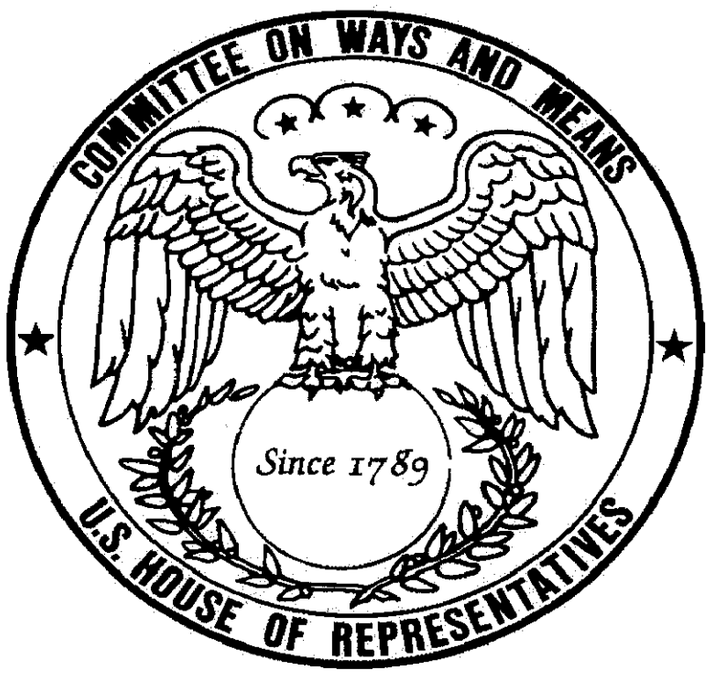
The Prescription Drug "Doughnut Hole"
Nearly 7 Million At-Risk,
Premiums 250% Higher
for Full Coverage

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***
Representative Sander Levin, ***Social Security Subcommittee***

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]

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[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.

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[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 CMS[7]. 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.

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[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