

Medicare Part D

By: Barbara A. Isenhour and Sean R. Bleck

The new Medicare prescription drug benefit will go into effect on January 1, 2006. The following is a brief summary of the benefit.

Overview

Medicare Part D will offer prescription drug plans (PDP) through private insurance companies. There will be 10 national plans offered, including AARP, and some regional plans. We do not know yet what plans will be offered in the state of Washington or what the premium will be for each plan. The estimated cost for the premium will vary with the plan but the current estimate for the average PDP is approximately \$37 per month. The premium cost is expected to increase annually.

Basic Benefit

PDPs will vary but all plans will have a \$250 deductible the beneficiary must pay out of pocket for covered drugs each year. After the annual deductible is met, the beneficiary pays 25% of the cost for covered drugs and the PDP pays 75%, up to \$2250 in total drug costs. Then the beneficiary enters what is being referred to as the "doughnut hole" where s/he is responsible for the full cost of prescriptions while continuing to pay the monthly premium. Once the beneficiary's total out-of-pocket costs for formulary drugs, including the deductible but not the premium, equal \$3600, the beneficiary is responsible for 5% of drug costs and the drug plan pays the remaining 95% of costs.

The \$3600 amount will be indexed to increase annually. On January 1 of each year the beneficiary starts over again at zero.

The following is a simple illustration of how the basic PDP benefit will work:

Mrs. Lee has 3 prescription drugs that cost her \$700 per month total. In January she will meet her deductible in the first month of \$250. She will then pay 25% of her remain drug costs for January (\$112.50) and the PDP will pay 75% (\$525). In February and March Mrs. Lee will pay 25% of her drugs (\$175/mo) and the PDP will pay 75% (\$525). In April Mrs. Lee will hit the doughnut hole of \$2250 of total drug costs. At that point she will have to pay for the next \$2,850 of drugs out of her pocket. In August she will hit the \$3600 amount she paid out of pocket since the beginning of the year (including her \$250 deductible). At that point she will qualify for the catastrophic coverage where she pays 5% of the cost of her drugs (\$35) and the PDP pays 95% (\$665).

Date	Mrs. Lee	PDP	Trigger
Jan. deductible	\$250		
Jan. balance	\$112.50	\$337.50	
Feb – Mar. 25%/75%	\$175	\$525	

April 25%/75%	\$37.50	112.50	\$2250 total drug costs since January
April (doughnut hole)	\$550		
May - July (doughnut hole)	\$700		
August (doughnut hole)	\$200		\$3600 Mrs. Lee paid for drugs
Remainder August 5%/95%	\$30	\$570	
Sep-Dec. 5%/95%	\$35	\$665	

This illustration assumes that Mrs. Lee's drugs are covered under her plan and her plan does not have a higher tier of cost sharing for the drugs she uses.

PDPs will be allowed to vary the above basic benefit as long as the offered plan is "actuarially equivalent" to the basic benefit described above. The expectation is that many plans will offer tiers of cost sharing for various drugs to encourage the use of less expensive, generic drugs. Plans may require a high amount of cost sharing for very expensive or rare drugs. Cost sharing may also vary depending upon which pharmacy the beneficiary uses. Some plans will have a network of pharmacies with a preferential cost sharing amount for the beneficiary.

Covered Drugs

It is not clear yet which drugs will be covered by the PDP. Some drugs are excluded by statute including barbiturates, benzodiazepines (such as Xanax and Valium), weight loss/weight gain drugs, and over-the-counter drugs that are frequently used by older people. PDPs can determine which drugs the plan will cover as long as they include at least two drugs in each category or class of drugs.

PDPs must cover all or substantially all drugs in six categories: anti-cancer, anticonvulsants, antidepressants, antipsychotics, immunosuppressant, and HIV/AIDS drugs. If a drug is not covered by the plan, then the beneficiary must pay for the drug out of pocket with no insurance co-payment and the drug cost will not count towards the deductible or towards reaching the out-of-pocket spending limit to trigger the catastrophic coverage.

PDPs can have a different cost sharing tier for different drugs. The plan can also require prior approval from the insurance company for certain drugs to discourage the use of more expensive drugs. In choosing a plan it will be very important for the beneficiary to see what drugs are included in the plan and whether there is a higher cost sharing tier for the particular drug.

Information on which drugs are going to be included in each offered plan will not be available until October. At that time information on the covered drugs should be available through the Centers for Medicare and Medicaid Services (CMS) at www.medicare.gov.

Enrolling in Part D

The Medicare Prescription Drug program is optional for most people. The initial enrollment period will be from November 15, 2005 through May 15, 2006. If a beneficiary delays enrollment until after that date there will be a higher premium assessed. The penalty for late enrollment will be 1% of the premium for every month of delayed enrollment. So if a person waits two years after the initial enrollment period to select the Part D drug plan, the premium would be 24% higher than if the beneficiary had enrolled during the initial enrollment period. No penalty will be assessed if a beneficiary delays enrollment and had “creditable” prescription drug coverage under an existing Medigap policy or employer plan.

Part D and Medicaid

Some people are eligible for Medicare but also qualify for Medicaid to help with prescription drugs. Those people are referred to as “dual eligible”. As of January 1, 2006 Medicaid will no longer cover medications for those dual eligible individuals. Instead they will be automatically enrolled in a PDP and receive assistance with the premium depending upon their income.

Beneficiaries with income below 100% of the Federal Poverty Level (FPL) will pay \$1 for generic drugs and \$3 for non-generic drugs. Beneficiaries with income below 135% of the FPL will pay \$2 and \$5 respectively.

Assistance for Low Income Families

Some people who are not eligible for Medicaid will still qualify for assistance with paying the Part D monthly premium, co-payments and deductibles. Eligibility for assistance will depend upon family size, monthly income and assets. For a single person to qualify for assistance gross monthly income must be less than \$1,196.25. For a married couple, their income must be less than \$1,603.75. Countable assets for a married couple must be less than \$11,500 for a single person and \$23,000 for a married couple. Exempt assets include the family home, one vehicle, household furnishings, life insurance and pre-paid burial plans.

Additional Information on Medicare Part D

For a good graphic illustration of how Medicare Part D will work to go to <http://fortress.wa.gov/dshs/maa/MedicareDrugs/GraphicPortryalofDonutHole.pdf>

Information from the Washington State Insurance Commissioner can be found at <http://www.insurance.wa.gov/consumers/medicare/MedicareNewPrescriptionDrugProgram-PartD.asp>

Information from the Centers for Medicare and Medicare Services can be found at <http://www.cms.hhs.gov/mmu/default.asp>