INSTITUTE FOR AMERICA'S FUTURE
ourfuture.org

Falling into the Doughnut Hole: How Congress and the Drug Industry Created a Trap for American Seniors and People with Disabilities

The costly, confusing, and corrupt design of Part D will cause dire health consequences as 7 million Americans fall into a doughnut hole from which few will escape.

June, 2006

INSTITUTE FOR
AMERICA'S FUTURE

Falling into the Doughnut Hole: How Congress and the Drug Industry Created a Trap for American Seniors

By Jeff Cruz & Roger Hickey

Executive Summary

When Congress created the Part D prescription drug program in 2003, they designed the program to benefit the pharmaceutical industries and their other special interest campaign contributors, rather than for American seniors and disabled people. The resultant drug benefit is needlessly complicated, confusing and costly, forbids Medicare from negotiating lower prices like the Veterans Administration does, and doesn't allow enrollees the choice of a guaranteed benefit directly from Medicare.

Another major flaw in the design is the coverage gap, known as the doughnut hole, into which about 7 million Americans are expected to fall.[1] This directly punishes middle class retirees and disabled people who've worked their entire lives and don't qualify for special poverty assistance, yet still need to live on meager fixed incomes. The median per capita income for retirees is $14,664. Many individuals who hit the doughnut hole are forced to choose between eating dinner and getting their prescription drugs.[2] This doughnut hole actually costs taxpayers more money, as those without coverage report worsening health and an increase in emergency hospital visits which are covered by traditional Medicare. Tragically, mortality rates have increased by nearly 25% where prescription drug coverage has been capped, such as with the doughnut hole.[3]

The average senior who enrolled in Medicare at the beginning of this year will hit the doughnut hole on September 22. Many individuals will enter the doughnut hole much sooner. Out of those individuals who enter the doughnut hole, which perhaps more appropriately should have been called the black hole, few will have the resources to escape. Those who do manage this feat will quickly be plunged right back into the hole the following year. Unfortunately, the doughnut hole will grow each and every year, worsening its effects.

Congress needs to fill in the doughnut hole by fixing the fundamental flaws in the design of Part D. Legislation, such as the Medicare Prescription Drug Savings and Choice Act, would save enrollees and taxpayers alike by offering a benefit directly from Medicare with negotiated prices. These savings should be used to eliminate the doughnut hole.

1. Introduction/overview of doughnut hole

The 2003 Medicare Modernization Act was created to provide a badly needed prescription drug benefit for American senior and disabled citizens, but it unfortunately included many provisions that are actually harmful to the intended beneficiaries. These misguided provisions include forbidding Medicare to negotiate for lower prices, forcing seniors to choose among private plans without the option of getting a benefit directly from Medicare, and allowing these private plans to change their prices and drugs covered at any time while American seniors and disabled people are not allowed to change their enrollment until the next open season. Another particularly harmful provision was the creation of a coverage gap, known as the doughnut hole, which was included in the fundamental design of the program. The consequences to seniors who fall into the doughnut hole are dire, and in some cases can even be fatal.

Under Part D, standard enrollees will have to pay the first $250 of their medications (in 2006). After this initial deductible, 75% of their drug costs will be covered, leaving the beneficiary to pay the remaining 25%. However, once the total medication costs have exceeded $2,250 (in 2006), the senior or disabled person must pay for their drugs completely out of pocket, while still paying a monthly premium. This is the gap in coverage that is known as the doughnut hole. Individuals can only escape the doughnut hole if their total drug costs exceed $5,100 (in 2006), when the catastrophic coverage kicks in and 95% of drug costs are covered. But very few Americans who enter the doughnut hole are expected to get out, and those who do will quickly plunge back into it the following year.

> Under Part D, Jose M. Flores, a 66-year-old school bus mechanic from La Joya, Texas paid $40 for each month's supply of Bvetta, an injectable medicine for diabetes, and $20 for Plavix, a blood thinner used to reduce the risk of heart attack and stroke. But when he went to get his next month's supply in May, he was dismayed to find he owed $167.56 for the Bvetta, and $1,129.62 for the Plavix. "It's almost useless," said Mr. Flores, "I'm paying the premium, but not getting protection."

This poor design has many consequences for seniors and the disabled. The best case scenario is that it only makes signing up for Part D even more confusing, adding another dimension to comparing the costs of up to 40 competing plans, each with different formularies, premiums, and deductibles, as well as making it more difficult to budget for annual out-of-pocket costs. To understand the current Part D drug program requires a level of health literacy that few individuals posses. In fact, a General Accounting Office (GAO) probe conducted during the period leading up to the enrollment deadline found that even when people did get through to one of the government's paid customer service representatives, one-third of all callers received inaccurate, incomplete, or inappropriate responses to basic questions.[4] Even more troubling, help line officials were accurate only 41% of the time when answering which plan would be cheapest for seniors who must take specific drugs.[5]

Part D can also cause seniors severe shock as their drug costs fluctuate wildly from one month to the next. But this is only the best-case scenario. The worst-case scenario is that seniors won't be able to afford the prescription drugs they need and will be forced to make decisions that can be hazardous, even fatal, to their health and ultimately more expensive to American taxpayers. As

will be discussed in further detail later, it has been found that the mortality rate increases by 22% among seniors cut off from prescription drug assistance.[6]

This needlessly costly and confusing prescription drug benefit was the product of a Republican-controlled Congress that was eager to please the powerful and well-funded pharmaceutical lobby. They could have easily made Part D in the mold of traditional Medicare, a government program that is simple to sign up for, has very low costs per enrollee and offers guaranteed coverage. But Part D was instead designed to be a confusing morass of private plans, each with different drug formularies, co-payments, deductibles and premiums.

> Dorothy Berger of Urbana, Illinois recently went to her pharmacy, private Part D plan card in hand, to get her monthly pain patch. "I had my $10 out to pay $8 for the patch. The pharmacist says, 'No, it's $489 and some change.'" Dorothy continues, "This system is terrible, and that's all there is to it. Whoever dreamt this up must have had a rock between their ears."

Perhaps this is because the Republican Congressional leaders behind the program were beholden to a pharmaceutical industry, and its 952 lobbyists, that filled their campaign coffers.[7] Under Republican Majority Leader Tom Delay's K Street Project, industries were permitted unprecedented access to the creation of legislation in return for their political/financial help. Former Republican Rep. Billy Tauzin (R-LA) chaired the House Energy and Commerce Committee, which has jurisdiction over Medicare and is credited with guiding the law's passage. Tauzin reportedly negotiated his new job for the drug industry's PAC, the Pharmaceutical Research and Manufacturers of America (PhRMA), while creating Part D.[8] The pay at his new position is reported to be at least $2 million a year, making him one of the highest-paid lobbyists in Washington.

In creating the 2003 Medicare Modernization Act, the pharmaceutical industry was given free rein to write a program designed more for its profit than for the needs of American seniors and disabled. Because the Republican Congress catered to these special interest groups, the legislation was specifically written to forbid the U.S. from negotiating lower drug prices, like the Veterans Administration has done successfully for years, and instead created a large coverage gap in which Americans would receive no prescription drug help whatsoever, even while still paying a monthly deductible.

2. Seven million to hit the doughnut hole

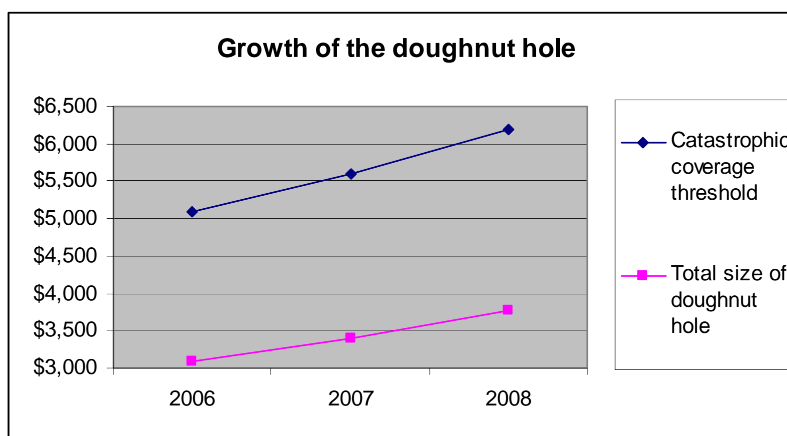
According to the conservative estimates of the Kaiser Family Foundation, it is predicted that out of the 11.8 million Medicare enrollees whose plans include a coverage gap, nearly 7 million of these individuals would hit the doughnut hole.[9] And a Kaiser researcher noted that this number could even be potentially much higher.[10] Furthermore, this doesn't include the 4.2 million who didn't sign up for the benefit because it was so costly and confusing. If you include these individuals, who don't have any prescription drug assistance whatsoever, the number of Americans who will fall into the doughnut hole this year will be more than 11 million.

While the administration highlights the fact that plans exist that offer some coverage in the doughnut hole, these plans make up only 15% of all plans offered, are much more expensive and often have severe restrictions that still limit access to prescription drugs during this period.[11] Because of the added costs and restrictions, only about 10% of stand-alone Part D enrollees and about 27% of Medicare HMO members enrolled in such plans.[12]

3. The growth of the doughnut hole

An important thing to remember about the doughnut hole is that its consequences are not stagnant. The doughnut hole will actually grow and increase over time, as shown in Figure 1 below. Under the standard plan the deductible increases by $25 annually so that the $250 deductible in 2006 would grow to $275 in 2007, $300 in 2008, and so forth. Of course, this is the standard benefit and not necessarily what each of the private plans would offer, but the government payout to these plans will certainly influence what terms they give their customers.

Figure 1



The increasing threshold for catastrophic coverage will be more significant to the 9-10% annual increase in the doughnut hole.[13] Reaching the catastrophic coverage threshold in 2006 requires $5,100 in total drug spending, but this rises to $5,596 in 2007 and $6,158 in 2008. While the level of spending in the 25% coinsurance range will also increase, it does not increase at the same rapid rate as the catastrophic level increases. As a result, the total size of the doughnut hole will rapidly increase over time and engulf more and more Americans if no legislative changes are made to fix Part D.

4. Doughnut Hole Day

> Victoria D'Angelo, a 56-year-old disabled woman from Denver fell into the doughnut hole in April. "[When] I hit the doughnut hole, I just busted into tears," D'Angelo said. "I just took it out on my credit cards." Stuck in the doughnut hole, D'Angelo has been forced to rack up credit card debt to pay for her needed prescription drugs.

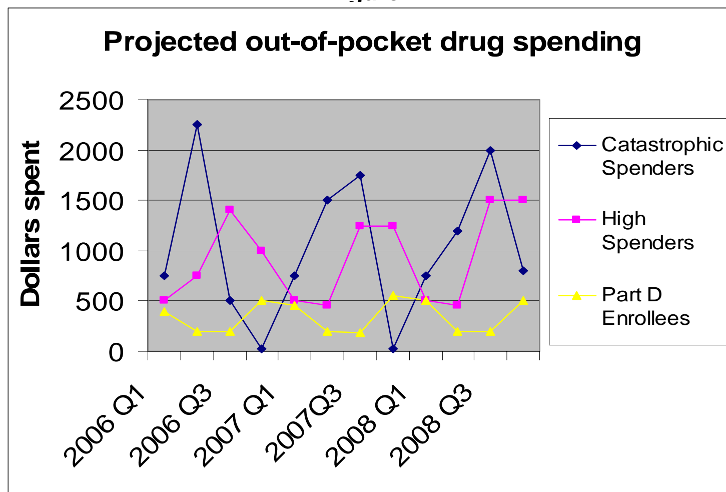
The millions of Americans with Part D coverage have different spending patterns and prescription drug needs, but the average Medicare enrollee's total drug spending for 2006 is estimated to be $3,081.[14] Accordingly, this means that an average Medicare beneficiary who enrolled in a stand-alone drug plan on Jan. 1st would be paying $257 dollars a month and would fall into the doughnut hole on Sept. 22nd. Of course, many seniors have already entered the doughnut hole and there will certainly be many seniors who won't hit the doughnut hole until later in the

year. Nevertheless, Sept. 22nd is the day that an average senior who enrolled in Part D would enter the doughnut hole. This dubious holiday has been dubbed “Doughnut Hole Day.”

Because of the rapid growth of the doughnut hole combined with a Part D that does nothing to discourage drug prices from increasing at nearly double the rate of inflation, Doughnut Hole Day will hit sooner in 2007 (Sept. 13th), and even sooner in 2008 (Sept. 10th) and thereafter. If Part D is allowed to remain fundamentally unchanged, the doughnut hole will negatively affect an increasingly high number of seniors and disabled earlier and earlier each year.

Certain subgroups of the Medicare population will reach the doughnut hole much sooner than Sept. 22nd. Mental health patients, who require more medication as their mental health problems can complicate physical health problems and vice versa, are projected on average to reach the doughnut hole by August 6, more than a month and a half before the Medicare population as whole.[15] In other examples, half of patients with schizophrenia would reach the doughnut hole by June 1.[16] For patients of depression, Doughnut Hole Day would fall on June 21 and more than half of those who suffer from anxiety will hit the doughnut hole by July 6th.[17]

Figure 2



The doughnut hole also means seniors and disabled people will experience a rollercoaster ride as they are hit with whopping, and often unexpected, high prices. Figure #2 demonstrates some of the ups and downs of Part D caused by the doughnut hole. The boxed stories show the important human dimension of how this rollercoaster drug benefit affects our seniors and people with disabilities.

> Karen Giovannetti, a retired beauty shop owner from San Jose, California, is disabled and depends on several medications. About to hit the doughnut hole, she laments, “I have to make decisions as to what is the most important drug to refill.”
>
> Her modest annual income is too high to qualify her for extra financial assistance offered to the poor. She was better off before the new Medicare prescription drug program started and she only had to pay a $10 co-pay for generic drugs and $20 for brand name drugs.
>
> “This program isn't saving me a dime,” she says. “Toward the end of the month, I'm running out of money, then they start a new calendar year, and I'm in the same mess.”

5. The black hole and its fatal health consequences

Labeling the coverage gap as a doughnut hole is perhaps not the best analogy. In fact, the coverage gap operates more like a black hole; once individuals fall into it, few get out. In order to get out of the doughnut hole, one would have to reach the $5,100 threshold before the year ends and the clock resets. Many seniors with fixed incomes cannot afford to pay the $3,600 in out-of-pocket expenses it takes to get out of the doughnut hole. In fact,

more than half of the population (55%) who enter the doughnut hole will be unable to escape it.[18] This means that 3.8 million Americans will enter the doughnut hole and remain in it throughout the year.[19]

This number could potentially be much higher due to the changes in people's behavior once they reach the doughnut hole. Many people on low fixed incomes will be forced to reduce their prescription drug intake, regardless of the consequences to their health. This is what makes eliminating the doughnut hole absolutely critical. This program, which was created so that seniors wouldn't have to choose between having food on their table and getting needed prescription drugs, forces them to make this terrible choice after all, with potentially dire consequences.

A study in the *New England Journal of Medicine* examined the effects that capping prescription drug benefits at $1,000 has had on seniors in the Medicare +Choice plan in 2003, and the results have extremely disturbing implications for seniors falling into the doughnut hole in Part D.[20]
Seniors who reached this cap, which would be very similar to falling into the doughnut hole, were more likely to skip doses of treatments, visit hospital emergency departments and, most disturbing of all, they were more likely to die sooner.[21] It was discovered that their annual mortality rate was 22% higher than those without such a cap on benefits.[22]

In addition to the great moral implications involved with allowing seniors to die from a lack of access to available medications, limiting help in obtaining prescription drugs actually costs more money. This is due to an increase in emergency room visits and hospital stays that result from insufficient prescription medication. Because of the way that the current system is structured, the effects of the doughnut hole may increase insurers' profits, but it will ultimately increase government costs-- a rather ironic effect for a measure that was sponsored by conservative politicians.

Frank Furfaro of Patchogue, NY is a disabled heart-transplant patient living off a $1,171 monthly Social Security Disability Insurance payment. Instead of his normal two $25 co-pays, the pharmacist needed to charge him $661 and $329 for his prescriptions. Frank says "I threw a fit. What am I supposed to do? I don't have $661 in my pocket. I thought, `That's it. It's over.' The three years I put into the transplant, the waiting and everything. It was a waste of time because I can't get my medicine."

Reducing his prescription drug use, he's already reported feeling weaker and tired. "I lay around a lot. I don't have a lot of energy. I'm short of breath. I don't feel well at all," he said.

If his health deteriorates further, Furfaro said, he'll just get admitted to a hospital and receive his medicine that way, as Medicare will pay all bills if he's hospitalized.

6. Policy recommendations

The doughnut hole will have a devastating impact on millions of American seniors and disabled, forcing many to cut back on their needed prescription drugs and worsening their health, possibly to the point of death. And this will actually be more expensive to American taxpayers because of

the increase in hospital emergency visits. To remedy this problem it is necessary to eliminate the coverage gap known as the doughnut hole.

The simple solution is to mandate the federal government to negotiate prices, much like the Veterans Administration and every other industrialized nation do, and use the savings to help plug in the doughnut hole. A 2004 study found that if the U.S. negotiated prices, similar to other industrialized nations, there would be enough savings to completely eliminate the doughnut hole without any increase in government savings.[23] Earlier this year, economist Dean Baker with the Center for Economic and Policy Research estimated that a benefit directly from Medicare with negotiated prices could easily fill in the doughnut hole with an additional $100 billion in savings over the next ten years.[24] There is legislation out there that would do this, such as the bipartisan Medicare Prescription Drug Savings and Choice Act (HR 752). Such legislation would shrink the doughnut hole and make our seniors and people with disabilities healthier and happier, all while saving significant taxpayer money.

This legislation would also allow seniors and people with disabilities to get their benefit directly from Medicare, which is another large source of savings in its own right. But more importantly, it would make it simple for Americans to sign up for a plan that offers them guaranteed coverage without harmful provisions like the doughnut hole. This is a clear fix that will make Part D simpler to enroll in, will make it more effective towards addressing the health needs of millions of Americans, and will save both enrollees and taxpayers money. All that is needed is for Congress to have the courage to stand up to the special interests and demand that Part D is fixed to serve the American public.

7. Conclusion

The doughnut hole purposely designed into the Part D prescription drug program is already causing harm to millions of Americans and will result in additional expenses to taxpayers. The average Part D enrollee is estimated to fall into the doughnut hole on September 22nd, and those with significant health problems will fall into the doughnut hole even earlier. Seniors and people with disabilities who fall into the doughnut hole are at risk of not being able to get their prescription drugs and are more likely to end up in the hospital emergency rooms or even have their life prematurely end.

But there are simple policy solutions that would close the doughnut hole coverage gap. The best way to fill in the doughnut hole without additional expenses would be to mandate that Medicare negotiate for lower prices like the Veterans Administration and every other industrialized nation do. These savings would be more than enough to fill in the doughnut hole, and would offer additional savings to seniors and taxpayers alike.

Failing to fix Part D and fill in the doughnut hole will have dire health and financial consequences. Congress should immediately enact steps to fix the Part D disaster by eliminating the doughnut hole and giving Americans a simple and affordable prescription drug benefit directly from Medicare.

[1] "'Doughnut hole' lurks for seniors," by Karen Auge, The Denver Post. June 25, 2006. Available at: http://www.timesargus.com/apps/pbcs.dll/article?AID=/20060625/NEWS/606250381/1002/NEWS01
[2] Marilyn Moon, *Medicare: A Policy Primer*, Urban Institute Press. 2006.
[3] "Unintended Consequences of Caps on Medicare Drug Benefits" by John Hsu, Mary Price, Jie Huang, Richard Brand, Vicki Fung, Rita Hui, Bruce Fireman, Joseph P. Newhouse, and Joseph V. Selby. The New England Journal of Medicine, Volume 354, June 1, 2006, p2349-2359
[4] Amy Fagen, "Drug benefit sign-up help faulted," Washington Times, May 4, 2006. Available at: http://washingtontimes.com/functions/print.php?StoryID=20060503-112340-9357r
[5] Ceci Connolly, "Study Finds Medicare Operators Often Give Bad Information," Washington Post, May 4, 2006. Available at: http://www.washingtonpost.com/wp-dyn/content/article/2006/05/03/AR2006050302182_pf.html
[6] "The High Cost of Drug Caps: Benefit Limits Mean More Hospital Visits, Study Says," The Washington Post, Jun 6, 2006. Page: F.04
[7] Public Citizen, Congress Watch, *The Medicare Drug War: An Army of Nearly 1,000 Lobbyists Pushes a Medicare Law that Puts Drug Company and HIMO Profits Ahead of Patients and Taxpayers*, June 2004
[8] Dana Milbank, "Lowering the Bar for Government Ethics?" Washington Post, Page A04, December 31, 2004.
[9] Tony Pugh, "Millions face a 'doughnut hole' lapse in Medicare Coverage," Knight Ridder Newspapers. 5/21/06. Available at: http://www.realcities.com/mld/krwashington/news/nation/14631070.htm?source=rss&channel=krwashington_nation
[10] Tony Pugh, "Millions face a 'doughnut hole' lapse in Medicare Coverage," Knight Ridder Newspapers. 5/21/06. Available at: http://www.realcities.com/mld/krwashington/news/nation/14631070.htm?source=rss&channel=krwashington_nation
[11] Kaiser Family Foundation, State Facts. Available at: http://statehealthfacts.org/cgi-bin/healthfacts.cgi?action=compare&category=Medicare&subcategory=Medicare+Prescription+Drug+Plans&topic=PDPs+Offering+Coverage+in+Benefit+Gap
[12] Tony Pugh, "Millions face a 'doughnut hole' lapse in Medicare Coverage," Knight Ridder Newspapers. 5/21/06. Available at: http://www.realcities.com/mld/krwashington/news/nation/14631070.htm?source=rss&channel=krwashington_nation
[13] "Riding the Rollercoaster: The Ups And Downs In Out-Of-Pocket Spending Under The Standard Medicare Drug Benefit" By Bruce Stuart, Becky A. Briesacher, Dennis G. Shea, Barbara Cooper, Fatima S. Baysac and M. Rhona Limcangco. July/August, 2005. Health Affairs, 24, no. 4 (2005): 1022-1031. Available at: http://content.healthaffairs.org/cgi/content/abstract/24/4/1022
[14] "Riding the Rollercoaster: The Ups And Downs In Out-Of-Pocket Spending Under The Standard Medicare Drug Benefit" By Bruce Stuart, Becky A. Briesacher, Dennis G. Shea, Barbara Cooper, Fatima S. Baysac and M. Rhona Limcangco. July/August, 2005. Health Affairs, 24, no. 4 (2005): 1022-1031. Available at: http://content.healthaffairs.org/cgi/content/abstract/24/4/1022
[15] "Mental Health Patients Face High Out-of-Pocket Costs Under Medicare Part D Prescription Drug Benefit; Most Mental Health Patients Subject to 'Doughnut Hole'," Thomson Medstat, Press Release, 6/5/06. Available at: http://sev.prnewswire.com/health-care-hospitals/20060605/CLM51705062006-1.html
[16] "Mental Health Patients Face High Out-of-Pocket Costs Under Medicare Part D Prescription Drug Benefit; Most Mental Health Patients Subject to 'Doughnut Hole'," Thomson Medstat, Press Release, 6/5/06. . Available at: http://sev.prnewswire.com/health-care-hospitals/20060605/CLM51705062006-1.html
[17] "Mental Health Patients Face High Out-of-Pocket Costs Under Medicare Part D Prescription Drug Benefit; Most Mental Health Patients Subject to 'Doughnut Hole'," Thomson Medstat, Press Release, 6/5/06. . Available at: http://sev.prnewswire.com/health-care-hospitals/20060605/CLM51705062006-1.html
[18] *Estimates Of Medicare Beneficiaries' Out-of-Pocket Drug Spending in 2006: Modeling the Impact of the MAA,* by Jim Mays, Monica Brenner, Tricia Neuman, Juliette Cubanski, and Gary Claxton. November, 2004. Available at: http://www.kff.org/medicare/upload/Report-Estimates-of-Medicare-Beneficiaries-Out-Of-Pocket-Drug-Spending-in-2006-Modeling-the-Impact-of-the-MMA.pdf
[19] *Estimates Of Medicare Beneficiaries' Out-of-Pocket Drug Spending in 2006: Modeling the Impact of the MAA,* by Jim Mays, Monica Brenner, Tricia Neuman, Juliette Cubanski, and Gary Claxton. November, 2004. Available at: http://www.kff.org/medicare/upload/Report-Estimates-of-Medicare-Beneficiaries-Out-Of-Pocket-Drug-Spending-in-2006-Modeling-the-Impact-of-the-MMA.pdf
[20] "Unintended Consequences of Caps on Medicare Drug Benefits" by John Hsu, Mary Price, Jie Huang, Richard Brand, Vicki Fung, Rita Hui, Bruce Fireman, Joseph P. Newhouse, and Joseph V. Selby. The New England Journal of Medicine, Volume 354, June 1, 2006, p2349-2359
Available at: http://content.nejm.org/

[21] "The High Cost of Drug Caps: Benefit Limits Mean More Hospital Visits, Study Says," The Washington Post, Jun 6, 2006. Page: F.04

[22] "The High Cost of Drug Caps: Benefit Limits Mean More Hospital Visits, Study Says," The Washington Post, Jun 6, 2006. Page: F.04

[23] "Doughnut Holes and Price Controls" by Gerard F. Anderson, Dennis G. Shea, Peter S. Hussey, Salomeh Keyhani, and Laurie Zephrin. July 21, 2004. Available at: http://content.healthaffairs.org/cgi/content/abstract/hlthaff.w4.396v1

[24] *The Savings from an Efficient Medicare Prescription Drug Plan,* by Dean Baker, Jan. 2006. Available at: http://www.cepr.net/publications/efficient_medicare_2006_01.pdf

Note: for the stories and quotes found in the text boxes, the following sources can be cited.

1. "In Texas Town, New Drug Plan Baffles Patient and Provider Alike" by Robert Pear, The New York Times, 06/11/06
2. "U.S. Representative Jan Schakowsky (D-Il) Delivers Remarks at Campaign for America's Future's Take Back America 2006 Conference," CQ Transcriptions, 6/12/06.
3. "Struggling through the 'doughnut hole'; Untold numbers fall into Medicare Rx coverage gap" by Rachel Brand, Rocky Mountain News, 05/30/06.
4. "Gap in Medicare funding means some pay thousands," By Barbara Feder Ostrov, Mercury News, May 8, 2006. Available at: http://www.mercurynews.com/mld/mercurynews/news/world/14527499.htm
5. "Millions face a 'doughnut hole' lapse in Medicare Coverage," by Tony Pugh Knight Ridder Newspapers. 5/21/06. Available at: http://www.realcities.com/mld/krwashington/news/nation/14631070.htm?source=rss&channel=krwashington_nation