



Information Partners Can Use on:

Understanding True Out-of-Pocket (TrOOP) Costs

Medicare Prescription Drug Coverage

Revised November 2011

True out-of-pocket (TrOOP) costs are the expenses that count toward a person's Medicare drug plan out-of-pocket threshold of \$4,700 (for 2012). TrOOP costs determine when a person's catastrophic coverage will begin. The drug plan keeps track of each member's TrOOP costs. Each month that a person buys prescriptions covered by his or her plan, he or she will get an explanation of benefits (EOB) in the mail showing the TrOOP costs to date.

In order for payments to count towards a member's TrOOP costs, payments must be for certain types of costs, be made by or on behalf of the person with Medicare, and not be covered by other insurance.

What payments count toward TrOOP costs?

The following payments **count** toward a person's TrOOP costs:

- The amount a person pays for covered prescriptions before his or her drug plan begins to pay (the annual deductible, if applicable)
- The amount a person pays for each covered prescription after his or her drug plan begins to pay (copayments or coinsurance during initial coverage period)
- Any payments a person makes for a covered prescription drug during his or her plan's coverage gap, if the plan has a coverage gap

Payments for the above costs **count** toward a person's TrOOP costs if they are made by any of the following:

- The person with Medicare (including payments from his or her Medical Savings Account [MSA], Health Savings Account [HSA], or Flexible Spending Account [FSA])
- Family members or friends
- Qualified State Pharmacy Assistance Programs (SPAPs)
- Medicare's Extra Help (low-income subsidy)
- Most charities (unless they are established, run, or controlled by the person's current or former employer or union)
- Manufacturers participating in the Medicare coverage gap discount program
- Indian Health Service (IHS)
- AIDS Drug Assistance Programs



What payments count toward TrOOP? (continued)

Only payments for drugs that meet these conditions **count** toward TrOOP costs:

- The drugs are on the plan's formulary.

or

- The drugs aren't on the plan's formulary, but are allowed to count because of a coverage determination, exceptions process, or an appeal.

AND

- The drugs are purchased in a network pharmacy.

or

- The drugs are purchased at an out-of-network pharmacy in accordance with the plan's out-of-network policy.

What payments don't count toward TrOOP costs?

The following payments **don't** count toward a person's TrOOP costs:

- The share of the cost of the drug paid by a drug plan
- Monthly drug plan premium
- Drugs purchased outside the United States and its territories
- Drugs not covered by the plan
- Drugs that are excluded from the definition of Part D drug, even in cases where the plan chooses to cover them as a supplemental benefit (such as drugs for hair growth)
- Over-the-counter drugs or most vitamins (even if they are required by the plan as part of step therapy)

Payments **don't count** toward a person's TrOOP costs if they're made by (or reimbursed to the person with Medicare by) any of the following:

- Group health plans such as the Federal Employees Health Benefit Program (FEHBP) or employer or union retiree coverage
- Government-funded health programs such as Medicaid, TRICARE, Workers' Compensation, the Department of Veterans Affairs (VA), Federally Qualified Health Centers (FQHCs), Rural Health Clinics (RHCs), the Children's Health Insurance Program (CHIP), and black lung benefits
- Other types of insurance
- Other third-party groups with a legal obligation to pay for the person's drug costs

If a person has coverage from one or more of the third parties listed above that pay part of the out-of-pocket costs, he or she must let the Medicare drug plan know.



How is TrOOP affected if a person switches Medicare drug plans?

Drug plans keep track of each person's TrOOP costs. When a person switches plans, his or her TrOOP balance transfers to the new Medicare drug plan. Medicare has established processes for transferring the TrOOP balance. This transfer occurs when someone disenrolls, and repeats periodically after that to provide updates on late claims. If there is a discrepancy, a person may need to give a copy of his or her most recent explanation of benefits (EOB) to the new plan to show the current TrOOP balance.

For example, a person disenrolls from a plan that had no deductible, and then joins a new plan that has a deductible of \$275. The coinsurance or copayments the person paid during the initial coverage period in his or her former plan and what the plan paid will all count toward the deductible in the new plan. Also, any TrOOP costs accumulated in the former plan will transfer to the TrOOP balance the person will start accumulating in the new plan.

More information about annual Medicare drug plan costs is available in the “Drug Plan Cost Information on www.medicare.gov” tip sheet (CMS Product No. 11245-P), available at www.cms.gov/partnerships/downloads/11245-P.pdf.

