AARP

Testimony of
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On
Wisconsin SeniorCare

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Chairman Kohl, Senator Smith, I am Patricia Finder-Stone, president of AARP Wisconsin. Thank you for inviting AARP to testify on the importance of the Wisconsin SeniorCare prescription drug program to our members and our state.

AARP played a critical role in enacting SeniorCare and we strongly support renewal of the Medicaid waiver that helped create it in 2002. SeniorCare was tailored to meet the needs of Wisconsin residents 65 and older with limited incomes, and provides greater assistance to some individuals in the state than is currently available under the Medicare Part D drug benefit.

AARP also strongly supports and played a critical role in enacting the Medicare Modernization Act, which included the Part D benefit. Part D is helping millions of beneficiaries – including thousands in Wisconsin not eligible for SeniorCare – afford the drugs they need.

SeniorCare uses discounts and rebates from drug companies to save money for both government and beneficiaries. The savings allow Wisconsin to extend affordable drug coverage to thousands of beneficiaries who would not qualify for the Part D low income subsidy (LIS), and thus would have to pay higher copays and premiums if they instead were enrolled in Part D plans. They also would have to pay deductibles and would potentially fall into the Part D "doughnut hole" coverage gap – neither of which exists in SeniorCare.

Failure by the Centers for Medicare and Medicaid Services (CMS) to renew the SeniorCare waiver would be a step backward in our efforts to improve access to affordable drug coverage.

SeniorCare and Lower Drug Prices

The State of Wisconsin deals directly with drug companies on behalf of more than 100,000 SeniorCare enrollees – including both the more than 71,000 covered under the waiver and more than 31,000 additional residents covered with state-only funds.

Wisconsin has been very aggressive in getting savings from drug makers and is using some tools, such as the Medicaid rebate as a floor and a preferred drug list that AARP does not believe would be appropriate for Medicare to use in bargaining on behalf of its beneficiaries nationally. However, the state has used its leverage very effectively to obtain $53 million in discounted prices and $50 million in manufacturer rebates in fiscal 2006. These savings of more than $100 million a year are why the state has been able to provide greater low income assistance than is available under the Part D LIS. Without the waiver, Wisconsin would lose the leverage to obtain such savings.

CMS policy expressly prohibits state pharmacy assistance programs that fill in gaps or “wrap around” Part D coverage from obtaining discounts and rebates from drug companies. If they do, CMS refuses to allow payments they make on behalf of enrollees from counting as “True Out-of-Pocket” (TrOOP) payments that count when tabulating costs for filling in the Part D “doughnut hole” coverage gap and accessing Part D catastrophic coverage.

Without the ability to obtain millions of dollars in discounts and rebates from drug companies, the state would not be able to afford to provide its current level of coverage if it were to reconfigure SeniorCare to wrap around the Part D benefit.

The result would be higher cost for Medicare, beneficiaries and the state, and decreased ability to help Wisconsin residents with limited incomes. Wisconsin would have to cut back on benefits or pick up the full costs for more than 36,000 current enrollees covered by the waiver with limited incomes over 150% of the federal poverty level ($15,315 for an individual or $20,535 for a couple) because they are categorically ineligible for LIS.

Wisconsin would also have to cut benefits or pick up the full cost for many of the more than 38,000 current enrollees covered by the waiver with incomes below 150% of poverty who would not meet the Part D asset test.

Asset Test Barrier

SeniorCare has no asset test because Wisconsin understands the importance of not penalizing people who, despite limited incomes, do the responsible thing of saving to have a small nest egg for retirement. The report we commissioned in 2005 found that 80% of SeniorCare enrollees who meet the Part D LIS income criteria would not meet its onerous asset test. Many more who are now getting needed comprehensive, low-cost coverage from SeniorCare may not be able to access LIS because they would have difficulty filling out the daunting and invasive application form.

I have personally helped AARP members and other Medicare beneficiaries enroll in SeniorCare and was touched by how grateful people were and how easy it was. There is only a one-page application, compared to the 8-page application for LIS, since there is no asset test to complicate the application process.

Under the Part D asset test in 2007, people with limited incomes can have no more than $11,710 as an individual or $23,410 as a couple in assets to qualify for LIS. Such small amounts of savings are hardly enough to get someone through retirement. Yet the asset test is rigidly enforced no matter how low someone's income or how high their other living expenses may be.

The extra help LIS provides to those least able to afford prescription drug costs is one of the Part D program's most important features and a key factor in our support for the Medicare Modernization Act (MMA) that created Part D. But the asset test is proving to be a serious barrier.

The Kaiser Family Foundation has estimated that, nationally, more than 2.3 million Medicare beneficiaries who meet LIS income criteria will not be eligible because of the asset test. Almost half exceed the asset limit by $25,000 or less. In fact, the asset test is the leading reason why people who apply for the subsidy are rejected – even if they are only just above the limits.

For those who are eligible for the LIS, we believe the difficult application process required by the asset test is a key reason why from 3 million to 5 million who would meet both the income and asset test remain unenrolled. The application form is lengthy, confusing and invasive, largely because of the asset test. For example, the application:

• requires people to report not just savings but such obscure details as the current cash value of any life insurance policies – information people simply do not have on hand;

• asks people whether they expect to use savings for funeral or burial expenses, but does not explain that individuals can have up to $1500 ($3000 for couples) in savings above the asset limits for such expenses;

• asks invasive questions, such as whether applicants get help with meals or other household expenses, which can be difficult to estimate; and

• threatens applicants with prison terms if information they provide is incorrect.

Applying for the LIS thus can seem overwhelming and require many hours, extra help from family members or insurance counselors, and often repeated efforts to find all of the required information. SeniorCare wisely does not impose this burden, or penalize Wisconsin seniors who have done the responsible thing of saving for retirement.

AARP has been working with this Committee's Ranking Member, Senator Smith, along with Senator Bingaman, on legislation that takes a first step toward eliminating the asset test by raising the limits and streamlining the application process. We greatly appreciate their leadership on this issue. However, this is only a solid first step toward AARP's goal of eliminating the Part D LIS asset test completely.

The fact that Wisconsin's SeniorCare program has never had an asset test argues strongly for renewing the waiver so this onerous provision is never imposed on residents of our state.

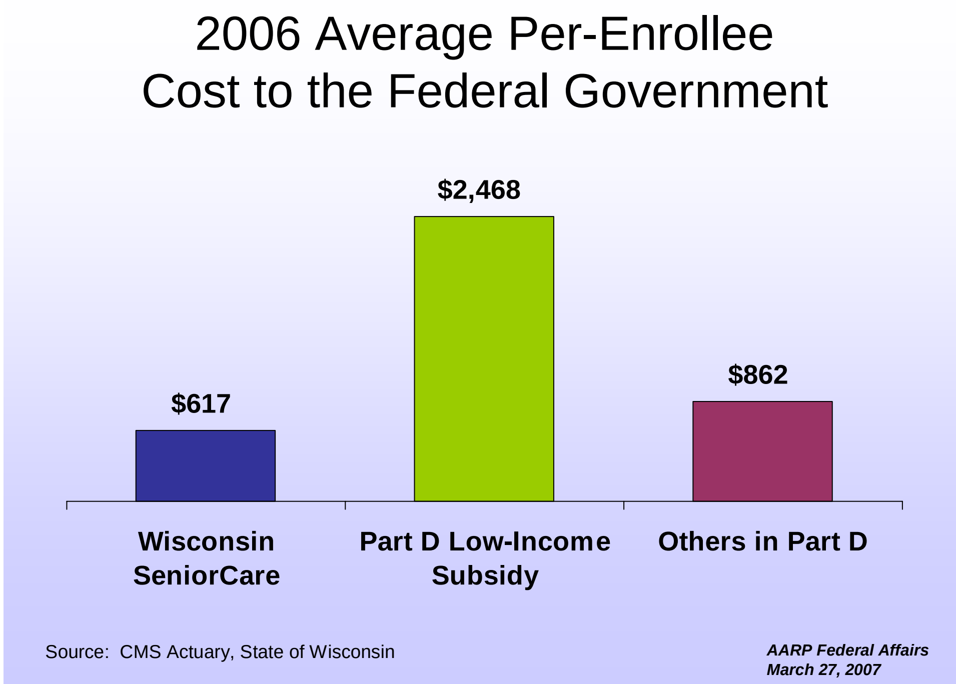
SeniorCare Savings

The report we commissioned in 2005 showed that SeniorCare was costing both beneficiaries and the federal government less than Part D would, based on projected Part D costs. Part D has since proven to cost less than projected, due in large part to LIS under-enrollment. That under-enrollment is due in large part to the asset test, which SeniorCare does not have.

Even with lower-than-projected costs, SeniorCare is a good deal for the federal government, the state, and especially beneficiaries.

For the federal government, SeniorCare costs less than half of what Part D costs per enrollee. According to the CMS Actuary, the current estimate of the average cost to the federal government for each Part D enrollee in 2006 was $1,331 ($2,468 for those with LIS and $862 for others in Part D plans), and in 2007 is $1,345 ($2,573 for those with LIS and $892 for others in Part D plans). However, according to the State of Wisconsin, the average cost to the federal government for each SeniorCare enrollee in 2006 was only $617, and the federal government paid only about $46 million – or 18% of SeniorCare's total $253 million cost.

SeniorCare drug coverage also generates additional savings to Medicaid – $669 million in its first four years, according to the state – by keeping beneficiaries healthier so they need less hospital and nursing home care, which has kept the waiver budget neutral. The state projects an additional $697 million in Medicaid savings if the waiver is renewed, which includes $404 million in federal savings.



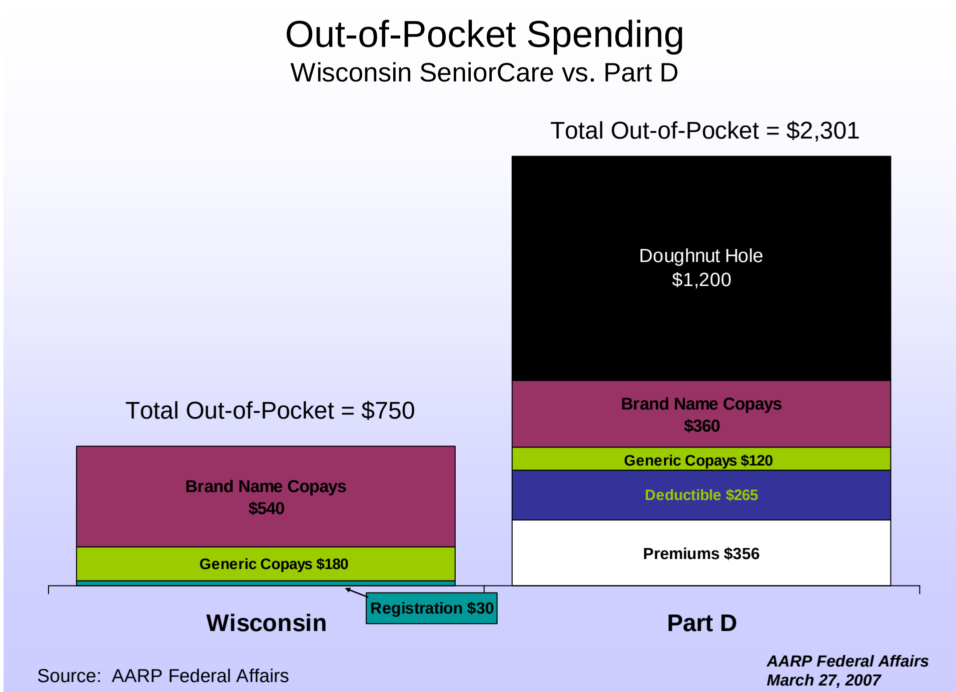
The state's contribution of its own dollars and its ability to leverage drug rebates and discounts is why the cost to the federal government of providing prescription drug benefits through SeniorCare is less than that for a Medicare Part D beneficiary.

For beneficiaries, SeniorCare is also often a much better deal. Take, for example, a Wisconsin senior with income just above the 150% of poverty eligibility cliff for LIS, or income slightly below that cliff with just a few dollars in savings over the assets limits. They may be taking three brand name drugs with an average retail price of $80 each and three generics with an average retail cost of $20, and would have total annual drug costs of $3,600.

Under SeniorCare, annual out-of-pocket costs for such a beneficiary total $750, including the $30 registration fee, $180 for generic copays ($5 per 3 refills 12 times a year), and $540 for brand copays ($15 per 3 refills 12 times a year).

Under a typical Part D plan, they would be required to pay more than three times as much. They would pay $356 in premiums (based on average Part D premium in Wisconsin of $29.67 per month) and $265 for a deductible (which SeniorCare does not have for beneficiaries below 160% of poverty). They would pay $480 in copays for the first eight months of the year ($5 for each of 3 generics each month and $15 for each of 3 brand name refill each month), and then would hit the Part D “doughnut hole” coverage gap.

Once in the coverage gap, which starts when both they and their Part D plan have paid $2400 for drugs, they would be required to pay for 100% of their drug costs, or the entire bill for their remaining $1200 in annual drug cost.



The net result would be $2,301 out-of-pocket. That is not enough to reach the Part D catastrophic limit of $3,850 in out-of-pocket costs, but is $1,551 more than the $750 they would have to pay under SeniorCare.

For Wisconsin seniors between 160% and 200% of the poverty level, who are not eligible for LIS at all, SeniorCare does require a $500 deductible but still provides better coverage than Part D. With the same drug needs as in the example above, annual enrollment and deductible costs would total $530, and the beneficiary would pay $180 for generic copays ($5 per refill) and $540 for brand name copays ($15 per refill). Total out-of-pocket costs would be $1250. That is $1051, or about 46% less than the $2301 they would have to pay under Part D.

Conclusion

Wisconsin could not afford to provide equivalent coverage to SeniorCare by "wrapping around," or filling in gaps in Part D coverage without the waiver. The lost ability to get discounts and rebates from drug makers would create a more than $100 million annual funding shortfall. With so many SeniorCare enrollees ineligible for LIS, the additional costs outlined in the examples above would be insurmountable in our state. That, along with lower per capita cost to the federal government, is a powerful argument for renewing the waiver rather than requiring SeniorCare enrollees to switch to Part D.

SeniorCare also demonstrates the clear advantage of not having an asset test in getting assistance to people with limited incomes. We therefore urge CMS to reauthorize the SeniorCare waiver and help us ensure that no one is worse off under Part D. We look forward to working with CMS and Congress to ensure that this pioneering program continues.