

NEW MEDIGAP OPTIONS AND SUPPLEMENTAL OPTIONS

The Medicare Modernization Act (MMA) provides beneficiaries big savings compared to the existing Medigap program, provides new Medigap options, and allows Medicare Advantage plans to offer supplemental coverage. For example, a beneficiary who spends \$3,000 a year on drugs will save about \$1,300 a year in premiums and cost sharing by switching to the new Medicare drug benefit from a Medigap H or I plan, and save almost \$1,700 a year by switching from a Medigap J plan. Beneficiaries eligible for the low-income subsidy will save much more, in almost all cases 75 percent or more, and often 90 percent or more, compared to what they spend for premiums and cost sharing under Medigap.

Beneficiaries will also be able to sign up for new Medigap plans that provide protections against catastrophic costs in traditional Medicare, or keep their existing Medigap plans without drug coverage at much lower premiums.

Current Coverage of Medigap Drug Plans

Medigap currently offers three standardized plans (H, I, and J) that provide outpatient prescription drug coverage. Drug coverage is also available through pre-standardized Medigap policies and in specific benefit packages of the “waiver” states - Wisconsin, Minnesota and Massachusetts.

Medigap plans H and I offer a drug benefit package that covers 50 percent of drug costs after a \$250 deductible, and caps benefits at \$1,250 per year. We estimate that the average premium for the drug package will be about \$1,041 in 2006, more than twice as much as the enrollee share under the new Medicare drug benefit.

The Medigap Plan J offers a benefit package that covers 50 percent of drug costs after a \$250 deductible, but caps benefits at \$3,000 per year. We estimate that the average premium for the drug package will be about \$1,546 in 2006, over three times as much as under the new Medicare drug benefit.

Starting on January 1, 2006, Medigap policies with drug coverage will no longer be issued to new subscribers. However, beneficiaries will have the opportunity to keep their Medigap drug plan under these conditions:

- If a beneficiary does not enroll in Medicare Part D and wants to keep the prescription drug coverage under the Medigap policy, the Medigap policy must be renewed. Also, beneficiaries would have to pay the full cost of the premium for Medigap drug coverage (usually over \$1,000 a year – versus a Part D premium of \$420).

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- However, if a beneficiary decides to keep the Medigap drug coverage but later decides to enroll in Part D, the beneficiary will be subject to late enrollment penalties and will lose the right to buy a different Medigap plan that does not cover drugs.

New Benefits And Savings That Will Be Available To Beneficiaries

The new Medicare prescription drug coverage clearly offers a much better value to beneficiaries than Medigap, including comprehensive drug coverage at a lower cost to the beneficiary. Medigap plans have no catastrophic protection against prescription drug costs and the government does not subsidize Medigap plan premiums, so the enrollee must pay the full cost of the Medigap premium, compared to only about 25 percent of the Medicare drug benefit premium.

At a drug spending level of \$1,000 a year, beneficiaries who switch from Medigap H and I plans will save over \$800 a year, and those in plan J will save over \$1,300 a year. (Savings are higher at some spending levels than at others, but in almost all situations will exceed \$1,000 annually.)

Some of the Part D standard prescription drug benefits that provide a greater value to beneficiaries include the following:

- Once the beneficiary reaches the annual out-of-pocket limit, prescription drug plans pay 95% of all additional costs.
- The premium is subsidized at 74.5 percent, leaving the beneficiary responsible for only 25.5 percent of the premium cost.
- People with limited assets and incomes below 150 percent of the federal poverty level will pay reduced premiums, reduced deductibles, only 15 % cost sharing, and no coverage limits.
- People with limited assets and incomes below 135 percent of poverty would pay no monthly premiums, no deductibles, only \$2 for generic and preferred multiple source drugs, \$5 for other prescription drugs, and no coverage limits.
- Nursing home residents who are dually eligible for Medicare and Medicaid will pay nothing for their prescription drugs.

Two New Medigap Plans

The MMA also requires that two new standard benefit packages be created. The National Association of Insurance Commissioners must make the necessary revisions to its Model Regulation within nine months, or the Secretary of HHS will make the revisions. To the extent practicable, these revisions should provide for implementation of the revised standards by January 1, 2006. The two new benefit packages consist of:

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- Coverage of 50% (first new package) or 75% (second new package) of the cost-sharing otherwise applicable under Parts A and B, except for the Part B deductible;
- Coverage of 100% of hospital inpatient coinsurance and 365 extra lifetime days of coverage of inpatient hospital services;
- Coverage of 100% of any cost-sharing otherwise applicable for preventive benefits; and,
- A limit on annual out-of-pocket spending under parts A and B to \$4,000 (first new package) or \$2,000 (second new package) in 2006.

These two new benefit packages will allow purchasers to insure against catastrophic costs for benefits covered under traditional Medicare and, together with the new drug benefit, allow beneficiaries to insure against catastrophic expenses for hospital, doctor, and prescription drug costs. Since all beneficiaries face some risk of catastrophically high bills for these services, these are important additions to the choices available to beneficiaries to manage their costs and potential financial exposure.

Enhanced Drug Coverage Under Medicare Advantage

All prescription drug plans must offer basic coverage, and *may* also offer enhanced drug coverage as a supplemental option. Medicare Advantage plans that provide drug coverage *must* offer either:

- basic coverage only;
- a choice of basic coverage and enhanced coverage for no additional premium using their rebate dollars. That is, if the plan's bid is below the benchmark, the plan will receive its bid amount (adjusted for beneficiary health status) for providing Medicare services plus 75 percent of the difference as a rebate. The plan can use the rebate to provide enhanced drug coverage for free; or,
- a choice of basic coverage and enhanced coverage for an additional premium.

All of the changes described above offer current beneficiaries additional opportunities for improved drug coverage, improved catastrophic coverage, or both. For those enrolled in Medigap drug plans, these opportunities include substantial savings in cost sharing and premiums, combined, compared to their current coverage.

Choices Available For Beneficiaries

Medigap issuers are required to send a disclosure notice to their policyholders who have drug coverage, explaining what their options will be as of 2006. Beneficiaries may choose to keep their current Medigap policy with drug coverage or buy a Medicare prescription drug plan. While Medigap issuers will continue to supplement Medicare Part A and B benefits, Medigap cannot issue new coverage that supplements Medicare prescription drug plans.

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Beneficiaries who want coverage beyond basic Medicare can buy this coverage from a prescription drug plan with generous savings compared to their current Medigap plans with drug coverage. And, for the first time in Medicare, beneficiaries will have the choice to receive all of their benefits – basic benefits, enhanced coverage, and prescription drugs – from one insurance plan.

Comments on the proposed regulations will be accepted until October 4, 2004. Comments should be submitted to the Centers for Medicare & Medicaid Services at www.cms.hhs.gov/regulations/ecomments