

Dealing With The Medicare Doughnut Hole

The Medicare Modernization Act (MMA) of 2003 introduced the Medicare Part D coverage gap, better known as the Medicare “*doughnut hole*.”¹ Implemented in 2006, Medicare Part D covers prescription drug costs for enrolled Medicare beneficiaries below \$2,250 and above \$5,100. Beneficiaries who have spent between \$2,250 and \$5,100 enter a gap where no prescription drugs are covered, leaving the patient financially responsible for pharmaceutical costs.² The Medicare Part D coverage gap is dwindling, as recent provisions of the Patient Protection and Affordable Care Act (ACA) aim to shrink the “*doughnut hole*” in order to lessen the burden on Medicare beneficiaries.

Approximately 1.5 million individuals, 7 percent of Medicare Part D enrollees, entered the “*doughnut hole*” in the program’s first year.³ These figures nearly doubled in 2009, reaching 3.4 million, or 12 percent of all enrollees.⁴ Under an ACA provision, the lower and upper threshold of the gap is scheduled to transition to \$2,930 and \$4,700, respectively, beginning the process of closing the Medicare “*doughnut hole*” in 2012.⁵ Closing the gap in coverage may be favorable for Medicare beneficiaries, as a 2009 study suggests that medication usage in the gap is lower than usage outside of the gap.⁶ This decreased usage is likely due to beneficiaries dividing pills in order to save on prescription refills.⁷

Beyond closing the coverage gap, the ACA presents several provisions to ease the financial challenges faced by Medicare beneficiaries in the “*doughnut hole*,” including rebates and manufacturer discounts. In 2010, the ACA introduced a \$250 rebate to Medicare beneficiaries in the coverage gap, and expanded coverage the following year to discounts on brand name prescriptions.⁸ In August 2011, the Department of Health & Human Services (HHS) announced that 899,000 beneficiaries in the “*doughnut hole*” saved approximately \$200 million in June due to the implementation of a 50 percent manufacturer discount on eligible brand name drugs. As of June 2011, Medicare enrollee’s total savings have reached \$461 million.⁹ The manufacturer discount will remain at 50 percent through 2020, with 2.5 percent of the beneficiary’s share covered by Medicare starting in 2013, growing to 25 percent in 2020.¹⁰ Overall, out of pocket prescription drug costs for beneficiaries in the

“*doughnut hole*” are supposed to fall to 50 percent in 2013 and to 25 percent in 2020. Generic drugs are similarly discounted.¹¹ Discounts and rebates are unlikely to change the length of time Medicare beneficiaries’ are in the “*doughnut hole*,” since these savings are counted toward the enrollee’s total spending on prescription drugs.¹²

For Medicare beneficiaries currently struggling with the coverage gap, ACA provisions may have a significant impact on personal prescription drug expenditures. Medicare’s Office of the Actuary estimated that without the recent ACA provisions, personal expenditures in the coverage gap would be approximately \$1,500 annually.¹³ With the ACA provisions, expenditures dropped to approximately \$900.¹⁴ Minimizing the “*doughnut hole*” is part of the ACA’s long-term goal to reduce healthcare cost and increase healthcare access. As such, the ACA mandates that by 2020, beneficiaries will only be accountable for 25 percent of costs in the coverage gap.¹⁵

While beneficial to patients and providers, the pharmaceutical industry will likely see a negative impact from shrinking Medicare Part D’s “*doughnut hole*.” Critics’ estimate over ten years, closing the coverage gap may ultimately cost approximately \$32 billion; a cost likely to be shouldered by the pharmaceutical industry.¹⁶ Some commentators warn that the 50 percent manufacturer discount could potentially increase long-term prescription drug costs gradually eliminating any realized monetary benefits for Medicare beneficiaries currently in the coverage gap.¹⁷

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3 Ibid.

4 “Explaining Health Care Reform: Key Changes to the Medicare Part D Drug Benefit Coverage Gap” The Henry J. Kaiser Family Foundation, March 2010, <http://www.kff.org/healthreform/upload/8059.pdf> (Accessed 11/28/11).

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- 14 Barry, "Paying Less for Drugs in the Part D 'Doughnut Hole'" 2011.
- 15 Kaiser, "Explaining Health Care Reform: Key Changes to the Medicare Part D Drug Benefit Coverage Gap" 2010.
- 16 "Changes to Medicare Part D: Who Benefits?" By Jessica K. DeMartino, *Journal of National Comprehensive Cancer Network*, Vol. 8 Supp. 7, September 2010, p. S-6 Accessed at http://www.jnccn.org/content/8/Suppl_7/S-4.full (Accessed 11/28/11).
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