



Issue Brief

Medicare

March 2005

Medicare is the federal health insurance program that provides services to one in seven people - 35 million seniors and six million non-elderly persons with disabilities – for a total of 41 million people. Medicare has covered eligible elderly beneficiaries without regard to income or medical history since it was established in 1965. Coverage for persons under age 65 who have disabilities was added in 1972.

Medicare consists of four parts:

- Part A covers inpatient hospital, skilled nursing facility, hospice and home health care.
- Part B covers physician and outpatient hospital care, lab tests, medical supplies and home health.
- Part C refers to managed care plans that provide Part A and Part B benefits to enrollees. Formerly called “Medicare+Choice”, it has been renamed to “Medicare Advantage.”
- Part D refers to the new outpatient prescription drug benefit that will be implemented in 2006, the Medicare Prescription Drug, Improvement, and Modernization Act (MMA).

Medicare and Prescription Drugs

The new Part D prescription drug benefit is a result of concern about seniors lacking prescription drug coverage and the rising cost of drugs. Part D will be implemented in 2006. Prior to 2006, most beneficiaries will be able to sign up for a federally-approved drug discount card, with some low-income beneficiaries receiving a \$600 subsidy to help pay for drug costs. Beginning in January 2006, private insurance plans will offer drug benefits under Part D for a monthly premium. In 2006, under the standard benefit, beneficiaries will pay:

- The first \$250 in drug costs (deductible);
- 25 percent of total drug costs between \$250 and \$2,250;
- 100 percent of drug costs between \$2,250 and \$5,100 in total drug costs (the \$2,850 gap or “hole in the donut”), equivalent to a \$3,600 out-of-pocket limit;
- The greater of \$2 for generics, \$5 for brand drugs, or 5 percent coinsurance after reaching the \$3,600 out-of-pocket limit (\$5,100 catastrophic threshold).

The Medicare prescription drug plan is of concern to low-income advocates because of the impact the drug plan will have on those eligible for Medicare and Medicaid, called “dual eligibles”. Dual eligibles would receive Medicaid’s guaranteed access to medically necessary drugs and low co-payments. Those in Medicare who are also in Medicaid must now get their drugs through Medicare. While they qualify for low-income help, they will have to receive their drugs through a private plan and will only receive financial help for drugs on that plan’s formulary. Low-income people may no longer receive the drug that works for them. For millions who receive Medicaid who do not have any co-payments now, they will have to pay for each prescription and the co-payment will increase annually.

Advocates will continue to ask for improvements to the Medicare prescription drug plan. For further information, go to the Families USA website at www.familiesusa.org.

