



March 2010

## EXPLAINING HEALTH CARE REFORM: Key Changes to the Medicare Part D Drug Benefit Coverage Gap

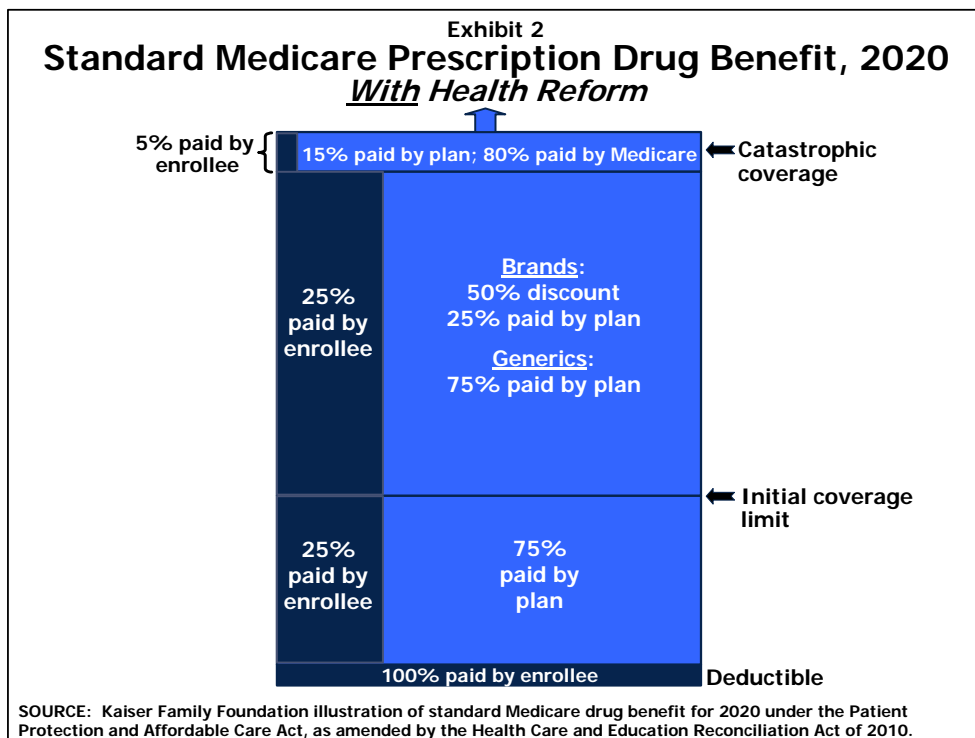
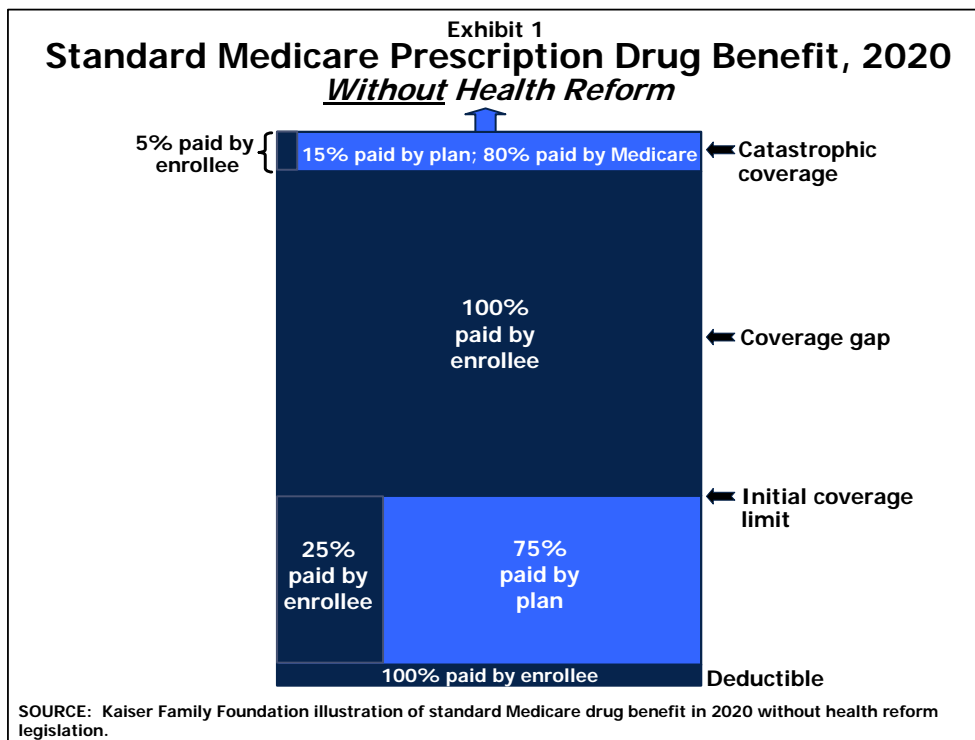
**On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act into law (P.L. 111-148). The health care reform law, which incorporates changes made by the Health Care and Education Reconciliation Act of 2010, makes several important changes to the Medicare Part D drug benefit to reduce Part D enrollees' out-of-pocket liability when they reach the coverage gap, known as the "doughnut hole."**

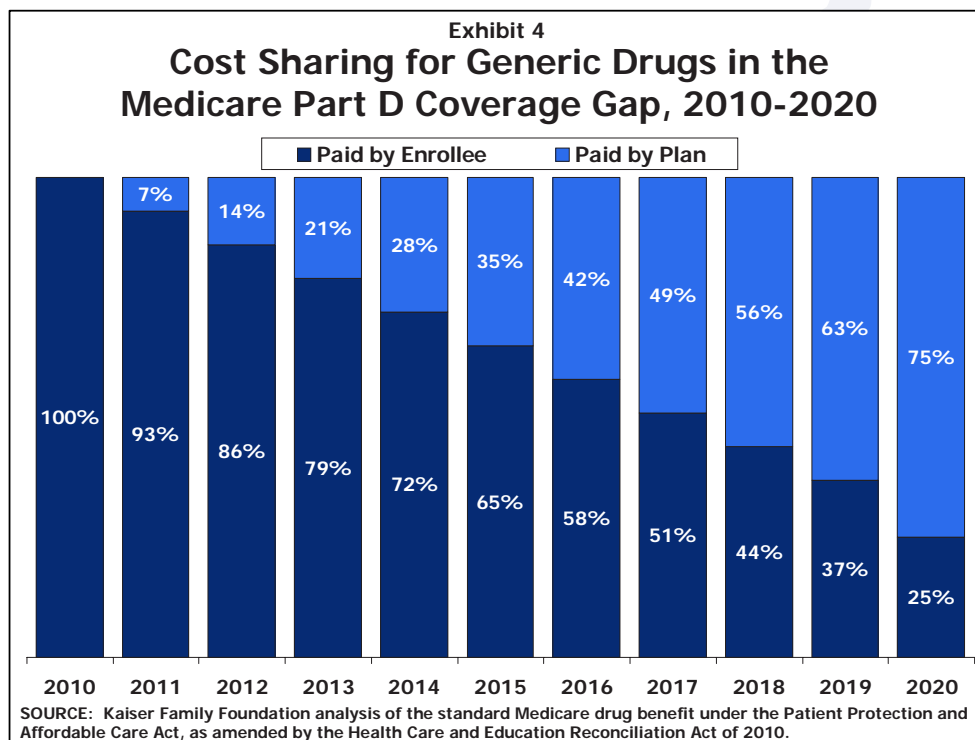
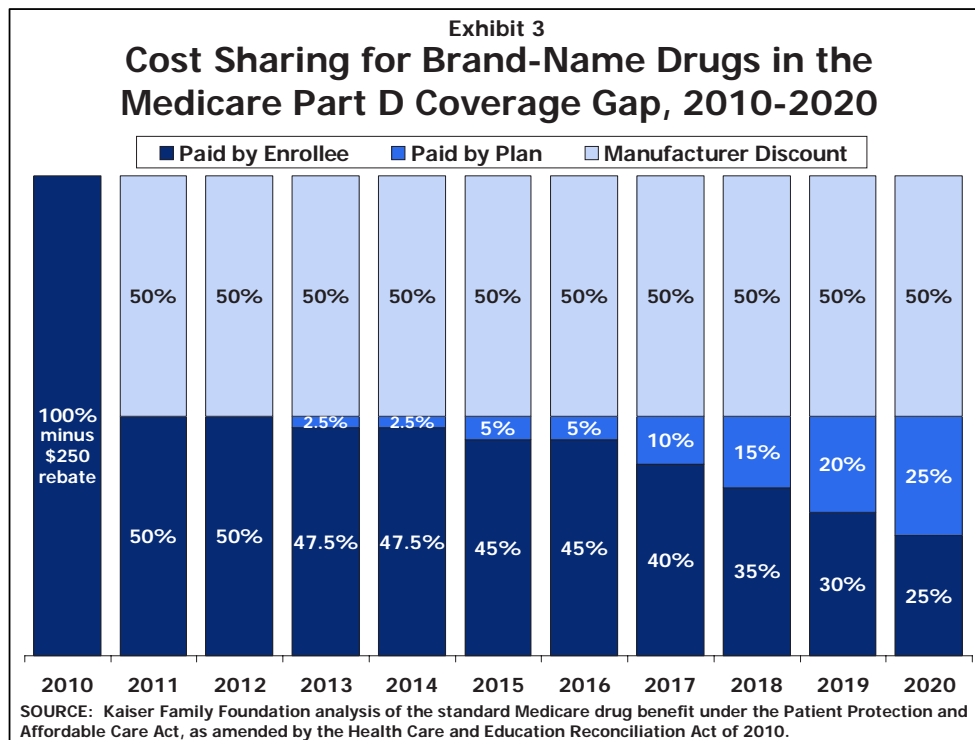
Since the Medicare Part D drug benefit took effect in 2006, beneficiaries enrolled in Part D plans have been required to pay 100 percent of their prescription drug costs after their total drug spending exceeds an initial coverage limit until they qualify for catastrophic coverage. The coverage gap is \$3,610 in 2010 and is projected to exceed \$6,000 by 2020. Most Part D plans have a coverage gap. In 2007, an estimated 3.4 million Part D enrollees (14 percent of all enrollees) reached the coverage gap.<sup>1</sup>

**The health reform law will reduce the amount that Medicare Part D enrollees are required to pay for their prescriptions when they reach the coverage gap, gradually phasing in different levels of subsidies for brand-name and generic drugs in the gap beginning in 2011.**

- In 2010, Part D enrollees with spending in the coverage gap will receive a \$250 rebate.
- Beginning in 2011, Part D enrollees who reach the coverage gap will receive a 50 percent discount on the total cost of their brand-name drugs in the gap, as agreed to by pharmaceutical manufacturers.
- Over time, Medicare will gradually phase in additional subsidies in the coverage gap for brand-name drugs (beginning in 2013) and generic drugs (beginning in 2011), reducing the beneficiary coinsurance rate in the gap from 100 percent to 25 percent by 2020 (*see Exhibits 1 and 2 for the standard benefit in 2020 before and after health reform*).
  - By 2020, for brand-name drugs, Part D enrollees will receive the 50 percent discount from pharmaceutical manufacturers, plus a 25 percent federal subsidy (phased in beginning in 2013). Part D enrollees will be responsible for only 25 percent of the total cost of their drugs out of pocket (*see Exhibit 3 for phase-in schedule for brands*).
  - By 2020, 75 percent of the cost of generic drugs in the gap will be subsidized by Medicare (phased in beginning in 2011), while beneficiaries will pay the remaining 25 percent out of pocket (*see Exhibit 4 for phase-in schedule for generics*).
- In addition, between 2014 and 2019, the law will reduce the out-of-pocket amount that qualifies an enrollee for catastrophic coverage, further reducing out-of-pocket costs for those with relatively high prescription drug expenses. In 2020, the level will revert to that which it would have been absent the reductions in the intervening years.

<sup>1</sup> Hoadley J et al., "The Medicare Part D Coverage Gap: Costs and Consequences in 2007," Kaiser Family Foundation, August 2008, <http://www.kff.org/medicare/7811.cfm>.





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