



# Medicare: Issue of the Day

August 30, 2004

## ***BETTER BENEFITS – MORE CHOICES***

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

### ***NEW MEDIGAP OPTIONS AND SUPPLEMENTAL OPTIONS***

*The Medicare Prescription Drug, Improvement, and Modernization Act (MMA) provides new Medigap options, and allows Medicare Advantage plans to offer supplemental coverage* *The new drug benefits in the MMA provide beneficiaries **big savings compared to the existing Medigap program**. 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.*

#### **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:

- ❖ **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.**

#### **New and Lower Cost 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.

Beneficiaries who want coverage beyond basic Medicare can get this coverage from a new Part D prescription drug plan with generous savings compared to their current Medigap plans with drug coverage. Most importantly, Medicare beneficiaries will have the choice to receive all of their benefits – basic

benefits, enhanced coverage, and prescription drugs – from **one insurance plan under the Medicare Advantage program**.

### **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. 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.

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).
- 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**.