

## Medicare Drug Coverage – Part II

### By Jacques Chambers, CLU

Last month's column covered the financial assistance programs that will be available for lower income Medicare beneficiaries available to supplement the basic Medicare Part D drug plan. That topic was covered first because the Department of Medicare and Medicaid Services (DMS) is now accepting applications for the financial assistance programs even though enrollment in the actual drug plan won't start until November 15, 2005. The drug plan itself does not start until 01-01-06. This column will focus on the drug plan itself.

Medicare Part D is scheduled to take effect January 1, 2006. It is voluntary, and anyone covered under Medicare Part A and/or Part B will be eligible to enroll. Originally estimated to cost approximately \$35 - \$40 per month, the applications being submitted by proposed providers indicates the average may be somewhat lower, closer to \$32 per month.

Enrollment into the plan itself does not begin until 11-15-05 and persons eligible can enroll anytime between 11-15-05 and 05-15-06 without any late penalty. Persons enrolling late after that will be forced to wait for the annual open enrollment period plus pay an additional surcharge for each year they could have been in Part D and did not enroll.

The benefits under Part D were originally set by law. As passed into law, Part D benefits are:

<u>Covered Drug Cost</u>	<u>Paid by Part D</u>	<u>Paid by You</u>
First \$250/year Deductible	0	100%
Next \$2,250/year	75%	25%
Next \$2,850/year (the "Donut Hole")	0	100%
*Amount over \$5,350/year	95%	5%**

\* Considered "Catastrophic Coverage"

\*\*Total Maximum Out-of-Pocket by Member is \$3,600 plus

- Premium payments
- Payments by other plans which will not count toward reaching the Catastrophic Coverage level.
- Cost of prescription drugs not on the provider's formulary
- Over-the-Counter medications

It is quickly obvious that the plan is designed to provide the most benefit to people who use prescriptions extensively. Medicare expects you to pay a substantial portion of your initial drug bills each year – 25% after the annual deductible. In addition to the deductible and 25% of the next \$2,250, they expect you to pay 100% of the next \$2,850



before the Catastrophic Coverage kicks in. This gap in coverage is commonly referred to as the “donut-hole.”

Even so, it is anticipated that the plan will reduce the cost of a Medicare beneficiary’s prescriptions by an average of 37%, from over \$1,250 per year to slightly less than \$800 per year. That is for a beneficiary who is not eligible for any of the financial assistance plans discussed in last month’s article. Persons eligible for one of the assistance programs will pay only a small co-pay or even nothing at all for prescriptions.

However, unlike the standard fee-for-service Medicare Parts A & B, private companies will offer the Part D Drug benefits, and each beneficiary will have to choose from several plans offered in their area by insurance companies and prescription drug plan providers. The law requires that everyone have a choice between at least two different drug plans. In metropolitan areas, there may be five, ten, or more drug plans to choose from.

Plans under Medicare Advantage Plans, such as HMOs, will also add drug coverage to their Medicare plans. Some may offer Part D as a stand-alone to their regular plan, allowing you to choose an outside drug plan administrator if you choose. Others, under what is called Medicare Part C, will wrap their drug coverage into their HMO product as a single package.

For those choosing a drug plan provider, selecting the best one for your needs will not be an easy task. First, each drug plan provider will be allowed to develop their own “formulary,” or list of prescription drugs that they will cover. This means that not all providers will be offering the same medications on their formulary, although the law requires them to cover at least two drugs in each “therapeutic class.” There are indications that CMS is pushing the providers to be generous with their formularies, and, for competitive reasons, it appears that they will be generous.

Some drugs that have been covered in some states under Medicaid will now be excludable from Medicare Part D. They include:

- Drugs prescribed for cosmetic purposes and weight loss or gain (although the latter may be covered for specific conditions such as wasting);
- Two specific classes of mental health drugs: benzodiazepines and barbiturates; and,
- All over-the-counter drugs.

To further complicate the process of comparing the different plans being offered, the drug providers will be permitted to revise the benefit schedule from the one mandated by the law and outlined above. They will be permitted to shift deductibles and co-insurance percentages. They may even eliminate them and move to tiered flat dollar amount co-pays per prescription, as many people have already found out. The law only requires that the resulting plan be “actuarially equivalent” to the plan as passed into law. This means that any plan offered will generally require the same out-of-pocket payments from the beneficiary, but that will change depending on the utilization of the plan.

Persons carrying Medigap policies that already include prescription drug coverage will not be exempt from this change. They will need to find a Part D Drug provider also because beneficiaries should be receiving letters from their carriers shortly announcing that the drug portion of their Medigap plan will be terminating January 1, 2006, hopefully, along with a reduction in premiums.

Even persons on Medicaid will have to find a Part D provider because people eligible for Medicare will lose their Medicaid drug coverage effective January 1, 2006.

So how is a person to determine which Drug Plan is best for them? Supposedly some tools are being prepared to help.

First, during September, CMS will announce which providers have been awarded contracts to offer coverage in which states. Given the build-up of marketing plans, it is expected that some of the larger carriers, possibly providing nation-wide coverage, will be Wellpoint (parent company of Blue Cross of California, Anthem, and many other carriers), Aetna, PacifiCare, United Health, and CIGNA HealthCare (a unit of CIGNA Corp). These companies are setting aside between \$40 and \$80 million just to market their programs. In addition, there will be many providers offering plans in specific regions of the country.

This level of marketing expenditures is not surprising given the way the plan is designed. The substantial risk of these plans remains with the federal government so, the companies have very little risk of loss. And they will be trying for their share over almost 20 million expected enrollees out of a possible 43 million Medicare beneficiaries. Profits from these plans are expected to be very large, in the neighborhood of \$250 million based on as much as \$10 billion in estimated revenue to the providers next year alone.

Once the contract winners are announced, they will be permitted to start actively marketing on October 1, 2005. Medicare beneficiaries can expect to be inundated with sales literature hawking these plans.

On October 15, 2005, Medicare will open a website which is designed to help a person through the process of finding which plan is best for them. The process will be based on the ZIP code and prescriptions currently used by the beneficiary, and it will prioritize the available plans in terms of coverage offered and cost.

In the mean time, you might want to start preparing for deciding which plan is best for you by learning more about the prescriptions you are taking, not just the name and dosage, but also the type or class of drugs they are and possible alternatives and generics. You will also want to contact your pharmacist to learn which plans s/he is enrolling in as all prescriptions will have to be purchased from plan participating pharmacists.

The period between now and January 1, 2006 is going to be a hectic time for persons on Medicare. A lot must be learned about the various plans offered and the marketing hype will have to be separated from the truly helpful information.

It is anticipated that hcvadvocate will publish at least one more article on Medicare Part D, probably in early December that will give more details on the actual enrollment process and the tools available to assist in selecting the right Part D plan and provider for you.