

# **National and State Impacts of the Senate Democratic, Senate Republican, and House Republican Prescription Drug Plans:**

*A Senate Health, Education, Labor and Pensions Committee Staff Analysis*

This analysis examines the impact of the three competing prescription drug plans on senior citizens nationally and in each of the fifty states. It shows that the Graham-Miller-Kennedy Senate Democratic Plan provides solid, affordable protection to senior citizens in every state. By contrast, both of the Republican plans impose high deductibles and large gaps in benefits that burden the elderly with unaffordable out-of-pocket cost. Because of these high out-of-pocket costs, the Republican plans pay only a small proportion of beneficiaries' total drug expenses—such a small proportion that the plans hardly merit the label of insurance.

In addition, the fine print of the Republican plans create loopholes that further harm senior citizens and the disabled. The Republican plans appear to offer significant additional help to low income Medicare beneficiaries, but it is only available if senior citizens pass a cruel assets test. Not only will millions be disqualified, but many more are likely to find the information requested so intrusive and demeaning that they will not even apply for assistance. In addition, the Republican plan is structured so that it encourages employers to drop retiree health coverage. The result is that, according to the nonpartisan Congressional Budget Office, 3.5 million senior citizens who have good retiree prescription drug coverage today will lose it and be forced into the substandard Republican plan.

Finally, because the Republican plans are administered through private insurance companies free to charge whatever the market will bear, beneficiary premium costs could be very high and will vary from geographic area to geographic area. Moreover, there is no guarantee that there will actually be a private insurer willing to provide the plan in each part of the country. The experience with private Medicare HMOs has shown that they have not been willing to provide coverage in rural areas and that they have pulled out of many areas, leaving beneficiaries high and dry. The analysis of individual states shows the number of senior citizens currently covered by private Medicare HMOs. The smaller the number is, the more likely that no prescription drug plan will be available in that state under the government program.

## Deductibles and Gaps

Both Republican plans impose a high annual deductible of \$250. In addition, coverage stops altogether once total drug spending of a beneficiary (the combination of the plan contribution and the beneficiary cost-sharing) reaches a certain level. After that point, the beneficiary must pay 100% of the cost of prescription drugs until total spending is high enough that stop-loss coverage kicks in. In the case of the Senate Republican plan, this coverage gap is \$1,850. Under the House Republican plan, the coverage gap is even larger—\$2,800.

The attached tables show the result of these coverage caps—combined with the beneficiary premiums—means that beneficiaries at almost all levels of total drug spending must pay the great bulk of their own drug costs with very limited help from Medicare. For example, under the Senate Republican plan, a beneficiary with \$1,000 in total spending must spend \$913 out of their

own pocket—91%. A beneficiary with \$5,000 in total spending must spend \$3,688 out of their own pocket or almost three-quarters of the total cost. Since the median income for senior citizens is only about \$14,000, the Republican plans require them to continue a very large share of very limited income to purchase the prescription drugs they need.

The Democratic plan, by contrast, has no co-payment and no coverage gaps. For most patients, the share of drug spending paid by the program will be substantially higher under the Democratic plan and the out-of-pocket costs to the beneficiary will be substantially less.

### Assets Test

Regardless of income, low income individuals under the two Republican programs are not entitled to low income assistance unless they pass a draconian assets test. A beneficiary is not allowed to have more than \$4,000 in assets, a car worth more than \$4,500; personal property such as furniture, clothing or jewelry worth more than \$2,000, or even a burial fund worth more than \$1,500. Because of this draconian assets test, approximately half the elderly who would be eligible for additional assistance based on income would be disqualified. Many more will simply not participate rather than subject themselves to such an intrusive test.

The Democratic plan has no assets test.

### Loss of Private Retiree Coverage.

Under Medicare today, retiree health plans typically “wrap around” Medicare coverage. For example, Medicare pays whatever it covers toward physician services and the retiree health plan fills in copayments and deductibles. Because Medicare has no prescription drug coverage, approximately half of the cost of retiree health plans is comes from paying for prescription drugs—and the vast majority of cost increases for these plans in recent years comes from exploding drug bills.

The Democratic plan provides a subsidy of two-thirds of the cost to the government to employers who want to maintain their existing drug plan. Employers are also free to “wrap around” the new drug plan in the same way that they fill in the gaps in hospital and physician services. The Congressional Budget Office estimates that all employers who currently provide retiree coverage would take one of these two options.

The Republican plans, however, do not permit employers to wrap around the new government plan. Any contribution the employer makes to the employee’s drug costs does not count toward the out-of-pocket limit in the plans. This means that the employer and employee never get the benefit of the out-of-pocket limit on spending that is available to all other beneficiaries. The result is to create a severe disincentive for employers to either continue their current coverage or wrap around the new program. CBO estimates that, because of this disincentive, one-third of all retirees with health coverage from a former employer—3.5 million senior citizens—will lose their good private coverage and be forced into the substandard Republican plan.

## Conclusion

This analysis provides statistical data on the impact of the three plans in each state, as well as national statistics. The analysis shows that senior citizens can count on solid, reliable affordable coverage under the Democratic proposal, but will face large gaps and out-of-pocket costs under the Republican proposals. In addition, under the Republican plans, low income senior citizens will be required to undergo a rigid assets test if they need additional assistance and retirees will find the good prescription drug coverage they enjoy today at risk.

**Impact of the Graham-Miller-Kennedy Outpatient Prescription Drug Act  
(S.2625)  
on Iowa Senior Citizens:  
Affordable, Comprehensive Medicare Coverage**

**Key Program Features:**

- **Premiums of \$25 a month/\$300 a year**
- **No Deductible**
- **Copayments: \$10 for generic drugs; \$40 for preferred brand drugs; and \$60 for non-preferred brand drugs**
- **No drug that is medically indicated for the individual will cost more than \$40 for a brand name drug or \$10 for a generic drug**
- **Assistance begins with the very first prescription, and there are no gaps or limits on the coverage**
- **Catastrophic cap on out-of-pocket expenditures above \$4,000**
- **Special assistance with copayments and premiums for individuals with incomes below 150% of poverty**
- **No asset test**
- **Private retiree health plans encouraged to maintain coverage or wrap around the Medicare benefit**
- **Multiple pharmacy benefit managers (or other private entities) in each region would manage, deliver, and administer the prescription drug benefit using the same methods they use in the private sector**
- **Pharmacy benefit managers would be required to contain drug costs for beneficiaries and taxpayers, and provides high quality care and high quality service**

**Iowa facts:<sup>i</sup>**

- **476,000 Iowa residents enrolled in Medicare**
- **Median income of senior citizens is \$13,518**
- **127,000 senior citizens with incomes below 150 percent of poverty**
- **125,000 senior citizens with prescription drug coverage through employer retirement plans**
- **2,000 Iowa Medicare beneficiaries (0.5%) are enrolled in Medicare HMOs**

**Impact of Graham-Miller-Kennedy Plan in Iowa**

- **476,000 Iowa senior citizens and disabled Medicare beneficiaries are eligible for coverage under the Graham-Miller-Kennedy Plan.**

**No Iowa senior citizens and disabled Medicare beneficiaries - 0% of the total - fall into a benefit hole and must continue to pay premiums and incur high drug costs while not receiving any benefits.<sup>ii</sup>**

**No Iowa senior citizens - 0% of the senior beneficiaries with employer coverage - lose good retirement coverage and will have to rely on the public benefits provided under the plan.<sup>iii</sup>**

**127,000 low income Iowa senior citizens - 29% of the elderly beneficiaries - qualify for extra assistance based on poverty status.**

**Impact of Senate Republican Prescription Drug Plan  
on Iowa Senior Citizens:  
Not Affordable and Not Adequate**

**Key Program Features:**

- **Premiums of \$24 a month/\$288 a year**
- **Deductible of \$250**
- **Coinsurance of 50% on drug expenditures of \$251-\$3,450**
- **No assistance (benefit hole) on drug expenditures from \$3,451-\$5,300**
- **Partial stop-loss for expenditures above \$5,300 (out-of-pocket expenditures of \$3,700); beneficiaries pay 10% of costs for expenditures above this amount**
- **Expenditures by employer retirement plans do not count toward partial stop-loss**
- **Special assistance with coinsurance and premiums for individuals with incomes below 150% of poverty, but only if individual passes rigorous asset test**
- **Benefits provided by private insurance companies receiving subsidy payments from government. Premiums paid by beneficiaries set at level chosen by company. No coverage available if insurance companies decline to participate.**
- **Program starts in 2005.**

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### **Impact of Senate Republican Plan in Iowa**

- **401,000 Iowa senior citizens and disabled Medicare beneficiaries - 84% of the total - will have drug expenses of up to \$5,300. These Iowa Medicare enrollees will not benefit from the partial stop-loss, and the Republican plan will pay as little as 25% of their drug costs.**

**141,000 Iowa senior citizens and disabled Medicare beneficiaries - 30% of the total - fall into the benefit hole and must continue to pay premiums and incur high drug costs while not receiving any benefits.<sup>v</sup>**

**42,000 Iowa senior citizens - 33% of the senior beneficiaries with employer coverage - lose good retirement coverage and will have to rely on the much less adequate public benefits provided under the plan.<sup>vi</sup>**

**127,000 low income Iowa senior citizens - 29% of the elderly beneficiaries - only qualify for extra assistance if they are willing to undergo a rigorous assets test that bars them from having total assets of more than \$4,000; personal property such as furniture or jewelry worth more than \$2,000; a car worth more than \$4,500; or even a burial fund worth more than \$1,500.**

**51,000 low income Iowa senior citizens - 40% of the elderly beneficiaries eligible by poverty level - would not pass the assets test even if they are willing to undergo it.<sup>vii</sup>**

### **Impact of House Republican Prescription Drug Plan on Iowa Senior Citizens: Not Affordable and Not Adequate**

#### **Key Program Features:**

- **Premiums of \$34 a month/\$408 a year**
- **Deductible of \$250**
- **Coinsurance of 20% on drug expenditures of \$251-\$1000**
- **Coinsurance of 50% on drug expenditures of \$1001-\$2000**
- **No assistance (benefit hole) on drug expenditures from \$2001-\$4,800**
- **Stop-loss for expenditures above \$4,800 (out-of-pocket expenditures of \$3,700)**
- **Expenditures by employer retirement plans do not count toward stop-loss**
- **Special assistance with coinsurance and premiums for individuals with incomes below 175% of poverty, but only if individual passes rigorous asset test**
- **Benefits provided by private insurance companies receiving subsidy payments from government. Premiums paid by beneficiaries set at level chosen by company. No coverage available if insurance companies decline to participate.**
- **Program starts in 2005.**

**Iowa facts:<sup>viii</sup>**

- **476,000 Iowa residents enrolled in Medicare**
- **Median income of senior citizens is \$13,518**
- **162,000 senior citizens with incomes below 175 percent of poverty**
- **125,000 senior citizens with prescription drug coverage through employer retirement plans**
- **2,000 Iowa Medicare beneficiaries (0.5%) are enrolled in Medicare HMOs**

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viii 1. Population and poverty tabulations developed by Professor Kenneth E. Thorpe (Emory University), from three years of merged March Current Population Survey data, 1999-2001. Income data and percentage of Medicare beneficiaries that are senior citizens were calculated by the Employee Benefit Research Institute, 2000. Employer coverage and beneficiaries in Medicare HMO's were obtained from the American Association of Retired Persons, State Profiles 2001.

2. Congressional Budget Office estimates of distribution of drug spending in 2005 applied to state populations.

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3. Congressional Budget Office estimates of loss of employer retirement coverage applied to state enrollment in employer retirement plan.

4. Marilyn Moon. Medicare Beneficiaries and Their Assets: Implications for Low-Income Programs. The Henry J. Kaiser Family Foundation. June 2002. Asset test eligibility calculations applied to states.