Medicare: Today's Issue
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BETTER BENEFITS – MORE CHOICES

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

The New Medicare Prescription Drug Benefit: True Out-of-Pocket Costs

Beginning in 2006, Medicare beneficiaries will be able to choose the new comprehensive prescription drug benefit. With this new benefit, seniors will cut their bills in half – not their pills.

True Out-of-Pocket Costs

- The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA) uses a concept called "true out-of-pocket" (TrOOP for short) that may not be familiar to beneficiaries. The new Medicare drug benefit's standard coverage features a $250 deductible, 25% cost-sharing up to $2,250 in total spending and then a coverage gap. The benefit's catastrophic coverage begins when the enrollee reaches $3,600 in out-of-pocket spending. To count toward this limit, the costs must be truly coming out of the beneficiary's pocket, with limited exceptions.

- Sources of payment for cost sharing that count toward the true out-of-pocket limit:
  - The beneficiaries themselves, as long as they are not reimbursed by an insurer;
  - Another individual, such as a family member (also as long as they are not reimbursed by an insurer);
  - Medicare's cost-sharing assistance for people with low incomes; and
  - State Pharmaceutical Assistance Programs.

- Sources of payment that do not count:
  - An insurer, such as a group health plan (including employers' retiree plans);
  - Any supplemental coverage purchased through a Medicare prescription drug plan or a Medicare Advantage plan; and
  - Any other third-party payment arrangement.

- If a beneficiary is receiving supplemental help from a third-party insurer, the practical effect of the TrOOP will be to delay the start of the catastrophic benefit. For the standard drug benefit, a beneficiary reaches the $3,600 limit when he or she has $5,100 in total drug spending. If, for example, a supplemental insurer chooses to "fill in the donut" by paying 75 percent of beneficiaries' costs in the coverage gap, then the catastrophic coverage begins at $13,650 in total spending. In all cases the beneficiary is really paying $3,600 at the start of the catastrophic coverage, with Medicare and the supplemental payer picking up the rest.

- The Centers for Medicare & Medicaid Services will work with plans and the providers of supplemental coverage to construct a system to coordinate the benefit and track the sources of these cost-sharing payments. In addition, Medicare Part D plans will be required to ask beneficiaries what kind of third-party supplemental coverage (if any) they have. If a beneficiary materially misrepresents what supplemental coverage he or she has, this may be grounds for termination from Part D under the law.