August 2003

Issue Brief

Caught in Between: Prescription Drug Coverage of Medicare Beneficiaries Near Poverty

Dennis G. Shea, Bruce C. Stuart, and Becky Briesacher

As Congress continues to debate whether and how to add prescription drug coverage to Medicare, beneficiaries with incomes near the poverty level are in danger of being overlooked. These vulnerable low-income individuals, sometimes labeled the "near-poor," have too much income or too many assets to qualify for public assistance, yet are still quite needy.[1] As a result, they find themselves caught between public programs that are available for the poor and private coverage that is affordable for higher-income beneficiaries.

This is often the case with prescription drug coverage as well. Both the House and Senate prescription drug bills currently under consideration would provide some additional assistance to the near-poor, defined as those with incomes between $10,000 and $20,000, but both would leave many beneficiaries with high out-of-pocket drug costs. This Issue Brief focuses on the current prescription drug coverage, use, and spending of the near-poor and illustrates how the House and Senate bills would affect this important group. Highlights of the findings include:

- Compared with other income groups, near-poor Medicare beneficiaries are the least likely to have prescription drug coverage and the least likely to retain it for the entire year. Just over half have full-year drug coverage.
- More than one-fifth of the near-poor fill over 40 prescriptions a year.
- Nearly one of eight near-poor beneficiaries spent 10 percent or more of their income on out-of-pocket prescription drug costs in 1999.
- In 2006, the House and Senate prescription drug proposals are projected to reduce substantially the out-of-pocket costs of persons with income

The Commonwealth Fund is a private foundation supporting independent research on health and social issues. The views presented here are those of the authors and should not be attributed to The Commonwealth Fund or its directors, officers, or staff.

For more information about this study, please contact:

Barbara S. Cooper
Senior Program Officer
The Commonwealth Fund
Tel 212.606.3862
Fax 212.606.3500
E-mail bsc@cmwf.org

or

Dennis G. Shea
Professor of Health Policy
and Administration
Pennsylvania State University
Tel 814.863.2901
Fax 814.863.2905
E-mail dgs4@psu.edu

Additional copies of this (#669) and other Commonwealth Fund publications are available online at **www.cmwf.org**

Publications can also be ordered by calling 1.888.777.2744.

To learn about new Fund publications when they appear, visit the Fund's website and register to receive e-mail alerts.

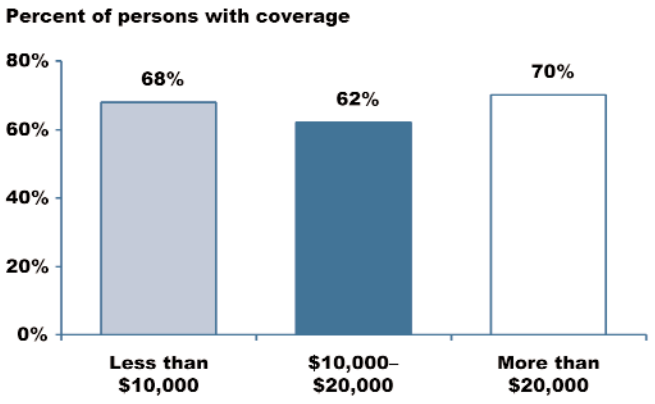
at 130 percent of the poverty level, from 20 percent of their income to 3 to 4 percent. Neither bill would lead to a significant reduction in the out-of-pocket prescription drug costs for persons at 160 percent of the poverty level.

Prescription Drug Coverage

In 1999, about 10.2 million Medicare beneficiaries had incomes between $10,000 and $20,000. The poverty level that year was $8,240 for an individual, so that 200 percent of poverty was $16,480. For a couple, the income range for 100 to 200 percent of poverty was $11,060 to $22,120.

In 1999, near-poor Medicare beneficiaries were less likely than poor beneficiaries and those with incomes above $20,000 to have any prescription drug coverage. About 62 percent of the near-poor had coverage in December 1999, compared with 68 percent of the poor and 70 percent of those above the near-poor income level (Figure 1).

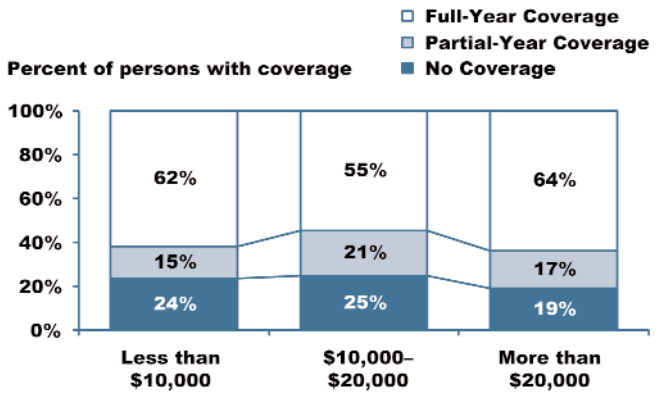
Figure 1. Prescription Drug Coverage of Medicare Beneficiaries by Income, December 1999



Source: Authors' analysis of 1999 Medicare Current Beneficiary Survey.

This group is particularly vulnerable to interruptions in coverage. Only 55 percent of near-poor beneficiaries had coverage for the whole year in 1999. One-fifth (21%) of near-poor Medicare beneficiaries with drug coverage lost that coverage for part of the year (Figure 2).

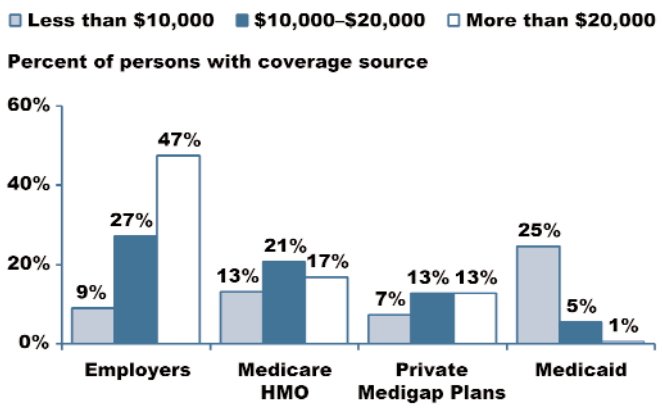
Figure 2. Continuity in Prescription Drug Coverage of Medicare Beneficiaries by Income, 1999



Source: Authors' analysis of 1999 Medicare Current Beneficiary Survey.

The near-poor are also more dependent on Medicare+Choice plans for prescription drug coverage than are other income groups. In 1999, more than one-fifth (21%) of the near-poor received prescription drug coverage through a Medicare+Choice plan, usually an HMO. Medicare HMOs have become the second-most important source of prescription drug coverage for the near-poor, after employer-sponsored retiree coverage (Figure 3). As our prior studies and others have shown, the quality and availability of prescription drug coverage in these plans has eroded since the Balanced Budget

Figure 3. Sources of Prescription Drug Coverage for Medicare Beneficiaries by Income, 1999



Source: Authors' analysis of 1999 Medicare Current Beneficiary Survey.

Amendment of 1997, with dramatic declines in coverage occurring after 2000.[2] Because of their greater reliance on those plans, the near-poor are especially vulnerable to these declines.

Prescription Drug Use

About one-third of near-poor beneficiaries have four or more diseases and nearly three of 10 say that they are in fair or poor health. In general, they are healthier than the poor but not in as good health as those with higher incomes. Given their health status, it is not surprising that more than 90 percent of the near-poor filled at least one prescription in 1999 and that they averaged 25.1 prescriptions in the year. More than 13 percent of near-poor Medicare beneficiaries filled over 50 prescriptions, and more than one-fifth filled over 40 prescriptions (Figure 4). On average, the near-poor filled fewer prescriptions than the poor, but more prescriptions than those with higher incomes.

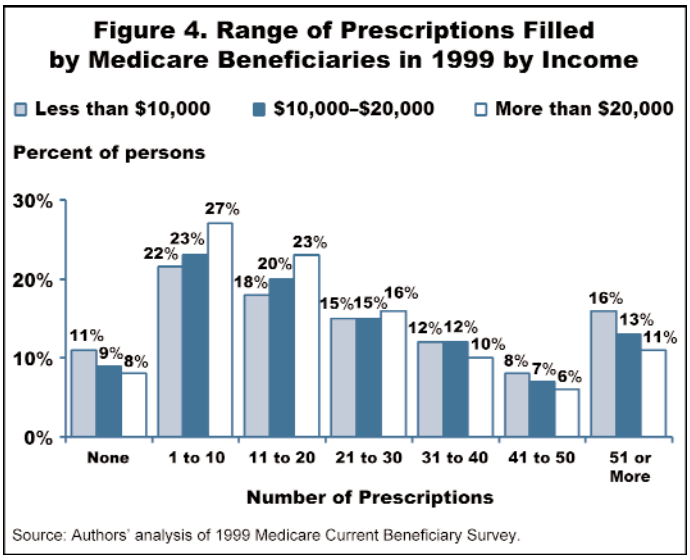


Figure 4. Range of Prescriptions Filled by Medicare Beneficiaries in 1999 by Income

Source: Authors' analysis of 1999 Medicare Current Beneficiary Survey.

Prescription Drug Spending

In 1999, average prescription drug spending by the near-poor was $964, compared with $1,040 among all Medicare beneficiaries. The near-poor may spend less than the average beneficiary because they have less-generous coverage as well as lower income than the average Medicare beneficiary.

Drug expenditures reached $3,000 for more than 5 percent (5.2%) of the near-poor in 1999, triple the proportion just six years earlier (1.5%) (Figure 5).

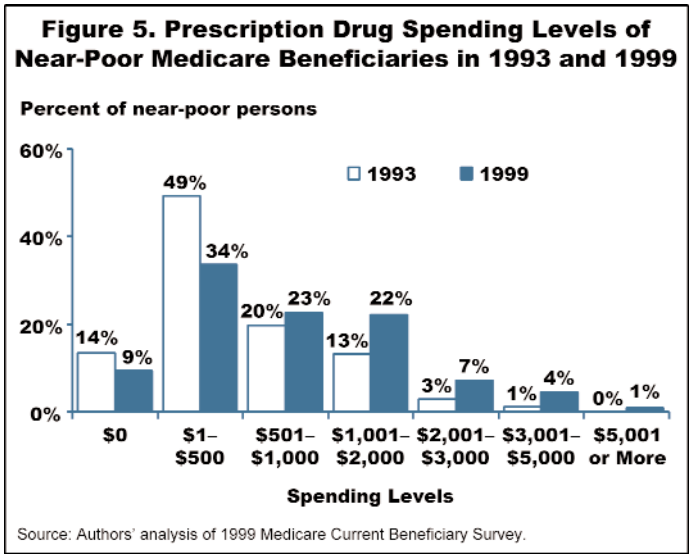


Figure 5. Prescription Drug Spending Levels of Near-Poor Medicare Beneficiaries in 1993 and 1999

Source: Authors' analysis of 1999 Medicare Current Beneficiary Survey.

A little more than half of the total prescription drug expenditures of the near-poor were covered by third-party payers. As a result, this group of Medicare beneficiaries spent more out-of-pocket on prescription drugs than did the other income groups (Figure 6). Out-of-pocket spending by the near-poor increased more than 37 percent from 1993 to 1999.

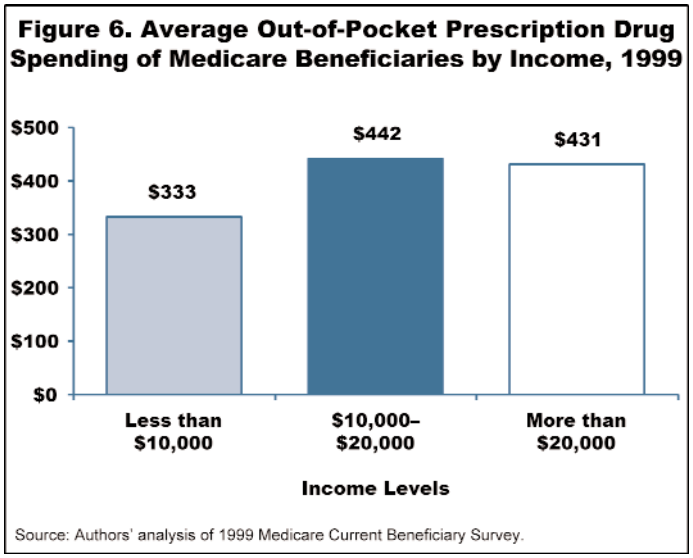


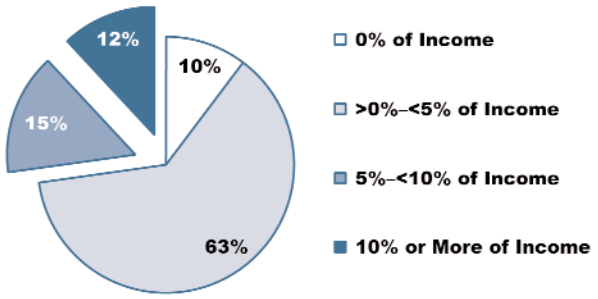
Figure 6. Average Out-of-Pocket Prescription Drug Spending of Medicare Beneficiaries by Income, 1999

Source: Authors' analysis of 1999 Medicare Current Beneficiary Survey.

Even as the percentage of the near-poor with some prescription drug coverage rose in the mid- to late-1990s, the number of persons with high out-of-pocket prescription drug costs relative to income rose. More than one-quarter (27%) of the near-poor spent 5 percent or more of their income on out-of-pocket prescription drug costs in 1999. Almost one of every eight (12%) of the near-poor spent more than 10 percent of their income on out-of-pocket prescription drug costs (Figure 7).[3]

Figure 7. Out-of-Pocket Drug Spending as a Percent of Income Among Near-Poor Medicare Beneficiaries in 1999

Percent of Population with Spending in Each Category



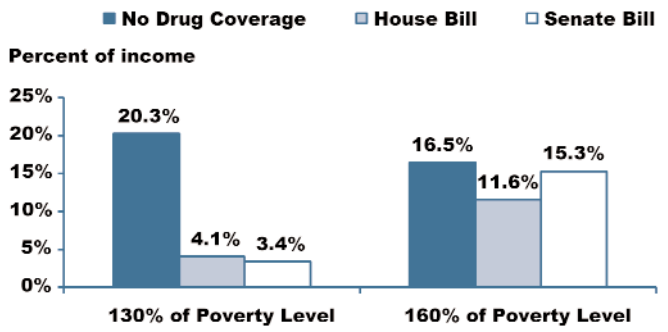
Source: Authors' analysis of 1999 Medicare Current Beneficiary Survey.

Near-Poor Elderly Couples and Pending Prescription Drug Legislation

A common feature of the current Medicare prescription drug proposals is that the programs provide subsidies for premiums and coinsurance for persons below or just above the poverty level. The House bill (H.R. 1) provides a full premium subsidy (for standard coverage) for persons at 135 percent of poverty or below and a partial premium subsidy for persons up to 150 percent of poverty.[4] The Senate Bill (S. 1) provides a full premium subsidy to persons who are under 135 percent of poverty and a partial premium subsidy for persons with income up to 160 percent of poverty, as long as they are not eligible for full Medicaid coverage. Both bills provide partial cost-sharing subsidies to persons just above the poverty line. The House bill requires a small copayment for each prescription, and the Senate bill reduces the deductible and coinsurance.

Most analyses focus on an individual beneficiary, but for an elderly couple trying to get along on a very modest income, high drug costs can be devastating. Figure 8 and the Appendix Table demonstrate how the House and Senate bills would affect two hypothetical elderly couples, one with annual income that would make them eligible for a full premium subsidy and partial cost-sharing subsidy in either bill and one with an annual income that would make them ineligible for premium or cost-sharing subsidies in either of the bills.[5]

Figure 8. Impact of House and Senate Bills on Out-of-Pocket Spending of Near-Poor Elderly Couples, 2006



Note: To derive spending for a couple, the average spending for a married man was combined with the average spending for a married woman.

Source: Simulation based on 1998 and 1999 Medicare Current Beneficiary Surveys.

Assuming both husband and wife spent the average amount on drugs that married people without any drug coverage in the $10,000 to $20,000 income bracket did, and inflating this amount to reflect recent expenditure growth, the couples would be expected to spend $3,459 out-of-pocket on prescription drugs in 2006.[6]

Under the House bill, a couple with income at 130 percent of the poverty level would not pay any premiums and would make only a small

copayment ($2 for generic drugs, $5 for brand-name drugs) for each prescription until their spending exceeded $2,000. Above that point, they would be responsible for all costs until their out-of-pocket spending exceeded $3,500. If they enrolled in the prescription drug plan, the dramatically lowered cost of prescription drugs because of insurance would increase their drug spending by approximately 33 percent according to our estimates. (Reduced out-of-pocket costs can be expected to increase use of drugs; see Methodology.) Based on this estimated level of total spending, the combination of copayments and coinsurance required under the House bill would total $700 for this couple, or 4.1 percent of their income.[7]

If the couple's income were at 160 percent of poverty, the House bill would offer no premium or coinsurance subsidy. As a result, the estimated increase in total spending if the couple chooses to enroll in the drug plan is only 25 percent. The combination of deductibles, coinsurance, and premiums that the couple would pay would total $2,437, or 11.6 percent of their income.

Under the Senate bill, the situation for the couple with income at 130 percent of poverty would be similar to that under the House bill. The Senate bill requires individuals at this income level to pay a $50 deductible and coinsurance of just 10 percent, as long as total spending is below $4,500. While we estimate that the generous coverage would increase prescription drug spending by this couple by 44 percent, the coverage would reduce their out-of-pocket spending to just $587, or 3.4 percent of their annual income.

The costs for the couple with income at 160 percent of the poverty level under the Senate bill would be similar to those under the House bill. In addition to $840 in premiums, this couple would have to pay a $275 deductible and 50 percent of costs, as long as total spending was under $4,500. Total out-of-pocket spending for this couple under the new drug plan would be $3,208, or 15.3 percent of their income.

Conclusion

The near-poor are a vulnerable population and are in need of significant help in paying for prescription drugs. In 1999, three-quarters of this group had some drug coverage, but more than 20 percent had coverage for only a portion of the year. Furthermore, this group has become increasingly dependent on Medicare+Choice, a source of drug coverage that has eroded dramatically in terms of quality and availability in the last seven years.

The near-poor are just as likely as other Medicare beneficiaries to use prescription drugs and more likely than those with higher incomes to be heavy users of prescription drugs. The combination of heavy use and less coverage means that they are less protected than other income groups from the high and rising costs of prescription drugs. In 1999, nearly 12 percent of the near-poor spent 10 percent or more of their income on out-of-pocket prescription drug costs.

The prescription drug proposals passed by the House and Senate would substantially reduce the share of income that some near-poor couples spend on prescription drugs. However, after the premium and cost-sharing subsidies in both the House and Senate bills phase out, many of the near-poor will continue to bear significant costs. Furthermore, in the House bill, coverage disappears once individuals have spent $2,000, meaning that even those barely above poverty could face significant out-of-pocket costs.

Compared with other income groups, Medicare beneficiaries just above the poverty level suffer from poor health, scant prescription drug coverage, and inadequate attention from policymakers. As the debate over adding prescription drug coverage to Medicare continues, it is important not to overlook this vulnerable group of beneficiaries.

Notes

[1] T. M. Smeeding, "Nonmoney Income and the Elderly: The Case of the 'Tweeners'," *Journal of Policy Analysis and Management* 5 (1986): 707–24.

[2] L. Achman and M. Gold, *Medicare+Choice Plans Continue to Shift More Costs to Enrollees* (New York: The Commonwealth Fund, April 2003); B. Briesacher, B. Stuart, and D. Shea, *Drug Coverage for Medicare Beneficiaries: Why Protection May Be in Jeopardy* (New York: The Commonwealth Fund, January 2002).

[3] Data from the Medicare Current Beneficiary Survey (MCBS) may overstate or understate the ratio of spending to income. The MCBS collects only one person's prescription drug spending, but both persons' income. It does not collect data on spending or income of other family or household members who may share residence, expenses, and income. The MCBS also does not collect data on premiums paid for prescription drug insurance. Goldman and Smith (2001) argue that the MCBS underreports household or family income by 20 to 40 percent. Alecxih et al. (2001) argue that the MCBS income data should be compared with incomes of single individuals and couples and that the MCBS data compare well with independent estimates for single individuals, but are somewhat lower for couples. Crystal et al. (2000) indicate that MCBS median income is similar to estimates from independent sources. On the other hand, the MCBS also underreports prescription drug spending (personal communication from MCBS staff). Current estimates suggest this spending underreporting is 15 to 20 percent. D. Goldman and J. Smith, "Methodological Biases in Estimating the Burden of Out-of-Pocket Expenses," *Health Services Research* 35 (February 2001): 1357–65; L. Alecxih et al., "Reply," *Health Services Research* 35 (February 2001): 1365–70; S. Crystal et al., "Out-of-Pocket Health Care Costs Among Older Americans," *The Gerontologist* 55B (January 2000): S51–S62.

[4] The House bill also requires an asset means test.

[5] We assume that the first couple has annual income of $17,017, while the second couple has annual income of $20,944. These incomes are equivalent to 130 and 160 percent of the poverty level for 2003, trended forward to 2006 at the average annual increase in the poverty level from 2000 to 2003. We also assume that the couples' spending would be similar to that of persons in our $10,000 to $20,000 income bracket from 1999.

[6] Based on extrapolated data from the MCBS for drug spending in 2006, we estimate that 46 percent of near-poor persons with full-year drug coverage will exceed $2,500 on prescription drug spending. This suggests that as many as one-fifth of married couples will spend more than $5,000.

[7] The table assumes that drug spending in 2006 is approximately 143 percent higher than in 1999, based on estimates of actual and projected spending increases from the National Health Accounts, http://cms.hhs.gov/statistics/nhe/projections-2002/t2.asp. We estimate the impact of each bill on the overall spending of each couple, then estimate their share of costs given their new level of spending and drug coverage.

Appendix Table. Impact of House and Senate Bills on Out-of-Pocket Drug Spending of Near-Poor Elderly Couples by Income

	Effect of H.R. 1				Effect of S. 1			
	Couple with Income at 130% of Poverty Level		Couple with Income at 160% of Poverty Level		Couple with Income at 130% of Poverty Level		Couple with Income at 160% of Poverty Level	
	Without Drug Coverage	With Drug Coverage	Without Drug Coverage	With Drug Coverage	Without Drug Coverage	With Drug Coverage	Without Drug Coverage	With Drug Coverage
Annual Income	$17,017	$17,017	$20,944	$20,944	$17,017	$17,017	$20,944	$20,944
Total Drug Spending	$3,459	$4,584	$3,459	$4,310	$3,459	$4,971	$3,459	$4,186
Premiums	$0	$0	$0	$840	$0	$0	$0	$840
Copayments	$3,459	$700	$3,459	$1,597	$3,459	$587	$3,459	$2,368
Total Out-of-Pocket Drug Spending	$3,459	$700 [1]	$3,459	$2,437 [2]	$3,459	$587 [3]	$3,459	$3,208 [4]
Out-of-Pocket Drug Spending as a Percent of Annual Income	20.3%	4.1%	16.5%	11.6%	20.3%	3.4%	16.5%	15.3%

[1] We estimate husbands spend $2,086 and wives spend $2,498 for total spending of $4,584. Each person would pay $2 per generic prescription until they reach total spending of $2,000. Above $2,000, each person would pay the full cost of the prescription. We estimate the couple would pay $115 in copayments under the $2,000 threshold and $585 in spending above the threshold for a total of $700.

[2] We estimate husbands spend $1,892 and wives spend $2,418 for total spending of $4,310. Each person pays a $250 deductible. Wives spend $350 on cost-sharing for spending between $250 and $2,000 and the full $418 on spending above $2,000. Husbands spend $328 on cost-sharing for spending between $250 and $1,892.

[3] We estimate husbands spend $2,096 and wives spend $2,875 for total spending of $4,971. Each person pays a $50 deductible. Husbands have $205 and wives have $282 of cost-sharing above the deductible.

[4] We estimate husbands spend $1,757 and wives spend $2,429 for total spending of $4,186. Each person pays a $275 deductible. Husbands have $741 and wives have $1,077 of cost-sharing above the deductible.

Source: Simulation based on 1998 and 1999 Medicare Current Beneficiary Surveys.

Methodology

To estimate the effects of the current drug proposals in Congress on spending by a near-poor elderly couple, we used data on prescription drug use and spending by persons with incomes between $10,000 and $20,000 in 1998 and 1999 from the Medicare Current Beneficiary Survey, along with other sources. The average level of spending for persons in this group was inflated to an estimated spending level for 2006 using data on recent and projected increases in spending on prescription drugs. We assumed that increased spending would be equally divided between increases in utilization and increases in prices, consistent with recent research. We calculated the income of a couple at 130 percent and 160 percent of the federal poverty level in 2003, then inflated these amounts to 2006 based upon recent trends in the poverty level. The initial ratio between spending and income was then calculated.

We initially calculated how much the couples' out-of-pocket spending would change if they had the basic coverage outlined under each bill. For the couple at 130 percent of the poverty level, we assumed that, under the House bill, each prescription they filled would be a generic prescription with a $2 copayment. In the other cases, we calculated spending based upon required deductibles and coinsurance amounts. Since these reduced out-of-pocket costs are expected to increase the use of prescription drugs, we then estimated how much total prescription drug spending by the couple would increase. Our prior research suggests that each 10 percent reduction in out-of-pocket costs increases total spending by 5 percent. After re-estimating the couples' total costs, we recalculated their out-of-pocket costs based on the bill's features. The estimated relationship between spending and income is then calculated as the ratio of these re-estimated out-of-pocket costs and the couples' income.

About the Authors

Dennis G. Shea, Ph.D., is a professor of health policy and administration in the College of Health and Human Development at the Pennsylvania State University and faculty affiliate of the Center for Health Care and Policy Research, Social Science Research Institute, and Gerontology Center. Dr. Shea is a graduate of the College of William and Mary, Cambridge University, and Rutgers University.

Bruce C. Stuart, Ph.D., is executive director of the Peter Lamy Center on Drug Therapy and Aging at the University of Maryland School of Pharmacy. In 1997 he joined the faculty of the University of Maryland School of Pharmacy as the Parke-Davis endowed chair in geriatric pharmacotherapy and was selected as a Maryland Eminent Scholar for his work in geriatric drug use. Dr. Stuart received his economics training at Whitman College and Washington State University.

Becky Briesacher, Ph.D., is an assistant professor of pharmaceutical health services research at the University of Maryland School of Pharmacy and director of research at the Peter Lamy Center on Drug Therapy and Aging. Dr. Briesacher received her Ph.D. from the University of Maryland, Baltimore.

THE COMMONWEALTH FUND