How Should Policymakers Determine Eligibility for a Prescription Drug Benefit for the Elderly?

By Bruce Stuart, Becky Briesacher, and Dennis Shea

T his study examines six ways that policymakers can determine eligibility for a prescription drug benefit for the elderly. The results show that Medicare recipients' need for consistent and stable drug coverage does not necessarily fit neatly into income categories or any single measure of need. People faced with a combination of low income, lack of coverage, and high prescription drug bills have the most urgent need. If a broad definition of need is used–to include people with low incomes, those without continuous coverage, those with high costs, or those with multiple, chronic conditions–nearly 90% of Medicare beneficiaries would qualify.

Who needs Medicare prescription drug coverage most? Who has the greatest needs? That depends on how you define "need." Most Medicare beneficiaries will not qualify for prescription drug coverage under Medicare if annual income alone is used to determine eligibility. If a broader definition of need is used—to include people without continuous coverage, those with high costs, or those with multiple, chronic conditions—nearly 90 percent would qualify.

This analysis examines the question of Medicare recipients' needs for prescription coverage. Within this discussion, five criteria in addition to income will be used to define need. Next, the proportions of Medicare beneficiaries in each need category that would be eligible for coverage or a subsidized premium are assessed. Finally, this chapter will examine the relationship among the different need criteria.

Who has the greatest need depends on how you define need.

What Definitions of Need Can Policymakers Use?

This study looked at six facets of need, using data to define the criteria from the 1995 and 1996 Medicare Current Beneficiary Surveys.

Annual income related to the Federal Poverty Level. Three income categories were identified: less than or equal to 100 percent of the Federal Poverty Level (FPL); 101 to 150 percent of the FPL; and greater than 150 percent of the FPL.

Lack of access to affordable prescription coverage. Lack of access is not the same as being without coverage. Some Medicare recipients may choose not to enroll in a plan offering prescription benefits. There is no good way to tell which people are voluntarily without coverage and those who cannot afford or find prescription benefits. One possible way is persistent lack of drug coverage over an extended period—two years for this study.

Lack of stable drug coverage. Some people lack coverage for only short periods of time. These people use fewer prescription drugs and spend more for them out-of-pocket than those with continuous coverage.

High out-of-pocket spending. Most health insurance plans pay only a portion of drug expenses—and that portion varies widely depending on the source of coverage. Based on prescription spending in 1996, anyone paying more than $805 per year out-of-pocket meets this criterion.

Total drug expenses. Older adults who consistently have high total spending are at some risk even if insurance covers a substantial part. For this study, those in the category of high total expenses were those in the upper 20 percent of spenders for two years in a row, averaging $2085 in annual drug expenses over the two years.

Chronic disease burden. For this study, people with three or more chronic conditions from a list of 10 reported in the Medicare Current Beneficiary Survey qualified for this category. These diseases included Alzheimer's, arthritis, cancer, chronic lung disease, diabetes, heart disease, hypertension, mental disorder, osteoporosis, and stroke.

What Definition of Need Do Current Federal Proposals Use?

When looking at recent proposals to add a Medicare drug benefit, annual income in relation to Federal Poverty Level (FPL) is clearly the leading criterion in defining need. Many current proposals for providing a drug benefit under Medicare would cover only those with incomes at the Federal Poverty Level or slightly above, which will exclude a significant number of those with true need for assistance.

A proposed plan by Reps. Michael Bilirakis (R-FL) and Collin Peterson (D-MN) would limit eligibility for drug benefits to Medicare beneficiaries with income below 200% of the FPL. Former President Clinton's plan, meanwhile, promises universal entitlement with a government subsidy for half the premium for older adults above 150% of FPL, with a sliding scale declining to no premium for those between 150% and 135% of FPL.

The need for drug coverage does not fit neatly into income categories or any single measure of need.

Three other recent proposals also offer fully subsidized coverage for the poor, but provide lower subsidies than the President's plan for middle- and upper-income beneficiaries. Still other proposals will be put forth by the next Congress, and these will likely contain similar provisions.

How Many Medicare Beneficiaries Meet Each Definition of Need?

When using the five alternative need criteria beyond strict income guidelines, this study found the proportion of Medicare recipients considered "in need" under any one criterion is very different from the proportions under the various other need categories (Figure 1). The share of people on Medicare meeting the need definition varies from less than 10% to nearly 50%. Thus, Medicare beneficiaries' need for consistent and stable prescription drug coverage does not fit neatly into income categories as a percent of the Federal Poverty Level or any other single measure of need.

**Figure 1. What Percent of Medicare Beneficiaries
Meet Each Definition of Need?**
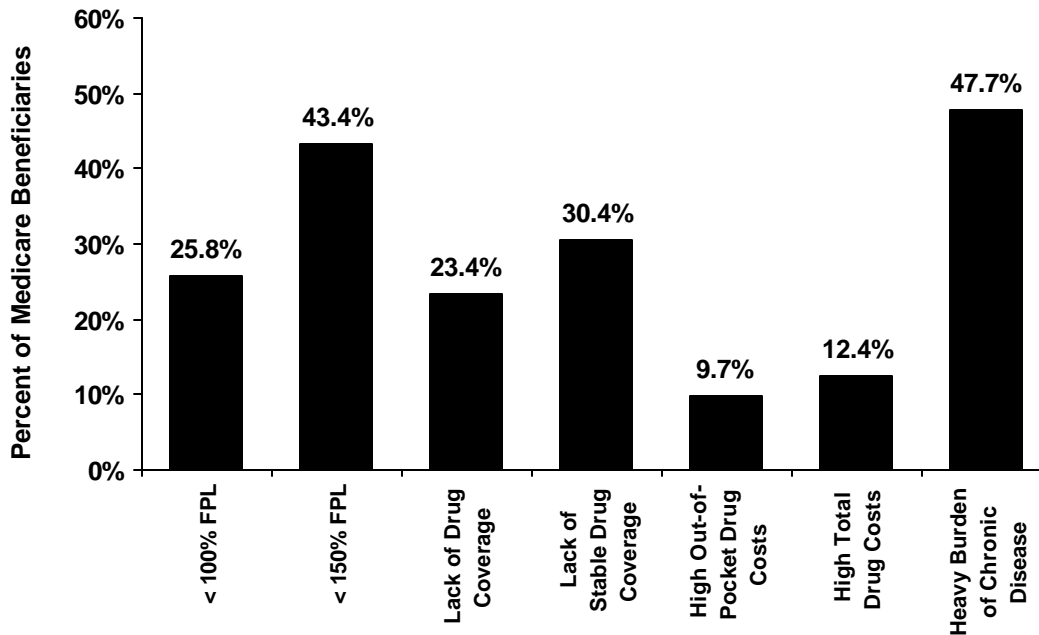
Note. Noninstitutionalized Medicare beneficiaries enrolled in both 1995 and 1996; FPL stands for Federal Poverty Level.

Source: B. Stuart et al., calculated from the 1995 and 1996 Medicare Current Beneficiary Surveys.

If one considers income alone, about 25% would qualify if the income cutoff was below 100% of the Federal Poverty Level (FPL), whereas 43% would qualify if the cutoff was below 150% of the FPL. As shown in Figure 2, if one considers the lack of stable coverage as the criterion, about half would be classified as "in need." Those needing coverage range from about 2 in 10 (18.9%) who were sometimes covered to about 3 in 10 (28.4%) who were never covered.

**Figure 2. What Percent of Medicare Beneficiaries
Currently Have Prescription Coverage?**
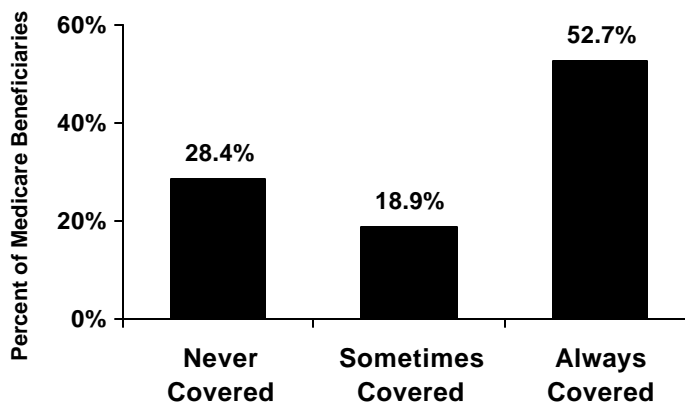
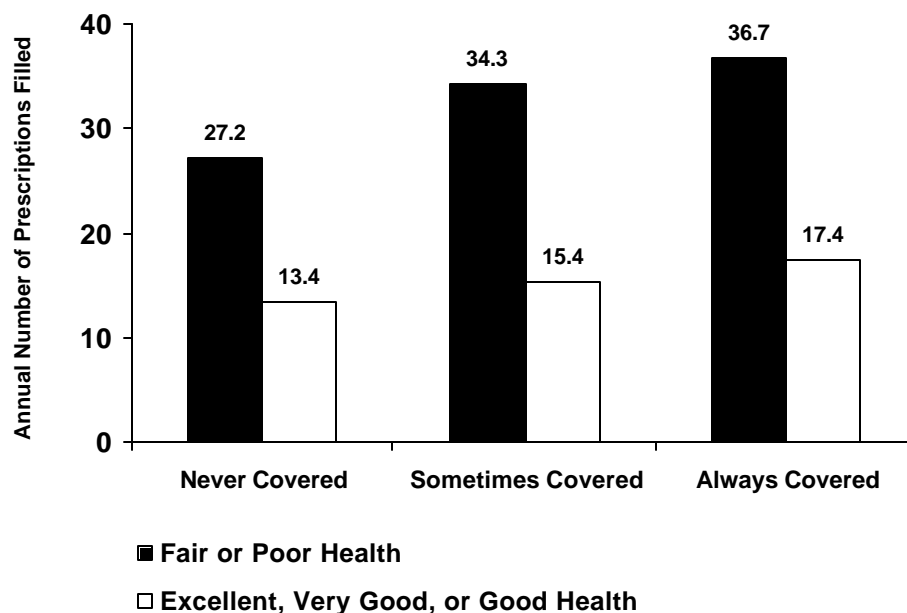Note. Noninstitutionalized beneficiaries enrolled in Medicare throughout 1996.

Source: B. Stuart et al., calculated from the 1996 Medicare Current Beneficiary Survey.

Also, the criteria for determining need benefits some subgroups more than others. For example, Black beneficiaries are much more likely to be in need based on income criteria. Yet, based on the other five need factors, whites are more likely to be in need. A greater percentage of the elderly aged 80 or older would receive benefits if the criteria were a lack of any drug coverage or heavy chronic disease burden. However, the disabled would benefit more if the criteria were a lack of stable coverage, high out-of-pocket drug costs, or high total drug costs.

How Many Medicare Beneficiaries Qualify If More Than One Measure of Need Is Used?

If different measures of need are combined, a different picture emerges. For example, if the lack of stable coverage is combined with health status, those with fair or poor health fill twice as many prescriptions as those in excellent, very good, or good health. As shown in Figure 3, this pattern holds whether or not Medicare recipients have drug coverage.

Figure 3. How Many Prescriptions Did Medicare Beneficiaries Fill in 1996 by Health Status and Drug Coverage?
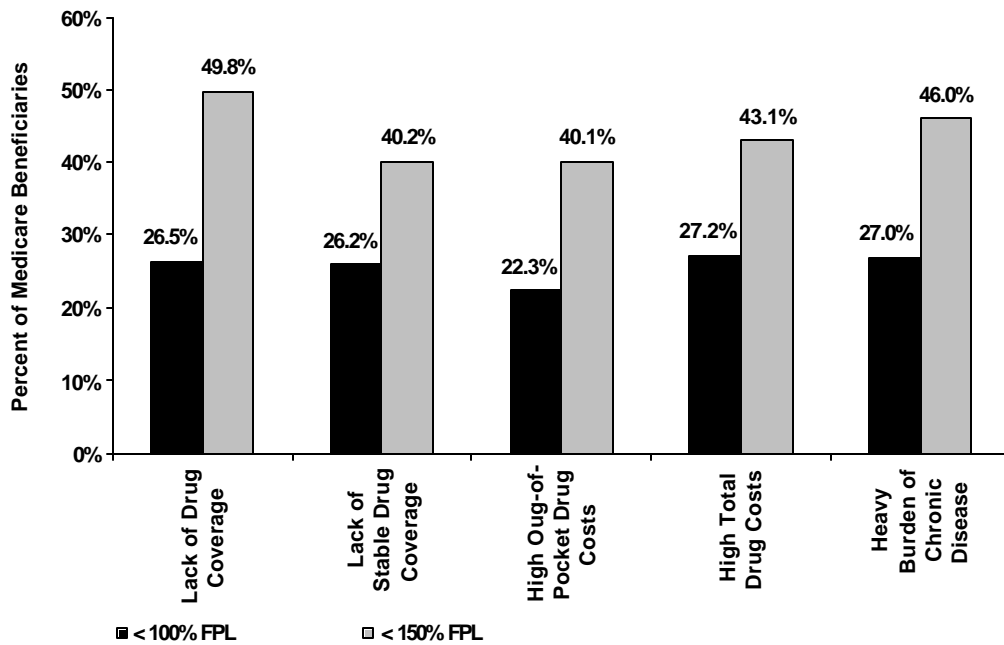

Note. Noninstitutionalized beneficiaries enrolled in Medicare throughout 1996.

Source: B. Stuart et al., calculated from the 1996 Medicare Current Beneficiary Survey.

If income is combined with the other categories of need, between 22% and 50% of Medicare recipients would receive prescription coverage (see Figure 4). If the Federal Poverty Level (FPL) is used as the cutoff for a drug benefit, no more than 27% of alternative-need beneficiaries would be covered. Raising the cutoff to 150% of FPL would increase the coverage rate to between 40% and 50%, but would still exclude more than half of the Medicare population who need coverage based on one of the other criteria.

Figure 4. What Percent of Poor and Near Poor Medicare Beneficiaries Have Other Needs for Prescription Coverage?

Note. Noninstitutionalized Medicare beneficiaries enrolled in both 1995 and 1996.
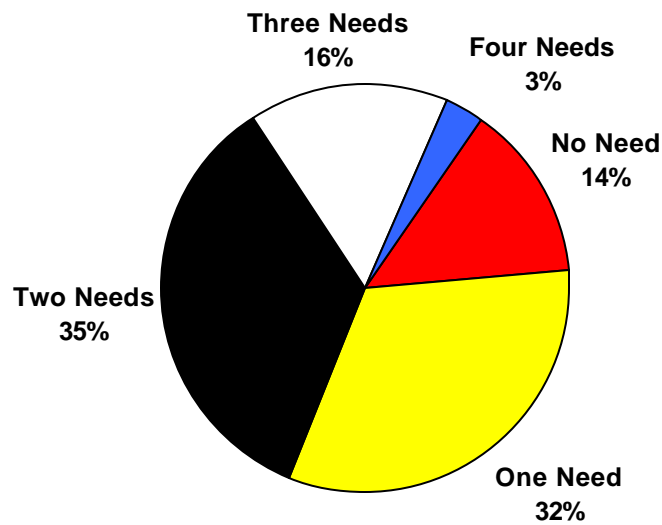
Source: B. Stuart et al., calculated from the 1995 and 1996 Medicare Current Beneficiary Surveys.

In four of the five alternative need categories, average total drug spending is higher for those with incomes above 150% of the Federal Poverty Level. This isn't surprising, because with higher income, people have increased ability to purchase both prescription coverage and medications. This finding suggests that actual spending levels probably understate the true needs of low-income beneficiaries. If drug coverage was universal, these differences probably would decrease or disappear.

How Many Medicare Beneficiaries Qualify if Any Measure of Need Is Used?

Figure 5 most clearly illustrates the extent of need for subsidized drug coverage. By including any criteria of need—either income-based (less than 150% of poverty), coverage-based (high individual or total spending), or health-based (three or more chronic conditions)—this study finds that nearly 9 out of 10 (86%) Medicare recipients need prescription drug assistance. If a recipient had to have at least two of these criteria, about 54% would qualify for coverage.

Figure 5. What Percent of Medicare Beneficiaries Have Multiple Needs for Prescription Coverage?

Note. Noninstitutionalized Medicare beneficiaries enrolled in both 1995 and 1996.

Source: B. Stuart et al., calculated from the 1995 and 1996 Medicare Current Beneficiary Surveys.

This study also highlights how important it is to look at different measures of need. Any one of the need criteria captures between about 10% and 50% of the total Medicare population (see Figure 1). Since 86% of the Medicare population meet at least one of the criteria, using any single measure of need misses at least one-third of the population that could be considered "in need" by an alternative definition.

What Are the Implications for Policy?

This study shows that Medicare recipients' need for consistent and stable drug coverage does not necessarily fit neatly into income categories or any single measure of need. In fact, no single measure of need is fully successful. Instead, the study shows that determining eligibility deserves careful consideration by policymakers because the need for drug coverage is multi-dimensional and pervasive. People faced with a combination of low income, lack of coverage, and high prescription drug bills have the most urgent need.

Regardless of where the income cutoff is set, a significant portion of Medicare recipients with true needs will be left out. In short, means-testing eligibility can neither assure that people with equal needs are treated the same, nor assure that those with differing need levels receive assistance in proportion to their need.

In addition to means-testing for eligibility, other aspects of a drug benefit have the ability to affect which Medicare recipients will have their needs addressed and which will not.

For example, one important benefit feature is the level of contributions required of beneficiaries, and the level of government subsidy provided. Most current proposals for a Medicare drug benefit take a different approach to means-testing by testing the premium subsidy, rather than the eligibility requirement. People above the income cutoff will pay 25% of a premium under some proposals and as much as 75% under others.

Given the experience with Medicare Part B (with a 75% premium subsidy), most people would probably sign up for a prescription drug program offering the most generous subsidy. Near-universal enrollment is important to assure that all beneficiaries who need the benefit have reasonable access to it.

A premium subsidy of only 25% will likely attract primarily high-cost beneficiaries. Since personal drug spending tends to continue from year to year, beneficiaries with anticipated drug costs below the 75% share of the premium have less financial incentive to sign up. If only high-cost people enroll, premiums will spiral up, making coverage unaffordable for all except those with low income whose costs are fully subsidized. For this reason, getting the premium subsidy right is critical to the success of any Medicare drug plan.

People faced with low income, lack of coverage, and high prescription drug bills have the most urgent need.

Conclusion

As the debate over a Medicare prescription drug benefit continues, policymakers need to remember to balance the benefits that might be achieved from using a simple needs assessment against the costs—in terms of the many truly deserving beneficiaries who would be excluded from coverage and the loss of social solidarity that supports the Medicare program itself.

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