Medicare and Prescription Drug Coverage

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Many people on Medicare rely on prescription drugs to manage their health conditions. This section offers general information about the Medicare drug benefit (Medicare Part D), advice for determining if the Medicare drug benefit is right for you, key considerations for selecting a Medicare drug plan that best meets your needs, and information about extra financial assistance with drug costs available for those with limited incomes.

The federal government helps to cover the cost of the Medicare prescription drug benefit; however, private companies administer the benefit on behalf of the government. Therefore, to get the Medicare prescription drug benefit, you need to enroll in one of these plans.

There are two types of plans offering Medicare drug coverage:

- A Medicare stand-alone prescription drug plan (PDP) that covers only prescription drugs. If you would like to get coverage of your Medicare health benefits through Original Medicare, then you can enroll in a stand-alone prescription drug plan to add the drug benefit to your health coverage.
- A Medicare Advantage plan, like a Medicare HMO or PPO, that offers prescription drug coverage (MA-PD plan). If you enroll in a Medicare Advantage plan, you will usually receive *all* Medicare benefits through your Medicare Advantage plan, including health care coverage and prescription drugs if covered by the plan.

You can sign up for the drug benefit during your Initial Enrollment Period, which is a seven-month period including the three months before you become eligible for Medicare, the month you become eligible for Medicare and the three months after you become eligible for Medicare. You can also sign up (or switch plans) between October 15 and December 7 of each

year, with drug coverage effective January 1 of the following year. For a discussion of these enrollment periods, as well as Special Enrollment Periods, see the Medicare At a Glance section, under How and When to Enroll in Medicare.

Enrollment in the Medicare drug benefit is voluntary. However, if you decide not to sign up, it is important to be aware of the potential consequences. If you do decide to enroll later, you may need to pay late enrollment penalty and will only be able to enroll during certain times.

Basics of the Medicare Prescription Drug Benefit

All people with Medicare, regardless of their medical history or income, have access to plans that offer drug coverage. The enrollment period runs from October 15 to December 7, and coverage begins January 1 of the following year.

The Medicare drug benefit is designed to reduce drug costs and protect against catastrophic drug expenses, but it is not free. When you get Medicare prescription drug coverage, you pay part of the costs and Medicare pays part of the costs. Your costs include premiums, deductibles, and copayments and/or coinsurance, and will vary depending on which plan you choose. However, all plans must, at a minimum, provide you with a standard level of coverage, as described below. People with low incomes may qualify for assistance with these costs; see Extra Help with Prescription Drug Costs in the "Medicare and People with Low Incomes" section.

Typically, you will pay a monthly premium for your drug coverage. The cost of the monthly premium varies greatly depending on the plan you choose, but the national average premium is projected to be $31.08 per month in 2012. If your annual income is above $85,000 for an individual or $170,000 for a couple, you will need to pay a higher Part D premium that depends on your income.

There are four possible coverage periods you may encounter within a given year, depending on the design of the Part D plan you enroll in and your total drug costs. The benefit structure outlined below is the standard benefit design.

- **The Deductible:** The deductible is the amount you must pay before your drug plan will start paying for your drugs. In 2012, the deductible cannot be more than $320 in any plan. Some plans charge less or no deductible.

- **Initial Coverage Period:** During this period, you pay a portion of your drug costs and your plan pays a portion of your drug costs. In the standard benefit, you pay 25 percent and the plan pays 75 percent. However, most plans do not follow the standard benefit design. You should check with your plan to see what your coinsurance or copayments will be; copayments typically differ for generic and brand-name drugs. In 2012, the initial coverage period ends when what you and your plan have spent in total drug costs equals $2,930.

- **Coverage Gap:** Once you and your plan have spent $2,930 in total drug costs, a coverage gap begins (sometimes referred to as the "doughnut hole"). During the coverage gap, you are responsible for a larger share of the costs of your drugs. In 2012, you receive a 50 percent discount for brand-name drugs during the coverage gap and a 14 percent discount for generic drugs in the standard plan. The coverage gap will be completely phased out in 2020, when you will pay no more than 25 percent of the cost of your brand or generic drugs.

- **Catastrophic Coverage:** After you have spent $4,700 in total out-of-pocket costs in 2012 (including the deductible and costs in the initial coverage period and the coverage gap), you will reach catastrophic coverage. Under catastrophic coverage, you pay either 5 percent of the cost of the drug or $6.50 for brand-name drugs and $2.60 for generics, whichever is greater. The $4,700 that you have paid out-of-pocket includes amounts paid by some others including family members, most charities, State Pharmaceutical Assistance Programs (SPAPs), AIDS assistance programs, and the Indian Health Service. The 50 percent discount for brand-name drugs in the coverage gap is also included in the $4,700 total that triggers catastrophic coverage. The total amount, however, does not include your monthly premium, the 14 percent discount on generic drugs, or any amount your plan paid for your drugs.

Although these are costs under the standard benefit design, most Medicare prescription drug plans offer a different benefit design. Most plans do not have a $320 deductible and do not use a 25 percent coinsurance for each prescription filled. Instead, most plans impose different drug copayment amounts, depending on the medication. Typically, they have multiple tiers of covered drugs, with the lowest copayments for generic drugs and preferred brand-name drugs. Most Medicare drug plans do not offer benefits in the coverage gap beyond what the law requires. For tips on how to manage your spending in the coverage gap, see the Choosing a Medicare Drug Plan section.

Is the Medicare Drug Benefit Right for You?

The first thing to consider is whether you currently have drug coverage. If you do not have coverage, the Medicare drug benefit may help to lower your out-of-pocket drug spending and protect you from facing very high drug expenses. Even if you do not use a lot of medications now, having the drug benefit may help protect you if your health care needs change. For many people, the coverage helps alleviate the burden of drug costs, because Medicare subsidizes the cost. If you decide not to sign up, it is also important to be aware of the potential consequences of not doing so. If you do decide to enroll later, you may need to pay late enrollment penalty and will only be able to enroll during certain times.

Assessing Your Current Source of Drug Coverage (if you have one)

The following is a list of scenarios that may describe your current drug coverage situation and help you decide whether to sign up for a Medicare drug plan.

- **Do you get your drug coverage from a former or current employer or union?** In general, benefits offered by employers are more generous than the standard Medicare drug benefit. You should have received a letter from your former or current employer letting you know whether your coverage is "creditable," which means it is at least as good as the standard Medicare prescription drug benefit. Save this letter. If you did not receive this information, contact your employer.

  If your drug plan is creditable, you can either keep your employer health plan or enroll in a Medicare prescription drug plan; in some instances you may be able to do both. Compare the benefits and out-of-pocket costs under your employer plan with the benefits offered by Medicare drug plans in your area so you can be sure which plan is best for you. You should check with your employer if you are thinking about enrolling in a Medicare drug plan. Some employer plans work with Part D but some do not. If you join a Medicare drug plan that does not work with your employer plan, you and your dependents who are covered by the same plan may lose your employer health and drug coverage. If you drop your employer coverage, you may not be able to get your employer coverage back.

Tip
If you receive drug coverage from an employer plan that does not provide Medicare drug coverage, you cannot receive the extra help available to people with low incomes under the Medicare drug benefit. People with low incomes should carefully consider all of the options and cost implications of different coverage sources that might be available before making a decision.

If your employer plan does not meet the "creditable coverage" standard, you may want to consider enrolling in a Medicare drug plan. If you lack "creditable coverage" and do not sign up for a Medicare drug plan when you are first eligible, you will likely have to pay a late enrollment penalty if you sign up later on. The late enrollment penalty is 1 percent of the national average premium for each month you delay enrollment and do not have creditable drug coverage. More information on the late enrollment penalty is below. Also, you can only enroll in a Medicare drug plan during certain times of the year.

If your creditable coverage ends, or if you decide later that you want to drop your employer or retiree coverage, you can enroll in a Medicare prescription drug plan at that time. You will not have to pay a late enrollment penalty as long as you join a Medicare drug plan within 63 days after your employer coverage ends (and as long as that coverage is creditable).

These are the things to know about employer coverage that are important to consider when making your choice about the Medicare drug benefit:

- ○ Employer plans usually include other benefits besides drug coverage, so you should consider not only the drug coverage, but all health care benefits offered by the employer plan. Enrolling in a Medicare drug plan could cause you to lose all your retiree health care coverage.
- ○ Dropping employer coverage could affect coverage for your dependents; talk to your employer about how a change in your status may affect your dependents before making any changes to your coverage.
- ○ If you decide to drop your employer coverage, you will probably not be able to rejoin the plan in the future if you change your mind, so make sure you think through your decision.
- ○ A final consideration is whether you may qualify for additional help with Medicare drug plan expenses that is available to people with limited incomes and resources. This help can be quite valuable, but is not typically available to you if you keep your employer coverage.

- **Are you currently enrolled in a Medicare Advantage (MA) Plan?** Most Medicare Advantage plans provide prescription drug coverage. If you choose to be covered under a Medicare Advantage plan rather than the Original Medicare program, check to be sure the plan offers drug coverage.

If you are dissatisfied with your Medicare Advantage Prescription Drug (MA-PD) plan and want to switch to another Medicare Advantage plan with prescription drug coverage, you can usually only do so once a year during the annual open enrollment period from October 15 through December 7. See the Medicare Advantage Plans section for more information. If you decide to disenroll from your Medicare Advantage plan and opt for health coverage through Original Medicare, you will most likely need to sign up for a stand-alone prescription drug plan if you would still like drug coverage.

If you choose Original Medicare with a stand-alone drug plan, you will typically pay both a monthly Part B premium and a premium for your Part D plan (unless you qualify for Medicaid or other programs that help low-income beneficiaries; see Extra Help with Prescription Drug Costs in the "Medicare and People with Low Incomes" section for more information).

- **Does Medicaid help pay for your medical care?** If you have both Medicare and Medicaid, your drug coverage is provided by a Medicare prescription drug plan, and you are automatically eligible for Extra Help (also known as the Low-Income Subsidy program). Extra Help is a federal program that helps pay some or most of your drug costs, including premiums, deductibles, and copayments. If you qualify for Extra Help, you will be automatically enrolled in a Medicare prescription drug plan if you don't choose one yourself. If you do not have Medicaid, but have a limited income, you might still be eligible for Extra Help. For more information on extra help paying for a prescription drug plan, see Extra Help with Prescription Drug Costs in the "Medicare and People with Low Incomes" section.

Understanding the Late Enrollment Penalty

If you do not sign up for a Medicare drug plan when you are first eligible and do not have "creditable" prescription drug coverage from another source (such as an employer plan or the Veterans' Administration) for 63 days or more after you first qualified for benefits, you will most likely be charged a premium penalty for late enrollment. The late enrollment penalty is based on the number of months you delay enrollment after you are first eligible to sign up for a Medicare drug plan.

The premium penalty will increase the cost of your prescription drug coverage for as long as you are enrolled in a Medicare drug plan. The penalty is 1 percent of the national average premium multiplied by the number of months you delayed enrollment without creditable coverage. The national average Medicare drug plan premium for 2012 is $31.08. If you delayed enrollment for 9 months, your penalty this year would be $31.08 × 1% × 9, or $2.80. You would pay this each month in addition to the monthly premium. Since the national average premium increases each year, your penalty would also increase each year.

The premium penalty is permanent. Individuals subject to the penalty would pay a higher premium each month they are enrolled in a Part D plan. People who receive Extra Help do not pay the premium penalty.

Medicare Drug Plan Options

There are two types of Medicare drug plans you can buy, and you should consider which type of plan is best for you before making a decision.

Medicare Prescription Drug Plan (PDP)

The first type of plan, called a Medicare stand-alone prescription drug plan (PDP), covers prescription drugs only. These plans, offered by private insurance companies, are generally best for people who need drug coverage but prefer to get their other health benefits, such as coverage for hospital stays and physician visits, from Original Medicare. There are many prescription drug plans offered in most states, but your options depend on which drug plans serve the area where you live. With a PDP, you receive prescription drug coverage directly from the private plan, and get coverage for your hospital and outpatient care from Original Medicare.

Medicare Advantage Prescription Drug (MA-PD) Plan

The second type of plan, called a Medicare Advantage plan, covers Medicare benefits under Parts A and B, and may also cover the Medicare Part D drug benefit. Medicare Advantage plans that include drug coverage are called Medicare Advantage Prescription Drug (MA-PD) plans. These plans are offered by private insurance companies and are usually either Health Maintenance Organizations (HMOs) or Preferred Provider Organizations (PPOs).

If you receive your health benefits from a Medicare Advantage HMO or PPO plan, and you want Medicare drug coverage, you usually must get your drug coverage from the same plan that provides your health coverage. Medicare Advantage plans sometimes offer additional benefits beyond what traditional Medicare offers, but the plans typically impose restrictions on which doctors and hospitals enrollees may visit. In some areas, there are dozens of Medicare Advantage plans available. For more information, see the Medicare Advantage Plans section.

Choosing a Medicare Drug Plan

If you choose to enroll in a Medicare prescription drug plan or want to switch plans, you should first decide whether you want a stand-alone prescription drug plan (PDP) or a Medicare Advantage prescription drug (MA-PD) plan. Then, you will want to compare the various features of plans available in your area. Plans set their own premiums and benefits within certain guidelines established by Medicare. There are important differences between plans, including premiums, deductibles, which drugs are covered, and how much you will pay to fill your prescriptions for different types of drugs (generics vs. Brand-name drugs). There may also be differences in the availability of in-network pharmacies across plans, so it is important to do some comparison shopping before signing up for a plan. Consider the following questions when selecting a Medicare drug plan.

Tip
Before starting your research, make a list of drugs and dosages you are currently taking. If you select a plan that does not cover all of your drugs, your doctor or pharmacist may be able to suggest a generic version or a different medication covered by your plan.

Are my prescription medications on the plan's list of covered drugs?

Each plan has a formulary – a list of drugs covered by the plan. Although all plans must meet Medicare's requirements to cover at least two drugs in each therapeutic class or category, formularies vary across plans and some plans may not cover all of the drugs that you take.

Formularies might also include restrictions on what you have to do to get the drugs you take, including getting your doctor and the plan to approve the medication you take (prior authorization), getting you to try other, similar drugs before taking one that has been prescribed to you (step therapy), and how many pills you can get at a time (quantity limits).

Plans are expected to provide access to a large number of drugs, including almost all drugs within the following classes: antidepressants, antipsychotics, anticonvulsants, antiretrovirals, immunosuppressants, and antineoplastics (used to treat cancer). You can use the Medicare Plan Finder on www.medicare.gov or call 1-800-MEDICARE to identify plans in your area that cover your drugs.

Tip

Before choosing a plan, find out:

- Which of your drugs are covered by the plan;
- How much you will pay for your prescriptions (coinsurance and/or copayments), particularly your most expensive medications;
- If the plan imposes any restrictions on the specific drugs you take, such as how many pills you can get at a time;
- If the plan's pharmacy network includes the pharmacy you regularly use to fill prescriptions;
- Other plan costs, such as premiums and deductibles.

Drug plans can change the drugs they cover and the prices that they charge for covered drugs during the year. If your plan makes mid-year changes to a covered drug that you are currently taking, the change will generally not affect you for the remainder of the calendar year. However, these changes would apply the following year, unless you get special permission from the plan for continued coverage of the drug.

If possible, it's best to choose a plan that includes all your drugs on its formulary without restrictions. However, if you enroll in a plan that doesn't cover your drugs or places restrictions on them, you have the right to a one-time transition refill of those prescriptions during your first 90 days in the plan. You can also apply for an exception for coverage for the rest of the year. For more information about these procedures, call 1-800-MEDICARE or contact your plan.

How much will I have to pay for each of my prescriptions?

After checking to see whether your drugs are included on the formulary and whether any restrictions apply, you will want to know how much the plan charges for each medication. You may be required to pay different amounts for different drugs on the formulary because most plans have multiple levels (known as "tiers") of copayments. Most plans have different tiers for generic and brand-name drugs, and many plans also have what is called a "specialty-tier" for certain high-cost medications. Typically, plans charge less for generics than brand-name drugs.

If you sign up for a Medicare drug plan that does not cover all of your prescriptions, the money that you spend out-of-pocket to purchase drugs not covered by your plan will not count toward the $4,700 out-of-pocket spending catastrophic coverage limit.

You can find estimates of your prescription drug costs in different Medicare drug plans by entering your list of prescriptions and dosages and your preferred pharmacy into the Medicare Plan Finder, available at http://www.medicare.gov/find-a-plan/.

Is my regular pharmacy in the plan's network?

Drug plans must contract with pharmacies in your area, but they do not have to contract with all pharmacies. You will pay the least if you use pharmacies that are preferred network pharmacies. Before signing up with a plan, check to make sure the pharmacies you use are preferred in-network pharmacies. Some plans also allow you to get your prescriptions delivered to you through the mail at a lower cost than purchasing them at a retail pharmacy.

Tip

Many of the companies that offer Medicare prescription drug plans operate throughout the country. Before you choose a drug plan, be sure to ask if the plan is offered in the locations where you spend time and if the pharmacies that are convenient for you in those locations are part of the plan's network.

If you're not sure which plans include your local pharmacy in their network, ask your pharmacist for a list of plans accepted there. If you fill a prescription at a pharmacy that is not in your plan's network, you will usually have to pay the full cost of the medication. Your plan will only approve coverage from out-of-network pharmacies if you could not get to a network pharmacy and you do not usually use pharmacies that are out of network.

Getting Started on Choosing a Medicare Drug Plan

Here are a few questions and answers to get you started:

- **How do I choose a Medicare drug plan?** Decide which type of Medicare drug plan you should enroll in to work with your health coverage. Then, check to see which plans in your area cover the drugs you take – especially your most expensive drugs. Compare the prices of your prescriptions in each plan. See if there are any restrictions on the drugs you take. And, of course, compare monthly premiums. Finally, make sure that the pharmacies you use are part of the plan's network. If the plan offers better coverage at "preferred" pharmacies, make sure the pharmacies you use are preferred.
- **When can I enroll in a plan?** You can enroll in a Medicare drug plan during your Initial Enrollment Period, when you first become eligible for Medicare. Your Initial Enrollment Period is the three months before you become eligible for Medicare, the month you become eligible for Medicare and the three months after you become eligible for Medicare. If you miss your Initial Enrollment Period, you can enroll during Fall Open Enrollment Period, which is from October 15 to December 7 each year. If you enroll during the Fall Open Enrollment you may have to pay a late enrollment penalty if you did not have creditable coverage for 63 days or more after you first qualified for benefits, or do not qualify for Extra Help. Under certain circumstances, you may qualify for a Special Enrollment Period to enroll at another time of the year, for example, if you decide to drop your employer or retiree drug coverage, or if you receive Extra Help or Medicaid.
- **How do I enroll? Do I enroll directly with Medicare?** You can enroll by calling 1-800-MEDICARE, or through Medicare's online enrollment center at www.medicare.gov. You can also enroll directly with the plan over the phone, on the plan's website, or by filling out and mailing in an application.

Enrolling in a Medicare Prescription Drug Plan

There are a number of ways that you can sign up for a Medicare prescription drug plan:

- **Mail in or fax a paper application.** Contact the company offering the drug plan you select and request that they send you an application. Once you fill out the application, mail or fax it back to the company.
- **Call the plan, or visit the plan's website.** You can enroll in a plan by calling the company and speaking with a representative, or by filling out your application online.
- **Call 1-800-MEDICARE, or visit Medicare's website.** You are also able to enroll in most drug plans at www.medicare.gov through Medicare's online enrollment center. Drug plan participation in Medicare's enrollment center is voluntary, so not all plans offer this option.

To enroll in a plan, you will have to provide your Medicare number, and the date that your Part A and/or Part B coverage started; this information is printed on your Medicare card. You must also indicate whether you want to be billed for the premium or to have it deducted from your Social Security check. Finally, keep copies of any forms you mail and record the date and time of the calls you make, as well as the name of the representative.

Medicare drug plans are not allowed to call you and enroll you in a plan. If a plan calls you, **do not** give your personal or financial information over the phone. Call 1-800-MEDICARE to report any plans that call you and request personal information.

Once your enrollment is processed, the company offering the plan will send you an acknowledgement letter confirming your enrollment. This letter serves as your proof of insurance until your membership card arrives. Take that letter with you to the pharmacy if you need to fill a prescription before your membership card arrives. Along with the card, you will receive a member handbook, a list of covered drugs, a pharmacy provider directory, complaint and appeal procedures, and other important information about being a plan member.

Switching Medicare Drug Plans

Fall Open Enrollment is from October 15 to December 7 each year. You can change your Medicare drug plan during Fall Open Enrollment; the change will take effect on January 1. You can also enroll in a plan during this time if you did not enroll during your Initial Enrollment Period. In most cases, you will not be allowed to make a change outside of this designated time period.

For this reason, if you are already enrolled in a plan, you may want to re-evaluate your plan options during the Fall Open Enrollment Period each year. You can do this by reading your plan's Annual Notice of Change, which notifies you how your plan will be different next year. Plans are required to mail this notice to current enrollees before the Open Enrollment Period each year; for example, Medicare Drug Plans may change the list of drugs they cover, their premiums, and the costs of the drugs they cover. While you may be satisfied with your current plan, be sure to check whether your coverage will stay the same for the following year. If your plan is making benefit changes, you may want to see if there are other plans that better suit your needs and preferences.

Tip
Even if you are already enrolled in a Part D plan, you may want to re-evaluate your plan options during the Fall Open Enrollment Period each year. Compare the various features of plans available in your area. There are important differences between plans, including premiums, deductibles, and levels of drug coverage. It is important to do some comparison shopping, especially if you are taking new prescription drugs.

If you decide to switch your plan, you can switch to a new plan by enrolling in another drug plan during Fall Open Enrollment; coverage through your old Medicare drug plan will automatically end when coverage through your new drug plan begins.

Individuals who receive Extra Help and those who reside in nursing homes are able to switch plans on a monthly basis during the year. In addition, people who move to another region where their plan is not available and those whose "creditable" drug coverage is terminated are also able to enroll in or switch plans during the year.

Getting Extra Help with Medicare Drug Costs for People With Limited Incomes

Medicare provides extra help paying for prescription drug costs for people with limited income and resources. If your annual income is below $16,755 in 2012 ($22,695 for a couple) and your resources are less than $13,070 ($26,120 for a couple) in 2012, you may be eligible for additional assistance. Those who qualify get help paying for their drug plan's monthly premium, yearly deductible, and prescription copayments or coinsurance. The amount of extra help you can get is based on your income and resources. For more information on Extra Help, see Extra Help with Prescription Drug Costs in the "Medicare and People with Low Incomes" section.