

MEDICARE

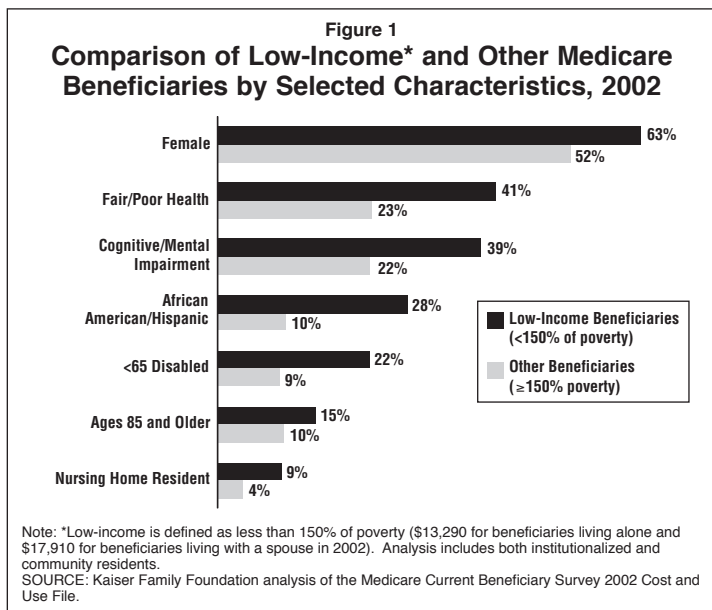
LOW-INCOME ASSISTANCE UNDER THE MEDICARE DRUG BENEFIT

September 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 the 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 \$32 per month in 2006), \$250 deductible,

25% of total drug costs up to \$2,250, 100% of costs 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. In 2006, on average, Medicare is expected to pay \$4,189 of drug costs for beneficiaries receiving the low-income assistance compared to \$1,138 for other Medicare beneficiaries (HHS). Beneficiaries who receive low-income assistance are projected to spend, on average, 83% less for their drugs under the Medicare benefit in 2006 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 automatically 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 \$5,100 in total drug spending.

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

Low-Income Subsidy Level	Monthly Premium	Annual Deductible	Copayments
Full-benefit dual eligibles Income <100% of poverty (\$9,570/individual; \$12,830/couple)	\$0	\$0	\$1/generic \$3/brand-name; no copays after total drug spending reaches \$5,100
Full-benefit dual eligibles Income ≥100% of poverty	\$0	\$0	\$2/generic \$5/brand-name; no copays after total drug spending reaches \$5,100
Institutionalized full-benefit dual eligibles	\$0	\$0	No copays
Individuals with income <135% of poverty (\$12,920/individual; \$17,321/couple) and assets <\$6,000/individual; \$9,000/couple	\$0	\$0	\$2/generic \$5/brand-name; no copays after total drug spending reaches \$5,100
Individuals with income 135%–150% of poverty (\$12,920–\$14,355/individual; \$17,321–\$19,245/couple) and assets <\$10,000/individual; \$20,000/couple	sliding scale up to \$32.20*	\$50	15% of total costs up to \$5,100; \$2/generic \$5/brand-name thereafter

Note: *\$32.20 is the national monthly Part D base beneficiary premium for 2006. Poverty level dollar amounts are for 2005. Additional assets of up to \$1,500/individual and \$3,000/couple for funeral or burial expenses are permitted.
SOURCE: Kaiser Family Foundation summary of Medicare prescription drug benefit 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.

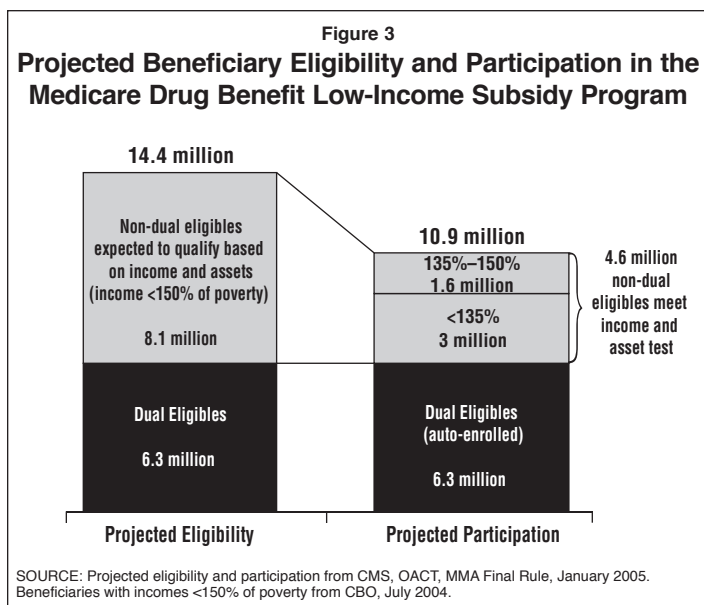
DETERMINING LOW-INCOME SUBSIDY ELIGIBILITY

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.

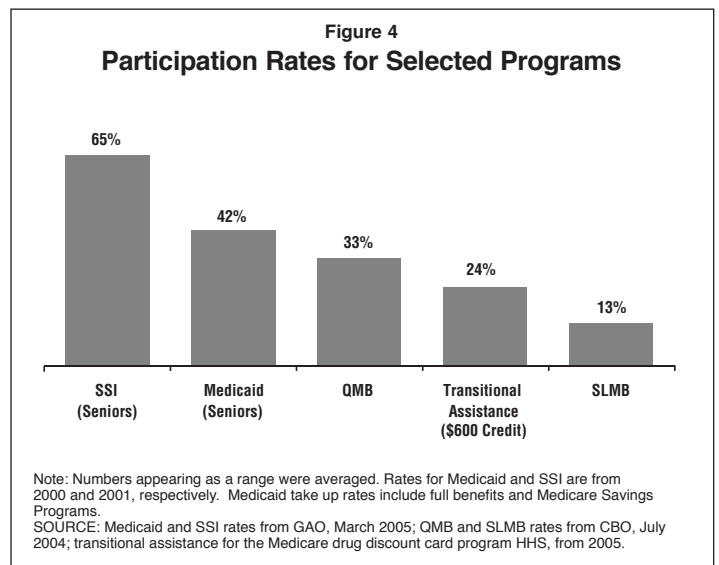
Assets are generally defined as resources that can be converted to cash within 20 days, such as stocks, bonds, checking, savings, and retirement accounts. A subsidy applicant's principal home, car, and life insurance policies with a face value up to \$1,500 do not count toward the asset limit. Also excluded from assets are savings (up to \$1,500/individual and \$3,000/couple) for funeral or burial expenses. 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).



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 began eligibility determinations for the low-income subsidy program on July 1, 2005. SSA mailed 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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