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SPECIAL REPORT

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Expectations Shrinking for Medicare Part D Enrollment

As the Medicare Part D drug benefit gets underway and the Bush Administration issues periodic reports on the progress of enrollment in the new program, there are three critical points to keep in mind:

1. The yardstick for measuring success has changed significantly over time;
2. Although many people are now counted as being enrolled, most of them already had coverage; and
3. The program is reaching too few of the people in greatest need of prescription drug coverage—seniors and people with disabilities who qualify for the low-income subsidy (or "Extra Help") that accompanies the Part D program.

A closer look at the facts underlying these conclusions shows that, so far, the program's performance is falling well short of expectations.

Overall Coverage: Moving the Goalpost

In January 2005, the Administration issued official estimates of the number of Medicare beneficiaries predicted to have coverage during 2006, after the Part D drug benefit began. These estimates were published in the *Federal Register* as part of the final regulations implementing the Part D program. The projections stated that in 2006, 39.1 million beneficiaries would have drug coverage thanks to the new law.[1] This estimate was slightly more optimistic than, but generally consistent with, independent projections made by the Congressional Budget Office, which, in June 2004, estimated that 37.2 million beneficiaries would have coverage in 2006.[2]

By the end of 2005, however, the Administration had quietly scaled back its projection by 10 million people, to 28 to 30 million beneficiaries.[3] It has offered no explanation for its dramatically reduced coverage projections for Part D, other than citing unspecified "Wall Street analysts."[4] Nevertheless, it is using these smaller estimates to support its claim that enrollment in the new program is "exceeding expectations," as Health and Human Services Secretary Mike Leavitt stated.[5] In fact, roughly 24 million people had coverage as of mid-January 2006—far short of the target of 37 to 39 million predicted by both the Administration and independent experts the year before. If enrollment is exceeding expectations, it is only because expectations have been greatly diminished.

Breaking It Down: Little New Coverage So Far

Notwithstanding the overall numbers of Medicare beneficiaries with drug coverage, the real measure of effectiveness of the new program is how many beneficiaries now have drug coverage who did not have it before. The table below shows that, through mid-January 2006, only 3.6 million beneficiaries had enrolled in stand-alone Part D plans. Not all of these 3.6 million beneficiaries are *newly* covered: Some of them had other coverage before the start of the benefit—for example, from a private Medigap plan or a state program. In addition, a small number of the 4.5 million Medicare Advantage beneficiaries who now have Part D coverage may have had no drug coverage prior to January 1. On balance, however, 3.6 million is the best approximation currently available of the number of seniors who have obtained new coverage.

Coverage in Medicare Part D Drug Benefit Through January 13, 2006 (in millions)

Enrollment in stand-alone Part D Plan*	3.6
Enrollment through Medicare Advantage**	4.5
Dual Eligibles transferred from Medicaid to Medicare	6.2
Employer- or Union-based coverage (non-federal)	6.9
Federal and military family retirees	3.1
Total	**24.3**

* An unkown number of those enrolled in Part D plans had drug coverage prior to January 1, 2006.

** The vast majority of Medicare Advantage enrollees had some drug coverage prior to January 1, 2006.

Source: Centers for Medicare & Medicaid Services, January 17, 2006.

The total of 24.3 million Medicare beneficiaries covered as of January 13, 2006 breaks down as follows:

- **New beneficiaries:** Only 3.6 million new beneficiaries have signed up for the Part D stand-alone benefit.[6] As stated above, an unknown number of them likely had some other drug coverage prior to enrolling, for example through state pharmacy assistance programs or private Medigap policies. Even assuming all of these beneficiaries had no previous drug coverage, however, this is a paltry share of the millions who are eligible for new coverage, many of whom are in dire need of prescription drug coverage. These are the beneficiaries who were supposed to receive the most help from the new drug benefit, but so far they are not getting covered.

  Additional people will sign up later in the enrollment period. But even if enrollment continues at the rate seen during the first two months of the program—an average of roughly 1.8 million per month—fewer than 11 million beneficiaries will have enrolled in Part D when enrollment closes for the year on May 15, 2006.

- **Medicare Advantage beneficiaries:** 4.5 million Medicare Advantage beneficiaries belong to a Medicare managed care plan that is now offering Part D drug benefits. Nearly all of these beneficiaries were automatically enrolled in the Part D benefit by their plans. Approximately three out of four of them already had drug coverage under their plans prior to the start of Medicare Part D,[7] and others may have had coverage from other sources.

- **Full benefit dual eligibles**: 6.2 million low-income beneficiaries are covered by both Medicare and Medicaid and previously had prescription drug coverage under Medicaid. As of January 1, 2006, they should have been automatically enrolled in Medicare Part D plans. As widely noted in the media, however, this transition has been chaotic, and thousands of dual eligibles have been unable to obtain their prescriptions. Nevertheless, even if all of these transition problems are adequately resolved, it will not result in any new drug coverage.
- **Retirees with existing drug coverage**: A total of 6.9 million retirees are retaining drug coverage from their former employer or union. This includes retirees from the private and nonprofit sectors, as well as state and local governments. Coverage from these sources is running about as predicted by last year's projections.
  - 6.4 million retirees have continuing drug coverage from current or former employers or unions. Their former employer or union will receive a subsidy from Medicare.[8]
  - There are an additional 500,000 retirees whose former employers have declined the Medicare subsidy for various reasons but whose coverage will continue for now. These retirees' drug coverage is comparable to the coverage offered under Medicare Part D.
- **Former federal employees, veterans, and their families**: 3.1 million retired federal employees and military families will also continue to receive existing drug coverage. Although Medicare is not directly subsidizing their benefits, they are included in the overall total because their coverage is considered comparable to or better than the coverage offered under Medicare Part D.

Reaching the Neediest: An Unfulfilled Promise

A key objective of all sides in the debate over the creation of a Medicare drug benefit was to ensure that low-income seniors and people with disabilities would be able to afford the prescription drugs they need. So far, the performance of the Part D program for these beneficiaries has been a profound disappointment.

On January 1, 2006, dual eligibles—those receiving both Medicare (due to age or disability) and Medicaid (due to low incomes)—were to have their prescription drug coverage transferred from Medicaid to the new Medicare Part D program. Even had this transition gone flawlessly, dual eligibles would be helped little by the change, as they already had drug coverage under Medicaid. In fact, under Part D, in about half the states dual eligibles face new copayments, and all will have to navigate new formularies and restrictions on drugs.

But the transition has been far from smooth—it has been plagued by technical and programmatic problems that have hindered access to vital prescription drugs for thousands of desperately needy beneficiaries. Dual eligibles have been asked to pay full price for their drugs, rather than the $1-$5 copayment required by law. In some cases, they have had to leave the pharmacy without their prescription because their records simply could not be found. The crisis has been so severe

that in at least 31 states, state governments have stepped in to pay for prescriptions temporarily. Medicare has stated it will ensure that states are reimbursed by private Part D plans and/or the federal government, at least through mid-February.[9] There is no guarantee that these problems will be resolved by then, but even if they are, dual eligibles will be at best no better off than they were before the start of the program.

There is also a large group of low-income beneficiaries who could benefit substantially from the Part D program if they could obtain its benefits, but who so far have been mostly left out. The Part D program includes a generous subsidy program for beneficiaries with limited incomes and assets. Enrollment in this benefit is a separate process from enrolling in a Part D drug plan, so beneficiaries must first apply through the Social Security Administration (SSA) for a subsidy[10] and then select a Part D plan.

Thus far, only about 1.2 million out of an estimated 5.7 to 7 million who need to apply for this separate program (known as "Extra Help") have actually been approved for low-income subsidies by SSA. To make matters worse, as of mid-January 2006, only about one-fourth of those approved for the subsidy had gone on to enroll in a Part D plan. This means that fewer than 5 percent of those eligible for Extra Help were actually receiving prescription drug coverage.[11] The disappointingly low rate of enrollment in the Extra Help program means that this potentially valuable subsidy has not reached many of the neediest seniors and people with disabilities.[12]

Consequences of Low Enrollment

There are at least three major consequences that are likely to result if low enrollment persists in Medicare Part D.

1. Most importantly, many beneficiaries will not be getting the prescription drug coverage they need—coverage promised to them by Congress and the Administration. This is especially true of low-income seniors, who should be getting the most help from the new program. Confusion about the very complex Part D program, and the many glitches in the program since coverage began on January 1, are likely discouraging enrollment. For those who do not qualify for Extra Help, the high out-of-pocket costs that are part of the program—premiums, deductibles, co-insurance, non-covered drugs, and the gap in coverage known as the "doughnut hole"—are likely serving as a further deterrent.
2. Beneficiaries who do not enroll now may face higher costs later on. Medicare will impose a late enrollment penalty equal to one percent of the average premium per month on most beneficiaries who do not enroll in Part D by May 15, 2006. This penalty runs for as long as a beneficiary stays in Part D—typically for the rest of the beneficiary's life. These penalties will have a significant financial impact on seniors' finances. Those with limited incomes and resources who qualify for the low-income subsidy and who enroll late will be assessed a smaller penalty; although this penalty lasts "only" for five years, it can still be burdensome given this population's limited financial means.

3. Finally, continued low enrollment in Part D could jeopardize the long-term health of the Part D program. Like any insurance plan, Medicare Part D needs to cover a large number of people in order to remain fiscally healthy. If only those who most need coverage—those who use the most prescription drugs—join the program, Part D costs will increase. Because there will be fewer healthy people paying premiums that help finance the program, Medicare will have to spend more dollars to cover these needy beneficiaries. As a result, premiums for those who do enroll will increase. The burden of these increased costs will fall on the beneficiaries themselves and on American taxpayers.

Conclusion: Improve the Program—Don't Scale Back Expectations

Even before the Part D program began, the Administration had substantially lowered expectations for the number of people who would be helped. Now it is touting relatively low enrollment figures as nearing these diminished goals, when in fact the vast majority of those counted as "enrolled" already had coverage before Part D began. This tactic masks the fundamental problems of an unnecessarily complicated and costly program that is failing those most in need. It is the wrong approach to dealing with disappointing enrollment. Instead, Congress and the Administration need to closely examine Part D enrollment and take steps to encourage enrollment. In the longer term, they should also work to simplify the program and improve the benefit by making it more comprehensive.

Endnotes

[1] Centers for Medicare & Medicaid Services (CMS), *Federal Register* 70, no. 18 (January 28, 2005): p. 4,458.

[2] Congressional Budget Office, *A Detailed Description of CBO's Cost Estimate for the Medicare Prescription Drug Benefit* (Washington: Congressional Budget Office, July 2004), p. 5.

[3] U.S Department of Health and Human Services, CMS, *More Than 21 Million Medicare Beneficiaries To Be Covered For Prescription Drugs As Of January 1, 2006* (Washington: U.S. Department of Health and Human Services, December 22, 2005).

[4] Robert Pear, "Over a Million on Medicare Sign Up for New Drug Plan," *The New York Times*, December 23, 2005.

[5] U.S Department of Health and Human Services, CMS, *Nearly 24 Million Medicare Beneficiaries Now Have Prescription Drug Coverage* (Washington: U.S. Department of Health and Human Services, January 17, 2006).

[6] An unknown number of these beneficiaries may have been automatically enrolled into a Part D plan by their state pharmacy assistance programs.

[7] Kaiser Family Foundation, *Medicare Advantage Fact Sheet* (Menlo Park, CA: Kaiser Family Foundation, September 2005). Kaiser reports that in 2005, 74 percent of a then-estimated 4.9 million Medicare Advantage enrollees had drug coverage from their Medicare Advantage plans.

[8] Congress included this subsidy as part of the Medicare Modernization Act ("MMA") in response to concerns that creation of a Medicare drug benefit would encourage employers to drop drug coverage for their retirees. See Section 1860D-22 of the MMA.

[9] Centers for Medicare & Medicaid Services, *Fact Sheet: State Reimbursement for Medicare Part D Transition* (Washington: Centers for Medicare & Medicaid Services, January 24, 2005), available online at http://www.cms.hhs.gov/States/031_Repayment2States.asp#TopOfPage.

[10] The MMA directs both the Social Security Administration and state Medicaid offices to accept and process applications for the low-income subsidy. See Section 1860D-14(a)(3)(B) of the MMA. In reality, however, few state Medicaid offices have been active in enrolling beneficiaries in the program.

[11] Richard Wolf, "Rx Plan Failing to Help the Neediest," *USA Today*, January 25, 2006.

[12] Kaiser Family Foundation, *Medicare Prescription Drug Coverage Enrollment Update* (Menlo Park, CA: Kaiser Family Foundation, January 2006).

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