Fact Sheet

Closing the "Doughnut Hole" Has Helped Protect Millions of Medicare Beneficiaries from High Drug Costs

Leigh Purvis
AARP Public Policy Institute

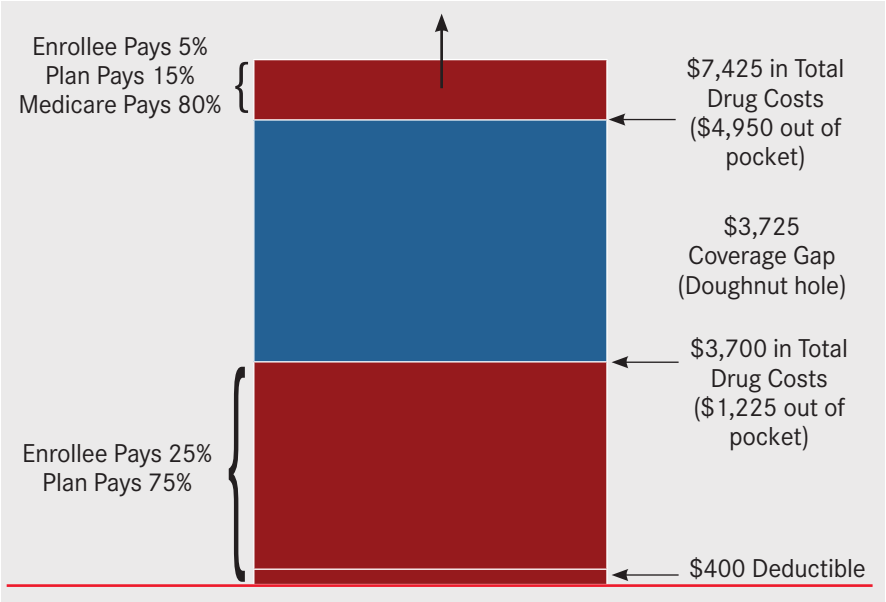
What Is the Medicare Part D Coverage Gap?

Since 2006, Medicare beneficiaries have had access to outpatient prescription drug coverage through Medicare Part D. One of the benefit's more striking characteristics is its "doughnut hole," or coverage gap, where enrollees are required to pay the full cost of their prescription drugs (figure 1).

Medicare Part D enrollees who receive the low-income subsidy (LIS) do not experience the coverage gap. However, the roughly 29 million Part D enrollees who are not LIS beneficiaries[1] face the possibility of having to pay for all of their prescription drug costs—**as well as their premiums**—for a period of time. These markedly

The Affordable Care Act provision that closes the Medicare Part D coverage gap has resulted in $23.5 billion in savings for more than 11 million Medicare beneficiaries. This important consumer protection will take on added significance as prescription drug prices continue to rise.

FIGURE 1
Standard Part D Benefit, 2017



AARP Real Possibilities
Public Policy Institute

higher costs can push enrollees to reduce their prescription drug use while they are in the doughnut hole,[2] leading to poorer health and higher health care costs in the future.[3]

How Did the Affordable Care Act Change the Doughnut Hole?

The Affordable Care Act contains a provision that phases out the coverage gap through a series of escalating discounts.[4] Beginning in 2020, these coverage gap discounts will ensure that Part D enrollees are responsible for the same level of cost sharing (25 percent) from the time they meet their deductible until they enter catastrophic coverage, effectively closing the doughnut hole (figure 2).

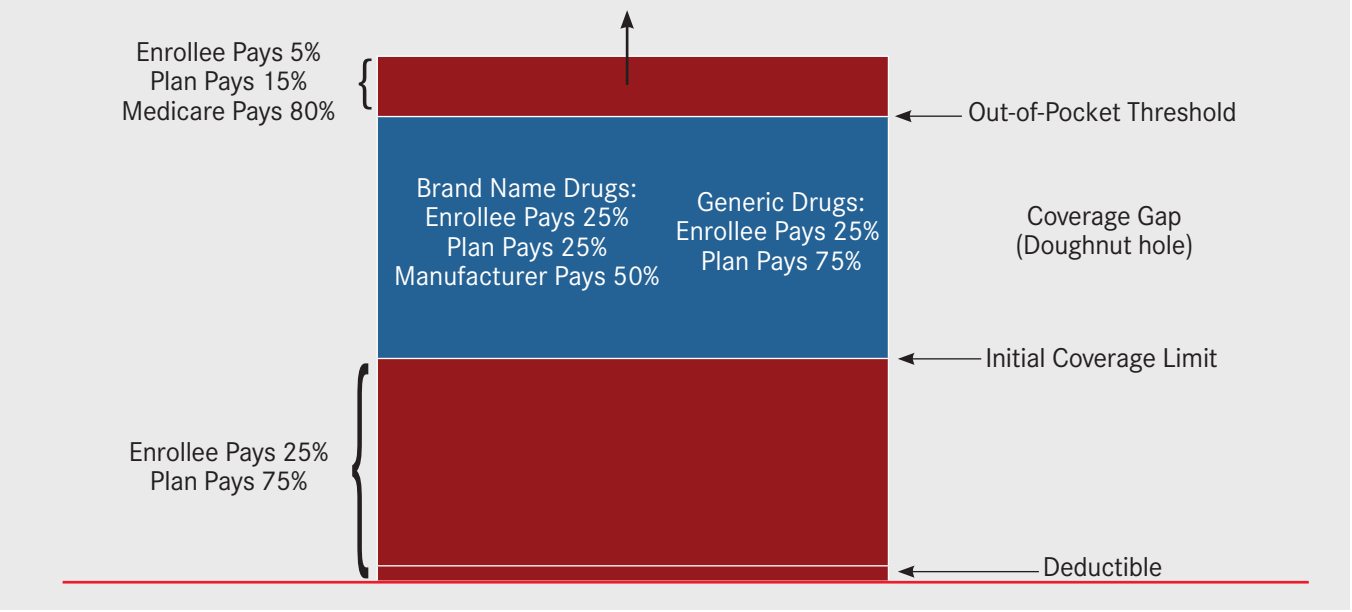
The Part D coverage gap discounts have already resulted in over $23.5 billion in savings for the more than 11 million Medicare beneficiaries who have entered the coverage gap since 2010.[5] Further, the number of Part D enrollees that benefit from the closure of the doughnut hole has increased substantially. In 2010, roughly 3.8 million enrollees entered the doughnut hole and saw some savings.[6] By 2015, that number had increased to more than 5.3 million.[7]

Coverage Gap Discounts Are Increasingly Important

Closing the Part D doughnut hole has taken on added importance in the face of rapidly increasing prescription drug prices. A recent AARP Public Policy Institute report found that the retail prices of brand name prescription drugs widely used by older Americans increased by 15.5 percent in 2015.[8] The report also found that the average annual cost for one brand name drug used on a chronic basis now exceeds $5,800. If not for the coverage gap discounts, Medicare Part D enrollees in the coverage gap would be feeling the effects of high prescription drug prices and price increases directly.

Further, the doughnut hole is large and expected to experience remarkable growth in coming years.[9] If the coverage gap discounts disappeared in 2017, Part D enrollees would be solely responsible for $3,725 of their prescription drug spending while they were in the coverage gap. This amount represents more than 15 percent of the median Medicare beneficiary income,[10] which is not growing nearly as quickly.

FIGURE 2
Standard Medicare Part D Benefit, 2020



Conclusion

Medicare beneficiaries have greatly benefited from Part D, and those benefits will only increase as the doughnut hole continues to close. Reopening the coverage gap would be a substantial step backward that could negatively affect the health and finances of millions of older Americans.

1 Medicare Payment Advisory Commission (MedPAC), *Report to the Congress: Medicare and the Health Care Delivery System* (Washington, DC: MedPAC, June 2016).

2 Jack Hoadley, Laura Summer, Elizabeth Hargrave, and Juliette Cubanski, *Understanding the Effects of the Medicare Part D Coverage Gap in 2008 and 2009: Costs and Consequences Prior to Improvements in Coverage Established by the 2010 Health Reform Law* (Washington, DC: Kaiser Family Foundation, September 2011).

3 PhRMA, *Improving Prescription Drug Adherence Is Key to Better Health Care* (Washington, DC: PhRMA, January 2011).

4 Leigh Purvis, *Health Care Reform Legislation Closes the Medicare Part D Coverage Gap* (Washington, DC: AARP Public Policy Institute, April 2010).

5 Centers for Medicare & Medicaid Services, "Medicare Advantage Premiums Remain Stable in 2017; Beneficiaries Have Saved Over $23.5 Billion on Prescription Drugs," press release, September 22, 2016.

6 Centers for Medicare & Medicaid Services (CMS), "State Distribution of Beneficiaries Who Have Reached the Coverage Gap as of December 31, 2010 and Will Be Mailed a Rebate Check through the End of April 2011," CMS, 2011.

7 Centers for Medicare & Medicaid Services (CMS), "Part D Gap Discounts through July 31, 2016 for Benefit Year 2015," CMS, 2016.

8 Stephen W. Schondelmeyer and Leigh Purvis, *Rx Price Watch Report: Trends in Retail Prices of Brand Name Prescription Drugs Widely Used by Older Americans: 2006 to 2015* (Washington, DC: AARP Public Policy Institute, December 2016).

9 Medicare Board of Trustees, *2016 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds* (Washington, DC: Medicare Board of Trustees, June 22, 2016), https://www.cms.gov/Research-Statistics-Data-andSystems/Statistics-Trends-and-Reports/ReportsTrustFunds/downloads/tr2016.pdf.

10 Gretchen Jacobson, Christina Swoope, Tricia Neuman, and Karen Smith, *Income and Assets of Medicare Beneficiaries, 2014-2030* (Washington, DC: Kaiser Family Foundation, September 2015).

Fact Sheet 449, March 2017

© **AARP PUBLIC POLICY INSTITUTE**
601 E Street, NW
Washington DC 20049

Follow us on Twitter @AARPpolicy
on facebook.com/AARPpolicy
www.aarp.org/ppi

For more reports from the Public Policy Institute, visit http://www.aarp.org/ppi/.

AARP®
Real Possibilities
Public Policy Institute