

MEDICARE

LOW-INCOME ASSISTANCE UNDER THE MEDICARE DRUG BENEFIT

May 2006

As of January 1, 2006, all 43 million elderly and disabled people on Medicare have access to an outpatient prescription drug benefit (Medicare Part D) offered through private drug plans. The drug benefit includes substantial premium and cost-sharing subsidies for Medicare beneficiaries with low incomes and modest resources, including beneficiaries eligible for full Medicaid benefits (dual eligibles), who previously had drug coverage through their state Medicaid program. As of early May, more than four in ten enrollees in Medicare Part D plans (stand-alone and Medicare Advantage) are receiving low-income subsidies.

These low-income subsidies are intended to reduce or eliminate enrollees' out-of-pocket expenses associated with the drug benefit, including premiums, deductibles, copayments, and costs in the coverage gap (sometimes called the doughnut hole). Part D plans are required to offer a statutorily defined standard benefit or one that is actuarially equivalent. The standard benefit for 2006 has a \$250 deductible, then coinsurance of 25% up to \$2,250 in total drug costs, followed by a gap in coverage between \$2,250 and \$5,100 where enrollees pay 100% of the costs of their drugs. After enrollees have incurred \$3,600 in out-of-pocket expenses, they qualify for catastrophic coverage, and pay 5% of drug costs.

WHO QUALIFIES FOR LOW-INCOME SUBSIDIES AND WHAT HELP DO THEY GET?

Dual eligibles who qualify for Medicaid on the basis of their income and assets automatically qualify for Medicare prescription drug low-income subsidies. Additionally, those who receive premium and/or cost-sharing assistance from Medicaid through the Medicare Savings Programs (QMB, SLMB, QI), and those only eligible for SSI cash assistance are also automatically deemed eligible for low-income subsidies and need not apply for them.

Dual eligibles and others deemed eligible for low-income subsidies pay no Part D plan premiums or deductibles, and copayments of \$1 or \$2 for generic drugs and \$3 or \$5 for brand-name drugs, depending on their income. Though nominal, these copayments are a new expense for many dual eligibles who were not charged for drugs under their state Medicaid programs. Dual eligibles in nursing homes have no drug copayments.

Other low-income Medicare beneficiaries must meet an income and resource test and submit an application to determine if they qualify for low-income subsidies. Those

with income below 150% of poverty (\$14,700/individual; \$19,800/couple in 2006) and limited resources (below \$11,500/individual; \$23,000/couple in 2006) are also eligible for premium and cost-sharing subsidies. These individuals must apply separately for the additional assistance through the Social Security Administration (SSA) or their state Medicaid program.

The level of assistance for other low-income beneficiaries who qualify for drug benefit subsidies varies based on their income and resources. In general, greater assistance is targeted to those with lower incomes and resources (Figure 1).

Figure 1
**Medicare Prescription Drug Benefit Subsidies
for Low-Income Beneficiaries, 2006**

Low-Income Subsidy Level	Monthly Premium	Annual Deductible	Copayments
Individuals with Medicare & Medicaid (Full benefit "dual eligibles")	\$0	\$0	\$1-\$2/generic \$3-\$5/brand-name; no copays after total drug spending reaches \$5,100
Individuals with Medicare and Medicaid benefits in nursing homes	\$0	\$0	No copays
Individuals with income <135% of poverty and resources <\$7,500/individual; \$12,000/couple (Includes Medicare Savings Program participants other than "dual eligibles")	\$0	\$0	\$2/generic \$5/brand-name; no copays after total drug spending reaches \$5,100
Individuals with income 135%-150% of poverty and resources <\$11,500/individual; \$23,000/couple	sliding scale up to \$32.20*	\$50	15% of total costs up to \$5,100; \$2/generic \$5/brand-name thereafter

Note: The 2006 poverty level is \$9,800/individual and \$13,200/couple. Resources include \$1,500/individual and \$3,000/couple for funeral or burial expenses. *\$32.20 is the national monthly Part D base beneficiary premium for 2006.

HOW IS ELIGIBILITY DETERMINED?

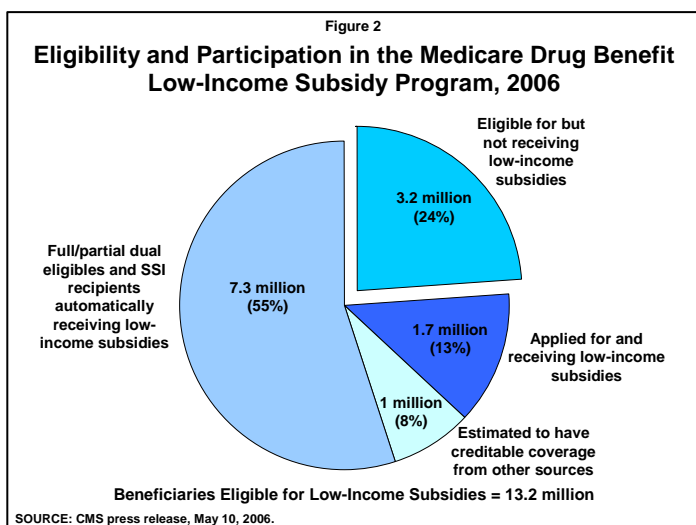
Income and other resource levels are used to determine eligibility for the low-income subsidy. Social Security benefits, Veterans benefits, public and private pensions, annuities, and in-kind support are counted as income. Eligibility is based solely on the income of the applicant (and spouse, if applicable), regardless of whether there are other household members with income.

Resource levels used to determine eligibility for low-income subsidies are higher (more generous) than those used for SSI and Medicaid. Resources are defined as assets that can typically be converted to cash within 20 days, such as stocks, bonds, and checking, savings, and retirement accounts. An applicant's principal home, car, and life insurance policies (with a face value up to \$1,500) do not count toward the resource limit. An additional \$1,500/individual and \$3,000/couple in savings for funeral or burial expenses are permitted.

HOW MANY ARE RECEIVING LOW-INCOME SUBSIDIES?

The Administration recently revised its estimates of the number eligible for low-income assistance from 14.4 to 13.2 million Medicare beneficiaries (Figure 2). Based on this new total, 7.3 million (55%) are receiving subsidies because they automatically qualify as full or partial dual eligibles or SSI recipients, 1.7 million (13%) applied for and are receiving subsidies because SSA determined they are eligible, and another 1 million (8%) are estimated by the Administration to be eligible for low-income subsidies but not receiving them because they have creditable coverage from programs other than Part D plans, such as the Veterans Administration.

More than 3 million low-income beneficiaries (24%) are eligible for low-income subsidies, but not receiving them, according to the Administration.



A recent study estimated that 2.4 million Medicare beneficiaries with incomes below 150% of poverty – thus potentially eligible for low-income subsidies – would not qualify for additional assistance in 2006 because their assets exceed the eligibility threshold (Rice and Desmond 2005). SSA reported that a majority (57%) of low-income subsidy applicants who were determined ineligible would have qualified based on income alone, but had excess assets.

HOW DO BENEFICIARIES APPLY FOR SUBSIDIES?

Beneficiaries who are not automatically eligible for low-income subsidies must apply for this assistance through SSA or their state Medicaid programs. Signed applications (even those not entirely complete) may be submitted in person, by mail, by phone, or online through the SSA Web site. Documenting income or resources is not required. Applicants found eligible in 2006 retain eligibility for the remainder of the year. After 2006, SSA and states can set their own redetermination timeframes.

If beneficiaries apply for the Part D low-income subsidy through their state Medicaid program, Medicaid must also screen for eligibility for benefits under the Medicare Savings Programs. However, SSA is neither required to

screen for Medicare Savings Program eligibility nor refer applicants to Medicaid for screening. Since SSA has processed the vast majority of low-income subsidy applications, many beneficiaries may have missed a key opportunity to learn about Medicare Savings Program or Medicaid benefits for which they might also qualify.

HOW DOES DRUG PLAN ENROLLMENT WORK?

Beneficiaries who apply and are found eligible for the low-income subsidy must also enroll in a Medicare drug plan for the subsidy to take effect. In 2006, the Administration facilitated enrollment in drug plans for one million beneficiaries who qualified for the subsidy but had not signed up for a plan prior to the May 15, 2006 enrollment deadline.

In 2006, beneficiaries who apply and qualify for the low-income subsidy after the enrollment deadline have a special enrollment period that enables them to sign up for a Part D plan for the remainder of the year, or they will be automatically enrolled. Those who are automatically enrolled can switch plans once before the next enrollment period which begins on November 15.

Individuals who qualify for the low-income subsidy after May 15th will not be subject to the late enrollment penalty in 2006. However, like all other Medicare beneficiaries, those with low incomes who do not have drug coverage in 2006 and who later decide to enroll in a Part D plan will face a penalty for late enrollment – although the penalty will be reduced for those eligible for low-income subsidies.

Dual eligibles, unlike other low-income beneficiaries, were automatically enrolled in plans with premiums at or below the state average at the beginning of 2006. They are permitted to switch plans throughout the year, unlike other Part D enrollees who will be able to switch plans only during the annual coordinated enrollment period at the end of each year.

FUTURE CHALLENGES

The Medicare drug benefit offers substantial help to low-income Medicare beneficiaries, who tend to be sicker than higher-income beneficiaries and therefore use more health care services and prescription medications. HHS has estimated that in 2006 Medicare will pay, on average, \$4,189 of drug costs for beneficiaries receiving low-income subsidies, compared to \$1,138 for other Medicare beneficiaries.

Identifying beneficiaries who are eligible for extra help, educating them about the program, and encouraging them to apply are critical to the success of the program. Once enrolled, strengthening information systems to ensure that those who are eligible for low-income subsidies are designated as such and charged appropriate amounts for their prescription medications is also essential if those qualifying for assistance are to get the help they need.

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