



Joint Economic Committee

CHAIRMAN ROBERT F. BENNETT

ECONOMIC POLICY RESEARCH

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MEDICARE BENEFICIARIES' LINKS TO DRUG COVERAGE

Health care has dramatically changed in the almost 40 years since Congress created the Medicare program to help senior citizens with their medical needs. The emergence of widely used prescription drugs is perhaps the most striking example of this change. Given the significant benefit and expense of prescription drugs, it's little wonder that Congress is contemplating how to include increased coverage as part of Medicare reform.

Often overlooked in this discussion is a crucial fact: many Medicare beneficiaries already have prescription drug coverage from other sources. However, it is difficult to judge how adequate these different forms of coverage may be. It is clear that care should be taken to design a new Medicare drug benefit that is both sensitive to current coverage patterns and meets the pressing needs of beneficiaries with inadequate or no coverage. This report documents the extent and source of this coverage and examines how it relates to various demographic factors.

HOW MANY MEDICARE BENEFICIARIES ALREADY HAVE DRUG COVERAGE?

The latest data indicate that 78 percent of Medicare beneficiaries already have some drug coverage.¹

Unfortunately, reliable data on the generosity of the drug benefit packages are scarce.

Medicare beneficiaries with current drug coverage receive this coverage through various forms of additional insurance, most importantly employer provided retiree coverage, Medigap (individually purchased), Medicare+Choice (Medicare HMOs), and Medicaid.² The information that is available suggests Medicaid and employer-based retiree coverage tend to be the most comprehensive, while Medicare+Choice and Medigap tend to be the least comprehensive.

As illustrated in Figure 1, almost all Medicare beneficiaries have some form of additional insurance; only seven percent of beneficiaries are limited solely to traditional fee-for-service Medicare, which does not provide coverage for prescription drugs. However, not all supplemental insurance provides drug coverage.

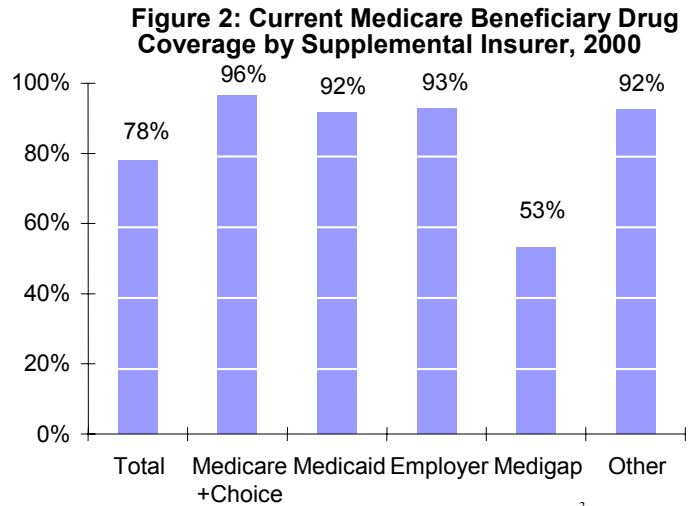
Figure 1: Sources of Additional Coverage for Medicare Beneficiaries, 2000

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|----------------------------------|-----|
| Employer | 34% |
| Medigap | 24% |
| Medicare+Choice | 18% |
| Medicaid | 13% |
| Other² | 4% |
| No Supplemental Insurance | 7% |

Source: Medicare Current Beneficiary Survey, 2000, Office of Research, Development and Information (ORDI), Centers for Medicare and Medicaid Services (CMS).³

DRUG COVERAGE VARIES BY TYPE OF SUPPLEMENTAL INSURANCE

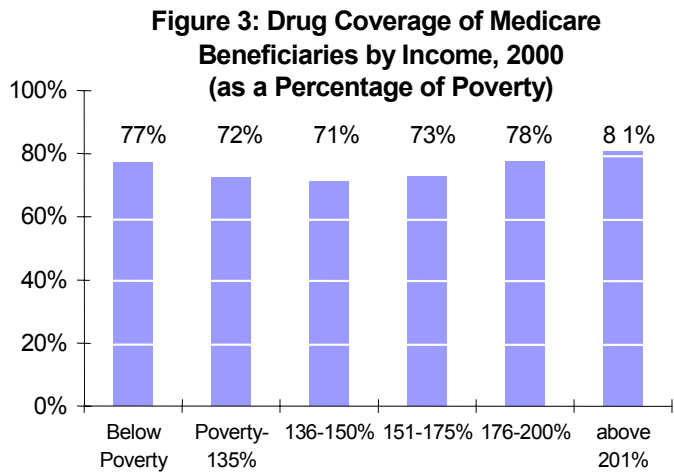
Figure 2 illustrates how the availability of drug coverage varies across different types of supplemental insurance. At least 90 percent of beneficiaries with Medicare+Choice, employer coverage, Medicaid, or other insurance reported some type of drug coverage in 2000. About half of Medigap beneficiaries reported drug coverage.



Source: Medicare Current Beneficiary Survey, 2000, ORDI, CMS³

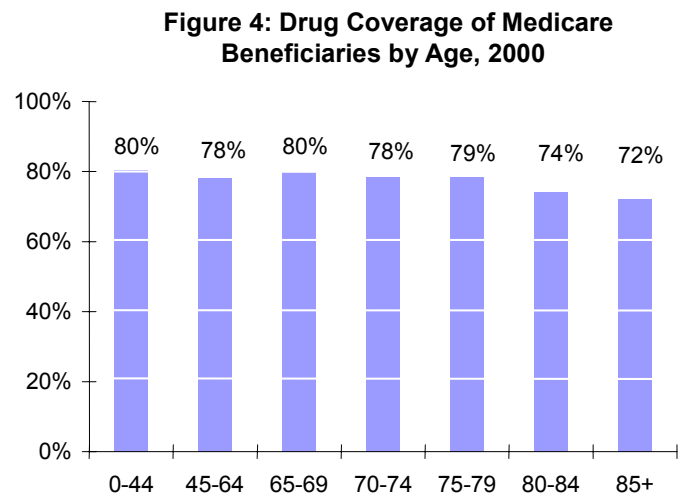
HOW DRUG COVERAGE VARIES WITH DEMOGRAPHIC FACTORS

- Income – Poverty does not have as much impact as might be expected. Figure 3 shows the relationship between poverty level and drug coverage. Medicare beneficiaries below the poverty line had drug coverage at essentially the same rate as all beneficiaries (77 percent vs. 78 percent). Coverage was somewhat lower for the near-poor, those earning between 100 and 175 percent of the poverty line. It appears that Medicaid and state low-income drug programs have succeeded in providing drug coverage to many of the poorest Medicare beneficiaries.



Source: Medicare Current Beneficiary Survey, 2000, ORDI, CMS³

- Age – The very old are less likely to have coverage. Figure 4 shows the relationship between age and drug coverage. Beneficiaries under age 65 are disabled; their access to drug coverage is comparable to that of the elderly. For beneficiaries over age 65, coverage declines with advancing age, falling to 72 percent for those 85 and older.



Source: Medicare Current Beneficiary Survey, 2000, ORDI, CMS³

- *Urban/Rural – Rural beneficiaries are less likely to have coverage.* Slightly more than three-quarters of Medicare beneficiaries live in metropolitan areas; 81 percent of them have some form of drug coverage. Only 67 percent of rural beneficiaries have drug coverage. Research indicates that rural beneficiaries are less likely to have the type of supplemental coverage that includes drugs, i.e., employer provided or Medicare+Choice. In addition, even when rural beneficiaries have one of these forms of coverage, their policies are less likely to offer drugs.
- *Gender – Men and women have comparable drug coverage.* 78% of male Medicare beneficiaries have drug coverage, compared with 77% of female beneficiaries. This small difference may be explained by women's longer lifespans and lower coverage for the oldest beneficiaries.

CONCLUSION

Although the traditional Medicare program does not cover outpatient prescription drugs, the majority of Medicare beneficiaries already have coverage from other sources. Available data suggest – at least on the surface – that coverage is remarkably consistent among different demographic groups. Therefore, Congress should consider the following when undertaking Medicare reforms:

- Be careful not to overly disrupt the existing market and the current means for delivering prescription drugs, and thereby threaten the drug coverage many seniors may currently enjoy.
- Be aware of the various organizations, such as states and employers that already provide drug coverage to Medicare beneficiaries. Learn from their experiences and avoid significant reductions to their ability and incentive to continue drug coverage.
- Gather better information on the value and quality of existing prescription drug coverage.

Notes

¹ The latest data on drug coverage are from 2000; coverage percentages today may be somewhat smaller for some forms of coverage. In particular, we know that Medicare+Choice enrollment has dropped and some Medicare+Choice plans no longer offer drug coverage.

² Other types of drug coverage include that provided by the Veterans Administration, the Department of Defense, and state pharmacy assistance programs, among others.

³ These data should be considered preliminary. ORDI is examining whether some beneficiaries may be confusing a discount card that comes with their Medigap policy as being "drug coverage."

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