



## Overview

In 2003, Congress passed [legislation](#) to create a prescription drug benefit for seniors in Medicare – Medicare “Part D.” At the time, the new law was the [first major change](#) to Medicare in nearly 40 years. Today, more than 35 million seniors rely on Part D benefits, including 11 million low-income seniors at or near poverty.

## Why did Congress pass Medicare Part D?

Before the creation of Part D, Medicare covered hospital costs ([Part A](#)) and doctor visits ([Part B](#)), but not prescription drugs.

In 2003, the Kaiser Family Foundation [reported](#) that seniors were spending an average of \$2,318 in out-of-pocket drug costs and that one-third of seriously ill seniors without drug coverage were skipping doses to make their prescriptions last longer. Another 2003 [survey](#) by *Health Affairs* found that one-fifth of poor or chronically ill seniors were spending less on food and other basic needs because of high out-of-pocket drug costs. Nationally, one-fourth of all seniors and a third of low-income seniors lacked prescription benefits prior to passage of Part D.

## Did this change after Part D passed?

According to [the Congressional Budget Office \(CBO\)](#), 53 percent of Medicare beneficiaries opted to enroll in a Part D drug plan during the first six months of its roll-out, including two-thirds of seniors who lacked drug coverage before.

The non-partisan Medicare Payment Advisory Commission (MedPAC) [credits](#) Part D with increasing the share of seniors who have prescription drug coverage from 75 percent to 90 percent today: “In general, Part D has improved Medicare beneficiaries’ access to prescription drugs.” Moreover, MedPAC [reports](#), more than 80 percent of seniors enrolled in Part D in 2011 were satisfied with the drugs their plans covered, and 91 percent reported having good access to pharmacies. One 2005 *Health Affairs* [study](#) found that among previously uninsured seniors, out-of-pocket drug costs dropped on average between 37 and 58 percent.

### Impacts of Medicare Part D

Before (2003)	After (2013)
<ul style="list-style-type: none"> <li>● Share of seniors without prescription drug coverage: 1 in 4</li> <li>● Share of low-income seniors without drug coverage: 1 in 3</li> <li>● Average annual out of pocket</li> </ul>	<ul style="list-style-type: none"> <li>● Share of seniors with prescription drug benefits: 90 percent</li> <li>● Number of low-income seniors enrolled in Part D: 11 million</li> </ul>

## Key Facts

- Medicare Part D offers prescription drug coverage to more than 35 million seniors, 11 million of whom are low-income.
- Before the passage of Part D, seniors spent an average of \$2,318 on out-of-pocket drug costs.
- About 90 percent of Medicare-eligible seniors now have prescription drug coverage. Enrollees in Part D pay an average of \$30 a month in premiums.
- Federal spending on Medicare totaled \$62.5 billion in 2012, or about 10 percent of total Medicare spending. So far, Part D has cost roughly one-third less than original projections.

## Essential Links

- Centers for Medicare and Medicaid Services, [Medicare Advantage/Part D Contract and Enrollment Data](#).
- Medicare Drug Coverage (Part D), [www.Medicare.gov](http://www.Medicare.gov).
- [Report to Congress: Medicare Payment Policy \(Chapter 14, Status Report on Part D\)](#), Medicare Payment Advisory Commission (MedPAC), March 2014

<p>drug costs: \$2,318</p> <ul style="list-style-type: none"> <li>• Share of poor or chronically ill seniors skipping doses: 1 in 5</li> </ul> <p>Source: <a href="#">Kaiser Family Foundation</a></p>	<ul style="list-style-type: none"> <li>• Average monthly premium: \$30</li> <li>• Average number of plan choices: 35</li> </ul> <p>Sources: <a href="#">MedPAC</a>; <a href="#">Kaiser Family Foundation</a></p>
--	--

## How does Part D work?

Seniors get Part D coverage from private plans approved by the government. Some seniors receive Part D coverage through retiree plans offered by their former employers, while others choose a plan from the “[marketplace](#)” run by Medicare.gov (if this sounds similar to the “exchanges” under Obamacare, it is). Low-income seniors eligible for subsidies to help buy coverage are automatically assigned a plan if they don’t choose one on their own.

In 2013, seniors could choose from an average of [35 plans](#), including those that are part of so-called “Medicare Advantage” plans (see “[Medicare Advantage: Medicare’s Private Option](#)”). According to MedPAC’s 2014 [report](#), monthly premiums averaged about \$30 in 2013.

Under the “[standard benefit](#)” for 2014, seniors pay a \$310 deductible in addition to their monthly premiums and 25 percent of drug costs (“coinsurance”) until their total spending reaches \$2,850. After this amount, seniors face a gap in coverage (the “donut hole”) where they must pay more until total out-of-pocket spending reaches \$4,550. At that point, more extensive coverage resumes.

## How much does this program cost?

CBO originally [predicted](#) that Medicare Part D would cost \$407 billion from 2004-2013. Actual program costs, however, have run about [30 percent lower](#) than projected. In 2012, federal spending on Part D was \$62.5 billion.

Experts say several [factors](#) account for these lower costs, including the competitive, market-based design of Part D, but also the greater use of generic medicines and slower-than-expected overall growth on prescription drug spending. A CBO [analysis](#) also concluded that improved access to medicines through Part D might lower costs elsewhere in Medicare because “people who received more generous prescription drug coverage through the implementation of Part D had fewer hospitalizations and used fewer medical services as a result.”

## What’s the future of Part D?

Despite these results, cost control remains a concern as the Baby Boomers retire and demands for coverage increase.

Recently, the Centers for Medicare and Medicaid Services (CMS) contemplated new [rules](#) that would have limited the ability of private insurers to manage which pharmacies can participate in their networks (so called “preferred pharmacy networks”) – a strategy that plans use to help control costs. But after significant objections (including from [MedPAC](#)), CMS [withdrew](#) these proposed rules for the time

being. (See Center Forward’s forthcoming Forum series exploring differing perspectives on this topic.)

In the meantime, Part D has become an increasingly important element of Medicare. The Affordable Care Act (“Obamacare”) included a significant expansion of Part D – a phase-out of the “donut hole.” According to CMS, more than 3.5 million Americans who hit the donut hole in 2012 received an average of [\\$706](#) in new benefits under the law, for total savings of \$2.5 billion.