

# MEDICARE PART D RESEARCH FACTS

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Cornell University  
College of Human Ecology  
Cornell Cooperative Extension

## CUR<sub>x</sub>ED

Cornell University Resource Education  
for Medicare Part D

### PART D FACT

In 2006, \$3.5 billion dollars were paid for Part D premiums, partly offsetting the \$48.1 billion dollars spent on the cost of the program to the government.

## HEALTHY DELAY

Insurance schemes require the pooling of risks. As such, in order to be successful, Part D needs healthy beneficiaries to enroll in the program before they incur high costs. Determining if coverage is cost-effective is often a major concern for a healthy person.

Premiums for Part D prescription drug plans are community related, not related to individual experience. This effectively results in lower premiums to high risk beneficiaries and higher premiums to low risk beneficiaries. In other words, healthy beneficiaries subsidize the costs of the unhealthy. Such a balance is actuarially justified. This is usually a worthwhile trade-off for healthy individuals provided there is a reasonable chance that they will realize a transfer of this benefit in the future.

To this end, the government has implemented three important provisions to encourage enrollment by healthy beneficiaries. Foremost, and most obvious, beneficiaries who do not have creditable prescription drug insurance coverage must pay a penalty for late enrollment. This penalty equal to 1% of the average premium for each month delayed, is permanent, and follows the beneficiary from plan to plan.

The second strategy to encourage early enrollment is the annual limited enrollment period. This creates a possible delay between the start of coverage and the onset of an illness requiring drug intensive therapy. Healthy

individuals might otherwise delay enrollment until the onset of a chronic condition.

Lastly, and most subtly, the coverage gap offers some protection for healthy beneficiaries. The donut hole provides some limitations on the coverage for the chronically ill while maintaining some coverage protection for the healthy. At the same time, there is a reduction of the cost burden to the healthy.

All of this creates uncertainty and challenges for healthy persons considering enrollment. A drug-intensive illness with an early in the year onset can result in very high drug costs for several months if enrollment is delayed. Because enrollment penalties are dependent on future costs, they cannot be predicted in advance. And most importantly, future healthcare needs cannot be predicted with any amount of assurance.

Using simulated models, one recent study estimated that expected expenditures on Part D over a lifetime will be about 10% higher for females and about 6.5% higher for males if healthy beneficiaries at age 65 delay enrollment. This study suggests that the immediate purchase of a plan upon eligibility appears to be the optimal choice for beneficiaries.



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