MEDICARE PART D 2008 DATA SPOTLIGHT: THE COVERAGE GAP

Prepared by Jack Hoadley and Jennifer Thompson[i]; Elizabeth Hargrave and Katie Merrell[ii]; and Juliette Cubanski and Tricia Neuman[iii]

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A unique feature of the Medicare Part D drug benefit is the so-called "doughnut hole" — the gap in coverage in which Part D enrollees are required to pay the full cost of their drugs until they qualify for catastrophic coverage. The coverage gap was included because the cost of providing continuous coverage with no gap would have exceeded the budgetary limit imposed on the legislation when the Medicare drug benefit was established.

Nearly all Part D plans will have a gap in coverage in which the enrollee pays 100 percent of total drug costs before catastrophic coverage begins. In 2008, the coverage gap totals $3,216 for plans offering the standard Medicare Part D benefit; by 2016, it is projected to exceed $6,000. Part D plans may have an alternative benefit design that helps cover at least some drug costs in the gap. Part D enrollees who qualify for the low-income subsidy, including beneficiaries dually eligible for Medicare and Medicaid, are generally not responsible for costs in the coverage gap.

This data spotlight examines gap coverage in Medicare stand-alone Prescription Drug Plans (PDPs) and Medicare Advantage Prescription Drug (MA-PD) plans.

GAP COVERAGE, 2006-2008

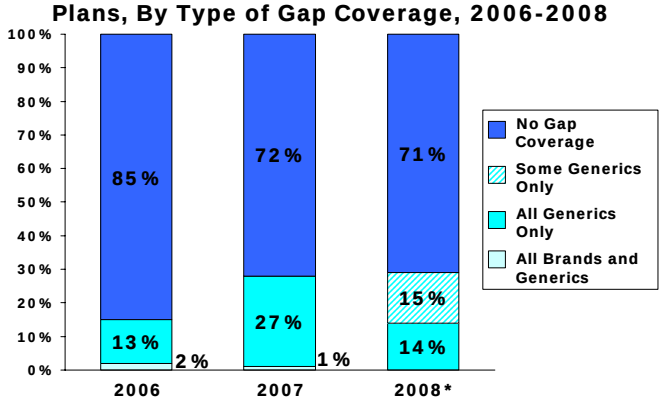
In 2008, 29 percent of PDPs (529 plans) will offer some type of gap coverage, up from 15 percent (220 plans) in 2006. The proportion of MA-PD plans offering some gap coverage has also grown, from 28 percent (369 plans) in 2006 to 51 percent (964 plans) in 2008.[1] Between 2007 and 2008, the share of PDPs offering some gap coverage (mainly for generic drugs) will remain stable, although the scope of coverage for generics is becoming more limited. About half of the PDPs with gap coverage in 2008 are covering only "preferred" or "some" generics. The increase in the share of MA-PD plans offering gap coverage is mainly among plans covering all generics and "some" brand-name drugs in the gap.

In 2008, no PDPs and only about one percent of MA-PD plans will offer full brand and generic gap coverage. One PDP (offered only in Florida) and about 300 MA-PD plans (16 percent) will offer "some" coverage of brand-name drugs in the gap. The vast majority of PDPs offering gap coverage (528 of 529 plans) and more than half of the MA-PD plans offering gap coverage (637 of 964 plans) will cover generic drugs only in 2008.

MA-PD plans have somewhat stronger incentives than PDPs to offer at least some gap coverage. As health plans covering the full set of Medicare services, MA-PD plans have incentives to avoid the negative health and cost consequences that could arise if enrollees do not take their medications when they reach the coverage gap. In addition, MA-PD plans are permitted to cross-subsidize drug coverage with revenues paid to them from the federal government to provide other Medicare services. The Medicare Payment Advisory Commission estimates that federal payments to plans exceed the average cost of health services, providing a margin for MA-PD plans to subsidize drug coverage and premiums.

Exhibit 1

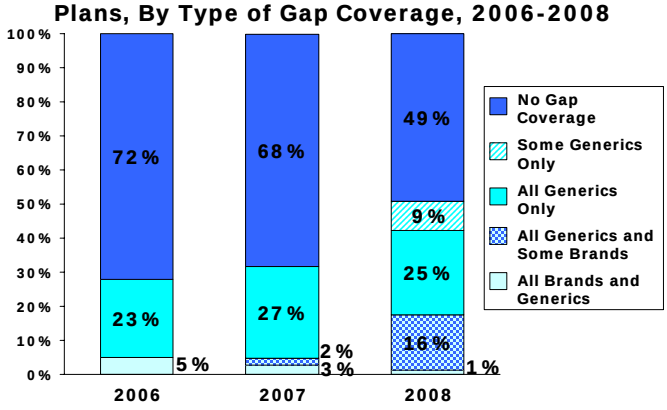
Share of Medicare Stand-Alone Prescription Drug Plans, By Type of Gap Coverage, 2006-2008



NOTES: *In 2008, 1 PDP will offer gap coverage for brand-name drugs (rounds to 0%).
SOURCE: Hoadley et al analysis of CMS PDP landscape files, 2006-2008, for the Kaiser Family Foundation.

Exhibit 2

Share of Medicare Advantage Prescription Drug Plans, By Type of Gap Coverage, 2006-2008



SOURCE: Hoadley et al analysis of CMS MA landscape files, 2006-2008, for the Kaiser Family Foundation.

NEW VARIATIONS IN GAP COVERAGE IN 2008

In 2008, there are 12 different variations in the type of gap coverage offered by Part D plans, with greater variation in the MA-PD plan marketplace than among PDPs. MA-PD plans, for example, offer gap coverage for "some" drugs, "all preferred" drugs, and "all preferred generics, some other generics, and some brands," among others variations. No definitions of these terms are offered, thus there is no easy way for consumers to determine whether the term "some" means more or fewer drugs covered than "all preferred."

Author affiliations: [i] Georgetown University [ii] NORC at the University of Chicago [iii] Kaiser Family Foundation

PREMIUMS FOR GAP COVERAGE IN PDPS

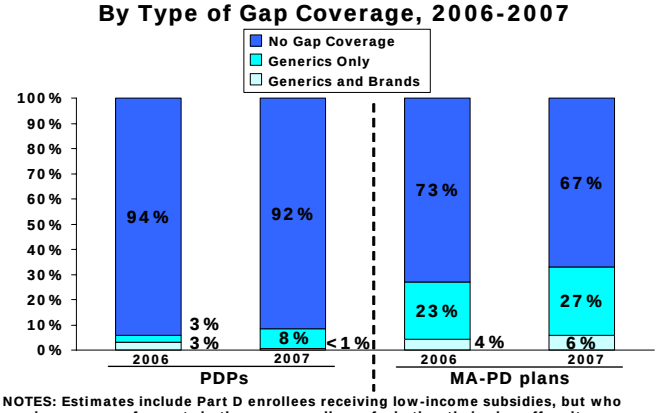
PDPs that provide gap coverage have monthly premiums that are about double that of PDPs with no gap coverage.[2] In 2008, average monthly premiums are $63.29 for PDPs that offer some gap coverage, $30.14 for PDPs with basic benefits and no gap coverage, and $31.97 for PDPs with enhanced benefits but no gap coverage.

ENROLLMENT IN PLANS OFFERING GAP COVERAGE

A relatively small share of Part D enrollees are in plans that offer gap coverage (Exhibit 3). From 2006 to 2007, enrollment in PDPs with any gap coverage increased from 6 percent to 8 percent, while enrollment in PDPs that offered gap coverage of both brands and generics decreased from 3 percent to 0.5 percent. Among MA-PD plans, enrollment in plans offering gap coverage increased from 27 to 33 percent, and the share with coverage of both brand and generics rose from 4 to 6 percent.

Exhibit 3

Share of Enrollment in Medicare Part D Plans, By Type of Gap Coverage, 2006-2007



NOTES: Estimates include Part D enrollees receiving low-income subsidies, but who receive coverage for costs in the gap regardless of whether their plan offers it.
SOURCE: Hoadley et al analysis of CMS PDP and MA landscape and enrollment files, 2006-2007, for the Kaiser Family Foundation.

According to CMS, only 7 percent of Part D enrollees not receiving the low-income subsidy exercised their option to switch plans between 2006 and 2007.[3] If PDP enrollees do not switch plans for 2008, nearly all (95 percent) will see no change in their gap coverage, with most PDP enrollees having no gap coverage in both years. Unless they change plans, virtually no PDP enrollees will gain gap coverage for generics and over half of PDP enrollees who have gap coverage for all generic drugs in 2007 will have only partial coverage of generics in 2008.

FIRMS OFFERING PART D PLANS WITH FULL GAP COVERAGE, 2006-2008

In 2006, Humana was the only organization to offer a PDP with full gap coverage for brand-name and generic drugs in most regions of the country, while three other companies offered plans with full gap coverage in a single region. The Humana PDP Complete plan had an average premium of $58.08, and attracted sizable enrollment (410,601). For 2007, Humana dropped gap coverage for brands in the Complete plan and raised premiums by nearly 40 percent, and enrollment decreased to 235,069. For 2008, gap coverage in the Complete plan has been further restricted to "preferred" generics and the premium has risen yet again.

In 2007, Sierra Rx Plus was the only major PDP with full gap coverage for brand-name and generic drugs, available in 24 of 34 regions. An additional three companies sponsored PDPs with full gap coverage in selected regions, but beneficiaries in 11 states had no such option. PDPs with full gap coverage were offered at an average monthly premium of $93.46 in 2007, three times the average premium for PDPs without gap coverage. As of 2008, Sierra will no longer offer its Plus plan with full gap coverage and will transition its 42,045 enrollees to a defined standard benefit plan, leaving only one PDP in one state (Citrus Healthcare in Florida) offering full gap coverage in 2008.

Among MA-PD plans, 29 of 44 plans offering full gap coverage in 2007 (with about 80 percent of enrollment in this category) will no longer offer such coverage in 2008 (though some will still cover "preferred" brands). Eight MA-PD plans added full gap coverage, including a Sierra Health plan in Nevada offering only partial gap coverage in 2007.

DISCUSSION

In 2008, as in previous years, a relatively small number of Part D enrollees are expected to be in plans that offer full coverage of brand-name drugs in the gap, raising concerns that some enrollees who reach the gap might forgo needed medications when faced with the full cost of their prescriptions. About 1.5 million beneficiaries (6 percent of Part D enrollees, and 15 percent of those not eligible for the low-income subsidy) reached the coverage gap in 2006, when a considerable number of beneficiaries were enrolled in Part D less than the full year, according to IMS Health.[4] A projection by Actuarial Research Corporation for the Kaiser Family Foundation estimates that over 3 million of the 24 million Part D enrollees will reach the gap in 2007, when most enrollees have full-year coverage.

The share of PDPs offering gap coverage remains the same in 2008 as in 2007 (roughly 70 percent), but the scope of gap coverage appears to be more limited. A growing number of MA-PD plans offer some gap coverage, but most do not cover the cost of brand-name drugs in the gap. New among Part D plans in 2008 is the wide variation in the scope of benefits offered in the gap, which introduces a new source of potential confusion for beneficiaries seeking to choose among plans to find the best fit for their prescription drug needs, underscoring the importance of better standardization of gap coverage options and terminology to help consumers make informed choices. Furthermore, consumers need to be able to assess whether PDPs offering gap coverage for generics only provide value commensurate with the higher average premium. With many Part D enrollees at risk for high out-of-pocket spending in the coverage gap, issues related to the "doughnut hole" are likely to remain on the policy agenda.

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[1] Counts of Medicare Advantage plans are based on the number of distinct contract and plan ID numbers. A single plan may represent an entire state or different regions of a state, depending on whether the organization varies the plan design across geographic areas. Regional PPOs have a single plan ID in each of Medicare's designated regions, whereas one private fee-for-service plan can have as many as 200 separate plan IDs because they charge different premiums in different locations.
[2] Kaiser Family Foundation, "Medicare Part D 2008 Data Spotlight: Premiums" (Oct 2007); www.kff.org/medicare/med102507pkg.cfm.
[3] Centers for Medicare and Medicaid Services, "Medicare Drug Plans Strong and Growing," Press Release, January 30, 2007.
[4] IMS Health, "Medicare Part D: The First Year" (2007).