

through Medicaid, we anticipate that the discount card will have the highest uptake among those eligible for transitional assistance. As discussed in this document, beneficiaries are eligible for transitional assistance if their income does not exceed 135 percent of the official poverty line and they do not have drug coverage through Medicaid, employer sponsored insurance (except for employer purchased coverage under a Part C plan or employer purchased individual Medigap policies), the U.S. Office of Personnel Management, or TRICARE. Based on data on drug coverage and income from the MCBS and the Current Population Survey, we estimate that there will be about 7.2 million beneficiaries eligible for transitional assistance in 2004. Of the 7.2 million, we assume that 65 percent, or 4.7 million, would enroll in an endorsed discount card program in 2004. This uptake assumption was developed considering a variety of factors including: uptake rates in similar means-tested programs, the nature and duration of this program, and the eligibility and enrollment processes involved in this program.

Among those beneficiaries not eligible for transitional assistance, we anticipate that those most likely to benefit from the program will be those without drug coverage. There are projected to be about 6.1 million beneficiaries with incomes greater than 135 percent of the official poverty line and without drug coverage in 2004. We anticipate that the rate at which these beneficiaries enroll in the Medicare prescription drug discount card program will vary by their level of drug spending. In addition, we expect that the maximum \$30 annual enrollment fee and the interim nature of this program (with implementation of a Medicare drug benefit scheduled to occur in less than 2 years) will factor into these beneficiaries' enrollment decision.

In Table 5, we show the specific assumptions regarding the percentage of these beneficiaries enrolling in an endorsed discount card program. We assume that beneficiaries without drug coverage who have relatively higher drug spending will be more likely to enroll than those with generally very low or no spending. For example, we assume a 5 percent enrollment rate among beneficiaries with spending not exceeding \$200—the point at which the maximum \$30 annual enrollment fee could be recouped assuming 15 percent savings. For beneficiaries with the highest levels of drug spending—more than \$600—we assume a 50 percent enrollment rate. Based on the assumptions in Table 5 and the

distribution of drug spending among these beneficiaries without drug coverage, we estimate that about 35 percent of them will enroll in the Medicare prescription drug discount card program.

Another group of beneficiaries likely to benefit from the Medicare prescription drug discount card program will be those with Medigap drug coverage. The standardized Medigap plans that offer prescription drug coverage (standardized plans H, I, and J) are designed with a cap on the amount of drug spending covered by the plan. The drug benefit in standardized plans has a \$250 deductible, 50 percent coinsurance, and a benefit cap of \$1,250 (plans H and I) or \$3,000 (plan J). Because many Medigap plans do not actively negotiate discounts for enrollees, we believe that Medicare beneficiaries with standardized Medigap drug coverage will benefit from a discount card program, particularly for spending above the benefit cap.

We project that there will be about 2.1 million beneficiaries who have incomes greater than 135 percent of the official poverty line and have drug coverage from a Medigap policy in 2004. Table 6 shows the assumptions regarding the percentage of these beneficiaries enrolling in an endorsed discount card program. Similar to the enrollment assumptions for beneficiaries without drug coverage, we assume that the enrollment rate for these beneficiaries with Medigap drug coverage varies by the level of drug spending. For beneficiaries with the highest levels of drug spending, we assumed a slightly higher uptake rate (60 percent) among those with Medigap drug coverage than among those without drug coverage (50 percent). We believe that beneficiaries with Medigap coverage for prescription drugs will be more risk averse than the average beneficiary and will therefore have a somewhat higher propensity to enroll.

We assume that beneficiaries with Medigap drug coverage would use the drug card for spending exceeding the Medigap benefit cap. Thus, the table shows enrollment rate assumptions by the level of drug spending involved in the Medicare prescription drug discount card program (not by the level of total drug spending). Based on the assumptions in Table 6 and the distribution of drug spending for these beneficiaries, we estimate that about 24 percent of these beneficiaries will enroll in the Medicare prescription drug discount card program. The 24 percent average enrollment rate stems from the fact that most beneficiaries with Medigap drug coverage have low levels

of spending above the Medigap benefit cap, and thus we assume a low uptake rate for these individuals for this time limited program with an annual enrollment fee of up to \$30.

These estimates of Medicare beneficiary enrollment in the Medicare prescription drug discount card program are one of the elements in our estimates of the impact of the program.

TABLE 5—ESTIMATED ENROLLMENT RATE OF MEDICARE BENEFICIARIES WITH NO DRUG COVERAGE AND WITH INCOME GREATER THAN 135 PERCENT OF THE OFFICIAL POVERTY LINE 2004 TO 2005

Annual drug spending	Percent enrolling
0–200.00	5
200.01–300.00	10
300.01–400.00	20
400.01–500.00	30
500.01–600.00	40
600.01+	50

TABLE 6—ESTIMATED ENROLLMENT RATE OF MEDICARE BENEFICIARIES WITH MEDIGAP DRUG COVERAGE AND WITH INCOME GREATER THAN 135 PERCENT OF THE OFFICIAL POVERTY LINE 2004 TO 2005

Annual drug spending subject to the Medicare drug discount card	Percent enrolling
\$0–200.00	5
200.01–300.00	10
300.01–400.00	20
400.01–500.00	30
500.01–600.00	40
600.01–700.00	50
700.01+	60

As discussed previously in this document, we assume the same uptake rate in the Medicare prescription drug discount card program for beneficiaries currently participating in manufacturer discount card programs as for other beneficiaries. During the first half of 2002, several drug manufacturers established drug card programs that offer low-income Medicare beneficiaries without drug coverage significant discounts or low copayments on drugs they manufacture. Eli Lilly, Novartis, and Pfizer have each established co-pay cards. Eight drug manufacturers (Abbott Laboratories, AstraZeneca, Aventis, Bristol-Myers Squibb Company, GlaxoSmithKline, Janssen Pharmaceutical Products, L.P., Novartis, and Ortho-McNeil Pharmaceutical, Inc.) have established Together Rx, a discount card. In addition,