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BENEFITS OF PROPOSED DEMOCRATIC MEDICARE
DRUG PROGRAM REFORMS IN
NEW YORK'S 14TH CONGRESSIONAL DISTRICT

PREPARED FOR
REP. CAROLYN B. MALONEY
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EXECUTIVE SUMMARY

The launch of the new Medicare drug benefit has been marred by complexity and high drug costs. Nationally, over four million seniors and disabled Medicare beneficiaries did not sign up for benefits before the May 15, 2006, deadline. Many of these beneficiaries were deterred by the difficulty of choosing among dozens of competing plans and the inability of the plans to offer significant price discounts.

In response to these problems, Democratic members of Congress have proposed four fundamental reforms to improve the Medicare benefit:

1. **Reduce drug prices by directing the federal Medicare program to negotiate with drug manufacturers on behalf of beneficiaries.**

2. **Use the drug price savings to eliminate the “donut hole.”**

3. **Extend the May 15 deadline to allow beneficiaries who missed the deadline a chance to sign up for the benefit without penalty.**

4. **Simplify plan choices and designs by authorizing the federal Medicare program to offer a standard federal plan.**

At the request of Rep. Carolyn B. Maloney, who represents New York’s 14th Congressional District, this report analyzes the impact that passage of these Democratic proposals would have on seniors and other Medicare beneficiaries in the district. It finds:

- **31,000 Medicare beneficiaries in Rep. Maloney’s congressional district could save over $200 million in premiums, copays, and other out-of-pocket drug costs.** Democrats have proposed allowing the Medicare program to negotiate for lower drug prices. Such negotiations could reduce prices by 25% or more. There are 31,000 beneficiaries in Rep. Maloney’s congressional district who pay their own premiums and copays under the new Medicare drug program. These beneficiaries could expect average savings of almost $500 annually if Medicare negotiated for 25% lower drug prices. The total savings over the next decade for beneficiaries in the district would be $216 million.

- **Over 10,000 Medicare beneficiaries in Rep. Maloney’s congressional district could avoid the “donut hole.”** Drug benefits under standard Medicare drug plans end once beneficiaries have used $2,250 worth of drugs and do not begin again until they...
have used over $5,100 worth of drugs. An estimated 10,200 beneficiaries in Rep. Maloney’s congressional district will hit the donut hole this year, resulting in thousands of dollars in unreimbursed out-of-pocket costs per beneficiary. Democratic reform proposals in Congress would provide enough savings to eliminate the donut hole.

- **Almost 5,000 Medicare beneficiaries in Rep. Maloney’s congressional district could avoid hundreds of dollars in penalties.** Enrollment in the Medicare drug program has been well below expectations, with approximately 20,000 Medicare beneficiaries in Rep. Maloney’s congressional district failing to sign up with a Medicare drug plan prior to the May 15, 2006, deadline. An estimated 4,800 of these beneficiaries are now subject to permanent increases in premiums that could cost them almost $500 to over $1,000 over the next decade.

These considerable benefits could be accompanied by significant simplification of the Medicare drug program. Currently, there are 20 private providers offering 47 different drug plans in Rep. Maloney’s congressional district. Democratic proposals would make the choice of drug plans easier for beneficiaries by allowing the federal Medicare plan to directly offer a low-cost drug plan.
I. BACKGROUND

The Medicare drug program was designed by Republican leaders in Congress and the Bush Administration, working closely with the major pharmaceutical manufacturers and health insurers. Passage of the legislation in 2003 was hailed by the pharmaceutical industry, which called the legislation “an historic victory for seniors,”¹ and by the health insurance industry, which called the legislation “a powerful milestone.”² Democratic members who sought changes in the design of the plan were denied the opportunity to offer amendments.

Since the inception of the Medicare prescription drug program in January 2006, seniors and people with disabilities have confronted complex choices and a bewildering array of differences in premiums, deductibles, benefits, gaps in coverage, and drug plan formularies. The problems experienced under the plan include:

• **High drug prices.** According to one study, drug prices under the Medicare drug plans are over 80% higher than the prices negotiated by the federal government and over 60% higher than prices in Canada.³

• **Low enrollment.** Prior to the start of Medicare drug plan, CMS estimated that over 29 million beneficiaries would sign up for the new program.⁴ But when enrollment closed for the year in May 2006, only 22.5 million beneficiaries had enrolled. Millions of beneficiaries without coverage missed the May 15 deadline and face large penalties if they sign up next year for a Medicare drug plan.

• **Inadequate benefit.** Under the standard Medicare drug plan, beneficiaries enter a “donut hole” and lose drug coverage when they have used $2,250 worth of drugs. They do not regain coverage until they have used over $5,100 worth of drugs.⁵ Independent analysts have projected that this year, one of every three beneficiaries who do not receive low-income subsidies — millions of beneficiaries — will enter the donut hole and lose drug coverage.⁶

¹ Pharmaceutical Research and Manufacturers of America (PhRMA), Statement by Alan F. Holmer, President and CEO, On the Passage of the Medicare Prescription Drug Benefit (Nov. 25, 2003).
³ Minority Staff, Special Investigations Division, House Committee on Government Reform, New Medicare Drug Plans Fail to Provide Meaningful Drug Price Discounts (Nov. 2005).
⁵ Under the standard Medicare plan, beneficiaries will have used $5,100 worth of drugs, and incurred $3,600 in out-of-pocket costs when they regain coverage.
• **Drug denials.** Even while they are eligible for drug coverage, many beneficiaries are finding that needed drugs are not covered or that the Medicare insurers are establishing barriers such as prior authorization, volume limits, or step therapy that cut off access to critical drugs.\(^7\)

• **Inaccurate information.** Two reports by the Government Accountability Office found that neither the Medicare program — through the 1-800-MEDICARE hotline — nor the drug plans themselves are able to provide accurate information to beneficiaries. GAO found that the Medicare hotline provided inaccurate, inappropriate, or incomplete answers to one third of basic questions,\(^8\) while the Medicare drug plans failed to answer basic questions accurately and completely two-thirds of the time.\(^9\)

• **Unnecessary red tape.** According to a recent report from the Office of Management and Budget, the complexities of the Medicare drug benefit increased federal paperwork burdens by 200 million hours annually.\(^10\)

These problems have led independent observers across the nation to call for fundamental change. Leading editorial boards have called the program “confusing … convoluted …[and] plagued by poor management and design,”\(^11\) “an expensive failure,”\(^12\) and “a big scam,”\(^13\) and have called for numerous reforms, including: “waiv[ing] the imposition of lifetime penalties”\(^14\) for seniors who did not sign up prior to the May 15 deadline; “allowing “Medicare [to] negotiate directly with drug companies on prices of drugs”;\(^15\) “filling the doughnut hole”;\(^16\) and simplifying the program by “mak[ing] prescription coverage a simple, direct benefit from Medicare.”\(^17\)

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\(^7\) Democratic Staff, House Committee on Government Reform, New Medicare Drug Plans Restrict Access to Important Drugs (Mar. 2006).

\(^8\) GAO, Medicare: Communications to Beneficiaries on the Prescription Drug Benefit Could Be Improved (May 2006) (GAO-06-654).

\(^9\) GAO, Medicare Part D: Prescription Drug Plan Sponsor Call Center Responses Were Prompt, but Not Consistently Accurate and Complete (June 2006) (GAO-06-710).

\(^10\) Democratic Staff, House Committee on Government Reform, Government Paperwork Burdens Have Increased Substantially Under The Bush Administration (July 2006).

\(^11\) The Seattle Times, Waive Penalties on Medicare Rx (May 18, 2006)

\(^12\) Roanoke Times, Filling the Doughnut Hole (Aug. 3, 2006)

\(^13\) San Gabriel Valley Tribune, In the Short Run, Part D Is a Big Scam (July 26, 2006).

\(^14\) Contra Costa Times, Waive the Penalties (May 18, 2006); see also, The Seattle Times, Waive Penalties on Medicare Rx (May 18, 2006); The Detroit News, Help Seniors Extend Drug Benefit Deadline (May 17, 2006).

\(^15\) The Raleigh News and Observer, A Distressing Gap (Aug. 2, 2006); see also, The Columbus Dispatch, Drug Money (July 23, 2006); Akron Beacon Journal, Profit and Cost (July 21, 2006); St. Petersburg Times, The Doughnut Hole (July 6, 2006).

\(^16\) The Roanoke Times, supra note 12; see also, Rochester Democrat and Chronicle, Close Coverage Gap (July 25, 2006); Herald News (Passaic County, NJ), Time To Get Up and Fill the Doughnut (July 14, 2006).

\(^17\) The Bergen Record, Medicare D-lemma: The D Stands for Doughnut Hole (July 17, 2006).
II. PROPOSED DEMOCRATIC REFORMS

Democratic members of Congress in the House and the Senate have introduced 41 bills to address the problems afflicting the Medicare drug program. These bills, however, have been blocked from consideration by the Republican majority. In the House, there have been no hearings on any Democratic reform proposals.

Two leading Democratic bills to reform the Medicare drug program are the Medicare Informed Choice Act (H.R. 3861) and the Medicare Prescription Drug Savings and Choices Act (H.R. 752). In these bills and other proposals, Democrats have pressed for four fundamental reforms to the Medicare drug benefit.

First, Democratic proposals would direct the federal Medicare program to negotiate with drug manufacturers on behalf of beneficiaries. The federal government negotiates with drug manufacturers when purchasing drugs for the Veterans Administration and other federal programs, generating savings of over 80% from pharmacy prices. The current Medicare drug program prohibits Medicare from using the vast buying power of the program to negotiate discounted prices.

Second, Democratic members have proposed that some of the savings from negotiating lower drug prices be used to improve the Medicare drug benefit and eliminate the donut hole. According to Democratic Leader Nancy Pelosi, the legislation would “help close the ‘donut hole’ by dedicating the cost savings from price negotiation toward ending the coverage gap.”

Third, Democratic proposals would extend the May 15 deadline to allow beneficiaries who missed the deadline a chance to sign up for the benefit without penalty.

Finally, Democratic proposals would authorize the Medicare to offer a standard federal plan. Under these proposals, the Medicare program would be directed to offer a single, national version of the basic plan that would negotiate for low prices, offer standard benefits and be open to all beneficiaries.

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18 H.R. 152; H.R. 563; H.R. 655; H.R. 752; H.R. 729; H.R. 1144; H.R. 1572; H.R. 1626; H.R. 2200; H.R. 2685; H.R. 2487; H.R. 2746; H.R. 3637; H.R. 3861; H.R. 4103; H.R. 4610; H.R. 4610; H.R. 4652; H.R. 4660; H.R. 4665; H.R. 4675; H.R. 4685; H.R. 4737; H.R. 4792; H.R. 4928; H.R. 5433; H.R. 5629; H.R. 4395; H.R. 4410; H.R. 4645; H.R. 4719; H.R. 4722; H.R. 4723; H.R. 4743; H.R. 4938; H.R. 4996; H.R. 5102; H.R. 5116; H.R. 5147; H.R. 5263; H.R. 5307; H.R. 5518; H.R. 5969.
20 Democratic Leader Nancy Pelosi, Democratic Prescription for Change (June 27, 2006).
III. PURPOSE AND METHODOLOGY

At the request of Rep. Carolyn B. Maloney, this report analyzes the impact that the Democratic reform proposals would have for seniors and disabled Medicare beneficiaries in New York’s 14th Congressional District. Rep. Maloney represents this district, which includes parts of Manhattan and Queens.

Estimates of Affected Beneficiaries

The estimate of the number of Medicare beneficiaries who will enter the donut hole this year is based on models developed by the Actuarial Research Corporation and the Henry J. Kaiser Family Foundation, which predict that approximately one in four Part D participants will enter the donut hole this year.\(^\text{23}\) The estimate of the number of Medicare beneficiaries who have or have not subscribed to a Medicare drug plan was obtained from the Center for Medicare and Medicaid Services (CMS), the federal agency charged with overseeing the Medicare drug plan.\(^\text{24}\)

Estimates of Drug Prices

Estimates vary as to the potential reductions in Medicare drug prices under a scenario in which the Medicare program negotiates directly with drug manufacturers for lower prices.

One useful benchmark is the prices that the government is now able to negotiate for drugs used by the VA. Analysts have found that for popular brand name drugs, VA prices are between 30% and 46% lower than the prices offered by the Medicare drug plans.\(^\text{25}\) Another benchmark is the prices that consumers pay for drugs in Canada. For brand name drugs, these Canadian prices are an estimated 38% lower than the prices offered by Medicare drug plans.\(^\text{26}\)

\(^{23}\) Actuarial Research Corporation and Henry J. Kaiser Family Foundation, supra note 6.

\(^{24}\) CMS, Medicare Beneficiaries By State and Congressional District (as of June 11, 2006) (July 2006). These estimates contain information at the state level on the number of beneficiaries with drug coverage from Medicare, the number with coverage from a former employer, and the number with coverage from “other creditable sources,” such as the Veterans Administration. In New York, an estimated 19% of beneficiaries have coverage from these “other creditable sources.” There is no data on individuals with other creditable coverage at the congressional district level. This analysis assumes that the percentage of beneficiaries with other creditable coverage in the district is the same as the percentage with other creditable coverage statewide.

\(^{25}\) See, e.g., Minority Staff, Special Investigations Division, supra note 3; Families USA, Big Dollars, Little Sense: Rising Medicare Prescription Drug Prices (June 2006).

\(^{26}\) Minority Staff, Special Investigations Division, supra note 3.
Brand-name drugs account for an estimated 80% of drug expenses. Reducing their prices to the same levels currently obtained by the federal government for the VA or to the prices currently available in Canada would reduce overall Medicare costs by 24% to 37%. This analysis uses a conservative estimate, assuming a total Medicare saving of 25% if the Medicare program were to negotiate for lower prices.

It is possible that the total Medicare savings would be even higher, as some analysts have estimated that allowing such negotiations would reduce Medicare average drug costs by up to 70%.

IV. FINDINGS

Over 35,000 seniors and other Medicare beneficiaries in New York’s 14th Congressional District could benefit from proposed Democratic reforms to the Medicare drug program. The reforms could (1) cut the out-of-pocket drug costs for the average beneficiary in Rep. Maloney’s congressional district by almost $500 each per year, (2) eliminate the donut hole for an estimated 10,200 beneficiaries in Rep. Maloney’s congressional district, and (3) save almost 5,000 late-enrolling beneficiaries hundreds of dollars in penalties.

Democratic Reforms Could Cut Drug Costs for 31,000 Beneficiaries in Rep. Maloney’s District

In Rep. Maloney’s congressional district, approximately 51,000 beneficiaries are participating in a Medicare prescription drug plan. These beneficiaries can be divided into three groups: 15,000 low-income beneficiaries who are also eligible for Medicaid, often referred to as “dual eligibles”; an estimated 5,200 low-income beneficiaries who are not eligible for Medicaid, but...
receive low-income subsidies for drug premiums and co-pays;\textsuperscript{31} and approximately 31,000 beneficiaries who are not eligible for either Medicaid or drug subsidies.\textsuperscript{32}

The third group of beneficiaries enrolled in Medicare drug plans — the 31,000 beneficiaries in Rep. Maloney’s district who are not eligible for Medicaid or low-income subsidies — must pay significant out-of-pocket costs under Medicare drug plans. Under a standard plan, they are responsible for paying all of their premiums (estimated at approximately $25 per month in 2006).\textsuperscript{33} In addition, they must pay for the first $250 of drugs they use and 25\% of the next $2,000. Beneficiaries then hit the donut hole, in which they must again pay the full cost of their drugs until they have used over $5,100 worth of drugs.

On average, the Medicare beneficiaries who have signed up with Medicare prescription drug plans but receive no low-income subsidies will use approximately $2,500 worth of drugs. Including premiums, these beneficiaries will spend an average of $1,380 in out-of-pocket drug costs.\textsuperscript{34} These costs are so high in part because the individual drug plans have been unable to negotiate substantial discounts on the drugs used by Medicare recipients.

Under Democratic reform proposals, the Medicare program would be empowered to negotiate for discounts on behalf of beneficiaries, reducing overall drug costs by an estimated 25\%. The savings to beneficiaries from the lower drug costs would be reflected in lower premiums, reduced co-pays, and lower prices for beneficiaries in the donut hole. For the average beneficiary in Rep. Maloney’s congressional district, the annual savings are estimated to be $495.\textsuperscript{35} This would reduce the average annual cost under the drug plans from $1,380 to $885.

\textsuperscript{31} Nationwide, approximately 26\% of all non-dual eligible beneficiaries that have signed up for stand-alone Medicare prescription drug plans (2.7 million out of 10.4 million) are receiving these low-income subsidies. Kaiser Family Foundation, Medicare Prescription Drug Enrollment Update (June 2006). This analysis assumes that these beneficiaries in Rep. Maloney’s district are also receiving the low-income subsidies.

\textsuperscript{32} This estimate includes both individuals who are enrolled in stand-alone Medicare drug plans (20,000 beneficiaries) and individuals who are enrolled in Medicare drug plans through Medicare Advantage plans (16,000 beneficiaries). CMS, supra note 24.


\textsuperscript{34} This includes an estimated $1,081 in out of pocket drug costs and an estimated $300 in premiums. Actuarial Research Corporation and Kaiser Family Foundation, supra note 6; HHS, id.

\textsuperscript{35} These reductions come in two ways. First, Medicare premiums, which average $25 per month, would be reduced by 25\% to approximately $225 annually. Second, the total cost of drugs used by Medicare beneficiaries would decline by 25\% from $2,520 to $1,890. In such a scenario under the standard Medicare drug plan, out-of-pocket spending for the average beneficiary would decline from $1,081 to approximately $660.
In the aggregate, the savings would mean tens of millions of dollars in reduced drug costs for beneficiaries in Rep. Maloney’s congressional district. Under Democratic proposals to allow Medicare to negotiate lower drug prices, the total savings for beneficiaries in Rep. Maloney’s congressional district are estimated to be $15 million annually. Over a ten-year period, the total savings for beneficiaries in Rep. Maloney’s district would be an estimated $216 million.\(^{36}\)

**Democratic Reforms Could Eliminate the Donut Hole for over 10,000 Beneficiaries in Rep. Maloney's District**

Under the standard Medicare drug plans, many beneficiaries with high drugs costs continue to face thousands of dollars in out-of-pocket expenses, due in large part to the donut hole in these plans. The gap in coverage begins when beneficiaries have used $2,250 worth of drugs. At this point, coverage is eliminated, and beneficiaries must pay the full cost of their drugs until they have used $5,100 worth of drugs.

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\(^{36}\) The estimate assumes that over the next decade, annual per capita drug costs for Medicare beneficiaries increase by 7.5%, the rate predicted by Medicare actuaries. HHS, supra note 33. The estimate also assumes that over the next decade, there are 33,000 beneficiaries in the district who are enrolled in Medicare drug plans and paying their own premiums. The estimate is not adjusted to account for increases in Medicare drug plan reenrollment, which is expected to almost double over the next decade. Id. As a result, the calculation most likely represents an underestimate of the true cost savings available in Rep. Maloney’s district as a result of lower drug prices.
Dual-eligible beneficiaries and some low-income beneficiaries are not affected by the donut hole because the Medicare program pays their out-of-pocket costs. But for millions of beneficiaries, the donut hole is a major financial burden. Nationwide, projections indicate that one in three Medicare beneficiaries who are signed up for drug plans and do not receive subsidies will be forced to pay their own drug costs in donut hole.\footnote{37 Actuarial Research Corporation and Kaiser Family Foundation, supra note 6.}

In New York’s 14th Congressional District, an estimated 10,200 beneficiaries will hit the donut hole and be faced with thousands of dollars in additional drug costs.\footnote{38 National estimates indicate that 33% of non-dual eligible Medicare drug plan enrollees who do not receive low-income subsidies will hit the donut hole. Supra note 6 at 34. This estimate assumes that the same percentage of these beneficiaries in Rep. Maloney’s district will also hit the donut hole.} For these beneficiaries, their average out-of-pocket costs in the donut hole will be approximately $1,700.\footnote{39 Actuarial Research Corporation and Kaiser Family Foundation, supra note 6.}

By authorizing the federal Medicare program to negotiate lower drug prices, Democratic reform proposals significantly reduce the cost of providing the Medicare drug benefit. These savings would be large enough that they could be used to completely eliminate the drug benefit’s donut hole for all Medicare beneficiaries enrolled in the program.\footnote{40 See, e.g., Center for Economic Policy Research, supra note 23; G.F. Anderson, D.G. Shea, and P. Hussey, et al., Health Affairs, Doughnut Holes and Price Controls (July 21, 2004).} Using these savings for this purpose would eliminate the high drug costs in the donut hole for 10,200 beneficiaries in Rep. Maloney’s congressional district.

\textbf{Democratic Reforms Would Eliminate Penalties for Almost 5,000 Beneficiaries in Rep. Maloney’s District}

The deadline for enrolling in a Medicare drug plan was May 15, 2006. In Rep. Maloney’s congressional district, approximately 20,000 Medicare beneficiaries were unable to enroll by the deadline.\footnote{41 CMS, supra note 24.}

Many of these beneficiaries now face large penalties if they chose to sign up for coverage in the future. Under the law, premiums are increased by 1% per month for every month after May 15 until the beneficiaries sign up for the benefit. These increased premiums have to be paid for the lifetime of the beneficiary, as long as he or she remains enrolled in the drug benefit.\footnote{42 Public Law 108-173 § 1860D-13(b)} Moreover, following the May 15, 2006, deadline, enrollment is closed until January 1, 2007. Thus, any beneficiary who did not sign up before May 15 faces a minimum of a seven month wait — and a 7% increase in drug benefit premiums — until he or she can obtain coverage.
Average premiums for enrolling in a Medicare drug plan are expected to rise 28% next year to $32.\textsuperscript{43} For a beneficiary who missed the May 15 deadline but enrolls before January 1, 2007, the additional penalty will be $27 in 2007. Over the next decade, the cumulative penalty would be $377.\textsuperscript{44} For a beneficiary who waits until January 1, 2008, to enroll, the penalty over the next decade would be over $1,000.\textsuperscript{45}

Not all of the 20,000 Medicare beneficiaries in Rep. Maloney’s congressional district who missed the May 15 deadline face the prospect of penalties. The Medicare drug program provides for a waiver of penalties for all beneficiaries eligible for low-income subsidies.\textsuperscript{46} In Rep. Maloney’s district, an estimated 15,200 non-enrolled beneficiaries are eligible for this waiver.\textsuperscript{47} The remaining 4,800 beneficiaries will be subject to penalties

Under Democratic proposals, these penalties would be waived for beneficiaries who were unable to enroll before the May 15 deadline. For the 4,800 beneficiaries in Rep. Maloney’s congressional district subject to penalties, this waiver would be a significant benefit. It would save these beneficiaries a minimum of $1.8 million — and up to $4.9 million or more — over the next decade.

V. CONCLUSION

This report analyzes the impact of proposed Democratic reforms to the Medicare drug benefit in Rep. Maloney’s congressional district. It finds that these proposals could save the average beneficiary in the district approximately $500 per year, for a total savings in the district of over $200 million over the next decade. These proposals could also eliminate the donut hole for 10,200 beneficiaries in the district and protect almost 5,000 beneficiaries from paying hundreds of dollars in penalties.

\textsuperscript{43} HHS, supra note 6.
\textsuperscript{44} Id. This calculation is based on HHS estimates that the average Medicare drug benefit premium over the next decade would be $44.89, costing beneficiaries a total of $5,387 over the next decade. Beneficiaries who are forced to pay the late enrollment penalty would pay a minimum of $5,764 — 7% more.
\textsuperscript{45} Id. Under this scenario, the monthly penalty would be 19% and the beneficiary would pay a total of $6,410 in premiums over the next decade, $1,023 more than if the beneficiary was not charged these penalties.
\textsuperscript{46} CMS, Medicare Announces Special Election Period For Low-Income Beneficiaries and Those Affected By Katrina (June 20, 2006).
\textsuperscript{47} This estimate is based on national analyses that show that 76% of unenrolled beneficiaries are eligible for low-income subsidies, and thus not subject to late enrollment penalties. The analysis assumes that in Rep. Maloney’s district, 76% of unenrolled beneficiaries are also not subject to late enrollment penalties. Kaiser Family Foundation, supra note 31.