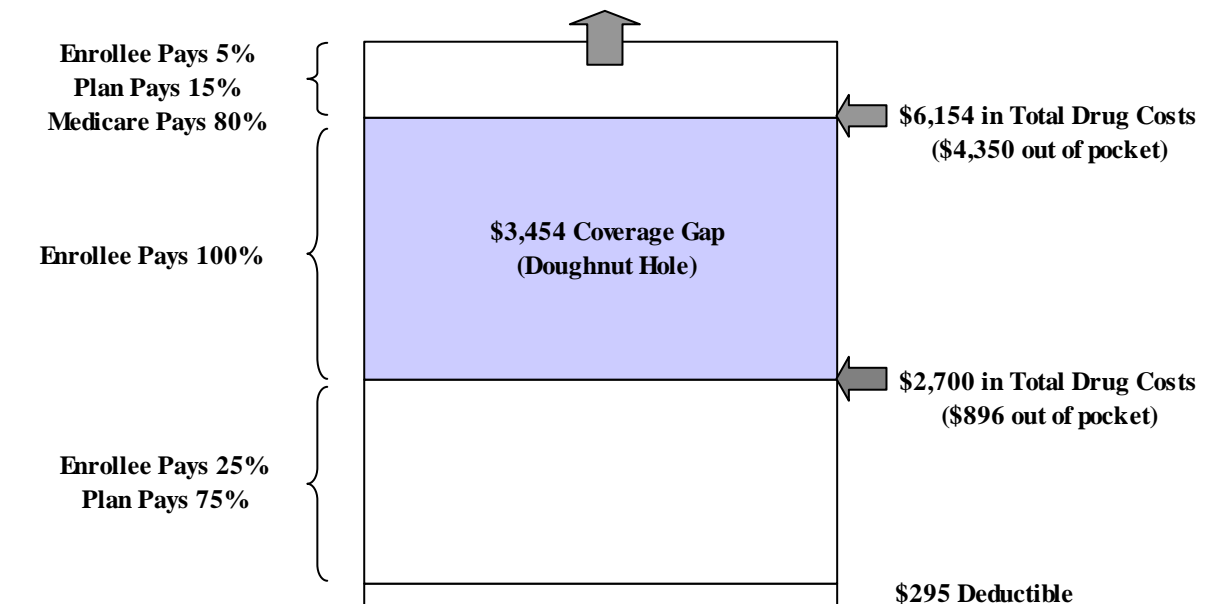


Closing a Gap in Medicare Drug Coverage: How to Help Millions of Beneficiaries Afford Needed Medication

- More than 3 million Medicare beneficiaries this year are at risk of falling into a gap in Part D drug coverage known as the “doughnut hole,” where they pay the full cost of drugs— while still paying their premiums—until reaching the plan’s catastrophic limit.
 - Over 26 million Medicare beneficiaries obtain their outpatient prescription drugs through Medicare Part D.
 - Now in its fourth year, the standard benefit under Part D has an annual deductible; an initial coverage period where beneficiaries are responsible for 25 percent of their drug costs; and catastrophic coverage that limits beneficiaries’ spending to roughly five percent of their drug costs. Part D also has a unique coverage gap, or doughnut hole, between the end of the initial coverage period and the catastrophic threshold, during which beneficiaries must pay all of their drug costs as well as premiums.

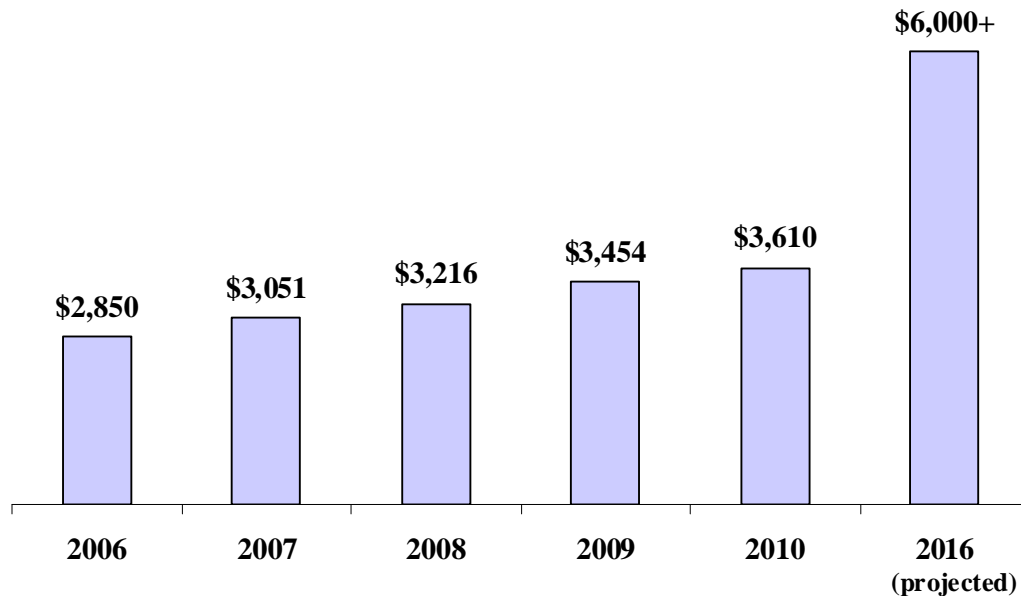
STANDARD MEDICARE PRESCRIPTION DRUG BENEFIT, 2009



- The coverage gap is expected to widen substantially in coming years, with potentially significant impact on the health and financial security of many beneficiaries. In 2009, the size of the doughnut hole stands at \$3,454. By 2016, it is projected to almost double, to more than \$6,000.

- The size of the doughnut hole is updated annually and indexed to reflect growth in Part D beneficiaries' per capita drug spending—which is affected by changes in drug prices, drug utilization or consumption, and the mix of therapy.
- A 2009 AARP Public Policy Institute report found that the overall average rate of increase in manufacturer prices for prescription drugs widely used by Medicare Part D beneficiaries exceeded the rate of general inflation in 2008.

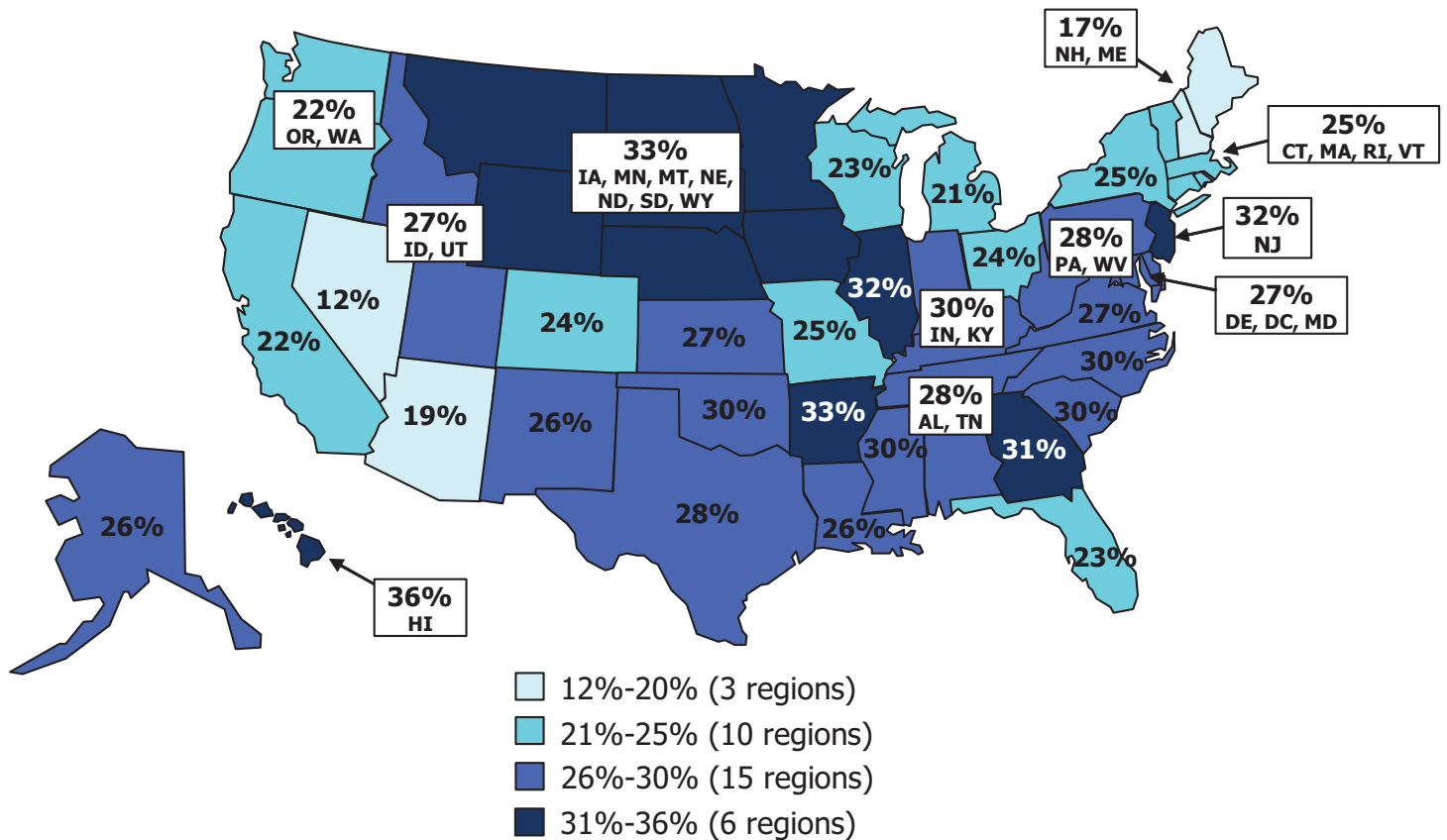
SIZE OF THE MEDICARE PART D COVERAGE GAP (DOUGHNUT HOLE)



- **There is growing evidence that many beneficiaries who reach the coverage gap forgo needed medications when faced with the full cost of their prescriptions—often leading to expensive hospitalizations and adverse health outcomes.**
 - Beneficiaries taking drugs for serious chronic conditions have a substantially higher risk of reaching the doughnut hole, according to a study by the Kaiser Family Foundation.
 - The study found that among enrollees who did not receive a low-income subsidy in 2007, 64 percent of those taking medications for Alzheimers reached the coverage gap, as did 51 percent of those taking oral anti-diabetic medications and 45 percent of patients on antidepressants.
- **Closing the doughnut hole could help reduce preventable hospitalizations and ease the financial burden on Medicare and many beneficiaries.**
 - Completely closing the doughnut hole would cost \$134 billion over the next ten years, according to the Congressional Budget Office.
 - The doughnut hole also could be gradually closed by indexing to something other than growth in drug spending, such as the rate of inflation. Or, it could be frozen in place, or decreased by a percentage every year.

Share of Part D Enrollees Who Reached the Coverage Gap in 2007, By Medicare Drug Plan Region

Excludes Part D Enrollees Who Receive Low-Income Subsidies and Non-Users



NOTES: Estimates based on analysis of retail pharmacy claims for 1.9 million Part D enrollees in 2007.
 SOURCE: Georgetown University/NORC/Kaiser Family Foundation analysis of IMS Health LRx database, 2007.