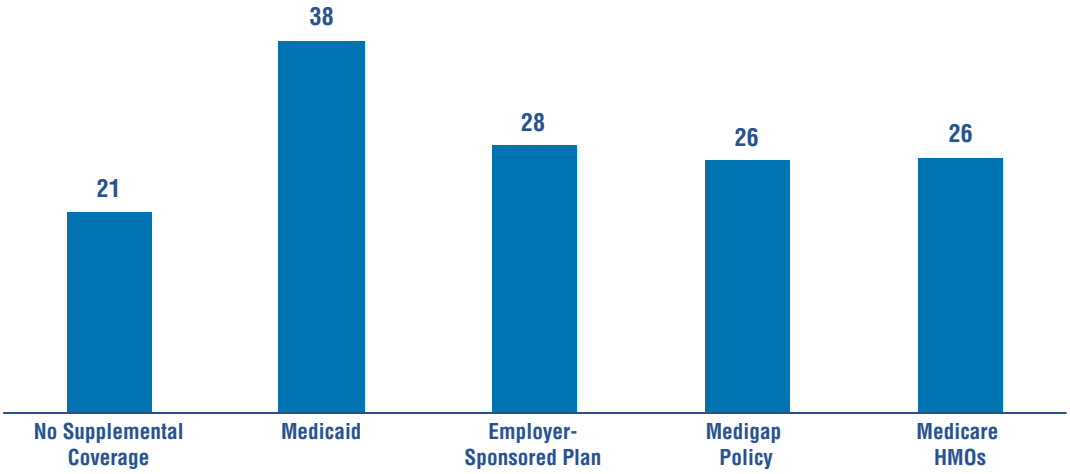


Total = 7.0 Million Medicare Beneficiaries Without Drug Coverage for the Full Year, 2002

Note: Analysis includes community residents only.
SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2002 Cost and Use File.

Although low-income Medicare beneficiaries are more likely than higher-income beneficiaries to lack prescription drug coverage, more than one in four Medicare beneficiaries (44 percent) without prescription drug coverage in 2002 had an annual income of more than $20,000.

Figure 5.4
Average Number of Prescriptions Filled by Non-Institutionalized Medicare Beneficiaries, by Primary Source of Supplemental Coverage, 2002

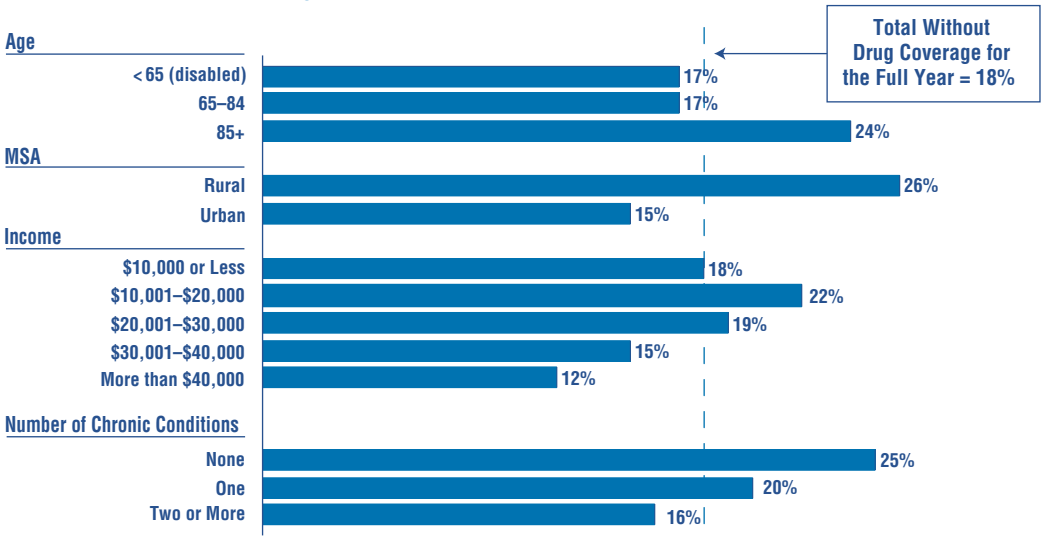


Note: Analysis includes community residents only.
SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2002 Cost and Use File.

Medicare beneficiaries without coverage to supplement Medicare's traditional benefits fill fewer prescriptions than those with some type of supplemental insurance coverage. Among beneficiaries with supplemental insurance, Medicare beneficiaries who are covered by Medicaid (dual eligibles) fill, on average, at least 10 more prescriptions per capita than those with other sources of coverage. Dual eligible beneficiaries tend to have greater medical needs than other Medicare beneficiaries.

Figure 5.5

Percent of Medicare Beneficiaries Without Prescription Drug Coverage, by Selected Characteristics, 2002

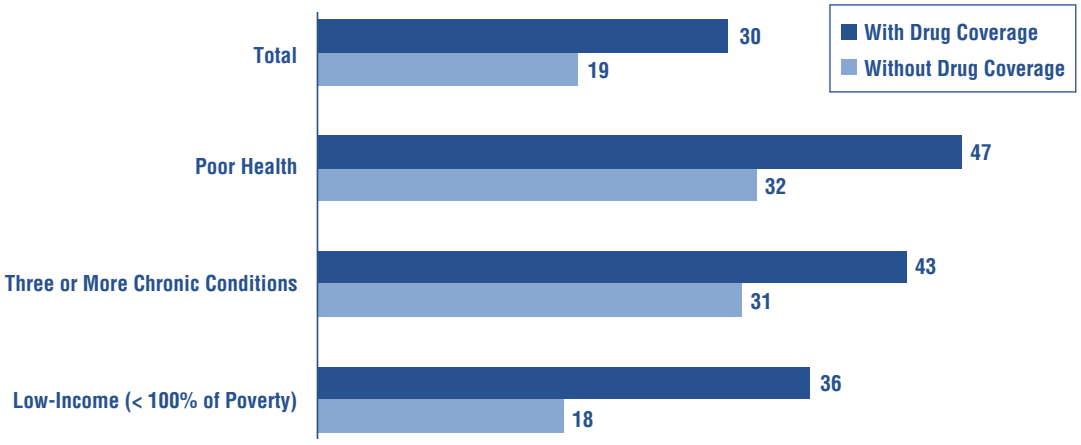


Note: MSA = Metropolitan Statistical Area. Analysis includes community residents only.
SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2002 Cost and Use File.

Overall, 18 percent of non-institutionalized Medicare beneficiaries lacked prescription drug coverage for the entire year in 2002. Certain types of beneficiaries are at greater risk of having no drug coverage, including beneficiaries age 85 or older (24 percent), those living in rural areas (26 percent), and those with annual incomes between $10,001 and $20,000 (22 percent).

Figure 5.6

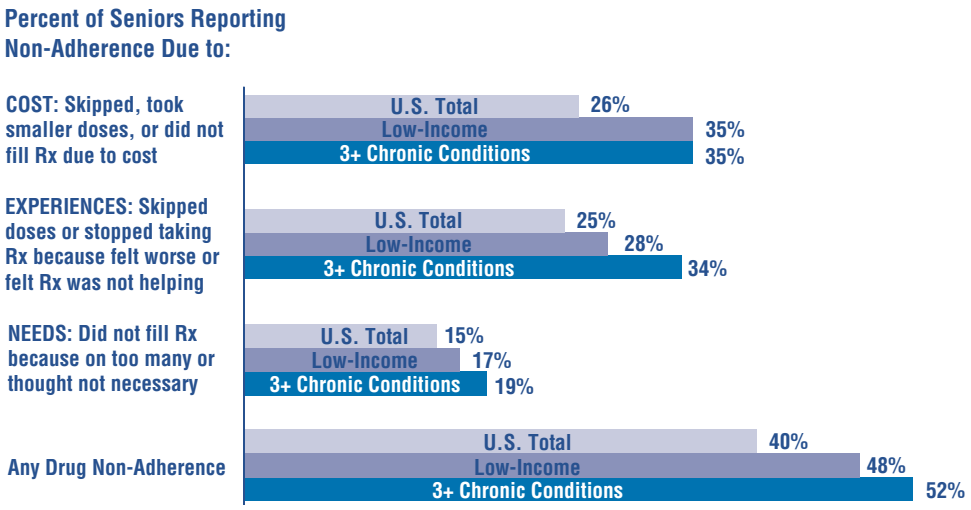
Average Number of Prescriptions Filled by Non-Institutionalized Medicare Beneficiaries With and Without Drug Coverage, by Selected Characteristics, 2002



Note: Analysis includes community residents only.
SOURCE: Kaiser Family Foundation analysis of the Medicare Current Beneficiary Survey 2002 Cost and Use File.

Medicare beneficiaries without prescription drug coverage fill fewer prescriptions than those with some form of drug coverage—an average of one-third fewer prescriptions in 2002. This difference in prescription drug use persists across a range of individual characteristics, including health status and income.

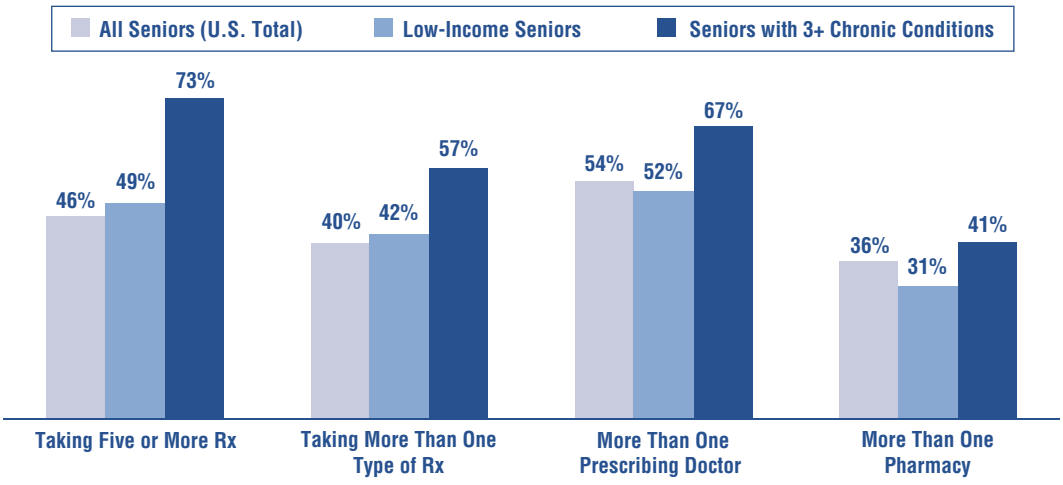
Figure 5.7
Prescription Drug Non-Adherence Among Seniors, Overall and by Disease Burden, 2003



Note: Low-income is defined as equal to or less than 200% of the federal poverty level. Rx = prescription medication.
SOURCE: Kaiser/Commonwealth/Tufts-New England Medical Center 2003 National Survey of Seniors and Prescription Drugs.

In the face of complex and costly drug regimens, two in five seniors (40 percent) reported not taking their medications as prescribed in 2003. Costs and poor experiences with medications contributed to relatively high rates of non-adherence among seniors. About half of seniors with incomes less than or equal to twice the poverty level and those with three or more chronic conditions reported non-adherence.

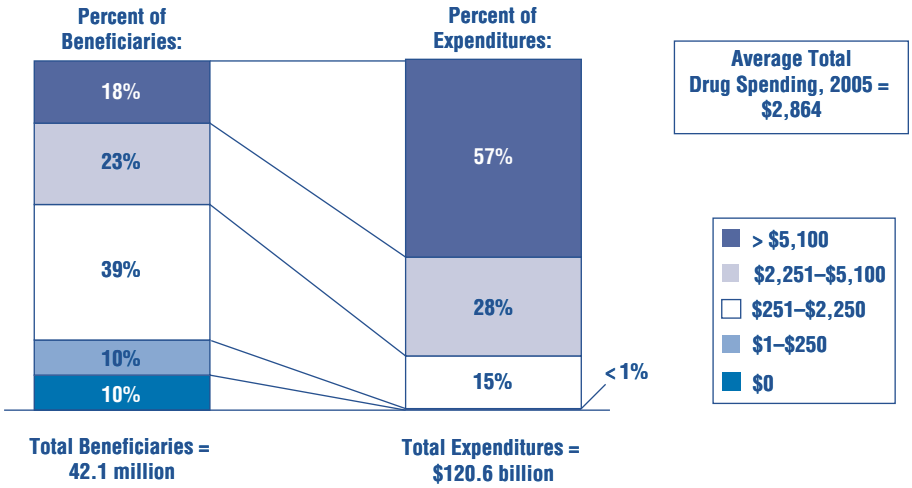
Figure 5.8
Complex Prescription Drug Regimens Among Seniors, 2003



Note: Low-income is defined as equal to or less than 200% of the federal poverty level. Rx = prescription medication. Type of Rx = pills, inhalers, injections, creams, or eye drops.
SOURCE: Kaiser/Commonwealth/Tufts-New England Medical Center 2003 National Survey of Seniors and Prescription Drugs.

Seniors – especially those with three or more chronic conditions – rely heavily on prescription drugs to maintain their health. Many have multiple prescribing doctors (54 percent) and use more than one pharmacy to obtain their medications (36 percent). Rates are even higher among seniors with three or more chronic conditions.

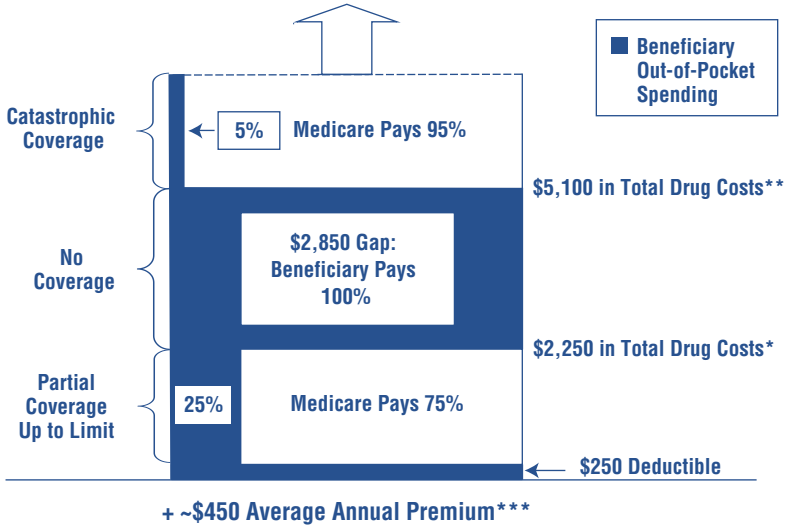
Figure 5.9
Distribution of Medicare Beneficiaries and Total Prescription Drug Spending, 2005



SOURCE: Actuarial Research Corporation analysis for the Kaiser Family Foundation, May 2005.

Average per capita drug spending among the Medicare population is projected to be $2,864 in 2005. Drug spending is highly skewed, however, and concentrated among a relatively small share of beneficiaries. Ten percent of beneficiaries are projected to have no drug costs and another 10 percent are projected to have expenses of $250 or less. In contrast, 18 percent of beneficiaries are projected to have total drug costs of $5,100 or more in 2005, accounting for 57 percent of total drug spending on behalf of Medicare beneficiaries.

Figure 5.10
Standard Medicare Prescription Drug Benefit, 2006



Note: *Equivalent to $750 in out-of-pocket spending. **Equivalent to $3,600 in out-of-pocket spending. ***Annual amount based on $37.37 monthly Part D premium estimate from 2005 Annual Report of the Medicare Boards of Trustees.
SOURCE: Kaiser Family Foundation illustration of standard Medicare drug benefit described in the Medicare Modernization Act of 2003.

Beginning in 2006, Medicare beneficiaries will have access to prescription drug coverage through private plans. Under the standard benefit design, beneficiaries who enroll in a Medicare drug plan will pay a monthly premium, annual deductible, and copayments for their prescription drugs. In 2006, the monthly premium for the standard drug benefit is estimated to average $37, but this amount will vary across plans.

Figure 5.11
Medicare Prescription Drug Benefit Subsidies for Low-Income Beneficiaries, 2006

Low-Income Subsidy Level	Monthly Premium	Annual Deductible	Copayments
Full-benefit dual eligibles with incomes <100% of poverty ($9,570/individual; $12,830/couple in 2005)	**$0**	**$0**	**$1/generic $3/brand-name; no copays after out-of-pocket drug spending reaches $3,600 ($5,100 total)**
Full-benefit dual eligibles with incomes ≥100% of poverty; and individuals with incomes <135% of poverty ($12,920/individual; $17,321/couple in 2005) **and assets < $6,000/individual; $9,000/couple**	**$0**	**$0**	**$2/generic $5/brand-name; no copays after out-of-pocket drug spending reaches $3,600 ($5,100 total)**
Individuals with incomes 135%–150% of poverty ($12,920–$14,355/individual; $17,321–$19,245/couple in 2005) **and assets < $10,000/individual; $20,000/couple**	**sliding scale up to ~$37**	**$50**	**15% of total drug costs up to $5,100; $2/generic $5/brand-name thereafter**

Note: Cost-sharing subsidies paid by the Centers for Medicare and Medicaid Services count toward the out-of-pocket threshold.
SOURCE: Kaiser Family Foundation summary of Medicare drug benefit low-income subsidies in 2006.

Medicare beneficiaries with low incomes may be eligible for premium and cost-sharing subsidies for the prescription drug benefit. Medicare beneficiaries with Medicaid drug coverage, and those enrolled in Medicare Savings Programs, are automatically deemed eligible for these subsidies. Other low-income beneficiaries will have to meet both an income and asset test and apply to a private drug plan separately. Of the 7.8 million non-dual eligible beneficiaries with incomes below 150 percent of poverty who would otherwise be eligible for assistance in 2006, the Congressional Budget Office estimates that 1.8 million beneficiaries will not qualify as a result of the asset test.

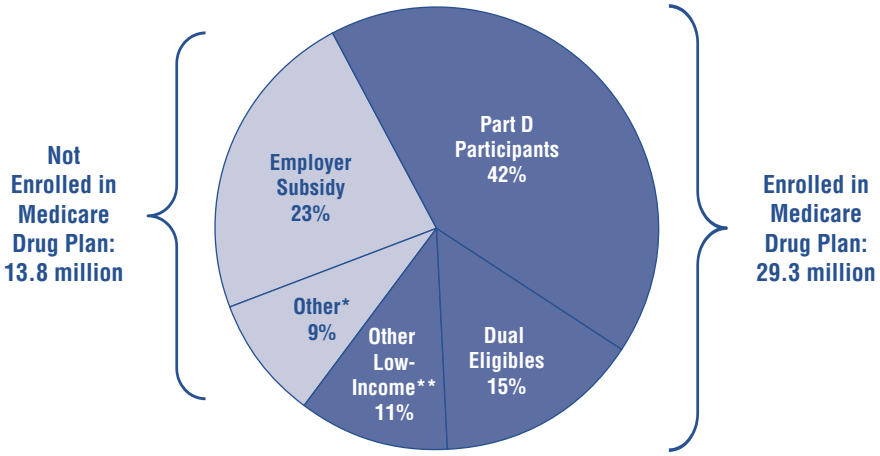
Figure 5.12
Medicare Prescription Drug Benefit Premiums and Cost-Sharing Amounts for Selected Years

	2006	2010	2014
Monthly Premium (estimated average)	**$37.37**	**$48.94**	**$64.26**
Annual Deductible	**$250**	**$331**	**$437**
Initial Coverage Limit	**$2,250**	**$2,980**	**$3,934**
Coverage Gap (difference between initial coverage limit and catastrophic threshold)	**$2,850**	**$3,774**	**$4,984**

SOURCE: 2005 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

Standard benefit limits, catastrophic thresholds, and cost-sharing requirements for the Medicare prescription drug benefit are indexed to rise with the growth in per capita Part D spending. The annual deductible is estimated to increase from $250 in 2006 to $437 in 2014, while the coverage gap between partial and catastrophic coverage is estimated to increase from $2,850 to $4,984 over the same period.

Figure 5.13
Estimated Medicare Prescription Drug Benefit Participation, 2006

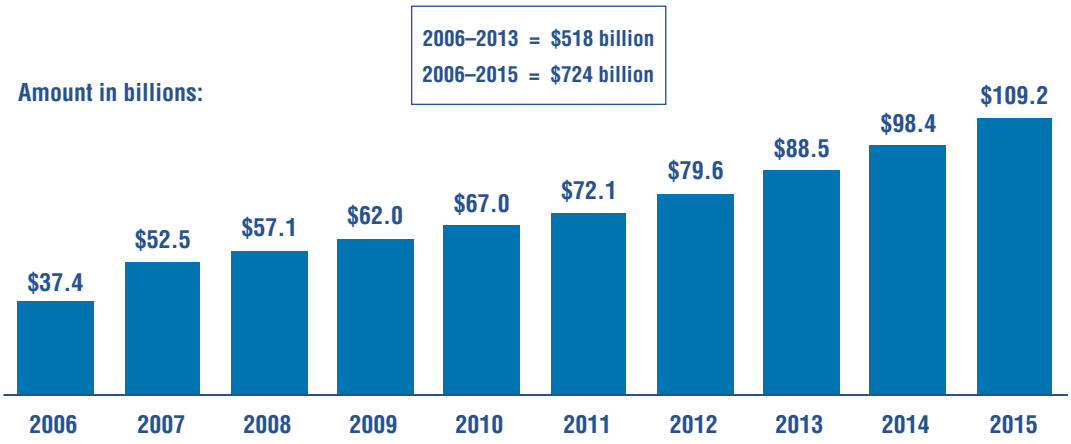


Total = 43.1 Million Medicare Beneficiaries
(2006 estimate)

Note: *Other non-participants include federal retirees with drug coverage through FEHBP or TRICARE, and those who lack drug coverage.
**Other low-Income includes non-dual eligibles with incomes <150% FPL.
SOURCE: HHS Office of the Actuary, Medicare Modernization Act Final Rule, January 2005.

Of the estimated 43.1 million Medicare beneficiaries in 2006, the U.S. Department of Health and Human Services expects 29.3 million beneficiaries to enroll in Medicare prescription drug plans that year. Another 9.8 million are expected to get prescription drug coverage through an employer-sponsored plan. Of the 14.5 million low-income beneficiaries estimated to be eligible for financial assistance with the Medicare drug benefit, 10.9 million beneficiaries are expected to receive it.

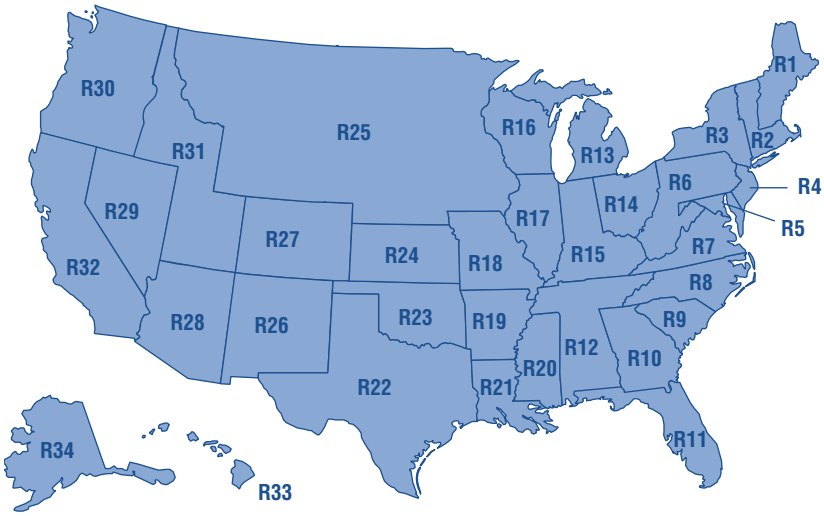
Figure 5.14
Projected Net Federal Cost of the Medicare Prescription Drug Benefit, 2006–2015



SOURCE: Administration's FY2006 Budget.

The net federal cost of the Medicare drug benefit is projected to be $724 billion between 2006 and 2015. Financing for the Medicare drug benefit will come from several sources, including premiums paid by beneficiaries, state contributions (commonly referred to as the "clawback"), and general revenues.

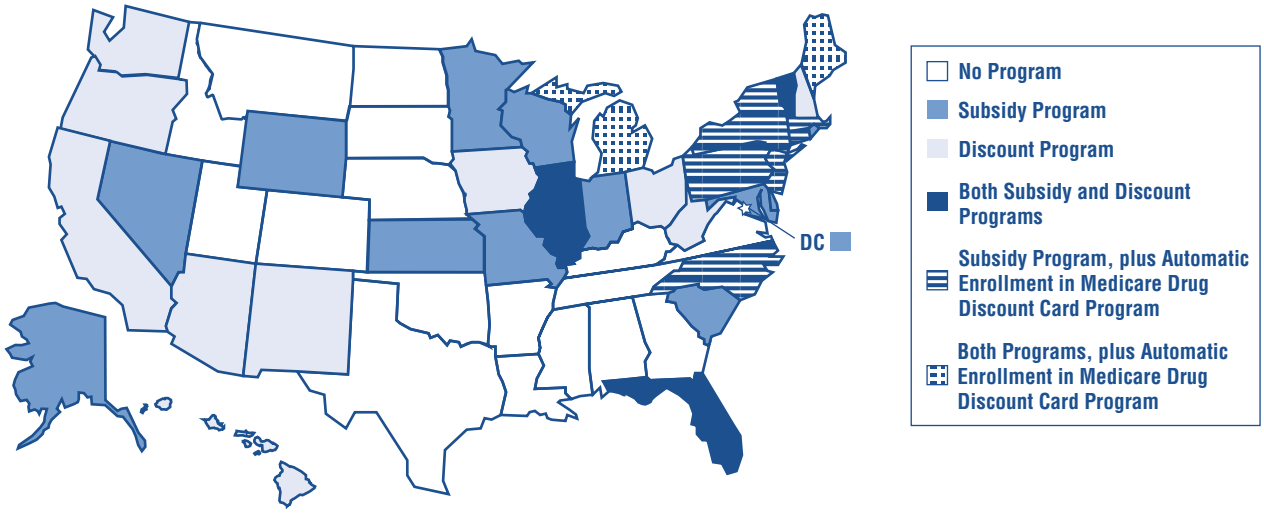
Figure 5.15
Medicare Prescription Drug Plan (PDP) Regions



Note: Each territory is its own PDP region. R = Region. Total number of PDP regions = 34.
SOURCE: Centers for Medicare and Medicaid Services, February 2005.

Medicare will contract with risk-bearing prescription drug plans (PDPs) in each of 34 regions nationwide to provide the prescription drug benefit. If two or more risk-bearing plans are not available in a region (including at least one freestanding prescription drug plan), Medicare will contract with a "fallback" plan to serve beneficiaries in that area. (The PDP regions differ from the regions served by Medicare Advantage drug plans—see Figure 3.16.)

Figure 5.16
State Senior Pharmaceutical Assistance Programs, 2005



Note: A subsidy program provides prescriptions drugs to low-income seniors for a nominal fee. A discount program offers discounts negotiated by states with pharmaceutical companies and with discount cards to low-income seniors on prescription drugs.
SOURCE: National Conference of State Legislatures, March 2005.

As of March 2005, 34 states have created some type of program to assist Medicare beneficiaries with the cost of prescription drugs: a subsidy program in 24 states, a discount program in 15 states, and both types of programs in five states. During 2004 and 2005, eight states facilitated enrollment into the Medicare Drug Discount Card Program for qualifying Medicare beneficiaries, in addition to offering a pharmaceutical assistance program.