



# Medicare: Issue of the Day

August 4, 2004

## *BETTER BENEFITS – MORE CHOICES*

*Good News about the Medicare Prescription Drug, Improvement  
and Modernization Act of 2003!*

### *Choices for Drug Coverage*

**Medicare is expanding to meet the needs of current and future beneficiaries.**

- ❖ For nearly 40 years Medicare has covered physician and hospital costs for America's seniors and people with disabilities. In 2006, a voluntary prescription drug benefit will be added. **Recent years have seen an explosion of new drug therapies that have become the standard of care for such serious chronic conditions as heart disease, hypertension and diabetes.** As medical practice has relied more and more on these new medicines, beneficiaries' out-of-pocket spending on drugs has increased markedly.

**The new prescription drug plans will provide beneficiaries with drug coverage that meets their needs.**

- ❖ In exchange for a monthly premium – expected to average in the range of \$35 in 2006 – seniors and people with disabilities will get substantial help with their drug costs.
  - ✓ Standard coverage features a **\$250 deductible**. After that, the plan pays 75 percent of the beneficiary's drug costs up to \$2,250.
  - ✓ **Once a beneficiary spends \$3,600 out-of-pocket, Medicare will cover about 95 percent of all remaining drug costs.**
  - ✓ The premium for this standard benefit is subsidized about 75 percent by the federal government – more than \$1,200 per beneficiary per year, **so at a premium amount of about \$430 a year, the beneficiary pays only about one-fourth of the total cost of the new benefit.**
- ❖ **Those costs are further subsidized for beneficiaries with low incomes and limited assets.**
- ❖ 11 million beneficiaries are expected to enroll in the low-income assistance program in 2006 and will benefit from reduced premiums and reduced cost sharing in a benefit that features no gap in coverage.
  - \* Approximately **9.4 million beneficiaries will pay no premium at all,**
  - \* 1.5 million paying based on a sliding scale. And the lowest income beneficiaries will pay only co-pays of \$1 and \$3 per prescription.

## Savings for a Typical Beneficiary With No Drug Coverage Today

Beneficiary Group	Annual Spending Today	Out-of-pocket Spending Under Part D	Percentage Savings After Premium	Dollar Savings After Premium
Beneficiary with standard coverage	\$ 2400	\$ 697.50	53%	\$1,274.50
Beneficiary with income under 150% FPL and low assets	\$ 2400	\$ 348.50	77%	\$1,837.50
Beneficiary dually eligible above 100% FPL regardless of assets and beneficiary with income below 135% FPL and low assets	\$ 2400	\$ 109.85	95%	\$2,290.00
Beneficiary dually eligible for Medicaid with income below 100% FPL	\$ 2400	\$ 62.77	97%	\$2,337.23
Beneficiary who is dually eligible for Medicaid and a nursing home resident	\$ 2400	\$ 0	100%	\$2,400.00
<p>Explanatory Notes: \$2400 is close to the projected median spending for all beneficiaries in 2006. Beneficiary out-of-pocket costs and percentage savings assume 15% cost management by Part D plans, through price discounts and utilization management. Premium for the 150% FPL group is assumed to be in the middle of the sliding scale between \$0 and \$428. The out-of-pocket calculation for the 135% FPL and 100% groups assumes an average prescription price of \$65 and an average co-pay of \$3.50 and \$2, respectively.</p>				

## Eligibility & Enrollment

- ❖ Almost all of the **43 million Medicare beneficiaries in 2006 will have a choice to enroll in the new Medicare prescription drug program**, which can be found in Part D of the Medicare statute. Anyone who is entitled to Medicare Part A, or enrolled in Part B, is eligible to enroll in the new benefit.
- ❖ The new drug benefit will be **delivered by private health plans**, and beneficiaries will be required to select an approved plan and enroll in it for the year.
- ❖ Beneficiaries will have two main options for how they receive their drug benefit.

- ❖ Those who wish to remain in traditional Medicare may elect to join a stand-alone prescription drug plan (PDP) that adds drug benefits to regular Medicare coverage.
- ❖ Those who wish to receive all their medical and drug benefits from one source can join a Medicare Advantage plan, which will provide an integrated benefit covering their hospital, physician and drug costs.
- ❖ All plans will be **required to offer basic drug coverage**. Beneficiaries are expected to have **options for enhanced coverage as well**. Drug plans and Medicare Advantage plans can offer enhanced coverage – which can fill in some of the cost sharing – for an additional premium. **Medicare Advantage plans can also use rebate dollars left over from their medical coverage bids to buy down the cost sharing on the drug coverage, without charging a supplemental premium.**
- ❖ Beneficiaries who have other sources of drug coverage – through a former employer or union, for example – **may stay in that plan and choose not to enroll in the Medicare drug plan.**

If their other coverage is at least as good as the new Medicare drug benefit (and therefore considered “creditable coverage”), then the beneficiary can avoid any late enrollment penalties when, or if, they later sign up for the Medicare drug benefit.

Employers and unions will have **several ways to participate in their retirees’ drug coverage**. They can continue offering primary coverage (as described previously) and accept a new retiree drug subsidy.

Alternately, employers and unions can enhance the drug coverage for beneficiaries who join a Medicare plan, in several ways:

- ❖ they can pay **some or all of the drug premium**;
  - ❖ they can pay the **premium for supplemental coverage within a Medicare drug plan**;
  - ❖ they can provide **“wrap-around” coverage** that fills in some or all of the cost sharing in the Medicare plan;
  - ❖ they can establish **special contracts with Medicare plans** to provide any of the above assistance for their retirees.
- ❖ The new **Medicare drug benefit is entirely voluntary**, and the program has an “opt-in” rule. That means that, with limited exceptions, beneficiaries will need to make an affirmative statement to sign up for the drug benefit by filling out an enrollment form and joining an approved plan (either a stand alone prescription drug plan or Medicare Advantage plan).
  - ❖ This will be **different from the “opt-out” rule that exists in Part B**, where people are automatically enrolled in the program when they turn 65 unless they notify Medicare otherwise.

- ❖ **Beneficiaries who choose not to sign up at the first opportunity may face a late enrollment penalty if they choose to enter the program later.** This penalty is similar to a penalty currently in place for late enrollment in Medicare Part B.
- ❖ **Coverage for the new drug benefit begins on January 1, 2006.**
  - ✧ open enrollment will **run from November 15 to December 31 for the next benefit year.**
  - ✧ The enrollment periods for drug-only plans and Medicare Advantage plans will run at the same time.