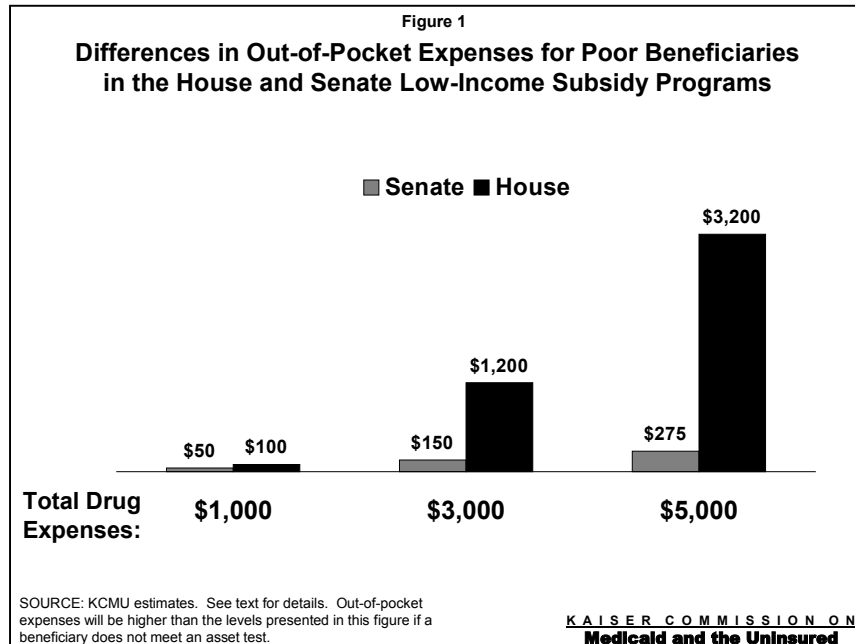


medicaid
and the uninsured

October 2003

OUT-OF-POCKET COST-SHARING OBLIGATIONS FOR LOW-INCOME MEDICARE BENEFICIARIES UNDER THE HOUSE AND SENATE PRESCRIPTION DRUG BILLS

Both the Senate and House Medicare prescription drug bills include subsidy programs that provide low-income Medicare beneficiaries assistance with their premium, deductible, and cost-sharing obligations for the proposed Medicare Part D. The two bills, however, differ dramatically in the size and scope of their low-income subsidy programs. To illustrate the differences in the structure of the two programs, the examples, tables and figures in this issue brief provide information on the out-of-pocket expenses for prescription drugs that low-income individuals would face under the Senate versus the House legislation. As shown in Figure 1, the differences in out-of-pocket costs under the House and Senate programs are substantial.



I. Key Features of the House and Senate Low-Income Subsidy Programs

Under the basic benefit structure included in both bills, many low-income Medicare beneficiaries would likely continue to find prescription drug coverage unaffordable in the absence of subsidies. Both bills require individuals to pay a monthly premium estimated at roughly \$35 per month in 2006 (based on enrollee's choice of plans); a deductible (\$275 in the Senate and \$250 in the House in 2006); and substantial cost-sharing obligations. Under the Senate bill, Medicare beneficiaries pay for 50 percent of their drug costs above the deductible until reaching an initial coverage limit of \$4,500,

and then for 100 percent of their drug costs until out-of-pocket spending reaches the “catastrophic” level of \$3,700. Above the catastrophic level, they pay for 10 percent of drug expenditures. Under the House bill, beneficiaries pay for 20 percent of their drug costs above the deductible up to an initial limit of \$2,000; 100 percent between the initial limit and a catastrophic limit of \$3,500 in out-of-pocket costs; and zero percent of drug costs above the catastrophic level.

The Senate and House bills each establish low-income subsidy programs that are designed to help low-income Medicare beneficiaries use the proposed Part D benefit by subsidizing their premiums, deductibles, and cost-sharing obligations. Both bills would significantly expand assistance for low-income individuals, providing the most help to individuals below 135 percent of the poverty line who can meet an asset test. These individuals would not have to pay Part D premiums or the deductible for Part D under the Senate or House bills, and would be eligible for help with their Part D cost-sharing obligations to varying degrees.

However, the low-income subsidy programs in the House and the Senate also vary in key ways that affect the number of people they serve and the level of subsidy that they provide. The key differences include:

- **The Senate bill excludes coverage of Medicare beneficiaries also enrolled in Medicaid.** The Senate bill excludes Medicare beneficiaries who also have prescription drug coverage through Medicaid from the new Part D benefit and the Senate’s low-income subsidy program. These “dual eligibles” would continue to receive drug benefits under Medicaid. In comparison, the House allows dual eligibles to enroll in the new Part D benefit, as well as its low-income subsidy program.¹
- **For low-income Medicare beneficiaries not on Medicaid, the Senate bill uses more generous income and asset rules to determine eligibility for subsidized coverage.** The Senate bill would extend eligibility for subsidies to beneficiaries with income up to 160 percent of the poverty line while the House extends coverage to individuals up to 135 percent of the poverty line. (The House also provides premium-only assistance on a sliding-scale basis to individuals with income between 135 percent and 150 percent of poverty who meet an asset test). Both the Senate and House subsidy programs include an asset test, but the Senate’s asset test is used to help determine the *level* of subsidy that an individual receives while the House’s asset test is used to determine whether an individual is eligible for the subsidy program at all.² As a result, individuals with income below 160 percent of poverty can qualify for at least some assistance under the Senate’s low-income subsidy program

¹ For a more detailed discussion of the treatment of dual eligibles in the House and Senate bills, see Jocelyn Guyer, *The Proposed Medicare Prescription Drug Benefit: A Detailed Review of Implications for Dual Eligibles and Other Low-Income Medicare Beneficiaries*, KCMU, September 2003.

² For fiscal years 2006 and 2007, the Senate asset test (used to determine the level of subsidy that someone receives) is set at \$4,000 for an individual and \$6,000 for a couple. Beginning in 2009, it is set at \$10,000 per individual and \$20,000 per couple, indexed over time. In the House, the asset test (used to determine whether someone is eligible for the low-income subsidy program) is set at \$6,000 per individual and \$9,000 per couple, indexed over time.

regardless of their assets. Under the House’s low-income subsidy program, individuals who do not meet the asset test are ineligible for any assistance even if they have income well below the poverty line.

- **The Senate bill provides a more extensive subsidy than the House bill.** Both bills heavily subsidize the cost-sharing obligations of subsidy-eligible individuals until their total drug costs reach an “initial limit,” set at \$4,500 in the Senate and \$2,000 in the House. However, the Senate bill continues to pay for 80 percent to 95 percent of the cost of prescription drugs above its \$4,500 initial limit (with the exact share depending on an individual’s income and assets) until an individual incurs \$3,700 in out-of-pocket costs. It then picks up an even larger share of a low-income person’s drug costs. In comparison, the House pays for none of a low-income person’s drug costs above \$2,000 until he or she has spent a total of \$3,500 out-of-pocket on prescription drugs.³

These, as well as more modest differences in the structure of the Senate and House low-income subsidy programs, are explained in more detail in Table 1.

II. Illustrative Examples of Differences in the Senate and House Low-Income Subsidy Programs

The key differences in the Senate and House low-income subsidy programs can be illustrated by considering the out-of-pocket expenses that would be incurred by the following hypothetical individuals under the Senate and House bills:

- **An elderly woman with \$6,735 in annual income (75 percent of the poverty line) and minimal assets.**

If this woman had \$1,000 in total drug costs, she would pay \$25 for her prescriptions under the Senate bill and an estimated \$100 under the House bill. Her out-of-pocket expenses would be modest under both the Senate and House bills because they both pay her Part D premium and deductible, as well as all but a small share of the cost-sharing obligations she otherwise would face for her relatively modest drug expenses.

If this woman had “average” drug costs of roughly \$3,000⁴, she would be required to pay \$75 out-of-pocket under the Senate bill and an estimated \$1,200 under the House bill, an amount that represents close to one-fifth of her annual income. Under both bills, she would not face Part D premium or deductible expenses.

³ When defining “out-of-pocket” expenses, the House bill includes both payments made by low-income individuals and payments made on their behalf by the low-income subsidy program. In comparison, the payments made by the low-income subsidy program under the Senate bill are not considered “out-of-pocket” expenses for purposes of determining whether someone has reached the Senate’s catastrophic limit.

⁴ It is estimated by the Actuarial Research Corporation that the average amount of total drug costs incurred by Medicare beneficiaries in 2006 (the year when the Medicare prescription drug benefit would go into effect) will be \$3,160.

Under the House bill, however, she must pay on her own for all drug expenses in excess of \$2,000 (the House’s “initial limit”) until her out-of-pocket spending reaches a “catastrophic level.” In comparison, the Senate low-income subsidy program continues to cover a large share of eligible individuals’ cost-sharing obligations even when their drug expenses exceed the Senate’s “initial limit.”

- **An elderly man with \$11,950 in annual income (133 percent of the poverty line) and \$4,000 in total drug expenses.**

If this man had \$7,500 in assets in 2006, he would pay \$445 out-of-pocket for his \$4,000 in drug costs under the Senate bill and \$2,600 plus Part D premiums under the House bill. Despite his assets, he qualifies for the Senate’s low-income subsidy program. (As noted below, however, the level of subsidy that he receives would be higher if he had fewer assets.) Under the Senate’s low-income subsidy program he is not required to pay the Part D premium; he faces a reduced deductible of \$50; and his cost-sharing obligations are reduced substantially below the standard level. In comparison, under the House bill he would be ineligible for the low-income subsidy program because of his assets. As a result, he would have to pay for the Part D premium, as well as to spend an additional \$2,600 out-of-pocket on the Part D deductible and cost-sharing obligations that he faces as an unsubsidized participant in the House’s prescription drug plan.

If the man in this example were to “spend down” some of his assets, he would be eligible for a higher level of subsidy under the Senate bill, as well as for the House’s low-income subsidy program.⁵ In this scenario, the Senate’s low-income subsidy program would pay for his Part D premium, he would not face any deductible, and the subsidy program would pay for an even larger share of his cost-sharing obligations. Overall, his out-of-pocket obligations would be \$100. Under the House bill, the low-income subsidy program would pay for his Part D premium and he would not face a deductible. He, however, would still have to pay \$2,200 out-of-pocket to secure his prescription drugs because the House’s low-income subsidy program would not cover any of his drug expenses in excess of \$2,000.

- **An elderly man with \$14,368 in annual income (160 percent of the poverty line); minimal assets; and \$3,000 in total drug expenses.**

To meet his Part D deductible and cost-sharing obligations, the man in this example would be required to pay \$345 out of his own pocket for his \$3,000 in drug costs under the Senate bill and \$1,600 under the House bill. He also would need to pay monthly Part D premiums, although they would be subsidized on a sliding-scale basis under the Senate bill. His expenses – not including premium

⁵ To meet the House asset test and qualify for a low-income subsidy, he would need to reduce his assets below \$6,000 in 2006. To meet the Senate asset test and secure a higher level of subsidy, he would need to reduce his assets below \$4,000 in 2006. Beginning in 2009, he would qualify for a higher level of subsidy under the Senate program as long as his assets remained below \$10,000.

costs – would be an estimated \$1,600 under the House bill because he has too much income to qualify for the House’s low-income subsidy program.

To supplement the illustrative examples given in this section, Tables 2 through 4 at the end of this issue brief provide data on the out-of-pocket expenses (excluding premiums) that low-income individuals at various income levels and with a range of drug costs would face under the Senate versus House bills. Figures 1 through 4 present the same information in a graphical format.

III. Methodology

The data included in this issue brief on the out-of-pocket expenses that low-income individuals would incur under the Senate versus House low-income subsidy programs were prepared by KCMU. The data take into account the Part D deductible and cost-sharing obligations that would be faced by low-income individuals. (In most cases, subsidy-eligible individuals do not face a deductible under the Senate or House bills.) We, however, did not attempt to estimate the cost to low-income individuals of the Part D premium. Both bills pay the Part D premium for individuals with income below 135 percent of the poverty line and minimal assets, as well as offer sliding-scale assistance with the Part D premium to some additional low-income individuals (see Table 1 for details).

To calculate the out-of-pocket expenses of low-income individuals under the Senate bill, KCMU applied the deductible and cost-sharing obligations required of low-income individuals that are specified in the Senate legislative language. For purposes of the House bill, however, it was necessary to estimate the out-of-pocket expenses that subsidy-eligible low-income individuals would incur when meeting their cost-sharing obligations. This is because the House bill requires that subsidy-eligible individuals make co-payments of \$2 per generic prescription and \$5 per brand name prescription until their drug expenses reach \$2,000. Thus, the out-of-pocket obligations of low-income individuals under the House bill are in part a function of the number of prescriptions that they fill when accruing their first \$2,000 in drug expenses. Since the Congressional Research Service and the Congressional Budget Office both have estimated that the House’s \$2 and \$5 co-payment structure translates into a roughly 10 percent co-insurance rate, KCMU assumed that subsidy-eligible individuals would need to spend \$200 out-of-pocket for the first \$2,000 of drug expenses that they incur under the House bill.

The Low-Income Subsidy Programs Under the Senate and House Medicare Bills

Senate Bill	House Bill
Income under 100% of Poverty	
<ul style="list-style-type: none"> No premium (no asset test) No deductible Cost-sharing of 2.5% up to \$4,500 in drug costs ("initial coverage limit") Cost-sharing of 5% between initial coverage limit and the point an individual spends \$3,700 out-of-pocket on drugs ("stop-loss threshold") Above stop-loss threshold, 2.5% cost-sharing Must meet asset test * (except for premium assistance) 	<ul style="list-style-type: none"> No deductible and no premium Cost-sharing of up to \$2 per generic and \$5 per brand name drug up to \$2,000 in drug costs ("initial coverage limit") After initial limit, no assistance until the individual has spent \$3,500 out-of-pocket on drugs ("stop-loss threshold") Above stop-loss threshold, no cost-sharing required Must meet asset test **
Income 100% - 135% of Poverty	
<ul style="list-style-type: none"> No premium (no asset test) No deductible Cost-sharing of 5% up to \$4,500 in drug costs ("initial coverage limit") Cost-sharing of 10% between initial coverage limit and the point an individual spends \$3,700 out-of-pocket on drugs, the stop-loss threshold Above the stop-loss threshold, 2.5% cost-sharing Must meet asset test * (except for premium assistance) 	<ul style="list-style-type: none"> No deductible and no premium Cost-sharing of up to \$2 per generic and \$5 per brand name drug up to \$2,000 in drug costs ("initial coverage limit") After initial limit, no assistance until the individual has spent \$3,500 out-of-pocket on drugs, when catastrophic coverage begins Above stop-loss threshold, no cost-sharing required Must meet asset test **
135% - 160% of Poverty and Individuals < 135% of Poverty Not Meeting the Asset Test	135% - 150% of Poverty
<ul style="list-style-type: none"> \$50 deductible Sliding scale premium based on income (expected to average \$420 in 2006, the first year of the program, for someone without a subsidy) Cost-sharing of 10% up to \$4,500 in drug costs ("initial coverage limit") Cost-sharing of 20% between initial coverage limit and the point an individual spends \$3,700 out-of-pocket on drugs, the stop-loss threshold After catastrophic coverage, 10% cost-sharing No asset test <p><i>Note: People with income below 135% of poverty who do not meet the asset test receive the cost-sharing subsidies described in this section except they are fully exempt from premium obligations.</i></p>	<ul style="list-style-type: none"> Sliding scale premium based on income (expected to average \$420 in 2006, the first year of the program, for someone without a subsidy) if meet an asset test. Otherwise, not eligible for any subsidies and, thus, face same cost-sharing obligations as unsubsidized individuals: <ul style="list-style-type: none"> \$250 deductible Cost-sharing of 20% up to \$2,000 in drug costs ("initial coverage limit") After initial limit, no assistance until the individual has spent \$3,500 out-of-pocket on drugs, the stop-loss threshold Above stop-loss threshold, no cost-sharing required
<p>* In the Senate, the asset test for 2006 – 2008 is \$4,000 for a single person / \$6,000 for a couple. Beginning in 2009, the asset test is \$10,000 for a single person / \$20,000 for a couple, indexed over time. ** In the House, the asset test is set at \$6,000 for a single person and \$9,000 for a couple, indexed over time.</p> <p>Under the Senate and House bills, the deductible, initial coverage limit, stop-loss threshold, and asset limits are indexed. In addition, premium costs are expected to rise over time under both bills. Under the House bill, co-payment requirements are indexed to increases in per capita Medicare prescription drug spending.</p> <p>SOURCE: Prepared by the Kaiser Commission on Medicaid and the Uninsured.</p>	

Table 2

Out-of-Pocket Costs Under the Senate and House Medicare Low-Income Subsidy Programs for Individuals with Incomes below 100% of Poverty Who Meet an Asset Test*

Total Drug Costs	Out-of-Pocket Costs Under Senate Bill	Out-of-Pocket Costs Under House Bill **
\$500	\$13	\$50
\$1,000	\$25	\$100
\$1,500	\$38	\$150
\$2,000	\$50	\$200
\$2,500	\$63	\$700
\$3,000	\$75	\$1,200
\$3,500	\$88	\$1,700
\$4,000	\$100	\$2,200
\$4,500	\$113	\$2,700
\$5,000	\$138	\$3,200
\$5,500	\$163	\$3,200
\$6,000	\$188	\$3,200
\$6,500	\$213	\$3,200
\$7,000	\$238	\$3,200
\$7,500	\$263	\$3,200
\$8,000	\$288	\$3,200
\$8,500	\$313	\$3,200
\$9,000	\$338	\$3,200
\$9,500	\$363	\$3,200
\$10,000	\$388	\$3,200
\$10,500	\$413	\$3,200
\$11,000	\$438	\$3,200
\$11,500	\$463	\$3,200
\$12,000	\$488	\$3,200
\$12,500	\$513	\$3,200
\$13,000	\$538	\$3,200
\$13,500	\$563	\$3,200
\$14,000	\$588	\$3,200
\$14,500	\$613	\$3,200
\$15,000	\$638	\$3,200
\$15,500	\$663	\$3,200
\$16,000	\$688	\$3,200
\$16,500	\$713	\$3,200
\$17,000	\$738	\$3,200
\$17,500	\$763	\$3,200
\$18,000	\$788	\$3,200
\$18,500	\$813	\$3,200
\$19,000	\$838	\$3,200
\$19,500	\$863	\$3,200
\$20,000	\$888	\$3,200

* In the Senate, assets must fall below \$4,000 per single / \$6,000 per couple for 2006 - 2008
 Beginning in 2009, assets must fall below \$10,000 per single / \$20,000 per couple, indexed over time.
 In the House, the asset test is set at \$6,000 for a single person and \$9,000 for a couple, indexed over time.

** Based on estimates prepared by KCMU. See text for a description of methodology. Note that payments made by the House low-income subsidy program count as "out-of-pocket costs" when determining whether someone has reached the House's \$3,500 catastrophic limit, but they are not treated as out-of-pocket costs for purposes of this table since they are paid by the federal government.

Table 3

**Out-of-Pocket Costs Under the Senate and House Medicare Low-Income
Subsidy Programs for Individuals with Incomes between 100% and 135%
of Poverty Who Meet an Asset Test***

Total Drug Costs	Out-of-Pocket Costs Under Senate Bill	Out-of-Pocket Costs Under House Bill **
\$500	\$25	\$50
\$1,000	\$50	\$100
\$1,500	\$75	\$150
\$2,000	\$100	\$200
\$2,500	\$125	\$700
\$3,000	\$150	\$1,200
\$3,500	\$175	\$1,700
\$4,000	\$200	\$2,200
\$4,500	\$225	\$2,700
\$5,000	\$275	\$3,200
\$5,500	\$325	\$3,200
\$6,000	\$375	\$3,200
\$6,500	\$425	\$3,200
\$7,000	\$475	\$3,200
\$7,500	\$525	\$3,200
\$8,000	\$575	\$3,200
\$8,500	\$625	\$3,200
\$9,000	\$675	\$3,200
\$9,500	\$725	\$3,200
\$10,000	\$775	\$3,200
\$10,500	\$825	\$3,200
\$11,000	\$875	\$3,200
\$11,500	\$925	\$3,200
\$12,000	\$975	\$3,200
\$12,500	\$1,025	\$3,200
\$13,000	\$1,075	\$3,200
\$13,500	\$1,125	\$3,200
\$14,000	\$1,175	\$3,200
\$14,500	\$1,225	\$3,200
\$15,000	\$1,275	\$3,200
\$15,500	\$1,325	\$3,200
\$16,000	\$1,375	\$3,200
\$16,500	\$1,425	\$3,200
\$17,000	\$1,475	\$3,200
\$17,500	\$1,525	\$3,200
\$18,000	\$1,575	\$3,200
\$18,500	\$1,625	\$3,200
\$19,000	\$1,675	\$3,200
\$19,500	\$1,725	\$3,200
\$20,000	\$1,775	\$3,200

* In the Senate, assets must fall below \$4,000 per single / \$6,000 per couple for 2006 - 2008

Beginning in 2009, assets must fall below \$10,000 per single / \$20,000 per couple, indexed over time.

In the House, the asset test is set at \$6,000 for a single person and \$9,000 for a couple, indexed over time.

** Based on estimates prepared by KCMU. See text for a description of methodology. Note that payments made by the House low-income subsidy program count as "out-of-pocket costs" when determining whether someone has reached the House's \$3,500 catastrophic limit, but they are not treated as out-of-pocket costs for purposes of this table since they are paid by the federal government.

Table 4

Out-of-Pocket Costs Under the Senate and House Medicare Low-Income Subsidy Programs for Individuals with Incomes between 135% and 160% of Poverty and Individuals <135% of Poverty Not Meeting Asset Test*

Total Drug Costs	Out-of-Pocket Costs Under Senate Bill	Out-of-Pocket Costs Under House Bill
\$500	\$95	\$300
\$1,000	\$145	\$400
\$1,500	\$195	\$500
\$2,000	\$245	\$600
\$2,500	\$295	\$1,100
\$3,000	\$345	\$1,600
\$3,500	\$395	\$2,100
\$4,000	\$445	\$2,600
\$4,500	\$495	\$3,100
\$5,000	\$595	\$3,500
\$5,500	\$695	\$3,500
\$6,000	\$795	\$3,500
\$6,500	\$895	\$3,500
\$7,000	\$995	\$3,500
\$7,500	\$1,095	\$3,500
\$8,000	\$1,195	\$3,500
\$8,500	\$1,295	\$3,500
\$9,000	\$1,395	\$3,500
\$9,500	\$1,495	\$3,500
\$10,000	\$1,595	\$3,500
\$10,500	\$1,695	\$3,500
\$11,000	\$1,795	\$3,500
\$11,500	\$1,895	\$3,500
\$12,000	\$1,995	\$3,500
\$12,500	\$2,095	\$3,500
\$13,000	\$2,195	\$3,500
\$13,500	\$2,295	\$3,500
\$14,000	\$2,395	\$3,500
\$14,500	\$2,495	\$3,500
\$15,000	\$2,595	\$3,500
\$15,500	\$2,695	\$3,500
\$16,000	\$2,795	\$3,500
\$16,500	\$2,895	\$3,500
\$17,000	\$2,995	\$3,500
\$17,500	\$3,095	\$3,500
\$18,000	\$3,195	\$3,500
\$18,500	\$3,295	\$3,500
\$19,000	\$3,395	\$3,500
\$19,500	\$3,495	\$3,500
\$20,000	\$3,595	\$3,500

* In the Senate, assets must fall below \$4,000 per single / \$6,000 per couple for 2006 - 2008

Beginning in 2009, assets must fall below \$10,000 per single / \$20,000 per couple, indexed over time.

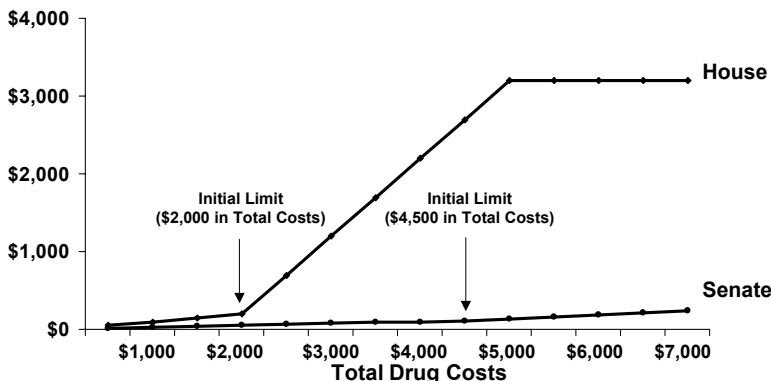
In the House, the asset test is set at \$6,000 for a single person and \$9,000 for a couple, indexed over time.

** Under the House bill, individuals with income above 135% of poverty and not meeting the House asset test are not eligible for the low-income subsidy program. Thus, the out-of-pocket costs presented in this column represent the amount that would be paid under the basic benefit structure of the House bill.

Figure 1

Out-of-Pocket Drug Costs for a Medicare Beneficiary Below 100% of Poverty Who Meets Asset Test, House v. Senate Low-Income Subsidy Programs

Out-of-Pocket Costs



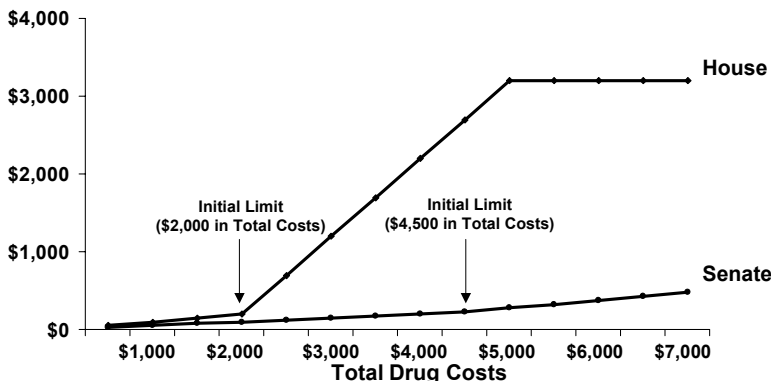
SOURCE: KCMU calculations. For the House bill, out-of-pocket costs for co-payments are assumed to average 10 percent of drug costs up to \$2,000. NOTES: In the House bill, Medicare low-income subsidy payments count as "out-of-pocket costs" applied toward the catastrophic limit of \$3,500. In this example, the individual reaches the \$3,500 catastrophic limit when out-of-pocket payments reach \$3,200 because of a \$300 low-income subsidy. To qualify for the subsidies presented in this table, an individual must meet an asset test and, under the Senate bill, cannot be enrolled in Medicaid.

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Figure 2

Out-of-Pocket Drug Costs for a Medicare Beneficiary with Income Between 100-135% of Poverty Who Meets Asset Test, House v. Senate Low-Income Subsidy Programs

Out-of-Pocket Costs

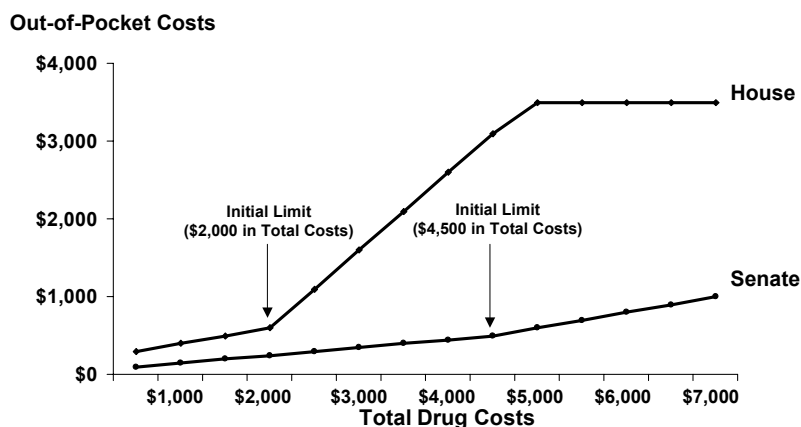


SOURCE: KCMU calculations. For the House bill, out-of-pocket costs for co-payments are assumed to average 10 percent of drug costs up to \$2,000. NOTES: In the House bill, Medicare low-income subsidy payments count as "out-of-pocket costs" applied toward the catastrophic limit of \$3,500. In this example, the individual reaches the \$3,500 catastrophic limit when out-of-pocket payments reach \$3,200 because of a \$300 low-income subsidy. To qualify for the low-income subsidies presented in this chart, beneficiaries also must meet an asset test and, under the Senate bill, cannot be enrolled in Medicaid.

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Figure 3

Out-of-Pocket Drug Costs for a Medicare Beneficiary Between 135-160% of Poverty House v. Senate Low-Income Subsidy Programs



SOURCE: KCMU calculations. Note the House bill does not extend cost-sharing subsidies to individuals in this income range and, thus, the figure displays the out-of-pocket costs such individuals would pay under the basic benefit structure of the House bill. Under the Senate bill, individuals with income below 135% of poverty who do not meet the asset test qualify for the level of subsidies displayed in this figure.

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1330 G STREET NW, WASHINGTON, DC 20005
PHONE: 202-347-5270, FAX: 202-347-5274,
WEBSITE: WWW.KFF.ORG

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