DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

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SUBJECT: Identifying Beneficiaries Eligible for the Medicare Part D Low-Income Subsidy, OEI-03-06-00120

BACKGROUND

Medicare Prescription Drug Program. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), Public Law 108-173, established the Voluntary Prescription Drug Benefit Program, also known as Medicare Part D. Effective January 1, 2006, this program provides an optional prescription drug benefit for all Medicare beneficiaries. Beneficiaries who choose to enroll in the Medicare prescription drug program will be responsible for certain out-of-pocket costs that may include a monthly premium, annual deductible, and copayments.

Subsidy Assistance. Beneficiaries with limited income and assets are eligible to receive assistance to pay for the out-of-pocket costs associated with their prescription drug coverage (42 U.S.C. 1395w-114). The fewer resources an eligible beneficiary has, the lower his or her out-of-pocket costs will be. Some beneficiaries receive drug coverage with no monthly premium, no annual deductible, and no copayments. Other beneficiaries pay copayments ranging from $1 to $5, but will not pay monthly premiums or annual deductibles. Still other beneficiaries have a sliding-scale monthly premium, a $50 deductible, and coinsurance of 15 percent.

To be eligible for the subsidy, a beneficiary's annual income in 2006 must be less than 150 percent of the Federal poverty level ($14,700 for an individual and $19,800 for a married couple living together) and assets should be below $10,000 for individuals and $20,000 for married couples. Assets include things such as bank accounts, stocks, bonds, and real estate other than the beneficiary's primary residence.

Outreach to Beneficiaries. The Centers for Medicare & Medicaid Services (CMS) has overall responsibility for implementing the prescription drug benefit. The Social Security Administration (SSA) was given responsibility for processing the subsidy applications and determining eligibility. CMS and SSA are both working to educate beneficiaries about the subsidy. CMS and SSA have divided outreach responsibilities for this population.

CMS Outreach to Beneficiaries. In May and June 2005, CMS sent notices to approximately 7.2 million beneficiaries who were automatically eligible for the subsidy program. The notice informed beneficiaries about their automatic enrollment in the prescription drug benefit and subsidy programs. Beneficiaries who were automatically eligible and did not need to apply for the subsidy included: (1) those eligible for both Medicare and full Medicaid benefits, (2) Supplemental Security Income recipients, and (3) participants in the Medicare Savings Programs through which Medicaid pays for beneficiaries' Medicare premiums and cost sharing.

SSA Outreach to Beneficiaries. Between May and August 2005, SSA conducted a mailing to almost 19 million beneficiaries potentially eligible for the subsidy.[1] SSA provided beneficiaries an application form and instructions on how to apply for the subsidy. SSA also hired a contractor to conduct follow-up phone calls to beneficiaries who did not respond to the initial mailing. Beneficiaries potentially eligible for the subsidy can apply through SSA or by going to their State Medicaid agency. SSA began accepting applications in May 2005 and State Medicaid agencies began taking applications in July 2005.

SSA's goal was to have as many potentially eligible beneficiaries as possible apply for the subsidy before the prescription drug program began in January 2006. As of July 14, 2006, approximately 5.2 million subsidy applications had been processed. Just over 889,000 did not require approval because the beneficiaries already were deemed eligible or filed a duplicate application. Of the remaining 4.3 million applications, approximately 2 million were approved. Enrollment in the subsidy is ongoing and outreach efforts will extend beyond the initial prescription drug plan enrollment period, which ended May 15, 2006.

METHODOLOGY

We contacted officials at CMS and SSA to learn about their efforts to identify the pool of beneficiaries potentially eligible for the subsidy. We requested information to identify the data sources these agencies used to identify this population. We reviewed legislation, regulations, agency guidance, and congressional testimony relating to the subsidy. In addition, we reviewed data from CMS, SSA, and the Congressional Budget Office to compile general information on the prescription drug benefit and specific information on the subsidy.

[1] This mailing excluded those beneficiaries CMS deemed automatically eligible for the subsidy.

RESULTS

Currently, there is no way to effectively identify the pool of beneficiaries who may be eligible for the subsidy. Neither CMS nor SSA has a comprehensive source of income data to accurately identify potentially eligible beneficiaries who need to apply for the subsidy.

CMS Data Sources. CMS has estimated that 6.1 million beneficiaries would meet the income and asset requirements if they applied for the subsidy. However, this estimate represents the size of the population likely to be eligible but does not identify which beneficiaries comprise this population. The estimate was based on information from the "Current Population Survey" and the "Survey of Income and Program Participation" conducted by the U.S. Census Bureau.[2] It did not identify individual beneficiaries to whom outreach efforts could be targeted.

SSA Data Sources. When developing its database for outreach to potentially eligible beneficiaries, SSA attempted to target its effort by using earnings data from the Internal Revenue Service (IRS). However, IRS objected to SSA's use of the information which would have enabled SSA to identify individuals who met the income requirement for eligibility.

IRS reported to SSA that it could not permit use of the information because of the application of Title 26, section 6103, of the United States Code, which addresses confidentiality and disclosure of tax return information. Pursuant to 26 U.S.C. § 6103(c), IRS is authorized to disclose a taxpayer's tax return or return information only to a person designated by the taxpayer. Therefore, this requirement does not allow SSA to use a beneficiary's IRS records until the beneficiary completes the subsidy application form.[3] Since no exception to this principle was authorized by the MMA, SSA was not able to use IRS information to target beneficiaries for outreach.

Without the ability to use IRS data, SSA used financial data from other Federal sources to identify beneficiaries who might be eligible for the subsidy. SSA identified these beneficiaries by compiling data from sources such as Railroad Retirement Board pensions, Veterans Administration benefits, and Social Security benefits. Based on this data, SSA mailed subsidy application forms to nearly 19 million beneficiaries. This mailing was an overestimate of the actual potentially eligible population because SSA did not have comprehensive income data for these beneficiaries.

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[2] The Current Population Survey (CPS) is a monthly household survey on employment and unemployment conducted by the U.S. Census Bureau for the Bureau of Labor Statistics. CMS used data from the 2004 CPS for its estimate. The Survey of Income and Program Participation (SIPP) is conducted by the U.S. Census Bureau and provides information on the income and program participation of individuals and households in the United States. CMS used data from the 2001 SIPP for its estimate.

[3] When beneficiaries sign the subsidy application form, they authorize SSA to obtain information relating to their income and assets from Federal, State, and local agencies, including IRS.

CONCLUSION

Beneficiaries who qualify for the subsidy will receive substantial savings on their prescription drug costs. Therefore, it is important for these beneficiaries to be identified and informed about the subsidy so they can take advantage of the benefit.

Legislation is needed to allow CMS and SSA to more effectively identify beneficiaries who are potentially eligible for the subsidy. The identification of these beneficiaries would allow for more efficient and effective targeting of outreach efforts. Access to IRS data would help CMS and SSA identify the beneficiaries most likely to be eligible for the subsidy. Specifically, IRS earnings data would help identify individuals who meet the income threshold for eligibility.

This type of data sharing already occurs under the Medicare Secondary Payer program. Section 1862(b)(5) of the Social Security Act, enacted by the Omnibus Budget Reconciliation Act of 1989, authorizes CMS, SSA, and IRS to share information about Medicare beneficiaries and their spouses to identify situations in which another health insurer, and not Medicare, should have been the primary payer for health care services. The process of sharing this information is known as the IRS/SSA/CMS Data Match. A similar type of data exchange would help identify beneficiaries who are potentially eligible for the Part D subsidy.

Even though SSA mailed nearly 19 million subsidy applications, as of July 2006, only 2 million or approximately 33 percent of the 6.1 million beneficiaries whom CMS estimated would be eligible for the subsidy were approved for the benefit. Legislation that would allow data sharing among CMS, SSA, and IRS would help to create a more accurate pool of potentially eligible beneficiaries. The identification of these beneficiaries would allow for a more targeted and effective outreach effort to ensure that all those who qualify for the subsidy receive this important assistance. Without knowing the true population of potentially eligible beneficiaries, it is difficult to judge the success of current outreach and enrollment efforts.

We hope you will find this information useful as you look for ways to ensure that beneficiaries who are potentially eligible for the subsidy are effectively and efficiently identified. If you would like to discuss this matter further, please contact me, or have your staff contact Judy Holtz at (202) 619-1343 or through e-mail [Judy Holtz@oig.hhs.gov]. Please refer to inspection number OEI-03-06-00120 in all correspondence.