Out-of-Pocket Pharmacy Expenditures for Veterans Under Medicare Part D

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Objectives: Because the VA pharmacy benefit is deemed equivalent coverage to Medicare Part D, veterans can use either or both of these Federal benefits. We sought to determine how these programs' different benefit structures and low-income assistance thresholds would affect pharmacy out-of-pocket expenses for veterans.

Methods: We reviewed income and asset tests performed at the Salt Lake City VA in fiscal year 2005, and estimated the number of individuals, age 65 and older, who meet eligibility for Part D low-income assistance. Using past VA pharmacy utilization data, we estimated the difference in pharmacy out-of-pocket expenditures for veterans eligible for assistance through Medicare but not through the VA.

Results: The income and asset thresholds for low-income assistance through Part D were reached by 4127 veterans. From this group, we identified 926 veterans who had used the VA pharmacy during the prior year, who are ineligible for VA copayment waivers, and who qualify for premium waiver under Part D. These veterans' estimated annual savings ranged from $6 to $714, with an average savings of $353 per year (or 2% of their average annual income) by using Part D.

Conclusions: Although VA pharmacy coverage has been deemed to be, on average, equivalent to Part D, some veterans living near poverty can reduce out-of-pocket expenditures by using Medicare prescription coverage. Currently available data can identify veterans who are likely to achieve savings under Medicare.

Key Words: drug costs, insurance coverage, Part D, veterans

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Medicare Part D enrollment totals include 5.4 million (13%) Medicare beneficiaries who have an alternative form of creditable prescription drug coverage. An estimated 2 million of these individuals receive their creditable coverage through their participation in the Veterans Administration pharmacy benefit.[1]

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Alternative coverage is deemed creditable if it is equal to or better than the coverage received under the basic Part D plan structure. For purposes of policy and advocacy, individuals holding creditable coverage are often assumed to have little incentive to enroll in Part D. This assumption seems to be based on 2 factors. First, beneficiaries with creditable coverage will not be subject to higher premiums if they enroll in Part D after the May 15, 2006 deadline. Second, because the coverage is on average as generous as Part D, there may seem to be no financial incentive to enroll in Part D.[2]

Although the lack of a late-enrollment penalty relieves time pressure for making a decision, the supposition regarding financial incentives is tenuous. Because plans and beneficiaries are heterogeneous, the fact that a form of creditable coverage is deemed to be on average as good as the basic Part D plan does not guarantee that any given individual would not reduce out-of-pocket pharmacy expenditures by enrolling in some Part D plan.

Because the VA has detailed records regarding both pharmacy utilization and means testing, it is possible to formally estimate the out-of-pocket expenditures that individuals might expect under Part D compared with their current VA coverage.[3] The economic impetus to lower out-of-pocket expenditures through coverage selection is expected to be greatest for veterans with lower incomes.[4] Both the VA and Medicare make provisions to reduce out-of-pocket expenditures for enrollees with limited resources. However, these low-income assistance programs have different qualifying thresholds and benefit structures. These differences create the possibility that some low-income veterans may be eligible for low-income assistance under Medicare Part D even though they do not qualify for reductions at the VA. The current study focuses on determining the projected out-of-pocket savings that these individuals could expect under a Part D plan.

METHODS

Setting and Eligibility

This study includes an analysis of all veterans age 65 and older who underwent means testing in fiscal year (FY) 2005 at the VA Salt Lake City Medical Center. We analyzed data for those patients with incomes at or below 150% of the federal poverty level (FPL).

Measures

Key means testing data include reported income and asset levels. Income thresholds are adjusted for the number of reported dependents according to census bureau guidelines. Asset thresholds pertain only to Medicare and are also adjusted based on the number of dependents. The level of VA service connection (expressed as a percentage) was obtained for each eligible veteran. Prescription activity was expressed as the number of prescriptions filled through the VA pharmacy during the prior 12 months. For copayment purposes, all prescriptions are broken down into the number of 30-day equivalents, because a 90-day fill results in 3 copayments at the VA.

Data Sources

All data for this study were collected from data tables stored at the VISN 19 data warehouse in Salt Lake City. These data are routinely extracted from VISTA source files that include both administrative and clinical data, and are stored using an SQL server. For instance, data regarding income, assets, and number of dependents are collected administratively during required annual means testing, entered into VISTA, and are stored as a data field in the warehouse.

VA Copayment Structure

Out-of-pocket pharmacy expenditures are not uniform for all veterans. Veterans with conditions that have been adjudicated to be connected to their military service receive medications related to that condition at no cost. If the condition is deemed severe, or if the veteran had an extreme exposure such as being a prisoner of war or contacting Agent Orange, then the veteran may receive a waiver of all out-of-pocket expenditures.[5] Most veterans are not eligible for these waivers, and are subject to an $8 copayment for each 30-day supply of medication. An annual out-of-pocket maximum has been set at $960.

VA Low-Income Assistance

The VA allows veterans to receive a waiver of copayment if the veteran's income falls below the basic pension level. For 2006, this threshold was set at $10,579 or 108% of the FPL for a veteran with no dependents.

Medicare Low-Income Assistance

Medicare also reduces out-of-pocket expenditures for Part D enrollees who have low incomes. Individuals with incomes at or below 135% of the FPL who have low assets are eligible for full-premium waivers and reduced copayments. Beneficiaries with slightly more assets or incomes between 135% and 150% of the FPL receive premium reductions on a sliding scale. Because enrollment rates in Part D have been lower than anticipated for beneficiaries eligible for these subsidies, this group has drawn considerable interest.[6]

Because there is no restriction prohibiting concurrent VA and Part D enrollment, veterans with incomes greater than the threshold for copayment waiver at the VA (108% of FPL), but below the income and asset level leading to full premium waiver in Part D, are most likely to benefit from concurrent enrollment in Part D (Table 1).

Cost Models

In contrast to the VA pharmacy which charges a single copayment for each prescription, copayments in Part D vary for generic and brand name medications. For example, for those patients between 100% FPL and 135% FPL, the copayment is $2 for each generic fill and $5 for each brand name fill. Because 64% of the medications purchased by the VA are generic,[7] we used this percentage in calculating projected out-of-pocket expenditures under Part D. In contrast to the VA, Part D plans charge only 1 copayment for medications dispensed with a 3-month supply. We assumed that half of veteran prescriptions are ongoing regular medications that can be supplied with 90-day fills. Cost models incorporate the VA annual out-of-pocket maximum and any full copayment waivers associated with service connection. Models assumed that prescription use from the prior 12 months would be stable over the next year and that the VA formulary could be converted to a Part D plan formulary.

Sensitivity Analysis

Because the pharmacy usage data included only the number of prescriptions filled for 30-day periods, we are unable to calculate the actual use of generic drugs or 3-month prescriptions. Because changing these parameters alters the out-of-pocket cost under Medicare Part D, we tested cost models that assumed a range of values for these variables.

RESULTS

Of 11,907 veterans over the age of 65 who had means testing at the Salt Lake City VA in FY 2005, 4680 (39%) reported incomes that were at 150% of the FPL or below. After incorporating the asset test for Part D and level of service connection at the VA, 4127 (35%) individuals remained eligible for pharmacy out-of-pocket expenditure re-

TABLE 1. Thresholds for Assistance Through Medicare Part D and the VA

Income	Assets	Premium	Copayment
Part D			
<100% FPL $9800	Medicaid eligible	$0	$1 generic, $3 brand
<135% FPL $13,230	<$6,000	$0	$2 generic, $5 brand
<150% FPL $14,700	<$10,000	Sliding scale	15% of total costs
VA			
VA basic pension level $10,579	No asset test for pharmacy	$0	$0

Income and asset totals based on 2006 thresholds for an individual with no dependents.

duction. Of the group of veterans who remained eligible for assistance, 2000 (48%) were eligible to receive medications at no expense from the VA, but the remaining 2127 (52%) were eligible for reduction of out-of-pocket expenditures through Medicare but not through the VA (Fig. 1).

Of the 2127 veterans eligible for copayment assistance only through Part D, 544 fall between 135% and 150% of the FPL. Because the Part D premium is offset on a sliding-scale basis for this group, and because copayments are tied to the cost of their specific drugs, the actual list of medications would be required to estimate out-of-pocket expenditures. Our cost models therefore focused on the 1583 veterans who have incomes below 135% of the FPL but above the income threshold for VA copayment waiver. Under Part D, these individuals would have their premium waived and pay fixed copayments ($2 for each generic and $5 for each brand name fill).

During the prior year, 657 (42%) of this modeled group filled no prescriptions at the VA. For the remaining 926 (58%) veterans who did fill prescriptions, the number of 30-day fills ranged from 1 to 302 with an average of 69 fills in the prior year. Under the prespecified conditions, all these veterans who filled medications during the prior year would reduce out-of-pocket expenditures by enrolling in Part D. The average reduction for this group was $353, with a range of $6 to $714 (Fig. 2).

Because the VA charges a uniform $8 copayment for every 30-day fill, assumptions about generic drug use and use of 90-day fills affected only the projected Medicare Part D copayments. Assuming all generic drug use with 90-day fills, the average reduction in out-of-pocket expenditures would increase to $461 (range, $7 to $880). With the most conservative estimate, assuming all brand name usage and no prescription fills for longer than a month, the average cost savings falls to $160 (range, $550 to $360). Because of the effect of the annual out-of-pocket maximum at the VA, this scenario would lead to 20 veterans (2%), who filled more than 193 monthly prescriptions in the prior year, retaining a cost advantage for using the VA only.

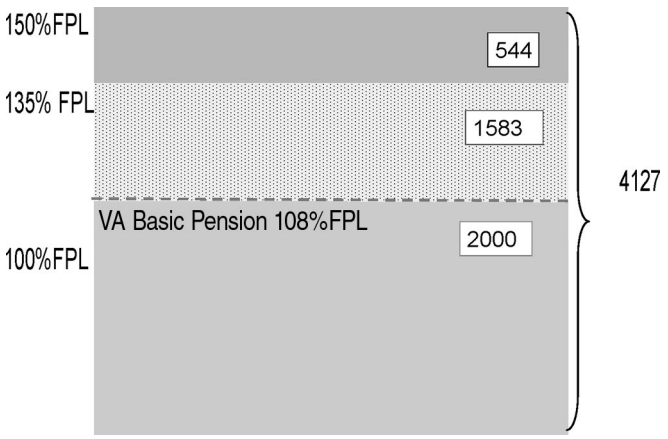

FIGURE 1. Number of veterans meeting various income thresholds for copayment relief.

DISCUSSION

Although VA pharmacy coverage is creditable coverage under Part D it seems that a substantial number of older veterans could reduce their out-of-pocket pharmacy expenditures through enrollment in Part D. Because of differences in the thresholds for low-income assistance, the potential savings seem to be greatest for those veterans who qualify for Medicare assistance but do not qualify for assistance through the VA. Our cost models identified a group of veterans who are expected to benefit from concurrent enrollment in Part D. These veterans have incomes between the VA assistance level (108% of the FPL) and 135% of the FPL, meet the Medicare asset test for premium waiver, and fill prescriptions at the VA.

Previous studies of individuals, including older patients and veteran patients have demonstrated a negative relationship between increasing out-of-pocket expenditures, medication adherence,[8] and health outcomes.[9] Thus our findings suggest an important potential impact on the quality of care received by veterans. In studies done before implementation of Part D, VA patients had the lowest rates of reporting nonadherence due to out-of-pocket expenditures, but 12% still reported difficulty.[10] It is anticipated that these adherence difficulties become more marked for veterans with low incomes. Previous work indicates that some veterans choose VA healthcare because of the pharmacy benefit.[11] As other more generous options for reducing out-of-pocket expenditures become available, this relative advantage in adherence rates as well as VA enrollment may be adversely affected.

This modeling involved only medications received through the VA. Because some veterans already use non-VA pharmacies to fill some or all of their medications,[11] having access to only VA pharmacy usage is a limitation of the study. It is likely that some of the 657 modeled patients who did not

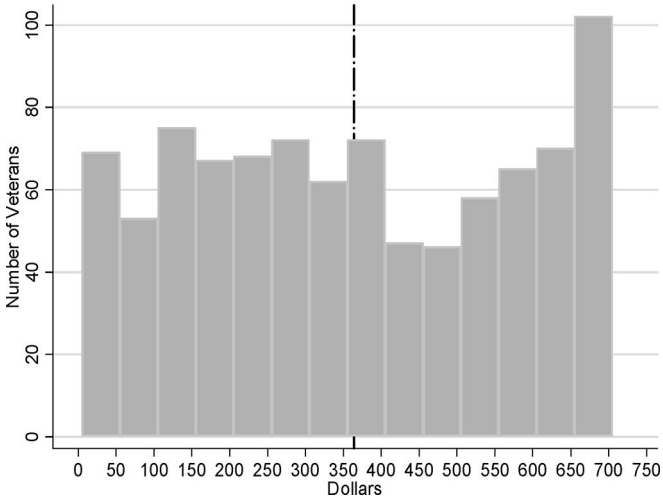

FIGURE 2. Projected distribution of savings in pharmacy out-of-pocket expenditures with Medicare Part D enrollment for 926 veterans filling prescriptions at the VA during the prior year who qualify for premium waiver under Medicare Part D, but not copayment relief through the VA. Median $351, SD ($212).

have any medication fills at the VA during the prior year were actually using outside pharmacies. However, enrollment in Part D may be even more appealing to veterans who currently pay out-of-pocket to use non-VA pharmacies. This highlights that convenience factors, such as the ability to use non-VA facilities to fill prescriptions, will likely influence the relative merits of Part D enrollment for individual veterans.[12]

Similarly, this analysis assumes that because legislation requires Part D plans to have formularies that include drug coverage across major therapeutic categories, that veteran's current medication regimens can be converted to the formulary of an available Part D plan. This assumption is strengthened by the data regarding the high rates of generic drug use within the VA, but has not been tested formally.

The different thresholds for low-income assistance between the VA and Medicare are not the result of an intentional policy decision, but instead reflect the different historical and political contexts during the respective policy formations. Relieving out-of-pocket expenditures for veterans whose incomes fall below the VA Basic Pension Rate is a long-standing policy that preceded the passage of the Medicare Modernization Act.[13] The tiered assistance levels within Part D were largely driven by the available budget at the time of its passage. Because these thresholds are adjusted on a yearly basis, the discrepancies between coverage are subject to change annually.

This research should not be used to question the designation of the VA pharmacy benefit as creditable coverage. Based on the lack of an annual premium and deductible at the VA, and the presence of the donut hole in many Medicare plans, most veterans will find that the VA pharmacy benefit is equivalent or better than an average Part D plan. Rather, this study demonstrates that a designation of creditable coverage does not insure that a subset of individuals will not benefit from changing or adding coverage through Part D. Importantly, this study demonstrates that such a subset of veterans can be identified and monitored with readily available data.

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