SHIBA

Senior Health Insurance Benefits Assistance

Section 5

Introduction to Medicare Part D Prescription Drug Coverage

SHIBA Volunteer Training Program, April 2008

Section 5, Introduction to Medicare Part D

Part D Costs, 2008

Prescription drug plans vary, but there is a required minimum standard level of coverage. If a drug plan is chosen that offers the ***standard benefit***, the beneficiary will pay:

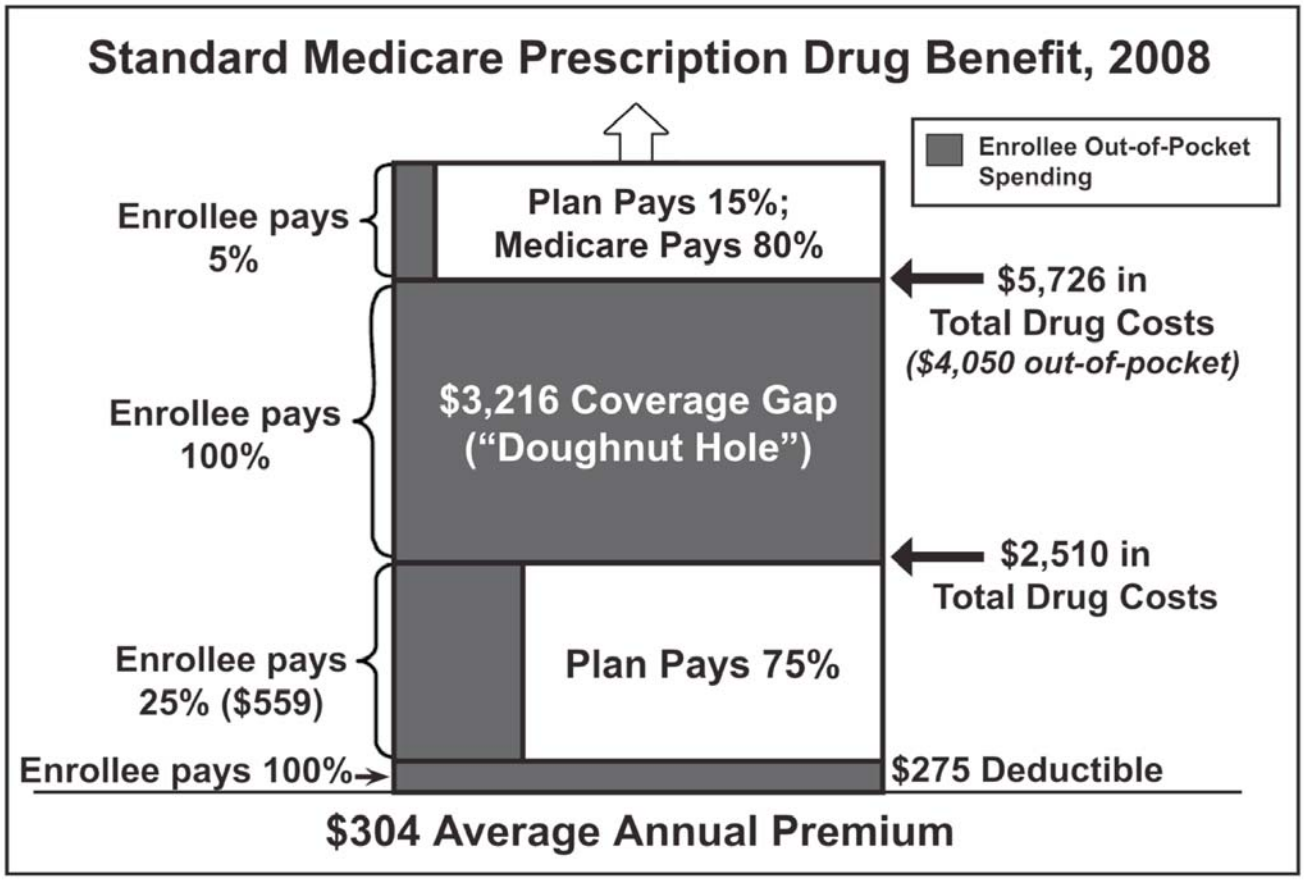
- a monthly insurance premium. Premiums vary greatly among the plans. Oregon premiums, in 2008, range from about $15 per month to more than $92 per month. The 2008 average premium nationwide is about $28 per month. Each person pays a premium as an individual. There are no discounts for married couples. This premium is in addition to the premium for Medicare Part B.*
- the first $275 in prescription costs each year. This is called the **deductible**. The cost of drugs varies with each plan. Each insurance company has negotiated its own prices with suppliers.
- 25% co-payment of the cost of covered prescriptions after the $275 deductible and up to $2,510 of total drug cost. The plan pays 75% of the total covered prescription cost.
- 100% of the prescription costs above $2,510 until the beneficiary has paid $4,050 total **out-of-pocket**. The total out-of-pocket includes: The annual deductible, the 25% co-payment, and the 100% portion (*donut hole).*

  $ 275 deductible paid to pharmacy +
  $ 559 in co-payments +
  $3,216 paid during the coverage gap =
  $4,050 paid out-of-pocket

**The monthly drug premium can be deducted from Social Security checks — this is not currently recommended – or can be paid directly to the drug plan company. It takes two to three months before premiums are first withheld from SS checks. On that check, the two to three months' premiums are deducted. An alternative payment process may be required if there is more than a three months' delay in payment holding or the Social Security benefit is not sufficient to cover multiple premium payments at once.*

After beneficiaries have paid $4,050 in prescription costs, the co-payment changes to $2 per prescription for generic drugs and $5 per prescription for brand-name drugs, or 5% of the cost of each prescription (whichever is higher), and Medicare pays the rest. This stage of the Medicare prescription drug plan is called catastrophic coverage.

While this is the baseline benefit, many plans have enhanced benefit packages that have additional options to help reduce the out-of-pocket costs. Some plans do not have a $275 deductible and many do not have a 25% co-payment for each prescription. It is important to thoroughly research the plans available in beneficiaries' service areas by using the Drug Plan Finder Tool at medicare.gov in order to advise which plan(s) will best meet their needs.



Note: Annual premium amount based on $27.93 national average monthly enrollee premium (CMS, August 2007). Amounts are rounded to nearest dollar.

Source: Kaiser Family Foundation illustration of standard Medicare drug benefit for 2008.

Extra Help for People with Limited Incomes, 2008

The Medicare prescription drug program offers extra financial help for people with limited incomes and assets. They may qualify for this extra help if:

- Their income is below $1,300 per month (or $1,750 per month if married and living with spouse — and more if they have dependent children or grandchildren living with them).

AND

- Their assets are below $11,990 (or $23,970 if married). Assets include things such as bank accounts, stocks, bonds, and life insurance policies. They do not include the house they live in, cars and other personal possessions such as furniture or jewelry.

Medicaid/SSI

Some people may already receive government assistance that makes them automatically eligible for extra help. Examples are: Medicaid, a Medicare Savings Program that pays their Medicare Part B premium, or Supplemental Security Income (SSI). ***If so, they get extra help automatically and need not apply.***

People who don't participate in one of these government programs but qualify for the extra help based on their limited income and assets, must apply with the Social Security Administration. They can apply on their own or, if they prefer, someone else can help them. This includes family members, friends, caregivers, legal representatives, social workers or a counselor who helps people with health insurance issues.

The application can be made:

- **In Person** — They may go to their local Social Security or Medicaid office (or to a nonprofit agency such as their State Health Insurance Assistance Program (SHIP – SHIBA in Oregon and Washington – Senior Health Insurance Benefits Assistance) where a counselor can give free personal help. Senior Centers are a good resource.
- **By Internet** — They or someone assisting them may apply online through the Social Security Administration's website, www.ssa.gov. No signature is required.
- **By Mail** — Get an application from the Social Security Administration. Fill it out and mail it to the Social Security Administration. If married, both spouses must apply separately. **Mailing paper applications adds 30-45 days to the process.** Send the application to:

  Social Security Administration
  Wilkes-Barre Data Operations Center
  P.O. Box 1020
  Wilkes-Barre, PA 18767-9910

The Social Security Administration will inform them whether or not they qualify for extra help. If they do qualify, they will still need to choose a Medicare prescription drug plan. If they qualify and don't choose a plan, they will be automatically enrolled in one.

If the Social Security Administration determines that they are not eligible for extra help, they may appeal the decision. They may still enroll in a Medicare drug plan to get the standard level of Medicare prescription drug coverage, even while the decision about extra help is being appealed.

Introduction to Medicare Prescription Drug Coverage

Goal

SHIBA volunteer trainees learn about eligibility, benefits, claims procedures, and advocacy procedures for the Medicare prescription drug program.

Objectives

Upon completion of this section, the SHIBA volunteer trainee will understand

- Medicare Part D eligibility, benefits, out-of-pocket costs, and relationship to Medicare Supplemental Insurance and Medicare Advantage programs.
- how to be an advocate for beneficiaries enrolled in Part D programs.

What is Medicare Prescription Drug Coverage?

Medicare prescription drug coverage started January 1, 2006, to help people on Medicare with the cost of their prescriptions. Anyone with Medicare, who has Part A, part B, or both, is eligible to enroll in a prescription drug plan. It is necessary to be enrolled in one of the Medicare-approved plans in order to have this coverage. Medicare Prescription Drug Coverage is private insurance with government subsidies and mandated minimum benefit requirements. The standard Medicare drug benefit offers insurance that will pay some drug expenses and will protect against very high costs. Additional drug coverage from an employer can reduce out-of-pocket expenses more.

The federal government is helping to cover the cost of the Medicare prescription drug benefit; however, private companies are administering the benefit for the government. All people with Medicare are eligible for Part D coverage, regardless of medical history or income. To get Medicare drug coverage, you must enroll in one of the private insurance plans that Medicare has approved. A wide range of plans is offered. Some will operate nationally, others only in certain regions of the country.

There are two types of plans for Medicare drug coverage:

- stand-alone prescription drug plans that cover only prescription drugs (and no other benefits), paired with original Medicare (the traditional fee-for-service program)

or

- a Medicare Advantage plan, which covers all Medicare health benefits, including prescription drugs, with exceptions. (See training Section 4.)

The Medicare drug benefit is voluntary. Beneficiaries who currently have a generous source of drug coverage (from an employer or union, the Veterans Administration, etc.) may want to keep that coverage rather than sign up for a Medicare prescription drug plan or a Medicare Advantage plan. However, in order to avoid a late enrollment penalty if they should sign up for a Part D plan down the road, it is important that the insurance coverage they are keeping until then be deemed "creditable" by Medicare.

A beneficiary can sign up for, or switch to, either type of Medicare drug coverage between November 15 and December 31 of each year, with drug coverage effective January 1. There are more than 50 plans available in Oregon, depending on where the enrollee lives. Multiple plans can be offered by one company, differing in plan structure, e.g., a lower premium with an annual deductible, or a higher premium with no annual deductible.

Understanding the Late Enrollment Penalty

The late enrollment penalty affects persons currently on Medicare who do not have creditable prescription drug coverage and who did not sign up for a prescription drug plan during the initial enrollment period from November 15, 2005 to May 15, 2006, or those who are newly eligible and don't enroll in a plan.

The late enrollment penalty is based on the number of months enrollment is delayed. Medicare will charge a 1 percent premium penalty* for every month past the first eligible enrollment opportunity. **This premium penalty remains in force permanently.** For example:

- The client did not sign up for a prescription drug plan by May 15, 2006, and wants to enroll for coverage to start January 1, 2007. This delay of seven months x 1% per month means a 7% penalty will be added to their monthly premiums forever. *If Medicare sets the 2007 average premium at $40, their drug plan premium penalty for 2007 will be $2.80 ($40 x 7%) per month.* Each year, the penalty will be 7% of whatever Medicare sets the national average monthly premium at for that year.
- If our client in the above example delayed enrollment until 2008 (another 12 months), 19% of the national average monthly premium, which this year is $27.93, would be added to their plan's monthly premium for 2008: $.28 x 19 = $5.32 additional per month.

*****_This is 1 percent of the current **national** average monthly premium_

The penalty can add up very quickly, so it is important that the client fully understand how it is assessed in order to make an informed decision.

Deciding about Medicare Prescription Drug Coverage

Many beneficiaries are undecided about enrolling in a prescription drug plan. **There are situations where enrolling in a plan will adversely affect a client's current medical and/or drug benefits. It is important to establish what the client's current insurance coverage is, if any, before enrolling in a Part D plan.**

- Determine whether the client has prescription drug coverage through a current or former employer or union. If the coverage meets or exceeds the minimum standard benefit set by Medicare, the client may want to keep their employer coverage. The employer should have provided a letter stating the coverage was **creditable**. It is important the client keep this letter. If their plan changes or coverage ends, there will be 63 days to enroll in a Medicare plan without paying a late enrollment penalty.
- If the employer or union coverage does not meet the minimum standard benefit, viz., is not creditable, the client may want to consider a Medicare plan for drug coverage to avoid a late enrollment penalty later on.

Tip: People in employer plans are not eligible to receive a low income subsidy for the Medicare drug benefit even if qualified. People with low incomes should consider all of the options carefully before making a decision.

- If the client has prescription drug coverage from VA or Tricare, and this coverage meets his or her needs, then it is not necessary to enroll in a Medicare drug plan.
- If the client is currently enrolled in a Medicare Advantage plan that offers drug coverage (a MAPD), **enrolling them in a stand-alone prescription drug plan will disenroll them from their health plan!**
- Medigap supplemental insurance policies issued after Dec. 31, 2005, do not have prescription drug benefits. Clients with Medigaps may want to add a stand-alone prescription drug plan.

Choosing a Medicare Prescription Drug Plan

As mentioned earlier, there are two types of Medicare prescription drug plans and several factors to consider when deciding which to choose.

Stand-alone prescriptions drug plans

Stand-alone plans, often referred to as PDPs, are separate insurance policies covering only prescription drugs. Clients who have Original Medicare or Original Medicare plus a Medigap policy may want to add one of these plans.

Medicare Advantage Plans

There are several types of Medicare Advantage (MA) plans: managed care, which includes Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs) and Special Needs Plans; Private Fee-For-Service (PFFS) plans; and Medicare Savings Accounts.

Managed care organizations (MCOs) frequently combine health and drug benefits (MAPDs). If you choose an MCO that offers one of these packages, ***you must take this drug coverage and NOT enroll in a stand-alone plan. Doing so will cause you to be disenrolled from the health plan.*** People with military coverage or those who wish to have no drug coverage at all may enroll in the MA-only version, if the MA offers one.

Private Fee-For-Service plans may offer versions with or without drug coverage included. However, in this case beneficiaries ***may choose the MA-only version and enroll also in a stand-alone drug plan,*** or they may enroll in the PFFS MAPD.

Medicare Savings Accounts do not offer drug coverage. Their members may enroll in stand-alone PDPs.

Choice considerations

The SHIBA volunteer provides as much information as possible for the clients to make an informed decision as to which of the plans is best for them. The first consideration in narrowing down the choices is service area. MAPDs are available on a by-county basis. Stand-alone PDPs' service area is always the entire State of Oregon. Consult the SHIBA consumer guide or www.medicare.gov for the most up-to-date plans list for a particular locale.

Clients who have an established relationship with a doctor or specialist that they are unwilling to change will limit their choices as well. Switching to a Medicare Advantage plan may require changing doctors. Adding a stand-alone drug plan most often would not affect their choice of service provider.

Formularies

The best choice for a prescription drug plan usually depends on an individual's prescription drug usage. Each plan has a specific **formulary**, or list of drugs, that it covers. The cost of each prescription depends on each plan, whether the drug is covered and, if it is, whether it is listed as a generic, brand or specialty drug, sometimes referred to as "tiers." Clients who are considering a plan that does not cover all of their drugs should check with their doctor to see if they can be switched to a drug the plan covers. Medicare plans, by law, cannot cover a few classes of drugs, such as anti-anxiety benzodiazepines and weight-loss products.

The Web Tool at www.medicare.gov

Medicare's Web-based Medicare Prescription Drug Plan Finder estimates the annual cost of drugs on the various plans available in specific locations once you enter an individual's drug information. A person can investigate the prescription drug plans and enroll in a prescription drug plan at www.medicare.gov.

Unfortunately, many of the people who need to investigate and enroll in prescription drug plans have no Internet experience (and often, no computer experience, either). SHIBA volunteers provide a valuable service by sitting at the keyboard to help people with Medicare Part D enrollment.

EDITOR'S NOTE: Since www.medicare.gov is not the most intuitive Web site, SHIBA volunteers must learn how to navigate www.medicare.gov. We recommend that local SHIBA volunteers who are experienced with www.medicare.gov train SHIBA volunteers who are new to using www.medicare.gov.

Key Words and Definitions

Annual Enrollment Period: The period each year when you may enroll in, disenroll from, or change to another Medicare prescription drug plan, typically November 15 to December 31 of each year.

Area Agency on Aging: Local agencies that coordinate and support a wide range of home- and community-based services, including information and referral, benefits counseling, home-delivered meals, transportation, employment services, senior centers, adult day care, and a long-term care ombudsman program.

Co-payment: A part of a prescription's cost that you pay out of your pocket; a fixed amount for each prescription.

Coinsurance: A share of a prescription's cost that you pay out of your pocket. The amount is a percentage of the price of the drug.

Coverage Gap (aka The Donut Hole): The stage in Medicare prescription drug coverage when you have to pay all of your own drug costs.

Creditable Coverage: Drug coverage offered by other plans, such as a current or former employer or union, that gives you coverage at least as good as the standard Medicare prescription drug coverage.

Deductible: The amount you must pay each year for your medicine or medical treatment before your insurance starts to pay your costs.

Donut Hole: Another term for the Coverage Gap.

Formulary: A list of drugs that are covered by a drug plan.

Initial Enrollment Period: The initial enrollment period for Medicare prescription drug coverage is three months before and three months after the month they turn 65.

Late Enrollment Penalty: The extra amount you have to pay in premiums if you decide not to enroll in a Medicare prescription drug plan when you first become eligible. The penalty is 1% of the national base beneficiary premium for each month you wait. This penalty amount will continue every month as long as you are in a Medicare prescription drug plan.

Medicaid: A joint federal/state-funded program, run by your state, that provides help with medical expenses for families, older people, and people with disabilities. Note: the Medicaid program in some states may have another name.

Medicare Part A: The part of Medicare that primarily covers much of the cost of hospital care, home health, or a skilled nursing facility.

Medicare Part B: The part of Medicare that covers most of the cost of your doctor visits, outpatient care, and other services.

Medicare Part C: Also known as Medicare Advantage Plans (formerly "Medicare+Choice"). These are Medicare-approved private insurance plans, including HMOs, PPOs, private fee-for-service plans, and medical saving accounts. These plans may or may not include prescription drug coverage.

Medicare Part D: Also known as Medicare prescription drug coverage. This is Medicare's insurance coverage to help people in Medicare pay for their prescription drugs.

Medicare Prescription Drug Coverage: Another name for Medicare Part D.

Medicare Advantage: Another name for Medicare Part C.

Medicare+Choice: An earlier name for Medicare Part C.

Medicare Health Plans: A way to get Medicare coverage through a private health plan; also known as Medicare Part C or Medicare Advantage.

Medicare Supplemental Insurance: Another name for Medigap.

Medigap: A specific type of insurance policy that supplements the coverage you receive from Original Medicare. Individuals without retiree or union health benefits sometimes buy these to insure against costs not covered by Medicare.

Out-of-Pocket Spending: The amount of money paid for covered drugs by the beneficiary. If you have insurance coverage for drugs, this is the amount you yourself pay (not including the amount your prescription drug company or the plan pays). The monthly premium does not count as out-of-pocket spending.

Preferred Drug List: Another word for "formulary."

Premium: The amount paid each month to receive insurance coverage.

State Health Insurance Assistance Program (SHIP): A state program that offers one-on-one counseling and assistance to people with Medicare and their families. The name for this program may vary from state to state, e.g., in Oregon it is SHIBA.

State Pharmacy Assistance Program (SPAP): A state-run program, separate from Medicaid, that provides drug coverage and may coordinate that coverage with Medicare prescription drug plans for maximum saving to eligible residents. Not available in Oregon.

Total Drug Costs: The total amount paid for your medicines. It includes what you pay and also what the drug plan pays.