Senate Democratic Policy Committee Hearing

"An Oversight Hearing on the Implementation of the Medicare Prescription Drug Benefit"

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My name is Thomas Rice. I am Professor of Health Services at the UCLA School of Public Health. I am honored to have been asked to provide testimony on the Medicare prescription drug "asset test," and on barriers facing beneficiaries in choosing a Medicare drug plan.

Although the new Medicare prescription drug benefit provides much-needed coverage to seniors and disabled Americans, budget constraints forced Congress to adopt a fairly limited benefit. Even though beneficiary premiums are subsidized by general revenues, those purchasing drug coverage under Part D will face substantial costs, including monthly premiums, a $250 annual deductible, 25% of drug costs for the next $2,000 in spending, and full financial responsibility for the next $2,850.

Poor and near-poor persons cannot afford this burden. As a result, Congress has provided highly-subsidized coverage for beneficiaries who are dually eligible for Medicare and Medicaid, and for others with incomes below 150% of the federal poverty level. Being eligible for this coverage makes an enormous difference. The Centers for Medicare & Medicaid Services estimate that on average, beneficiaries receiving the low-income subsidies would spend just $170 out-of-pocket in 2006 – compared to $1,122 for those not receiving it.[1]

A big problem, however, is that eligibility hinges not just on income but on passing an asset test as well. Those whose assets are deemed too high do not receive the extra subsidies, and thus, face all of the costs of premiums, coinsurance, and the "doughnut hole." To receive the best subsidies, assets cannot exceed $6,000 for individuals or $9,000 for couples. This includes amounts in checking and savings accounts, stocks, bonds, mutual funds, retirement accounts like IRAs and 401(k)'s, and equity in real estate. Excluded are the value of first homes and cars.

Because these thresholds are so low, many otherwise qualified, low-income Americans are excluded from the subsidies. The federal government reports that out of 3.6 million applications processed for the low-income subsidies, only 1.1 million – or 31% – are eligible. Of

[1] 70 FR 4468, January 28, 2005.

those excluded, 57% exceeded the asset limit, 32% the income limit, and 11% exceeded both limits.[2]

In research funded by the Kaiser Family Foundation, and using data from the U.S. Census's Survey of Income and Program Participation, Katherine Desmond and I estimate that 17% of low-income individuals – 2.37 million people – are precluded from the low-income subsidies due to the asset test.[3] We also found that, compared to the average beneficiary, those failing the asset test are more likely to be older, female, widowed, living alone, and without any insurance to supplement Medicare.

Nor is it the wealthy who are affected. Half of those who fail the asset test exceed the limit by $35,000 or less – hardly a nest egg for the rest of one's life. Not surprisingly, almost half of their assets are from checking and savings accounts. Just 13% are from retirement accounts, 18% from stocks and mutual funds, 16% from real estate, and just 3% from ownership of a business.

The most likely scenario is that when a husband dies, income plummets, making the widow potentially eligible for the low-income prescription drug subsidies. However, her accumulated assets exceed those allowed under the legislation. These older women are very vulnerable to financial catastrophe but, because they have some accumulated savings, are ineligible for the subsidies.

During their working years, Americans are encouraged to save for retirement and prepare for the possibility that they will face sizable long-term care expenses. Those to whom this message is most salient will have little or no income beyond what they receive from Social Security. By accumulating modest amounts of assets, either through bank accounts or retirement-savings vehicles, these same people have guaranteed that they will *not* qualify for the low-income Medicare drug subsidies – but the vast majority use prescription drugs every day. This burden tends to fall on the most vulnerable of seniors. Thus, modifying the asset test by increasing the asset threshold substantially, or eliminating the asset test altogether, would help protect more than two million low-income Medicare beneficiaries.

Let me end by briefly mentioning a larger issue – the difficulty all Medicare beneficiaries have in choosing the right prescription drug plan. In Los Angeles County, where I live, there are a staggering 85 choices of drug plans available: 38 Medicare Advantage plan choices offered by 18 companies and 47 stand-alone prescription drug plans offered by another 18 companies. This is not just an urban phenomenon. In Arkansas, beneficiaries must choose among 40 prescription drug plans offered by 15 companies.[4]

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[2] Kaiser Family Foundation, "Medicare Prescription Drug Enrollment Update," Washington, DC: Kaiser Family Foundation, January 2006.

[3] Rice, T., and K. Desmond, "Who Will Be Denied Medicare Prescription Drug Subsidies Because of the Asset Test," *American Journal of Managed Care* 12(1), January 2006: 46-54

[4] Hanoch, Y, and T. Rice, "Can Limiting Choice Increase Social Welfare? The Elderly and Health Insurance," *Milbank Quarterly* 84(1), 2006: 37-73 (forthcoming in April).

Moreover, beneficiaries face difficult choices in such things as what, if any, supplemental insurance plan to choose for their non-drug expenses. In an article by Yaniv Hanoch and myself, we illustrate the myriad of choices in a graphic that has been distributed to the committee.[5] Although it appears hopelessly complex, the actual Medicare drug benefit is far more complex because the graphic does not show how many companies are selling each of the different types of coverage. It is doubly-difficult for the poor, because they must do two things: pick a drug plan and sign up for the low-income subsidies. Is it any wonder, then, that only about half of the 29 million beneficiaries predicted by the Department of Human Services to sign up for coverage, have actually done so?[6]

Congress did seniors no favor by giving them such a complicated program with so many choices and decisions to make. It is no surprise that enrollment numbers are so low – few can figure the benefit out. Curiously, younger Americans face much less choice. Among employees offered health insurance from their employers, 37% have a single plan choice, 20% have two choices, 13% have three, and just 30% have four or more.[7]

An obvious way to simplify choice would be for government to act as a real broker, actively soliciting competitive bids and winnowing down the number of companies that ultimately can offer a product to beneficiaries – just like employers do for their employees.

Your deliberations on these issues are of the greatest importance to the welfare of older and disabled Americans.

Thank you.

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[5] Ibid.

[6] Kaiser Family Foundation (note 2).

[7] Hanoch and Rice (note 4).