



Information Partners Can Use on:

Calculating the Late Enrollment Penalty

Medicare Prescription Drug Coverage

As of October 2007

What is the Part D Late Enrollment Penalty?

People who don't join a Medicare drug plan when they are first eligible for Medicare Part A and/or Part B, and who go without creditable prescription drug coverage for 63 days or more, may have to pay a late enrollment penalty to join a plan later. Creditable prescription drug coverage means coverage that is expected to pay, on average, at least as much as Medicare's standard prescription drug coverage. This penalty amount changes every year. The person will have to pay it each month as long as he or she has Medicare prescription drug coverage.

How is a person's late enrollment penalty calculated?

A person's late enrollment penalty is calculated when he or she first joins a Medicare drug plan. Currently, the late enrollment penalty amount is 1% of the "national base beneficiary premium" (the national average premium) for each full uncovered month that the person was eligible to join a Medicare drug plan and didn't. The monthly penalty is rounded to the nearest \$.10. The national average premium for 2007 was \$27.35. The national average premium for 2008 is \$27.93.

Example 1

Mrs. Smith is currently eligible for Medicare, and her initial enrollment period ended on May 15, 2006. She doesn't have prescription drug coverage from any other source. She didn't enroll by May 15, 2006. Instead, she enrolled when she was next eligible to join (the fall annual enrollment period from November 15–December 31, 2006). Her drug coverage was effective January 1, 2007. Since Mrs. Smith was without creditable drug coverage from June through December 2006, her penalty in 2007 was 7% of \$27.35 (1% for each of the 7 months from June through December) or \$1.91. The monthly penalty was rounded to the nearest \$.10, so she has been charged \$1.90 each month in addition to her plan's monthly premium in 2007.

Each year, Mrs. Smith's penalty will change since the current year's national average premium is used to recalculate the penalty. In 2008, Mrs. Smith will pay 7% of \$27.93 or \$1.96. This amount is rounded to the nearest \$.10, so she will be charged \$2.00 each month in addition to her plan's monthly premium in 2008.



How is a person's late enrollment penalty calculated? (continued)

Example 2

Mr. Ray doesn't have creditable prescription drug coverage. His initial enrollment period ended on May 15, 2006. He waits to join a Medicare drug plan until December 2007. His coverage is effective January 1, 2008. He wasn't enrolled for 7 months in 2006 (June through December) and all 12 months in 2007. In 2008, he will have to pay 19% (1% for each full uncovered month that he was eligible to enroll in a Medicare drug plan but didn't) of the national average premium for 2008 (\$27.93). Mr. Ray will be charged \$5.30 each month, in addition to his plan's monthly premium. This amount will change each year when the national average premium changes.

Will someone who didn't enroll in a plan until one month after he or she was first eligible to join have a penalty?

No. A person must be without creditable prescription drug coverage for a continuous period of 63 days or more after their initial enrollment period to have a late enrollment penalty. But, after the initial enrollment period, most people won't have another opportunity to enroll in a Medicare drug plan until November 15–December 31 each year, with their coverage effective January 1 of the following year.

Are there some situations when a person could enroll in a Medicare drug plan other than the fall annual enrollment period (November 15 – December 31) each year?

Yes. In certain situations, people with Medicare may be eligible for a Special Enrollment Period (SEP) that allows them to make changes to their Medicare drug coverage outside of general enrollment periods (like if the person moves out of the service area or lives in an institution). However, even if the person enrolls during an SEP, they may still owe a penalty. For more information about general and special enrollment periods, visit www.cms.hhs.gov/partnerships/downloads/11219_P.pdf on the web to look at or print a copy of "Information Partners Can Use on: Understanding Medicare Enrollment Periods."



Are there some situations when a person could enroll in a Medicare drug plan other than November 15 – December 31 each year? (continued)

Example 3

Mrs. Jones moves into a nursing home and therefore has a special opportunity to enroll in a Medicare drug plan for coverage effective October 1, 2007. However, she didn't have creditable prescription drug coverage for the months February through September 2007 and has to pay a late enrollment penalty. Since the national average premium in 2007 was \$27.35, her penalty in 2007 has been \$2.20 per month (or 8% of \$27.35). (The monthly penalty is rounded to the nearest \$.10.)

Each year, the current year's national average premium is used to recalculate the penalty. In 2008, Mrs. Jones will pay 8% of \$27.93, which is still \$2.20 when rounded to the nearest \$.10. She will pay this penalty in addition to her plan premium each month.

Do some people have a special opportunity to join a Medicare drug plan without having to pay a late enrollment penalty?

Yes. Certain people who qualify for extra help under Part D may enroll in a Medicare prescription drug plan with no penalty through December 31, 2008. Once they enroll in a Medicare drug plan, they won't be charged a late enrollment penalty as long as they stay continuously enrolled in a Medicare drug plan. However, if they disenroll from their Medicare drug plan, and don't have creditable coverage for a continuous period of 63 days or more, they may later be charged a late enrollment penalty if they join a Medicare drug plan.

Also, Medicare won't collect a late enrollment penalty for certain people affected by Hurricane Katrina who enrolled in a Medicare drug plan in 2006. As long as they stay continuously enrolled in a Medicare drug plan, they won't be charged a late enrollment penalty in 2006 or afterwards. However, if they disenroll from their Medicare drug plan after 2006, and don't have creditable coverage for a continuous period of 63 days or more, they may be charged a late enrollment penalty if they join another Medicare drug plan.

Note: This tip sheet isn't a legal document. Official Medicare Program legal guidance is contained in the relevant statutes, regulations, and rulings. Dollar amounts and limits are subject to change in the future.