

Important Things to Know about Medicare Chapter Five: Medicare Part D--Prescription Drug Coverage¹

Amanda Terminello and Martie Gillen²

Important Things to Know about Medicare is a series of 10 publications that will cover the most common Medicare concerns. The series will provide general information about Medicare, including the four major plans, supplemental policies, interactions with different types of insurance, and assistance programs. This section explains Prescription Drug Coverage (Medicare Part D). Medicare Part D helps cover prescription drugs, which we all know can be very expensive. Keep in mind that many Medicare Advantage Plans include prescription coverage. Do *not* join a Medicare Prescription Drug Plan if you have a Medicare Advantage Plan that includes prescription drug coverage, or else you will be dis-enrolled from the Medicare Advantage Plan and returned to Original Medicare Part A and Part B. If you do not have prescription coverage otherwise, consider enrolling in Medicare Part D (CMS 2013).

When Coverage Begins

The earliest time you can sign up for Medicare (excluding sufferers of end-stage-renal disease) is during your 7-month **initial enrollment period**, which begins 3 months before you turn 65 and ends 3 months after you turn 65. If you sign up before your 65th birthday, your coverage will usually start the first day of your birthday month. If you sign up in the 3 months after your birthday, your coverage start date may be delayed.

The **general enrollment period** occurs between January 1 and March 31 each year. If you did not sign up for Medicare

when you first became eligible, you can sign up during the general enrollment period, and your coverage will start the following July. If you chose not to sign up for Medicare Part when you first became eligible, you may be responsible for a **late enrollment penalty** (CMS 2013).

You can join a Medicare Prescription Drug Plan during the **initial enrollment period** and **general enrollment period**. If you become eligible for Medicare due to a disability, you can join any time from the 3 months before your 25th month of disability to the end of the 3rd month after your 25th month of disability. If you qualify for **extra help** (discussed later), you can enroll in a Medicare prescription drug plan at any time (CMS 2013).

If you do not enroll during a designated enrollment period, you may be responsible for a **late enrollment penalty**. For Part D coverage, you will be responsible for the late enrollment penalty if after the initial enrollment period is over there is a period of 63 or more days in a row for which you don't have any source of creditable prescription drug coverage. The exact cost of this penalty is calculated by multiplying 1% of the "national base beneficiary premium" times the number of months that you were eligible for Part D but did not have any creditable prescription drug coverage. For a frame of reference, in 2012 the national base beneficiary premium was \$31.08. Therefore, for example, if you had gone 2 years without creditable drug coverage while you were eligible, your monthly premium would

1. This document is FCS2341, one of a series of the Family Youth and Community Sciences Department, UF/IFAS Extension. Original publication date September 2013. Visit the EDIS website at <http://edis.ifas.ufl.edu>.

2. Amanda Terminello, graduate student, College of Public Health; and Martie Gillen, assistant professor and specialist in family and consumer economics for older adults, Family, Youth and Community Sciences Department; UF/IFAS Extension Gainesville, FL 32611.

increase by $\$31.08 \times .01 = \$3.108 \times 24 = \$7.46$. Keep in mind that this fee is added to your monthly premium and the national base beneficiary premium was used for 2012 (actual rate may be different for 2013). You also may be able to make changes to your Medicare Prescription Drug Plan (or join one) at a time outside the enrollment period if you move away from your plan's service area, have Medicaid, qualify for extra help, or live in an institution (CMS 2013).

To join a Medicare Prescription Drug Plan, have your Medicare card available and call 1-800-MEDICARE or visit www.medicare.gov. You can also contact the plan directly. Keep in mind that legitimate and approved Medicare Prescription Drug Plans cannot call you personally to enroll you (you must seek them out), ask you for personal financial information, or visit your home. If you experience any of these things, do not provide the plan representative with any personal information and call 1-800-MEDICARE to report it (CMS 2013).

What It Covers

Medicare Part D plans must cover all medically necessary commercially available vaccines that are not already covered in Medicare Part B. Many people are not aware that Part D plans must cover the shingles vaccine, which can be very beneficial. Each Medicare Prescription Drug Plan will have a **formulary**, or list of covered drugs. Usually the prescription drugs are organized into “tiers” according to their cost. Most often the drugs in the lowest tiers are the lowest cost, and the drugs in the highest tiers are the highest cost. Each plan will have its own formulary, so it is important to know what will be covered before you sign up for any plan. Also, each month that you fill a prescription, your Medicare Part D plan will send you an “explanation of benefits” notice that will give you a summary of your prescription costs and previous claims (CMS 2013).

There are several coverage rules that apply to many Part D plans:

1. Prior authorization requires the prescriber (your doctor) to contact the drug plan and show that it is medically necessary before you can fill the prescription.
2. There may also be limits on how much medication (quantity) you can get at a time.
3. You may also have to try a lower-tier (lower cost) similar drug before your plan will cover the actual prescribed drug to ensure that they are not paying more than they need to. This is called step therapy (CMS 2013).

If you have more than one chronic condition and are taking several different medications and your medications have a combined cost of more than \$3,144 a year (the amount may change every year), you may be eligible for a medication therapy management program. If you are eligible, you will be able to receive a free comprehensive medication review with a pharmacist or other health care professional. They will have an in-depth discussion about your medications, any concerns you may have, and how to get the most benefit from your medications. They will provide you with a written summary of the review, a medication action plan, and a personal medication list that will help you get the most benefit from your medications and communicate more effectively with your health care providers (CMS 2013).

What It Costs You

Each Medicare Prescription Drug Plan is different. You will not be able to calculate the exact costs of your Medicare Prescription Drug Plan because each plan has different costs and coverage, and your own health needs and prescription needs will be different. However, most prescription drug plans have an annual deductible. There is a standard Medicare Part D monthly premium (which you pay in addition to the premium for Part B, unless you have a Medicare Advantage Plan that pays a portion of the Medicare Part B premium) that may be adjusted for beneficiaries of higher income levels. There will also be varying copayments or coinsurance for certain prescription drugs in particular (CMS 2013).

What is unique about the Medicare Prescription Drug Plans is the “**donut hole**” or **coverage gap**. In essence, once you and your prescription drug plan have spent a certain amount of money on covered drugs, you enter the coverage gap, and there is a temporary limit on what the drug plan will cover. Once you have entered the coverage gap, in 2013 you will be responsible for 47.5% of the plan's cost for covered brand name drugs and 79% of the plan's cost for covered generic drugs. Once you have spent a certain amount of money out-of-pocket, the coverage gap will end and you will automatically get **catastrophic coverage**, under which you will only be responsible for a small coinsurance or copayment for each covered drug for the remainder of the year. Payments that count towards getting out of the coverage gap include the annual deductible, coinsurance, copayments, and the discounts you receive on brand name and generic drugs, and the actual costs of the drugs that you pay during the coverage gap. Your monthly premiums and the costs of drugs that are not covered don't

count towards getting you out of the coverage gap (CMS 2013).

- For a frame of reference, in 2012 the initial deductible for Medicare Part D was \$320. After the deductible was met, you were responsible for 25% (coinsurance) of the remaining costs, up to \$2,930 (for later years this rate may change). The average monthly premium for Part D in 2012 was \$30. The premium rate increased if the beneficiary fit within certain income brackets. CMS Handout # 5, **Part D Income-Related Monthly Adjustment Amounts**, reproduced below, shows the increase (in addition to the \$31.08) beneficiaries had to pay in 2012 according to their income level (Klees, Wolfe, and Curtis 2011).
- Once you have hit the initial coverage limit (\$2,930 in 2012), you enter the coverage gap.
- In 2012, once \$4,700 had been spent during the coverage gap, you exited the donut hole and qualified for catastrophic coverage. In the future because of the **Affordable Care Act** there will continue to be greater savings within the coverage gap.
- For example, someone who entered the coverage gap in 2011 will get a 50% manufacturer discount for covered brand name drugs and 7% drug plan coverage for covered generic drugs.
- However, someone who entered the coverage gap in 2012 will get a 50% manufacturer discount for covered brand name drugs and 14% plan coverage for covered generic drugs.
- The goal is that by 2020, the coverage gap will be fully phased out and beneficiaries will only be responsible for a 25% coinsurance fee throughout the year.
- For 2012, once \$4,700 was spent during the coverage gap, you automatically received catastrophic coverage. In 2012, this meant that you had to pay a coinsurance of 5% or a copayment of \$2.60 for generic drugs and \$6.50 for brand name drugs (Klees, Wolfe, and Curtis 2011).
- It is estimated that 17 million (or one-third) of Medicare beneficiaries in the United States would benefit from eliminating the “donut hole,” which is an explicit aim of the Affordable Care Act (AARP 2009).

How Medicare Part D Interacts With Other Coverage

If you have prescription drug employment coverage either through yourself or a spouse or other family member, make sure you discuss your options with that coverage provider.

Sometimes you cannot separate prescription drug coverage from the overall health coverage. Your decision may also affect any dependents you may have. Having multiple coverage plans can get complicated, so it is important to have these conversations with your current providers. See CMS Handout # 6, **How Other Insurance Works with Part D**, reproduced below, for information regarding how other insurance programs interact with Medicare Part D (CMS 2013).

References

AARP Public Policy Institute. 2009. *Closing the “donut hole” will help protect over one-third of Medicare beneficiaries from high drug costs* (Fact Sheet). Retrieved from: <http://assets.aarp.org/rgcenter/ppi/health-care/fs-22-dec-medicare.pdf>.

Centers for Medicare & Medicaid Services. 2013. *Medicare and You: The Official U.S. Government Medicare Handbook* (CMS Product No. 10050-28). Washington, DC: Government Printing Office.

Klees, B.S., Wolfe, C.J., and Curtis, C.A. 2011. Brief Summaries of Medicare and Medicaid. *Office of the Actuary, Centers for Medicare and Medicaid Services*. Retrieved from: <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/MedicareProgramRatesStats/downloads/MedicareMedicaidSummaries2011.pdf>.

Table 1. 2012 Part D Income-Related Monthly Adjustment Amounts

Note: A beneficiary pays his or her plan premium plus the amounts shown below		
Beneficiaries who file individual tax returns with income:	Beneficiaries who file joint tax returns with income:	Income-related monthly adjustment amount
Less than or equal to \$85,000	Less than or equal to \$170,000	\$0.00
\$85,001 - \$107,000	\$170,001 - \$214,000	\$11.60
\$107,001 - \$160,000	\$214,001 - \$320,000	\$29.90
\$160,001 - \$214,000	\$320,001 - \$428,000	\$48.10
Greater than \$214,000	Greater than \$428,000	\$66.40
Beneficiaries who are married and lived with their spouses at any time during the year, but who file separate tax returns from their spouses:		Income-related monthly adjustment amount
Less than or equal to \$85,000		\$0.00
\$85,001 - \$129,000		\$48.10
Greater than \$129,000		\$66.40
<p>Adapted From: Klees, B. S., C. J. Wolfe, and C. A. Curtis. 2011. Brief Summaries of Medicare and Medicaid. <i>Office of the Actuary, Centers for Medicare and Medicaid Services</i>. Retrieved from: http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/MedicareProgramRatesStats/downloads/MedicareMedicaidSummaries2011.pdf</p>		

Table 2. How do other insurance and programs work with Part D?

<p>Employer or union health coverage</p>	<p>Health coverage from your, your spouse's, or another family member's current or former employer or union. If you have prescription drug coverage based on your current or previous employment, your employer or union will notify you each year to let you know if your prescription drug coverage is creditable. Keep the information you get. Call your benefits administrator for more information before making any changes to your coverage. Note: If you join a Medicare drug plan, you, your spouse, or your dependents may lose your employer or union health coverage.</p>
<p>COBRA</p>	<p>A federal law that may allow you to temporarily keep employer or union health coverage after the employment ends or after you lose coverage as a dependent of the covered employee. There may be reasons you should take Part B instead of, or in addition to, COBRA. However, if you take COBRA and it includes creditable prescription drug coverage, you'll have a Special Enrollment Period to join a Medicare drug plan without paying a penalty when the COBRA coverage ends. Talk with your State Health Insurance Assistance Program (SHIP) to see if COBRA is a good choice for you.</p>
<p>Medicare Supplement Insurance (Medigap) policy with prescription drug coverage</p>	<p>You may choose to join a Medicare drug plan because most Medigap drug coverage isn't creditable, and you may pay more if you join a drug plan later. Medigap policies can no longer be sold with prescription drug coverage, but if you have drug coverage under a current Medigap policy, you can keep it. If you join a Medicare drug plan, your Medigap insurance company must remove the prescription drug coverage under your Medigap policy and adjust your premiums. Call your Medigap insurance company for more information.</p>
<p>Note: Keep any creditable prescription drug coverage information you get from your plan. You may need it if you decide to join a Medicare drug plan later. Don't send creditable coverage letters/certificates to Medicare.</p>	

Table 3. How does other government insurance work with Part D?

<p>The types of insurance listed on this page are all considered creditable prescription drug coverage. If you have one of these types of insurance, in most cases it will be to your advantage to keep your current coverage.</p>	
<p>Federal Employee Health Benefits (FEHB) Program</p>	<p>Health coverage for current and retired federal employees and covered family members. FEHB plans usually include prescription drug coverage, so you don't need to join a Medicare drug plan. However, if you decide to join a Medicare drug plan, you can keep your FEHB plan, and your plan will let you know who pays first. For more information, visit www.opm.gov/insure or contact the Office of Personnel Management at 1-888-767-6738. You can also call your plan if you have questions.</p>
<p>Veterans' Benefits</p>	<p>Health coverage for veterans and people who have served in the US military. You may be able to get prescription drug coverage through the US Department of Veterans Affairs (VA) program. You may join a Medicare drug plan, but if you do, you can't use both types of coverage for the same prescription at the same time. For more information, visit www.va.gov or call the VA at 1-800-827-1000.</p>
<p>TRICARE (military health benefits)</p>	<p>Health care plan for active-duty service members, retirees, and their families. Most people with TRICARE who are entitled to Part A must have Part B to keep TRICARE prescription drug benefits. If you have TRICARE, you don't need to join a Medicare Prescription Drug Plan. However, if you do, your Medicare drug plan pays first and TRICARE pays second. If you join a Medicare Advantage Plan with prescription drug coverage, your Medicare Advantage Plan and TRICARE may coordinate their benefits if your Medicare Advantage Plan network pharmacy is also a TRICARE network pharmacy. For more information, visit www.tricare.mil/mybenefit or call the TRICARE Pharmacy Program at 1-877-363-1303.</p>
<p>Indian Health Services</p>	<p>Health care services for American Indians and Alaska Natives. Many Indian health facilities participate in the Medicare prescription drug program. If you get prescription drugs through an Indian health facility, you'll continue to get drugs at no cost to you and your coverage won't be interrupted. Joining a Medicare drug plan may help your Indian health facility because the drug plan pays the Indian health facility for the cost of your prescriptions. Talk to your local Indian health benefits coordinator, who can help you choose a plan that meets your needs and tell you how Medicare works with the Indian health care system.</p>
<p>Adapted from: Centers for Medicare and Medicaid Services. 2013. <i>Medicare and You: The Official U.S. Government Medicare Handbook</i> (CMS Product No. 10050-28). Washington, DC: Government Printing Office.</p>	