

Committee on Ways and Means
Subcommittee on Health
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August 24, 2004

The New Medicare Drug Benefit Will Provide Significant Savings for Seniors

Dear Colleague:

On July 26, the Centers for Medicare and Medicaid Services (CMS) released a proposed rule for the new Part D Medicare prescription drug benefit, which is scheduled to take effect on January 1, 2006. This benefit will help seniors save money on the cost of their drugs, with added savings for those with the greatest need: seniors with low-incomes or high drug costs or both.

One-third of Medicare seniors, and half of all minority seniors, will qualify for substantial low-income subsidies. On average, Medicare will pay 97% of the drug costs for 6.4 million low-income seniors who are currently served by state Medicaid programs.

Seniors qualify for this extra assistance based upon their income and assets. CMS makes it crystal clear that only liquid assets (those that can be converted to cash in 20 days) and real estate – excluding their primary residence – will be considered. Non-liquid assets, such as a second car, a wedding ring, burial plots, or family heirlooms are specifically exempted from calculating eligibility for this extra assistance. Seniors in need of this extra assistance should not and will not be penalized for owning their own home or planning for the future.

The proposed rule also closes some or all of the doughnut hole since help from state pharmacy assistance programs, family members, or charities will count toward the \$3,600 out-of-pocket spending threshold where Medicare's 95% coverage kicks-in. This smart policy allows state drug plans, family members and charities to help seniors take advantage of the 95% catastrophic drug coverage at much less cost to the beneficiary.

While added benefits go to those with low incomes or high drug costs, the new Medicare law will benefit every senior, regardless of income. On average, seniors without prior coverage will save more than 50% off what they currently pay for their drugs. On the back of this page you'll find a chart that shows how the law and the proposed rule will save seniors money on the cost of their drugs.

The proposed rule in conjunction with the Medicare endorsed drug cards is a further step to help reduce prescription drug costs and make the long-overdue Medicare prescription drug benefit a reality for seniors. If you have any questions please contact Kathleen Weldon with the Ways and Means Health Subcommittee at 5-3943.

Very truly yours,
Nancy L. Johnson
Chairman
Health Subcommittee on Ways and Means

Annual Drug Benefit Savings for a Beneficiary with Typical Drug Spending

Beneficiary Group	Annual Spending Today	Out-of-pocket Spending Under Part D	Percentage Savings After Premium	Dollar Savings After Premium
Beneficiary with standard coverage with incomes at or above 150% of Federal Poverty Level (FPL)	\$ 2,400	\$ 697.50	53%	\$1,274.50
Beneficiary with income under 150% FPL and modest assets	\$ 2,400	\$ 348.50	77%	\$1,837.50
Beneficiary with income below 135% FPL and low assets	\$ 2,400	\$ 109.85	95%	\$2,290.00
Beneficiary dually eligible for Medicaid with income below 100% FPL	\$ 2,400	\$ 62.77	97%	\$2,337.23
Beneficiary who is dually eligible for Medicaid and a nursing home resident	\$ 2,400	\$ 0	100%	\$2,400.00
<p>Explanatory Notes: \$2400 is close to the projected median spending for all beneficiaries in 2006. Beneficiary out-of-pocket and percentage savings assume 15% cost management savings by Part D plans, through price discounts and utilization management. Premium for the 150% FPL group is assumed to be in the middle of the sliding scale between \$0 and \$428. The out-of-pocket calculation for the 135% FPL and 100% groups assumes an average prescription price of \$65 and an average co-pay of \$3.50 and \$2, respectively.</p>				

Source: HHS