



## Changes in the Cost of Medicare Prescription Drug Plans, 2007-2008

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The average premium for Medicare Part D prescription drug plans rose by 24.5 percent from 2007 to 2008, or \$57.70 per year. This increase will bring the average premium for a Medicare prescription drug plan in 2008 to \$293 per year, or \$24.40 a month. While the size of the 2008 increase is surprisingly large, especially considering the slower than projected rate of growth of overall drug spending, the premiums for 2008 are still somewhat lower than had been projected before the passage of the bill. However, if the rate of increase remains near its current pace, then premium costs will exceed projections by 2010.

It is possible that the insurers taking part in Part D are following the same pattern as the insurers who participated in the Medicare Plus Choice program in the mid-nineties. Insurers in that program originally charged low premiums in order to gain market share. They then raised their premiums sharply in subsequent years in order to cover their costs. Eventually, many insurers ended up leaving the program because they decided that it was not sufficiently profitable.

**Table 1** shows the average annual change in the premiums for Medicare prescription drug plans expressed as a share of the median income for different types of households over age 65. The increase has the least impact on men living alone, accounting for 0.25 percent of the income of a median household in this category. By contrast, the increase would be approximately equal to 0.35 percent of the household income of the median woman over age 65 living alone. While this single year impact is not likely to have much impact on most families, if this rate of increase is sustained for any substantial period of time, then it will have a noticeable impact on living standards.

It is also worth noting that the increase in the premium only captures one potential source of increased prescription drug costs. If the plans charge higher deductibles, co-payments, or cover a smaller portion of the drugs needed by beneficiaries, then drug spending will also increase.<sup>1</sup> The data from the Centers for Medicare and Medicaid Services indicate that plan deductibles will be slightly lower on average in 2008 than in 2007.

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<sup>1</sup> On average, there was a modest decline in deductibles from 2007 to 2008 (CMS).

**TABLE 1**  
**Average Change in Prescription Drug Premiums**

	Couples	Women living alone	Men living alone
Average Premium, 2007	\$470.60	\$235.30	\$235.30
Average Premium, 2008	\$586.00	\$293.00	\$293.00
<i>Change</i>	\$115.40	\$57.70	\$57.70
<i>Percent Change</i>	24.50%	24.50%	24.50%
<i>Share of Median Income</i>	0.28%	0.35%	0.25%

Source: CMS, Census Bureau and authors' calculations, see appendix.

[Table 2](#) shows the five states in which the average premium for Part D drug plans increased most rapidly. New Jersey leads this list with average premiums rising by 26.7 percent in 2008. California is second with an average premium increase of 25.4 percent. Rhode Island and Vermont tied for fifth place with increases of 21.7 percent.

**TABLE 2**  
**States With the Largest Percentage Increases in Part D Premiums**

Ranking	State	Percentage increase
1	New Jersey	26.67%
2	California	25.44%
3	Connecticut	23.28%
4	New York	22.35%
5*	Rhode Island	21.69%
5*	Vermont	21.69%

Source: CMS, Census Bureau and authors' calculations, see appendix.

\*Rhode Island and Vermont ranked at number five, with a 21.69% increase in Part D Premiums

[Table 3](#) shows the states with the five lowest rate of increase in premiums for 2008. New Mexico tops this list with an average increase in premiums of just 3.8 percent, followed by Arizona with an increase of 5.2 percent. The averages rise rapidly, with beneficiaries in Georgia, the state with the fifth lowest rate of increase, still seeing a 9.2 percent rise in premiums on average.

**TABLE 3**  
**States With the Smallest Percentage Increases in Part D Premiums**

Ranking	State	Percentage increase
1	New Mexico	3.83%
2	Arizona	5.16%
3	Arkansas	7.03%
4	Louisiana	7.10%
5	Georgia	9.24%

Source: CMS, Census Bureau and authors' calculations, see appendix.

[Table 4](#) provides information on the changes in the Part D plans in each state from CMS. **Column 1** (Number of plans, 2008) shows the number of stand alone prescription drug plans that qualify under Part D. All the states have considerable choice with all but five states having more than fifty plans. **Column 2** (Number with coverage in the gap, 2008) shows the number of plans that offer coverage in the gap

**TABLE 4**  
**Changes In Medicare Plans by State, 2007 - 2008**

State	No. of plans, 2008	No. with coverage in the gap, 2008	No. dropping coverage, 2008	Avg. premium increase (\$) 2007-2008, annualized	Avg. percentage increase of the premium, 2007-2008	Avg. deductible increase, 2007-2008
Alabama	53	15	4	\$55.96	12.48%	(\$4.67)
Alaska	47	14	3	\$90.70	18.90%	(\$11.11)
Arizona	51	15	3	\$33.54	5.16%	(\$6.16)
Arkansas	55	16	4	\$32.79	7.03%	\$13.88
California	56	15	3	\$93.78	25.44%	(\$12.61)
Colorado	55	16	3	\$80.90	18.95%	(\$11.20)
Connecticut	51	15	3	\$95.92	23.28%	(\$9.09)
Delaware	52	15	3	\$73.36	19.60%	(\$3.80)
Florida	58	17	3	\$47.46	10.37%	\$3.83
Georgia	54	15	3	\$44.83	9.24%	(\$2.71)
Hawaii	49	15	3	\$87.24	21.65%	(\$2.57)
Idaho	54	15	4	\$91.64	20.22%	(\$8.70)
Illinois	53	15	3	\$64.03	14.22%	(\$3.30)
Indiana	52	15	3	\$64.77	15.00%	(\$2.61)
Iowa	52	16	3	\$65.59	16.91%	\$3.98
Kansas	52	15	3	\$72.97	17.68%	(\$3.04)
Kentucky	52	15	3	\$64.77	15.00%	(\$2.61)
Louisiana	50	14	3	\$33.74	7.10%	\$1.70
Maine	53	16	3	\$47.92	9.78%	\$4.79
Maryland	52	15	3	\$73.36	19.60%	(\$3.80)
Massachusetts	48	15	2	\$93.57	20.76%	(\$9.17)
Michigan	58	16	4	\$53.78	13.36%	\$3.57
Minnesota	52	16	3	\$65.59	16.91%	\$3.98
Mississippi	49	14	4	\$52.14	12.46%	\$0.36
Missouri	52	15	3	\$63.97	15.02%	(\$2.83)
Montana	52	16	3	\$65.59	16.91%	\$3.98
Nebraska	52	16	3	\$65.59	16.91%	\$3.98

**TABLE 4, continued**  
**Changes in Medicare Plans by State, 2007 - 2008**

State	No. of plans, 2008	No. with coverage in the gap, 2008	No. dropping coverage, 2008	Avg. premium increase (\$) 2007-2008, annualized	Avg. percentage increase of the premium, 2007-2008	Avg. deductible increase 2007-2008
Nevada	53	15	3	\$55.35	12.59%	(\$8.19)
New Hampshire	53	16	3	\$47.92	9.78%	\$4.79
New Jersey	57	18	3	\$92.88	26.67%	(\$5.73)
New Mexico	55	16	3	\$27.99	3.83%	(\$7.35)
New York	55	15	5	\$84.59	22.35%	(\$0.31)
North Carolina	52	16	3	\$48.11	9.70%	(\$3.75)
North Dakota	52	16	3	\$65.59	16.91%	\$3.98
Ohio	58	17	3	\$52.78	12.40%	\$8.63
Oklahoma	49	16	2	\$55.76	10.55%	(\$8.72)
Oregon	58	17	4	\$75.76	16.86%	\$3.73
Pennsylvania	63	17	4	\$58.45	14.51%	\$4.27
Rhode Island	51	15	3	\$88.48	21.69%	(\$2.78)
South Carolina	56	15	4	\$49.68	11.60%	\$0.94
South Dakota	52	16	3	\$65.59	16.91%	\$3.98
Tennessee	53	15	5	\$52.67	11.92%	\$6.89
Texas	56	16	3	\$42.55	11.13%	(\$7.80)
Utah	54	15	4	\$91.64	20.22%	(\$8.70)
Vermont	51	15	3	\$88.48	21.69%	(\$2.78)
Virginia	52	15	3	\$58.43	13.43%	(\$3.26)
Washington	55	17	3	\$81.88	17.50%	(\$1.46)
Washington D.C.	52	15	3	\$73.36	19.60%	(\$3.80)
West Virginia	63	17	4	\$58.45	14.51%	\$4.27
Wisconsin	57	17	3	\$85.85	19.87%	(\$1.63)
Wyoming	52	16	3	\$65.59	16.91%	\$3.98

Source: CMS and authors' calculations

between the initial coverage level and the catastrophic level that kicks in for people with major expenses (approximately \$4,100 in 2008). While there is an average of 16 plans with coverage in the gap in each state, many of these plans only provide coverage for generic drugs. The choice of plans that offer coverage of brand drugs in the gap is far more limited.

**Column 3** (Number dropping coverage, 2008) shows the number of plans that report dropping coverage in the gap between 2007 and 2008. This is worth noting, since selecting plans has proved to be an ordeal for many beneficiaries, taking an average of more than eight hours according to a survey conducted for the Medicare Payments Advisory Commission.<sup>2</sup> The 3-4 plans dropping coverage in most states imply that roughly 20 percent of the plans that offered coverage in the gap in 2007 will not be offering coverage in 2008. The beneficiaries that signed up for these plans presumably selected them because they anticipated substantial drug expenses. For this group, the need to select a new plan is likely to be an especially large burden if they cannot rely on the assistance of a family member or health care professional.

**Column 4** (Average premium increase in dollars, 2007-2008, annualized) and **Column 5** (Average percentage increase of the premium, 2007-2008) show, respectively, the average dollar and percentage in premiums for plans in each state. The averages shown are not weighted by enrollment, since state by state enrollment data is not available for each plan. **Column 6** (Average deductible increase, 2007-2008) shows the average change in the deductible for the plans in each state. This number is not directly comparable to the premiums since many beneficiaries will likely not pay the full deductible. This is especially likely to be true for relatively healthy beneficiaries who may opt for a high deductible plan with a very low premium. For these beneficiaries, an increase in the deductible will make no difference in their out of pocket expenditures unless their health deteriorates and they find themselves with costs that exceed the deductible.

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<sup>2</sup> Medicare Payments Advisory Commission, 2006. "How Beneficiaries Learned About the Drug Benefit and Made Plan Choices" Table 8-4. [[http://www.medpac.gov/publications/congressional\\_testimony/June06\\_Ch08.pdf](http://www.medpac.gov/publications/congressional_testimony/June06_Ch08.pdf)]

## Appendix

The average increases in premiums and deductibles for all Medicare drug plans is based on enrollment data and premium data obtained from the Centers for Medicare & Medicaid Services' Medicare Advantage/Part D Contract and Enrollment Data section,

[[http://www.cms.hhs.gov/MCRAdvPartDEnrolData/Downloads/Annual\\_Enrollment\\_by\\_Plan\\_-\\_July\\_2007.zip](http://www.cms.hhs.gov/MCRAdvPartDEnrolData/Downloads/Annual_Enrollment_by_Plan_-_July_2007.zip)], and the Prescription Drug Coverage – General Information section

[[http://www.cms.hhs.gov/PrescriptionDrugCovGenIn/Downloads/PDP\\_Source2007.zip](http://www.cms.hhs.gov/PrescriptionDrugCovGenIn/Downloads/PDP_Source2007.zip)],

[[http://www.cms.hhs.gov/PrescriptionDrugCovGenIn/Downloads/PDP\\_Source\\_2008.zip](http://www.cms.hhs.gov/PrescriptionDrugCovGenIn/Downloads/PDP_Source_2008.zip)].

The data for income by household type for people over age 65 is taken from Census Bureau's summary income data from the Current Population Survey, HINC2

[[http://pubdb3.census.gov/macro/032007/hhinc/new02\\_000.htm](http://pubdb3.census.gov/macro/032007/hhinc/new02_000.htm)].

The state level data are un-weighted averages. The data is taken from the Centers for Medicare & Medicaid Services' Prescription Drug Coverage – General Information section

[[http://www.cms.hhs.gov/PrescriptionDrugCovGenIn/Downloads/PDP\\_Source2007.zip](http://www.cms.hhs.gov/PrescriptionDrugCovGenIn/Downloads/PDP_Source2007.zip)],

[[http://www.cms.hhs.gov/PrescriptionDrugCovGenIn/Downloads/PDP\\_Source\\_2008.zip](http://www.cms.hhs.gov/PrescriptionDrugCovGenIn/Downloads/PDP_Source_2008.zip)].