BETTER BENEFITS – MORE CHOICES

Good News about the Medicare Prescription Drug, Improvement and Modernization Act of 2003!

Indexing Drug Benefit to Maintain Percentage Cost Sharing

Beginning in 2006, Medicare beneficiaries will be able to choose the new comprehensive prescription drug benefit. With this new benefit, seniors will cut their bills in half - not their pills.

Indexing:

- The Medicare Modernization Act indexes the new drug benefit's deductible, initial coverage limit and out-of-pocket limit to the growth of per capita spending on drugs in the program.

- The benefit is designed so beneficiaries and taxpayers share the cost of the new benefit. Indexing the deductible to the rate of growth of costs per person in the program means that beneficiaries will pay the same percentage or share of costs over time. Beneficiaries are not being asked to pay a higher percentage of costs; they are being asked to pay the same percentage of costs. If deductibles were not indexed, i.e., grown, in the way indicated in the Act, beneficiaries would be paying an ever smaller percentage of costs over time and the taxpayers would be paying a higher percentage of costs. Without this indexing, a built-in benefit expansion, or an "escalator clause" would erode the financial viability of the Medicare program and place a significant financial burden on future generations.

- Beneficiaries will be protected from these rising deductibles and limits in several ways:

  - ✓ The lowest-income beneficiaries are completely protected. Co-pays for people under 100 percent of the federal poverty level start at between $1 and $3 in 2006, and they will grow over time at a slower rate, the Consumer Price Index.
  - ✓ Other low-income beneficiaries receive substantial protection in the form of low co-pays and/or low deductibles and co-insurance.
  - ✓ Higher-income beneficiaries will have the option to purchase supplemental coverage from the prescription drug plans or Medicare Advantage plans - supplemental coverage that can help fill in deductibles, cost sharing and the so-called "donut hole." In addition, employers, unions and State Pharmaceutical Assistance Programs have the option to wrap around the new Part D benefit and fill in such cost sharing.

- The indexing of the Part D benefit spreads the risk of program cost increases fairly across taxpayers, Medicare beneficiaries, and the subset of beneficiaries who have higher drug costs. Beyond being good fiscal policy and good benefit design, this choice of index has precedent in other parts of Medicare and other proposals, including:

  - ✓ H.R. 1199, the Democratic alternative to H.R. 1 was sponsored by one Independent and 131 House Democrats and included the same indexing rule. In that bill as in the MMA, the deductible and the out-of-pocket limit were indexed to the per capita growth in drug spending in Medicare.

- ✓ Medicare Part A - The Part A hospital deductible grows every year based on changes to the cost of hospital care. Its growth has been similar to what is envisioned for the new drug benefit. The Part A deductible grew from $40 in 1967 to $840 last year. That's an average annual growth rate of 8.8 percent over the last 36 years, very similar to the growth rates projected for Medicare Part D.

- ❖ Medicare Part B - The premium for Medicare Part B grows also with the per capita increases in Part B costs. In this case, the premium is set at 25 percent of the per capita cost, with the federal government picking up the remainder. The monthly premium -- $3 in 1967 rising to $58.70 in 2003 - has seen an average annual rise of 8.6 percent over the history of the program. Again, this is similar to the growth rate projected for Part D.