HEALTH POLICY MEMO

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The House Medicare Drug Bill's Doughnut Hole: A Chasm for Low-Income Beneficiaries?

Both the House and Senate Medicare prescription drug bills have a gap in coverage—a period during which individuals with drug costs over a certain amount must pay for their prescriptions themselves. This gap is euphemistically referred to as "the doughnut hole."

The Senate bill protects Medicare beneficiaries who have low incomes, offering them continuous coverage with no doughnut hole. The House bill does not: For low-income beneficiaries, the House bill's gap in coverage is not just a hole—it's a chasm. Under the House bill, once someone incurs $2,000 in drug expenses, that person hits the "initial coverage limit" which means coverage stops until the individual has spent a total $3,500 out of his or her own pocket on prescription drugs; then, catastrophic coverage begins.

Will many low-income beneficiaries be affected by this gap in coverage? Yes.

The Congressional Budget Office (CBO) estimates that average prescription drug spending by Medicare beneficiaries will be $2,439 in 2003. Thirty-nine percent will spend over $2,000. But low-income Medicare beneficiaries tend to be sicker and to use more prescription drugs than the average; as a result, they will be disproportionately hurt by a gap in coverage.

The gap in coverage could hurt millions of low-income people.

Nearly half (47 percent) of Medicare beneficiaries with incomes under 160 percent of poverty are in fair or poor health. Those in fair or poor health spend more on prescription drugs than other Medicare beneficiaries—$3,127 on average. This means that about 6 million low-income individuals—over 15 percent of those enrolled in Medicare—have average drug spending of more than $3,000 today. Many more low-income beneficiaries have drug costs below this average but above the $2,000 initial coverage limit in the House bill.

The impact will be greater by the time a drug benefit begins.

By 2006—the earliest the drug benefit would be in place—even more low-income beneficiaries will be spending over $2,000 on prescription drugs and hitting the House bill's coverage gap. That's because average beneficiary drug spending is projected to increase by about 10 percent annually from 2003 through 2012. By 2006, it will exceed $3,000—making ***average*** drug spending more than $1,000 above the initial coverage cap.

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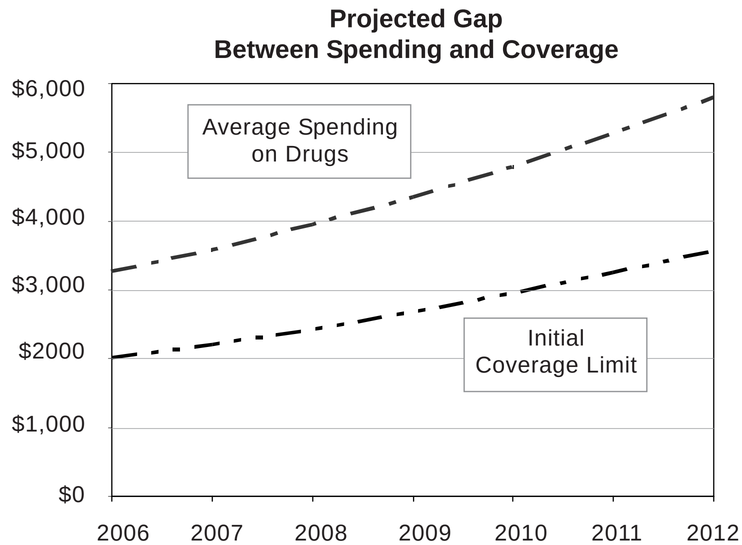
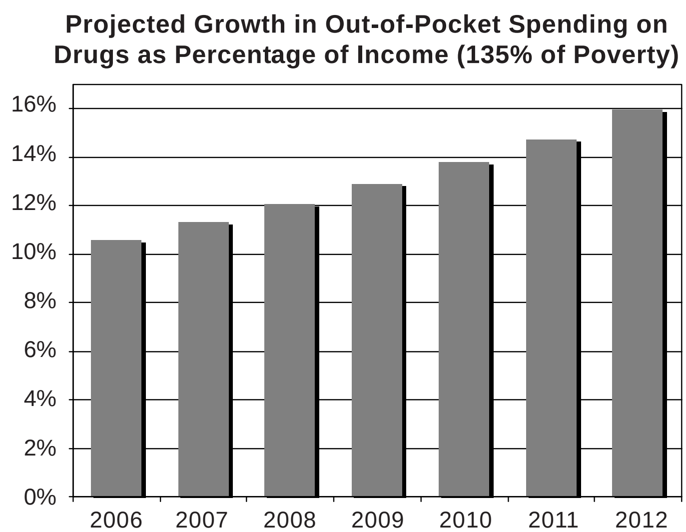
The coverage gap will increase over time.

The initial coverage limit will be adjusted upwards each year to keep pace with drug price inflation, and Medicare beneficiaries' drug costs are likely to increase by roughly the same percent. For low-income beneficiaries whose annual drug spending is higher than the initial coverage limit, the burden of out of pocket costs will increase over time: If the initial coverage limit and their drug spending increase by the same percent, the gulf between them will grow because their drug costs start at a higher level and percentage increases will amplify that difference. The burden of this growing gulf will be intensified because their incomes are likely to increase only by the rate of consumer inflation, projected to average 2.5 percent annually through 2013.

A Medicare beneficiary with an income of 135 percent of poverty and average drug costs could expect to spend over 10 percent of income on prescription drugs in 2006; by 2012, his or her out-of-pocket spending could easily be over $2,300, nearly 16 percent of income. The coverage gap becomes an ever-widening chasm.





The House bill's coverage gap: What does it mean for someone in fair or poor health, with income of 135 percent of poverty and average drug spending?

Under the House bill, an individual with income of $12,123 (135 percent of poverty) and average drug expenses for someone in fair or poor health ($3,127) could expect to spend $1,241—*over 10 percent of his or her income*—on prescription drugs. Under the Senate bill, by contrast, this same person would spend only $156 out-of-pocket on drugs—or just over 1 percent of income. For someone trying to get by on just $33.21 a day, this is an enormous difference.

If a compromise bill is to provide a real benefit to low-income individuals, it has to, like the Senate bill, close the gap in coverage.

Contact Families USA for sources and additional materials.