The Medicare Drug Benefit:
Changes in California for 2007

California HealthCare Foundation

FACT SHEET

The open enrollment period for the second year of the Medicare drug benefit (Medicare Part D) begins on November 15, 2006 and ends on December 31, 2006. Medicare beneficiaries can again enroll in one of two types of plans: a stand-alone prescription drug plan (PDP), or a Medicare Advantage managed care plan that also provides drug coverage (MA-PD). Beneficiaries who are already enrolled in a Medicare drug plan may use the open enrollment period to switch plans.

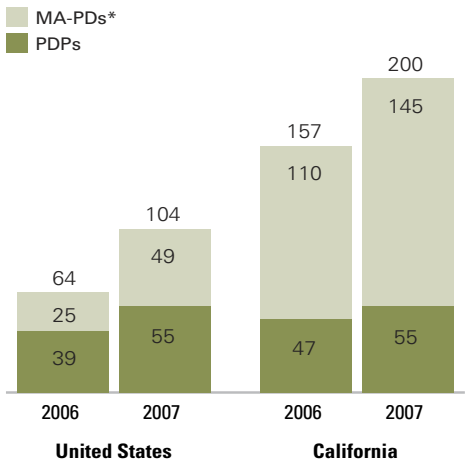
There are more plan options in 2007 for most beneficiaries, particularly those willing to receive their drug benefit through an MA-PD. Premiums and deductibles will rise in many plans, yet more are offering coverage for drugs in the "doughnut hole" gap and average copayments for commonly prescribed generics are falling. This fact sheet summarizes several important changes that beneficiaries and those assisting them should consider, even if they are satisfied with their current plan.

Plan Options

Medicare beneficiaries in California and the nation will have more plans to choose from in 2007. The number of Part D plans across the state of California will rise from 157 in 2006 to 200 in 2007 (Figure 1). The number of plans available to California beneficiaries in 2007 varies by county, ranging from 59 plans in Calaveras County to 95 plans in Los Angeles County.

Low-income beneficiaries eligible for the full federal subsidy, including people eligible for both Medicare and Medi-Cal, may choose among

Figure 1. Number of Part D Plans, 2006 vs. 2007



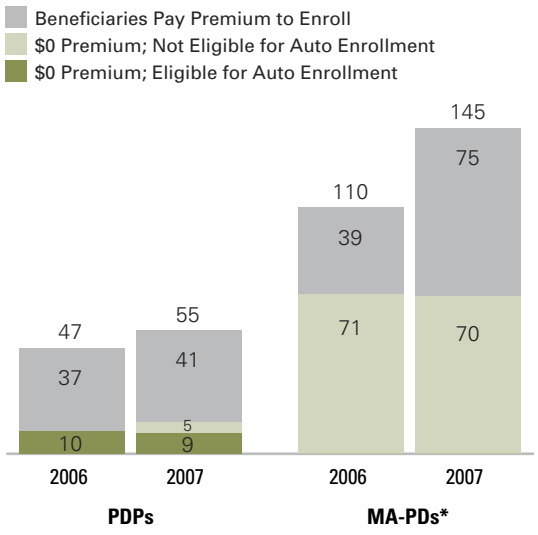
*Does not include Special Needs Plans (SNPs).

Source: Avalere Health analysis of Medicare Part D plan features. Plan benefit and formulary design data from July 2006 for 2006 data, October 2006 for 2007 data.

fourteen PDPs and several MA-PDs at no premium cost (Figure 2). In recent weeks, federal regulators have ruled that such beneficiaries may enroll in any basic plan as long as the premium it charges is no more than $2.00 above the regional subsidy benchmark for 2007 (set at $21.03 in California). Those who choose to enroll in more expensive plans will have to pay a premium. However, CMS will only automatically enroll new dual-eligible beneficiaries who don't choose a plan into one of nine PDPs in California with premium rates at or below the benchmark. Due to these changes, low-income beneficiaries now enrolled in four PDPs will be switched automatically to another eligible drug plan offered by the same plan sponsor. Coverage of the 100 most-prescribed Medicare drugs in the new plans is comparable to that provided in 2006.

November 2006

Figure 2. Options for Full-Subsidy California Beneficiaries, 2006 vs. 2007



*Does not include Special Needs Plans (SNPs). The number of MA-PD plans include the total number of MA-PDs available in California; the number available in each county varies.

Source: Avalere Health analysis of Medicare Part D plan features. Plan benefit and formulary design data from July 2006 for 2006 data, October 2006 for 2007 data.

Premiums

The median premium for both PDPs and MA-PDs in California will fall slightly in 2007. However, an examination of plan-specific premiums shows that most beneficiaries enrolled in PDPs will see a premium increase if they remain in their current plans (Table 1). Consequently, many Californians will have to switch plans if they want to take advantage of the increase in availability of lower-cost plan options.

Table 1. Part D Plan Premiums, 2006 vs. 2007

	AVERAGE NO. OF PLANS		MEDIAN PREMIUM		AVERAGE ENROLLMENT-WEIGHTED PREMIUM*	
TYPE	2006	2007	2006	2007	2006	2007
PDPs, CA	47	55	31.45	27.90	20.07	23.61
MA-PDs, CA	110	145	9.00	7.90	4.58	4.52
PDPs, U.S.	39	55	36.01	33.40	26.04	29.08
MA-PDs, U.S.	25	49	18.81	19.70	11.25	9.22

*Enrollment-weighted average based on July 2006 enrollment data, matched to 2007 offerings.

Source: Avalere Health analysis of Medicare Part D plan features. Data from July 2006 for 2006 data, October 2006 for 2007 data.

People who were eligible for the drug benefit but did not enroll before May 15, 2006 may enroll in a drug plan during the open enrollment period, though they will have to pay a penalty. The penalty equals 1 percent of the national average premium for each month the eligible individual delayed enrolling. This amount is added to the person's monthly Part D premium, for life. For those who sign up during this open enrollment period, the penalty is $2.25 per month, figured as seven months' worth of delay, multiplied by the national average premium rate of $32.20.

Coverage and Cost Sharing

Drug coverage appears to remain steady in 2007. For example, an examination of PDPs in California shows that coverage of the 100 most commonly prescribed drugs for Medicare beneficiaries increased slightly, from an average of 94.9 in 2006 to 95.7 in 2007 (Table 2).

Federal law requires beneficiary cost sharing under Medicare Part D to be raised each year to match the growth in drug spending. For 2007, the standard deductible will climb from $250 to $265. As shown in Table 2, there is little change in the number of plans offering coverage with no deductible.

Table 2. Part D Coverage, 2006 vs. 2007

	100 MOST PRESCRIBED DRUGS COVERED*		PERCENT WITH $0 DEDUCTIBLE		PERCENT WITH COVERAGE IN GAP	
TYPE	2006	2007	2006	2007	2006	2007
PDPs, CA	94.9	95.7	60%	60%	15%	25%
MA-PDs, CA	92.5	95.4	91%	93%	36%	67%
PDPs, U.S.	†	95.8	58%	60%	15%	29%
MA-PDs, U.S.	†	94.6	80%	87%	28%	29%

*MA-PDs values for 100 most prescribed drugs covered exclude Special Needs Plans (SNPs).
†Figure not computed for this analysis.

Source: Avalere Health analysis of Medicare Part D plan features. Data from July 2006 for 2006 data, October 2006 for 2007 data

The initial coverage limit will rise from $2,250 in 2006 to $2,400 in 2007. To reach catastrophic coverage, where the program pays 95 percent of the cost of drugs, the beneficiary's out-of-pocket costs must reach $3,850 and total drug use will have to exceed $5,451. The

corresponding amounts in 2006 are $3,600 and $5,100, respectively.

The gap between the initial coverage limit and the catastrophic coverage threshold is referred to as the "doughnut hole." The percent of drug plans offering coverage in the doughnut hole will nearly double from 2006 to 2007, and the number of such plans will more than double. Most of coverage in the gap is restricted to generic drugs only.

For low-income beneficiaries who qualify for the full federal subsidy, most copayment amounts will increase. Those covered by both Medicare and Medi-Cal will see their copayments for generics remain $1.00 while copayments for brand drugs increase from $3.00 to $3.10. Copayments for other full-subsidy beneficiaries will rise from $2.00 to $2.15 for generics and from $5.00 to $5.35 for brand drugs.

For other beneficiaries enrolled in the Medicare drug benefit, copayment amounts for generics appear to be dropping, while those for brand-name drugs do not appear to follow a consistent pattern. Of the five most-commonly prescribed generic drugs, average share of cost for patients will fall in 2007. Of the five most commonly prescribed brand drugs, average patient cost sharing will increase for two and decrease for three (Table 3).

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Table 3. Copayments in California for Five Most Commonly Prescribed Generic and Brand Drugs, 2006 vs. 2007

		AVERAGE PATIENT COST SHARING		
DRUG	COMMON USE	2006	2007	CHANGE 2006-2007
Generic				
Levothyroxine Sodium	Hypothyroidism	$4.91	$4.15	– $0.76
Furosemide	High blood pressure	$2.83	$1.70	– $1.13
Atenolol	Chest pain; high blood pressure	$3.52	$3.16	– $0.36
Lisinopril	High blood pressure	$4.89	$4.15	– $0.74
Hydrocodone/Acetaminophen	Pain	$3.63	$3.02	– $0.61
Brand Name				
Lipitor	High cholesterol	$33.48	$32.32	– $1.16
Toprol XL	Chest pain; high blood pressure	$21.99	$20.80	– $1.19
Plavix	Heart attack; stroke	$31.14	$31.61	+ $0.47
Diovan	High blood pressure	$27.65	$27.59	– $0.06
Nexium	Acid reflux	$36.67	$38.11	+ $1.44

Notes: Patient cost sharing after deductible but before coverage gap. Unweighted average of copays/coinsurance for all plans covering each listed drug. Prices for plans in Zip Code 90026 filled at a preferred retail pharmacy for a 30-day supply of the following dosages: Levothyroxine Sodium 100mcg; Furosemide, 4mL vial, Atenolol 50mg, Lisinopril 10mg, Hydrocodone/Acetaminophen, 5-500MG, Lipitor 10mg, Toprol XL 50mg, Plavix 75mg, Diovan 80mg, Nexium 40mg.

Source: Pricing data from CMS PlanFinder tool as of October 24, 2006.