

**The Prescription Drug “Doughnut Hole”
Nearly 7 Million At-Risk,
Premiums 250% Higher
for Full Coverage**

**STATE-BY-STATE
ENROLLMENT AND PREMIUMS**



**Committee on Ways and Means,
Democratic Staff
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**Representative Charles B. Rangel, Ranking Member
Representative Pete Stark, Health Subcommittee
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Executive Summary

One of the most commonly discussed flaws of the new Medicare prescription drug program is the so-called “doughnut hole,” which refers to the coverage gap included in the standard benefit design.

There has been substantial controversy about how many people enrolled in Part D coverage are subject to the gap. Using plan benefit information and new plan-specific enrollment data released by the Centers for Medicare and Medicaid Services (CMS), this report sets the record straight by providing national and state-specific enrollment levels of Medicare beneficiaries in private prescription drug plans (PDPs) who are at-risk of falling into the doughnut hole.

It also examines the difference in premiums between plans with gaps and those that offer full coverage. Medicare Advantage drug coverage is excluded from the report, though most Medicare Advantage plans also contain gaps in drug coverage. Beneficiaries who are enrolled in both Medicare and Medicaid (“dual eligibles”) and those who receive “extra help” via the limited income subsidy (LIS) are also excluded from the analysis because the extra subsidies effectively eliminate the gap for this group.

Nationally, 88 percent of PDP beneficiaries who do not receive extra help are enrolled in plans with substantial coverage gaps. In five states, those at risk rise to at least 95 percent of such beneficiaries. Fewer than a million PDP beneficiaries without extra help are in plans with gap coverage, with just 472,000 in plans with uninterrupted coverage of both brand and generic drugs.

The cost associated with peace of mind is huge. Premiums are, on average, more than 250 percent higher for a plan with full coverage versus one with a gap, though in seven states the difference in premiums between gap and full coverage rises to 444 percent. The attached tables show this information in greater detail.

Background

On December 8, 2003, President Bush signed into law legislation creating a new program in Medicare to enable beneficiaries to purchase subsidized private prescription drug coverage effective January 1, 2006. Under the new law, senior citizens and people with disabilities choose among a confusing array of private prescription drug plans (PDPs) and HMO options with widely varying premiums, deductibles, co-payments and covered drugs. Each insurance company can offer up to three different plans; as a result, beneficiaries in all but two states have to select from among more than three dozen PDPs.

In order to fit the program within an arbitrarily-determined budget allocation, the President and Republicans in Congress created a standard benefit structure under which coverage drops away as needs increase. Coverage eventually resumes after beneficiaries meet a spending target -- creating the gap in coverage that is often referred to as the “doughnut hole.” However, the target is set at a level beyond which most beneficiaries will spend. Thus, most beneficiaries who are subject to the gap never resume coverage, though they must continue to pay monthly premiums to the insurance company.

In 2006, the gap for the standard benefit option starts once beneficiaries have used \$2,250 worth of medications; coverage does not resume until they have used a total of \$5,100 in covered drugs, which results in a gap in coverage equal to \$2,850.¹ These numbers are indexed annually and will grow substantially over time. According to data from the Congressional Budget Office, this gap more than doubles from \$2,850 to \$6,730 by 2016.²

¹ \$5100 in total spending correlates to \$3600 in out-of-pocket spending; the out-of-pocket limit does not include premiums or spending for drugs not covered by the plan in which the beneficiary is enrolled.

² Applying the growth rate in the March 2006 CBO baseline to \$2250 and \$5100, the corresponding dollar amounts in 2016 are \$5370 and \$12,100, respectively.

Proponents of the program attempt to defend this structure that does not exist in any other public or private insurance program by calling it "consumer choice." The fact is that 84 percent of PDPs that are sold nationwide have a gap in coverage.

Of the 16 percent of PDPs that sell drug coverage in the doughnut hole, 13 percent only offer coverage in the gap for generic drugs. Just 3 percent include full coverage for both generics and brand name drugs. The data also show that premiums are substantially higher for PDPs that offer uninterrupted coverage of both brand and generic drugs.

In 2003, House Democrats offered an alternative that would have provided a continuous, comprehensive, affordable drug benefit through Medicare, and required the government to negotiate lower prices on behalf of beneficiaries and taxpayers, but the proposal was rejected on a largely party-line vote.³

National enrollment and premium data

Nationally, 88 percent of beneficiaries – nearly 7 million – enrolled in stand-alone private PDPs are in plans with a coverage gap or "doughnut" hole.⁴ This number excludes beneficiaries who are enrolled in both Medicare and Medicaid ("dual eligibles") and those who receive "extra help" from the limited-income subsidy ("LIS").

In 26 states, more than 90 percent of PDP beneficiaries who do not receive "extra help" are enrolled in plans with a gap in coverage. Given that the gap begins at \$2,250 in spending and the average beneficiary is expected to use \$3,155 worth of drugs in 2006, a substantial number of these beneficiaries are at-risk of entering the coverage gap.⁵

It's no surprise that enrollment in gap plans is so high. Premiums for plans with full coverage of both brand name and generic drugs are more than 250 percent above those for plans with a gap.

Nationwide, just 12 percent of these beneficiaries -- fewer than a million people -- are enrolled in plans that provide any coverage in the doughnut hole. Only 6.3 percent -- 472,500 -- of people are enrolled in plans that cover brand-name drugs during the gap.

Despite the rhetoric of "choice," beneficiaries in four states have no option to purchase a stand-alone policy that offers uninterrupted coverage of both generic and brand-name drugs at any price, while beneficiaries in 40 states have only one option that does so. No state has more than two full-coverage PDP options.

See attached tables for state-specific levels and analyses.

Outlook

In the *Democratic Prescription for Change*, House Democrats have proposed making the Medicare drug benefit simple, affordable, and reliable for senior citizens and people with disabilities. Under the proposal, Medicare would be required to use its bargaining power to negotiate lower drug prices, and the savings would be used to fill the doughnut hole. The Democratic plan would also waive the late enrollment penalty for millions of beneficiaries who were unable to sign-up by the May 15 deadline. It would also simplify the program by creating a Medicare-sponsored option.

³ 108th Congress. Roll Call vote 330.

⁴ 6.6 million; this excludes 700,000 beneficiaries in exclusive employer-sponsored PDPs that CMS includes in its total.

⁵ Congressional Budget Office.

Methodology

This analysis focuses only on coverage and premiums in stand-alone private drug plans. It excludes enrollment in and premium information from Medicare Advantage (MA) drug plans. While 72 percent of MA drug plans have a coverage gap, differences in payment policy precluded premium comparisons.⁶ Thus, the enrollment estimate in this report is conservative and understates the total risk of falling into the doughnut hole.

The calculations also net out beneficiaries who are not subject to the gap because they are enrolled in both Medicare and Medicaid ("dual eligibles") or receive "extra help" from the limited-income subsidy ("LIS").

The raw data for this analysis were provided by CMS⁷. No assumptions were made in the construct of this study. Data were merely weighted and tabulated to reflect enrollment and derive premium differentials. A plan is defined as offering full coverage if it offers uninterrupted coverage of both brand-name and generic drugs.

These tables do not show the number and percent of beneficiaries who have partial coverage in the gap (i.e., generic only), but the data are available upon request.

⁶ Most of the 38 percent of MA prescription plans with gap coverage cover only generic drugs in the gap. *Premiums and Cost-Sharing Features in Medicare's New Prescription Drug Program*, M. Gold April 2006

(<http://www.kff.org/medicare/upload/7517.pdf>)

⁷<http://www.cms.hhs.gov/PrescriptionDrugCovGenIn/Downloads/AnnualReportbyPlan.zip> and <http://www.medicare.gov/MPDPF/Public/Include/DataSection/Questions/GeneralQuestions.asp>

State-by-State Enrollment

	Total beneficiaries without LIS in PDPs	Beneficiaries at risk of doughnut hole (without LIS in PDPs with gap)	Percentage in doughnut hole plan	Beneficiaries without LIS in PDPs with full coverage	Percentage in full coverage plan
Alabama	135,429	122,332	90%	9,953	7.3%
Alaska	6,148	5,794	94%	0	0.0%
Arizona	91,432	82,862	91%	5,055	5.5%
Arkansas	135,214	123,810	92%	9,760	7.2%
California	379,318	299,396	79%	20,263	5.3%
Colorado	72,656	63,552	87%	4,857	6.7%
Connecticut	96,337	86,855	90%	4,155	4.3%
Delaware	31,403	28,983	92%	1,544	4.9%
District of Columbia	14,493	13,376	92%	713	4.9%
Florida	458,622	410,411	89%	19,977	4.4%
Georgia	280,836	257,398	92%	8,515	3.0%
Hawaii	454	200	44%	0	0.0%
Idaho	49,145	44,577	91%	3,783	7.7%
Illinois	450,986	431,423	96%	13,079	2.9%
Indiana	229,709	191,956	84%	14,300	6.2%
Iowa	198,703	167,601	84%	27,759	14.0%
Kansas	137,383	114,344	83%	9,157	6.7%
Kentucky	177,441	148,278	84%	11,046	6.2%
Louisiana	107,107	96,278	90%	7,637	7.1%
Maine	69,166	65,562	95%	0	0.0%
Maryland	134,106	123,769	92%	6,595	4.9%
Massachusetts	155,477	140,175	90%	6,706	4.3%
Michigan	212,592	194,070	91%	14,601	6.9%
Minnesota	216,268	182,416	84%	30,213	14.0%
Mississippi	105,778	89,370	84%	12,178	11.5%
Missouri	189,393	159,688	84%	15,012	7.9%
Montana	51,344	43,307	84%	7,173	14.0%
Nebraska	103,910	87,645	84%	14,516	14.0%
Nevada	36,142	32,240	89%	2,135	5.9%
New Hampshire	41,462	39,302	95%	0	0.0%
New Jersey	292,469	281,548	96%	7,828	2.7%
New Mexico	39,074	37,435	96%	1,153	3.0%
New York	169,656	156,600	92%	9,679	5.7%
North Carolina	267,745	245,702	92%	16,511	6.2%
North Dakota	47,975	40,466	84%	6,702	14.0%
Ohio	266,713	233,678	88%	15,291	5.7%
Oklahoma	107,145	88,961	83%	4,608	4.3%
Oregon	99,354	92,209	93%	5,334	5.4%
Pennsylvania	209,751	169,440	81%	13,122	6.3%
Rhode Island	23,797	21,454	90%	1,026	4.3%
South Carolina	123,994	112,990	91%	8,301	6.7%
South Dakota	54,577	46,034	84%	7,624	14.0%
Tennessee	186,059	168,064	90%	13,673	7.3%
Texas	522,856	450,969	86%	37,208	7.1%
Utah	54,144	49,111	91%	4,168	7.7%
Vermont	21,303	19,206	90%	919	4.3%
Virginia	209,037	178,962	86%	14,763	7.1%
Washington	170,252	158,010	93%	9,139	5.4%
West Virginia	64,516	52,117	81%	4,036	6.3%
Wisconsin	149,445	115,609	77%	7,294	4.9%
Wyoming	25,097	21,168	84%	3,506	14.0%
UNITED STATES	7,473,412	6,586,705	88%	472,567	6.3%

NOTE: In states that are part of multi-state regions (AL/TN, CT/MA/RI/VT, DE/DC/MD, IN/KY, ID/UT, ME/NH, IA/MN/MT/NE/ND/SD/WY, OR/WA, PA/WV), enrollment patterns were assumed constant throughout the region. Table does not include Medicare beneficiaries in the territories.

NOTE: This table excludes the number/percentage of beneficiaries who have generic-only coverage in the gap. The figures are available upon request or can be calculated by netting the gap and full numbers from the first column.

Extra Cost for Full Coverage ²

	<i>PDP full coverage average annual premium</i>	<i>Extra cost of full coverage ³</i>	<i>Full coverage premium compared to gap plan</i>
Alabama	\$805.92	\$496.29	260%
Alaska	no plans	no plans	no plans
Arizona	\$642.48	\$399.38	264%
Arkansas	\$707.64	\$389.61	223%
California	\$610.92	\$384.63	270%
Colorado	\$658.68	\$383.74	240%
Connecticut	\$660.96	\$399.65	253%
Delaware	\$634.56	\$323.02	204%
District of Columbia	\$634.56	\$323.02	204%
Florida	\$740.40	\$451.15	256%
Georgia	\$878.04	\$531.42	253%
Hawaii	no plans	no plans	no plans
Idaho	\$624.96	\$345.38	224%
Illinois	\$738.12	\$421.41	233%
Indiana	\$802.68	\$479.27	248%
Iowa	\$931.18	\$721.44	444%
Kansas	\$650.40	\$365.43	228%
Kentucky	\$802.68	\$479.27	248%
Louisiana	\$839.04	\$487.33	239%
Maine	no plans	no plans	no plans
Maryland	\$634.56	\$323.02	204%
Massachusetts	\$660.96	\$399.65	253%
Michigan	\$781.80	\$452.69	238%
Minnesota	\$931.18	\$721.44	444%
Mississippi	\$745.44	\$424.43	232%
Missouri	\$677.16	\$387.39	234%
Montana	\$931.18	\$721.44	444%
Nebraska	\$931.18	\$721.44	444%
Nevada	\$595.08	\$344.34	237%
New Hampshire	no plans	no plans	no plans
New Jersey	\$582.00	\$298.02	205%
New Mexico	\$717.24	\$449.65	268%
New York	\$575.16	\$320.84	226%
North Carolina	\$780.36	\$411.37	211%
North Dakota	\$931.18	\$721.44	444%
Ohio	\$766.92	\$467.86	256%
Oklahoma	\$694.20	\$362.70	209%
Oregon	\$614.16	\$348.46	231%
Pennsylvania	\$701.52	\$397.58	231%
Rhode Island	\$660.96	\$399.65	253%
South Carolina	\$824.88	\$481.06	240%
South Dakota	\$931.18	\$721.44	444%
Tennessee	\$805.92	\$496.29	260%
Texas	\$704.28	\$395.35	228%
Utah	\$624.96	\$345.38	224%
Vermont	\$660.96	\$399.65	253%
Virginia	\$698.16	\$391.53	228%
Washington	\$614.16	\$348.46	231%
West Virginia	\$848.82	\$481.06	231%
Wisconsin	\$686.52	\$405.86	245%
Wyoming	\$931.18	\$721.44	444%
UNITED STATES	\$750.71	\$458.27	257%

1 Hawaii is one of only 15 states that cover elderly people up to 100% of poverty under their state Medicaid program. According to the Centers for Medicare and Medicaid Services and the Social Security Administration, 72% of Hawaii's PDP enrollees are dual eligible and another 26% are enrolled in the low-income subsidy program (LIS), leaving only 454 beneficiaries who could potentially be exposed to the gap in coverage. Of those, more than half have chosen to purchase plans that cover only generic drugs in the gap.

2 Full coverage means plan provides uninterrupted coverage of brand and generic medications after the deductible. Nationwide, there are also about 400,000 beneficiaries enrolled in plans that only cover generic drugs during the gap in coverage.

3 Relative to average cost of PDPs with gap; average premiums for gap plans available upon request.

Number of Plans

	<i>Doughnut hole</i>	<i>Partial doughnut hole</i>	<i>Full coverage</i>	<i>Total plans</i>
Alabama	36	4	1	41
Alaska	21	5	0	26
Arizona	36	5	1	42
Arkansas	34	5	1	40
California	41	5	1	47
Colorado	35	6	1	42
Connecticut	37	6	1	44
Delaware	41	4	1	46
District of Columbia	41	4	1	46
Florida	35	6	1	42
Georgia	35	6	1	42
Hawaii	23	4	0	27
Idaho	34	5	2	41
Illinois	38	5	1	44
Indiana	36	5	1	42
Iowa	35	6	1	42
Kansas	32	6	1	39
Kentucky	36	5	1	42
Louisiana	33	5	1	39
Maine	34	6	0	40
Maryland	41	4	1	46
Massachusetts	37	6	1	44
Michigan	34	5	1	40
Minnesota	35	6	1	42
Mississippi	32	5	1	38
Missouri	34	6	1	41
Montana	35	6	1	42
Nebraska	35	6	1	42
Nevada	37	6	1	44
New Hampshire	34	6	0	40
New Jersey	38	5	1	44
New Mexico	35	5	1	41
New York	38	5	1	44
North Carolina	32	5	1	38
North Dakota	35	6	1	42
Ohio	36	6	1	43
Oklahoma	35	6	1	42
Oregon	39	5	1	45
Pennsylvania	44	7	1	52
Rhode Island	37	6	1	44
South Carolina	39	5	1	45
South Dakota	35	6	1	42
Tennessee	36	4	1	41
Texas	41	5	1	47
Utah	34	5	2	41
Vermont	37	6	1	44
Virginia	35	5	1	41
Washington	39	5	1	45
West Virginia	44	7	1	52
Wisconsin	35	8	1	44
Wyoming	35	6	1	42
UNITED STATES (median)	35	5	1	42