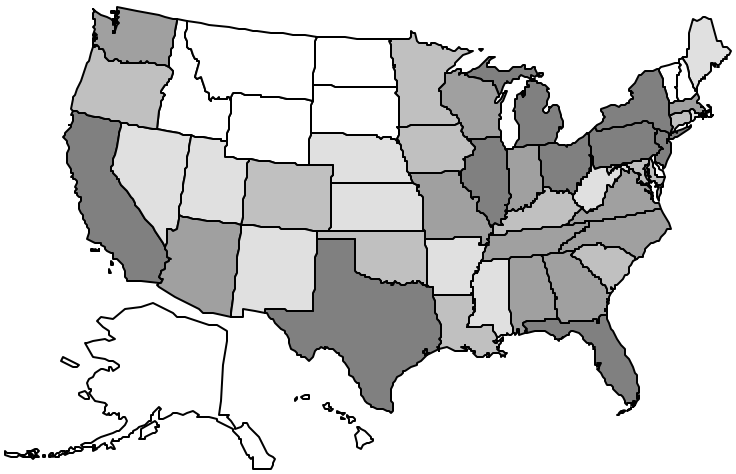
AMERICA'S SENIORS AND MEDICARE:

CHALLENGES FOR TODAY AND TOMORROW

A STATE-BY-STATE STATUS REPORT



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EXECUTIVE SUMMARY

Medicare has successfully improved the health and quality of life for millions of seniors and people with disabilities. Yet, enrollment will double over the next 30 years (from 39 to 80 million beneficiaries); Medicare has not been given the tools it needs to be as competitive and efficient as it needs to be in the 21st century; and despite modern medicine's reliance on pharmaceuticals, the program does not cover prescription drugs. This report provides a state-by-state break-out of the overwhelming demographic and health care challenges confronting the Medicare program.[1] Key findings include:

MILLIONS OF AMERICANS RELY ON MEDICARE

- **Medicare beneficiaries comprise an important and growing part of all states' residents.** While over half (54 percent) of beneficiaries live in the 10 most populated states, states with the highest concentration of elderly are often smaller (Arkansas, Florida, Iowa, North and South Dakota, Pennsylvania, Rhode Island, and West Virginia). Nationwide, nearly 5 million Medicare beneficiaries are non-elderly people with disabilities. States with the highest proportion of disabled beneficiaries tend to be in the south (e.g., Mississippi, Kentucky, West Virginia, Alabama, and South Carolina).

  - **Women beneficiaries outnumber men in all states.** Nationwide, 57 percent of Medicare beneficiaries (22 million) are women. This distribution of women to men is remarkably consistent across all states, ranging from 51 to 59 percent.

  - **40 states have more than 1 in 10 beneficiaries age 85 or older.** These 4 million beneficiaries have spent almost one-quarter of their lives on Medicare. States in the upper midwest (e.g., North and South Dakota, Minnesota, Nebraska, Kansas, and Iowa) have the highest proportion of "old elderly."

  - **In 15 states, more than half of Medicare beneficiaries live in rural areas.** In fact, in Mississippi, Montana, North and South Dakota, Vermont and Wyoming, over two-thirds of beneficiaries live in rural areas. The 9 million beneficiaries nationwide (about one-fourth of all beneficiaries) living in rural America typically have few to no options for managed care or prescription drug coverage.

- **Poverty among the elderly has been reduced by nearly two-thirds since Medicare was created.** Medicare has contributed to this dramatic improvement by helping seniors pay for the potentially devastating cost of health care when they can least afford it. Nationwide, the elderly poverty rate declined from 29 to 11 percent from 1968 and 1998. In 10 states, the elderly poverty rate fell by 75 percent or more.

[1] The backup tables include information on the District of Columbia; because of lack of data, the territories are not included in this analysis.

MEDICARE ENROLLMENT WILL SURGE

- **30 states will have one-fifth or more of their population who are elderly in 2025 – compared to no states today.** About 62 million Americans will be age 65 or older in 2025 compared to 35 million today. In Florida, where 18 percent of state residents are elderly today, about 5.5 million people – over 25 percent of residents – will be elderly in 2025 as the baby boom generation retires. Nationwide, this demographic increase is over 75 percent from 2000 to 2025, and is over 100 percent in 15 states.

- **8 states have more than a third of their 55 to 65 year olds who have no or undependable health insurance.** People ages 55 to 65 are the fastest growing group of uninsured – and are at great risk of becoming sick. About 6 million people age 55 to 65 are uninsured or have individual insurance, which is typically age-rated, underwritten based on health status, and can be denied. The baby boom generation is about to turn age 55 – which will create an even bigger access problem.

MEDICARE BENEFICIARIES NEED PRESCRIPTION DRUG COVERAGE

- **16 states have 20 percent or fewer firms offering health insurance to retirees.** Nationally, 22 percent of firms offer health insurance to retirees older than age 65. No state has more than 30 percent of firms offering this coverage. Trends suggest that this coverage will continue to decline, so that very few seniors will get their prescription drug coverage through their former employers in the future.

- **Individual Medigap insurance with prescription drug coverage costs twice as much in high-cost states**. The average premium for a 65-year old for Medigap Plan H that includes drug coverage among other benefits is about $135 per month, but exceeds $150 in 9 states. The part of the premium that is attributable to drugs alone can be $90 per month or $1,080 per year for coverage that is limited to $1,250 per year with a $250 deductible. Moreover, in most states, insurers "age rate" or increase premiums as people get older, making insurance more expensive when seniors can least afford to pay for it.

- **There are no Medicare managed care basic plans with prescription drug coverage in 15 states.** About 2 out of every 5 Medicare beneficiaries lacks this prescription drug option. Medicare managed care plans have, in the recent past, offered prescription drug coverage to attract beneficiaries. However, this coverage is becoming limited. Nationwide, nearly three-quarters of plans cap benefits at or below $1,000, compared to 35 percent in 1998. Similarly, the proportion of plans that limit drug coverage to $500 or lower has increase by 50 percent between 1998 (from 19 to 32 percent).

- **Most seniors are middle income and would not benefit from a low-income prescription drug benefit.** About 15.6 million or half (49 percent) of all elderly have income between $15,000 and $50,000. Only in Louisiana, Mississippi, New Mexico, Rhode Island, South Carolina and Texas are there more poor than middle class seniors. Nationwide, over half of beneficiaries without drug coverage have income above 150 percent of poverty ($12,750 for a single, $15,000 for a couple). Thus, a prescription drug benefit targeted to low-income will not help most seniors.

HEALTH CARE PROVIDERS RELY ON MEDICARE

- **Health care providers depend on over $200 billion a year in Medicare spending, accounting for one-fifth of all funding.** This does not even count beneficiary payments which comprise nearly half of their total health spending. Medicare spending exceeds 20 percent of all health spending in 12 states. Nationwide, over 5,100 hospitals, 800,000 physicians and nearly 15,000 nursing homes care for Medicare beneficiaries.

PRESIDENT'S PLAN FOR STRENGTHENING & MODERNIZING MEDICARE

The President's FY 2001 budget dedicates $432 billion over 10 years – the equivalent of over half of the non-Social Security surplus – to strengthen and modernize Medicare. This plan makes Medicare more fiscally sound, competitive, and efficient and it modernizes Medicare's benefits, including the provision of a long-overdue prescription drug benefit. The reforms coupled with the surplus dedication would extend the life of its trust fund to at least 2025.

- **Making Medicare more competitive and efficient.** Since taking office, President Clinton has worked to reduce Medicare growth and fraud and extend the life of the Medicare Trust Fund from 1999 to 2015. He has proposed to build on these efforts by: (1) expanding anti-fraud policies; (2) making both Medicare managed care and the traditional program more competitive, efficient and high quality; and (3) constraining out-year program growth. Savings total $71 billion over 10 years.

- **Allocating $299 billion over 10 years to Trust Fund solvency.** It would be impossible to pay for a doubling in Medicare enrollment through provider payment savings or beneficiary premium increases alone. To address the future financing shortfall, the budget dedicates $299 billion of the non-Social Security surplus to Medicare which helps to extend the Trust Fund through 2025, and reduces publicly held debt since funds could not be used for tax cuts or new spending.

- **Modernizing Medicare's benefits.** Unlike virtually all private health plans, Medicare does not cover prescription drugs. Yet over half of beneficiaries spend more than $500 annually on medications and over three in five lack dependable insurance coverage for drugs. The President's plan:

  - **Establishes a new voluntary Medicare prescription drug benefit that is affordable to all beneficiaries and the program.** The drug benefit, which costs $160 billion over 10 years, would be:

    - ***Accessible and voluntary***. Optional for all beneficiaries. Provides financial incentives for employers to develop and retain their retiree health coverage

- ***Affordable for beneficiaries and the program***. Premiums of $26 per month in the first year with no premiums for low-income beneficiaries. Provides privately-negotiated discounts, gained by pooling beneficiaries' purchasing power, for all drug expenses. Has no deductible and pays for half of each beneficiary's drug costs from the first prescription filled each year up to $5,000 in spending when fully phased in. Discounts continue after limit.

- ***Competitively and efficiently administered***. Competitively selects private benefit manager for enrollees in traditional program. No price controls, no new bureaucracy. Integrated into current eligibility and enrollment systems.

- ***High-quality, necessary medications***. Private entities that use formularies must ensure access to medications off formulary that a physician certifies as medically necessary. Use of state-of-the-art quality improvement tools.

° **Creates a Medicare reserve fund to add protections for catastrophic drug costs**. To build on the President's prescription drug benefit, the budget includes a reserve fund of $35 billion for 2006-2010, available to design protections for beneficiaries with extremely high drug spending. This reserve will permit the Administration to work with Congress to design this enhanced prescription drug benefit. If no consensus emerges, the reserve would be used for debt reduction.

° **Improves preventive benefits in Medicare.** This proposal would eliminate the existing deductible and copayments for preventive services (e.g., colorectal cancer screening, bone mass measurements, and mammographies).

° **Creates health insurance options for people ages 55 to 65**. The plan would allow people ages 62 through 65 and displaced workers ages 55 to 65 to pay premiums to buy into Medicare. It also would require employers who drop previously promised retiree coverage to allow early retirees with limited alternatives to have access to COBRA continuation coverage until they reach age 65 and qualify for Medicare. To make this policy more affordable, the President proposes a tax credit, equal to 25 percent of the premium, for participants in the Medicare buy-in and a similar credit for COBRA.