

Your Medicare Drug Bill: What It Looks Like in the Future

Based on estimates prepared by the Congressional Budget Office (CBO) in 2004. The average premium in 2006 will be lower than expected (average \$386.40 a year); CBO has not published revised forecasts. Although the actual figures will be slightly lower than those below, this document does illustrate how seniors' costs will go up significantly over time.

Under the new Medicare prescription drug law, you can expect the amount you pay for your premium, deductible, and your share of drug costs to go up substantially every year—probably much more than your income will rise. In fact, the Congressional Budget Office estimates that, from 2006 to 2013, the amount you will have to pay in insurance premiums to receive the drug benefit will go up 65 percent, on average, while the deductible and the gap in coverage—the “doughnut hole”—will increase by 78 percent.

Here’s how the “Basic Drug Benefit” is projected to change from 2006 to 2013.

Benefit	2006	2013
The premium —what you have to pay annually to get the drug benefit; the numbers show the estimated average—amounts individual plans charge will vary	\$420	\$696
The deductible —the amount that you have to pay for prescription drugs before the plan helps with your drug costs	\$250	\$445
The co-insurance —the percent of drug costs that you have to pay	25%	25% Your coinsurance percentage doesn't change
The initial coverage limit —after your total drug expenses (the deductible, what you paid, and what the plan paid) reach this amount, coverage stops and you have to pay 100% of drug costs	\$2,250	\$4,000
The coverage gap or “doughnut hole” —the amount of drug expenses for which you have no coverage.	You pay 100% of the \$2,850 in drug costs between \$2,250 and \$5,100 in drug expenses	You pay 100% of the \$5,066 in drug costs between \$4,000 and \$9,066 in drug expenses
The “catastrophic threshold” —drug coverage starts again, and the plan pays 95% of costs, but only after you’ve spent this much of your own money on prescription drugs	\$3,600	\$6,400

What Could This Mean for You?

You're going to have to pay more. And because drug costs are projected to increase faster than general inflation, what you have to pay for prescription drugs will consume a larger and larger percent of your income.

- ◆ In 2013, you'll have to pay \$1,141 (your premium and your deductible) before your Medicare drug plan pays for *anything*.
- ◆ The gap in coverage, or "doughnut hole," will get larger over time. Each year this puts you at financial risk of having to pay more and more of your drug costs.
- ◆ If you have high drug expenses, every year you'll have to spend more of your own money before you qualify for catastrophic coverage.
- ◆ If your drug expenses are the average for someone in Medicare—projected to be \$3,167 in 2006 and rising to \$5,425 by 2013—you'll go past the "initial coverage cap" every year and fall into the doughnut hole, where you pay all drug costs on your own. And you'll have to spend more and more of your own money on prescription drugs as the years go by.

Here's what a typical senior¹ would have to pay in 2006 and 2013:

What a typical senior has to pay under the drug benefit in 2006 and 2013		
	2006 (est.)	2013 (est.)
Average drug expenses	\$3,167	\$5,425
What you would pay with those drug expenditures	\$2,087 (\$1,667 for drugs and \$420 for the premium)	\$3,455 (\$2,759 for drugs and \$696 for the premium)
Your income	\$23,708	\$28,181
Percent of your income spent on drugs and premium	8.8%	12.3%

The bottom line? Unless there are changes to the law, over time, you can expect your prescription drugs to consume a growing share of your income.

All these amounts that you have to pay are likely to go up faster than your income. In the end, it is a benefit that could leave you in the hole.

All projections related to average drug expenses and the Medicare drug benefit are from the Congressional Budget Office's November 20, 2003 letter to Senator Don Nickles; data on median income for individuals over 65 is from the Census Bureau; median income is increased annually through 2013 using projections for increases in the Consumer Price Index-Urban Consumers, from the Congressional Budget Office Economic Projections 2003-2013.

¹ A "typical senior" is one with average drug expenses and income at the median for people over 65.