

MEDICARE

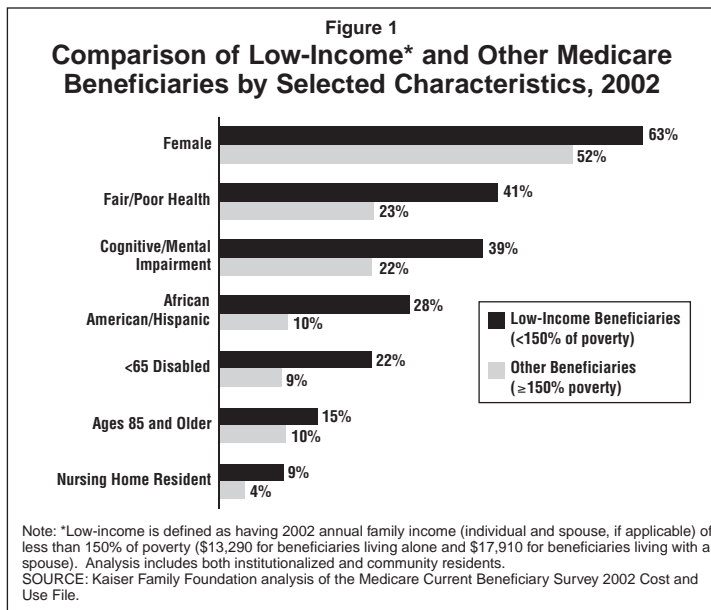
LOW-INCOME ASSISTANCE UNDER THE MEDICARE DRUG BENEFIT

June 2005

Beginning in 2006, 42 million elderly and disabled people on Medicare will have access to prescription drug coverage through Part D of the Medicare program. Those with income below 150% of poverty (\$14,355/individual; \$19,245/couple in 2005) and limited assets (\$10,000/individual; \$20,000/couple) are also eligible for additional premium and cost-sharing subsidies. An estimated 14.4 million beneficiaries—one-third of the Medicare population—will be eligible for this additional assistance in 2006.

CHARACTERISTICS OF LOW-INCOME BENEFICIARIES

The additional subsidies help to shield low-income beneficiaries from premiums and cost-sharing requirements of the new Medicare drug benefit. Those potentially eligible for these subsidies have relatively high rates of health problems often associated with greater use of pharmaceuticals. Beneficiaries with incomes below 150% of poverty are nearly twice as likely as higher-income beneficiaries to be in fair or poor health, have cognitive mental impairments, or live in a nursing home.



The low-income subsidy-eligible population also includes a disproportionate share of women, racial/ethnic minorities, beneficiaries who are 85 or older, and those who are under age 65 with disabilities.

STANDARD PRESCRIPTION DRUG BENEFIT

Beginning in 2006, beneficiaries in the fee-for-service Medicare program can get drug coverage by enrolling in stand-alone prescription drug plans. Others may enroll in Medicare Advantage plans, such as HMOs or regional PPOs, for all Medicare benefits, including drugs. Under the standard benefit, individuals pay a monthly Part D premium (estimated

by HHS to average \$37 per month in 2006), \$250 deductible, 25% of total drug costs up to \$2,250, 100% between \$2,250 and \$5,100 (equivalent to \$3,600 out-of-pocket), and 5% of drug costs above the benefit gap. Plans have flexibility to modify the standard benefit subject to certain constraints, provided the alternative plan is actuarially equivalent to the standard design.

LOW-INCOME ASSISTANCE

Medicare will provide additional premium and cost-sharing subsidies to beneficiaries who meet an income and asset test. On average, Medicare is expected to pay \$4,189 of drug costs for beneficiaries receiving the low-income assistance and \$1,138 for those not getting the extra help in 2006 (HHS). Beneficiaries who receive low-income assistance are projected to spend 83% less for their drugs under the Medicare benefit in 2006, on average, than they would have spent absent the Medicare drug law (Mays et al., 2004).

Medicare beneficiaries eligible for full Medicaid benefits (called dual eligibles) will be deemed eligible for low-income subsidies under Part D. Dual eligibles will be auto-enrolled in a Medicare prescription drug plan in the fall of 2005 to help prevent gaps in their coverage when their Medicaid drug benefits end January 1, 2006. CMS will randomly assign dual eligibles to plans with premiums at or below the regional average cost. Dual eligibles will not pay the Part D premium or deductible, but will pay \$1–\$2 for generic drugs and \$3–\$5 for brand-name drugs up to the \$3,600 out-of-pocket threshold (\$5,100 in total drug costs).

Other low-income beneficiaries who meet the income and asset test will be eligible for premium and cost-sharing assistance, with greater assistance targeted to those with lower incomes and fewer resources. These beneficiaries will have until May 15, 2006 to enroll in a Medicare drug plan on their own, or will be auto-enrolled in a plan by CMS, effective June 1, 2006.

Figure 2
Overview of Low-Income Part D Drug Benefits, 2006

Low-Income Subsidy Levels	Monthly Premium	Annual Deductible	Copayments
Full-benefit dual eligibles with income <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 income ≥100% of poverty; and individuals with income <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 income 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 CMS count toward the out-of-pocket threshold.
SOURCE: Kaiser Family Foundation summary of Part D low-income subsidies in 2006.

Dual eligibles may switch plans at any time during the year. Other low-income subsidy recipients auto-enrolled by CMS will have one opportunity to change plans before the next enrollment period. Part D enrollees without low-income subsidies can switch plans only during the annual coordinated enrollment period.

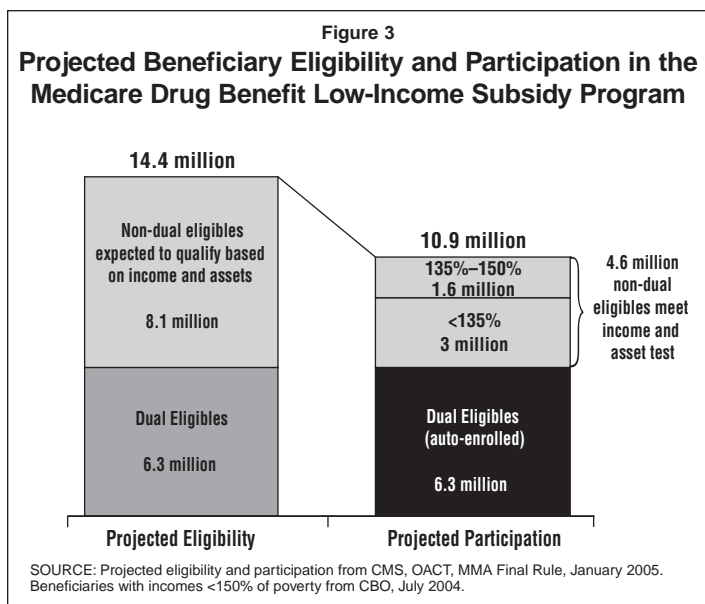
DETERMINING LOW-INCOME SUBSIDY ELIGIBILITY

Eligibility for low-income assistance under Part D is based on the income of both the applicant and spouse, but not the income of others living in the household. However, the maximum allowable income for subsidy eligibility increases with the total number of dependent family members in the household. Together, these definitions help increase the number of beneficiaries potentially eligible for these subsidies.

Assets are generally defined as resources that can be converted to cash within 20 days, such as stocks, bonds, checking, savings, and retirement accounts. A subsidy applicant's principal home, car, and burial space do not count toward the asset limit. Also excluded are \$1,500 for funeral or burial expenses and life insurance policies with a face value of up to \$1,500. An estimated 2.4 million Medicare beneficiaries who are potentially eligible for low-income subsidies because their incomes are below 150% of poverty will not qualify for additional assistance because their assets exceed the eligibility threshold (Rice and Desmond 2005).

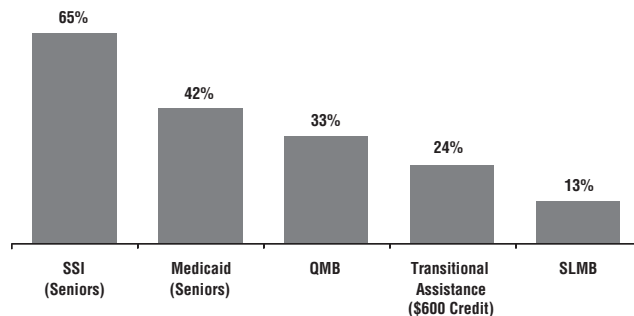
LOW-INCOME ASSISTANCE PROGRAM PARTICIPATION

Of the 14.4 million eligible for low-income subsidies, HHS projects 10.9 million will receive them in 2006—more than half of whom are dual eligibles.



Historically, full participation has been a challenge for programs designed to assist low-income populations. The \$600 transitional assistance program associated with the Medicare-approved drug discount card program is a recent example of lower-than-expected participation, with less than a quarter of the projected eligible population having signed up for the \$600 drug credit (HHS).

Figure 4
Participation Rates for Selected Programs



Note: Numbers appearing as a range were averaged. Rates for Medicaid and SSI are from 2000 and 2001, respectively. Medicaid take up rates include full benefits and Medicare Savings Programs.
SOURCE: Medicaid and SSI rates from GAO, March 2005; QMB and SLMB rates from CBO, July 2004; transitional assistance for the Medicare drug discount card program, HHS 2005.

APPLYING FOR LOW-INCOME SUBSIDIES

Dual eligibles and those who receive premium and/or cost-sharing assistance from Medicaid through the Medicare Savings Programs (QMB, SLMB, QI), and those eligible for SSI cash assistance only are automatically deemed eligible to receive low-income subsidies and need not apply separately. All other low-income beneficiaries must apply through the Social Security Administration (SSA) or their state Medicaid program to receive these benefits.

Social Security and state Medicaid programs will begin eligibility determinations for the low-income subsidy program on July 1, 2005. SSA is mailing applications to potentially eligible individuals between May and August 2005. Signed applications (even if not entirely complete) may be submitted by mail, in person, or online. SSA will also take applications by phone.

When state Medicaid programs are contacted about the Medicare Part D low-income subsidy, they must screen for eligibility for benefits under the Medicare Savings Programs. SSA will not screen for Medicare Savings Program eligibility nor is it required to refer low-income subsidy applicants to their state Medicaid programs for additional benefits or assistance.

Individuals found eligible in 2005 will retain eligibility for all of 2006. Those found eligible in 2006 will remain so for a maximum of one year. After 2006, SSA and states will set their own redetermination timeframes with states following their Medicaid rules.

FUTURE CHALLENGES

The Medicare drug benefit offers substantial help to beneficiaries with low incomes. As drug coverage begins, maximizing participation in the low-income subsidy program will be a key challenge—along with the smooth transition of beneficiaries into new prescription drug plans, particularly the dual eligible population.

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