★ ★ TIP SHEET ★ ★

Information Partners Can Use on:

How the coverage gap works in Medicare Drug Plans

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Most Medicare drug plans have a temporary limit on what they will cover for prescription drugs, or a "coverage gap." During this temporary coverage gap, people may be responsible for paying 100% of their drug costs before Medicare's "catastrophic" coverage begins. This tip sheet explains how the gap in coverage works for people with Medicare drug plans.

What do people need to know about the coverage gap?

A coverage gap means that after people with Medicare and their plans have spent a certain amount of money for covered drugs (no more than $2,700 in 2009), the person with Medicare has to pay all costs out-of-pocket for their drugs while they are in the "gap." Generally, the most they have to pay out-of-pocket in the coverage gap is $3,453.75 (in 2009). This amount doesn't include their plan's monthly premium that they must continue to pay even while they are in the coverage gap. Once they've reached their plan's out-of-pocket limit (no more than $4,350 in 2009) they will have "catastrophic coverage." This means that they only pay a coinsurance amount (like 5% of the drug cost) or a copayment (like $2.40 or $6.00 for each prescription) for the rest of the calendar year. These dollar amounts are for the standard level of Medicare coverage. Actual costs may vary since each Medicare drug plan is structured differently.

Note: People who have limited income and resources and qualify for full extra help aren't affected by the gap in coverage. They would continue to pay the same copayment amount for each prescription they get.

What happens after the coverage gap?

People will have catastrophic coverage. This means that in 2009, after the person with Medicare has paid $4,350 out-of-pocket (not including premiums), he or she pays 5% of drug costs, or a small copayment for the rest of the calendar year. The plan covers the rest of their prescription costs until the end of the calendar year. There is no dollar limit to this coverage in any one year.

How can a person with Medicare delay or avoid reaching the coverage gap?

To delay or avoid reaching the coverage gap, people with Medicare should ask their doctor if a generic drug, over-the-counter (OTC), or lower-cost brand-name drug would work just as well as the one they take now. Using generic drugs can reduce a person's copayments. Switching to lower-cost generics and similar drugs may be enough to stay out of the coverage gap entirely.

Some people with Medicare may be eligible for assistance if their state has a State Pharmaceutical Assistance Program (SPAP), and they meet the eligibility requirements. More information about SPAPs can be found by visiting www.medicare.gov and selecting "Find Helpful Phone Numbers and Websites." You can also call 1-800-MEDICARE (1-800-633-4227). TTY users should call 1-877-486-2048.

Note: Not all types of coverage will count toward out-of-pocket costs. See page 4.

Who tracks a person's out-of-pocket costs during the coverage gap?

During the coverage gap, the plan tracks and calculates the person's out-of-pocket costs automatically. The person with Medicare **should always use his or her Medicare drug plan card**, even during the coverage gap. This will ensure that he or she can buy prescription drugs at the drug plan's negotiated prices. People with Medicare will get an "Explanation of Benefits" (EOB) from their plan in the mail every month that they use their plan's services. The EOB will show how much they have spent for the year, how close they are to reaching the plan's coverage gap, and how close they are to reaching catastrophic coverage after the gap.

Note: Only Medicare-covered drugs on their plan's formulary will count toward out-of-pocket costs (unless the plan has granted an exception for a drug it doesn't usually cover).

How does the coverage gap work?

The coverage gap works differently for everyone because each Medicare drug plan is structured differently. When a person with Medicare enrolls in a Medicare drug plan that has a coverage gap, the plan sends him or her information about how costs work during the gap. People should read this information carefully, and call their plan if they have questions. Remember, everyone has a chance to switch or join a Medicare drug plan once a year. People may want to consider switching to a plan that offers at least some type of coverage in the gap during their open enrollment period between November 15—December 31 each year. If a person joins a plan during this time, coverage will be effective January 1 of the following year. Each state has at least one plan with some type of coverage during the gap.

The example below shows calendar year costs for covered drugs in a plan that meets Medicare's standards in 2009:

Mr. Jones joins the ABC Prescription Drug Plan. His coverage begins on January 1, 2009. He pays the plan a monthly premium throughout the year, even during his coverage gap. He doesn't get "extra help" and uses his Medicare drug plan card.

1. Yearly Deductible	2. Copayment/ Coinsurance	3. Coverage Gap	4. Catastrophic Coverage
Mr. Jones pays the first $295 of his drug costs.	Mr. Jones pays a copayment or coinsurance amount, and his plan pays its share for each drug until his total drug costs (including his deductible) reach $2,700.	Mr. Jones pays **100% of his covered drug costs** until he has spent $4,350 out-of-pocket. (This includes his yearly deductible, coinsurance and copays, and $3,453.75 while in the coverage gap. This doesn't include the drug plan's premium.) Even though he is paying 100% of his covered drug costs, he gets his prescription drugs at the plan's negotiated prices because he belongs to a Medicare drug plan.	Once Mr. Jones has spent $4,350 out-of-pocket for the year, his coverage gap ends. He only pays a small coinsurance (like 5%) or a small copayment (like $2.40 or $6.00) for each prescription until the end of the year.

What if another plan pays for a person's drugs during the coverage gap?

Medicare drug plans will work with other insurers to make sure the person with Medicare gets the correct coverage. Not all types of extra coverage will count toward a person's out-of-pocket costs.

Costs that DO count	Costs that DON'T count
• Costs that are paid by family members • Costs that are paid by qualified State Pharmacy Assistance Programs • Costs paid by some charities that aren't affiliated with employers or unions	Costs that are paid by other insurance such as • Employer coverage • Union coverage • Workers' compensation • Government programs (such as veterans and military retiree benefits)

Can people use a discount card or other pharmacy discounts to get their prescriptions? Will these costs still count toward their out-of-pocket costs?

Generally yes, if they use a network pharmacy. In some cases, a network pharmacy may accept a discount card or offer another cash price discount so the person can pay less for a prescription than their plan's negotiated price. The person should tell their pharmacist they are in their plan's coverage gap. If they are able to get a cash discount to pay an amount that's lower than their plan's price, they will need to send their receipt to their Medicare drug plan. This ensures that their plan will count the amount they paid toward their out-of-pocket costs.

Example: Mrs. Smith is in the coverage gap. She has to pay the total cost for her prescription. The plan usually charges $100 (its negotiated price) for the drug she needs. Mrs. Smith learned that by using a discount card, she could get that drug for $95. If Mrs. Smith uses her Medicare drug plan card, she will pay $100. If she doesn't use her Medicare drug plan card and uses the pharmacy's discount card, she will pay $95. Mrs. Smith takes advantage of the lower price, uses her pharmacy's discount card, and sends her receipt to her drug plan. Her plan counts the $95 toward her total out-of-pocket costs and total drug spending under the plan.

Note: If drugs are bought from out-of-network pharmacies, this amount won't generally count toward out-of-pocket costs. Drugs bought using a discount provided by a manufacturer's Patient Assistance Program (PAP) generally will only be counted if the PAP is independent and a charity.

For more information about Medicare prescription drug coverage, you can do the following:

- Visit www.medicare.gov and select "Compare Medicare Prescription Drug Plans" to get personalized drug plan information.
- Call 1-800-MEDICARE (1-800-633-4227). TTY users should call 1-877-486-2048.
- Call a State Health Insurance Assistance Program (SHIP). They offer free personalized health insurance counseling to people with Medicare. To get their telephone number, visit www.medicare.gov and" select "Find Helpful Phone Numbers and Websites."

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