



Office of External Affairs

## **MEDICARE FACT SHEET**

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### **MEDICARE DRUG PREMIUMS WILL BE LOWER THAN EXPECTED CONSUMER CHOICE, COMPETITION WILL HELP BENEFICIARIES**

With robust competition among drug plans, prescription drug plans will offer coverage at a lower cost than independent experts had projected. As a result, the Medicare prescription drug coverage that begins January 1 will have:

- An average monthly premium of \$32.20, about \$5 less per month than previously estimated.
- A total cost to the government that is about \$15 less per month for each beneficiary than previously estimated, amounting to billions of dollars in reduced costs to taxpayers in the first year of the program.

#### **BACKGROUND**

Beneficiaries can sign up for coverage starting Nov. 15. The premium each person with Medicare pays for standard coverage depends on whether the plan they choose is above or below the national average cost. CMS anticipates that there will be a significant number of plans in each region with premiums below the national average of \$32.20.

The average premium is lower than projected because the weighted average of the actual bids from stand-alone prescription drug plans, which work with traditional Medicare coverage, and from Medicare Advantage plans, are lower than had been predicted. With robust competition, plans that do not offer low costs for high-quality benefits will have to charge higher premiums and will not attract beneficiaries.

Plans can reduce their costs below the average by taking steps such as effectively negotiating lower prices for drugs, by encouraging the use of generic drugs and other less costly alternatives (subject to Medicare's oversight), and by helping physicians and patients avoid medications that are contraindicated or that may cause costly errors.

A lower-cost stand-alone prescription drug plan will have a beneficiary premium that is lower than the national average. Many such plans will be available. Prescription drug plans may also attract beneficiaries by offering coverage that goes beyond the standard Medicare benefit, for example through a smaller deductible or with additional coverage.

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Premiums for prescription drug coverage in Medicare Advantage health plans are expected to be even lower than in the stand-alone prescription drug plans on average. Medicare Advantage plans will frequently offer additional drug coverage beyond the basic Medicare benefit.

Medicare Advantage plans bidding lower than the benchmark for regular Medicare Part A and Part B coverage can use 75 percent of the difference between their bids and the benchmark to reduce their prescription drug plan premium, offer supplemental benefits or reduced beneficiary cost sharing, or reduce Part B premiums paid by enrollees.

Before actual bids were received, overall Medicare subsidies for drug coverage (including both the 74.5 percent premium subsidy and the expected reinsurance subsidy) were projected to be approximately \$109.18 per month. This was reported in the March 2005 Medicare Trustees' Report. The current estimated Medicare subsidy (the amount the government pays), based on the actual bids and the final average premium for 2006, is \$94.08, about 14 percent lower. The average premium is now expected to be about 13 percent less than the March 2005 projection of \$37.37.

### **Low-Income Subsidy (LIS) Benchmark**

Also today, CMS announced the limited-income premium benchmark amounts in each region. About one-third of all Medicare beneficiaries will qualify for extra help in paying for their drug premiums, and most will have their full premium paid by Medicare if they enroll in a plan with the premium below this benchmark level. Based on these benchmarks, CMS expects that people who qualify for this extra help will have multiple prescription drug plan choices with no premiums, as well as additional no premium coverage options in Medicare Advantage plans. Beneficiaries at the upper end of the low-income subsidy range qualify for premium assistance on a "sliding scale" basis. Most beneficiaries with limited incomes will also have no deductibles, no gaps in coverage, and only small copayments for each prescription.

### **Bid Review Process Continues**

CMS is now completing its review of applications and bids of Medicare Advantage organizations with a prescription drug plan component, including the new regional PPOs. CMS is also completing its review of stand-alone prescription drug plans in the traditional Medicare program. CMS is currently reviewing important factors such as whether plans can ensure that beneficiaries are able to get their drugs at pharmacies close to their homes.

Subsequent to the bid review, but before plans can begin marketing in October, CMS will provide more details on the premiums, benefits, and other features of the prescription drug plans and Medicare Advantage plans that will be available in 2006

The notice of the Part D national average monthly premium bid amount, the regional prescription drug plan benchmarks and the regional low-income premium benchmarks is at <http://www.cms.hhs.gov/healthplans/rates/>

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