



Information Partners Can Use on:

How the Coverage Gap works for People with Medicare Prescription Drug Plans

New Medicare Prescription Drug Coverage

As of August 2006

Many health insurance plans have limits on how much they will cover for prescription drugs, and Medicare drug plans are no different. The good news is that Medicare drug plans provide catastrophic coverage if a person with Medicare has an unexpected illness or injury that results in extremely high drug costs. This catastrophic coverage assures that almost all of their costs are covered after they have paid \$3,600 out-of-pocket. After the person with Medicare has met their plan's standard level of coverage and before they meet the catastrophic coverage, they will pay all of the costs for their drugs. This period is called the coverage gap (sometimes called the "donut hole").

What do people need to know about the standard level of coverage?

Exact costs for Medicare prescription drug coverage vary depending on the plan, but all plans must, at a minimum, offer a standard level of coverage. For the standard level of Medicare prescription drug coverage in 2006, people pay a \$250 yearly deductible, then 25% of their yearly drug costs from \$250 to \$2,250 (their plan pays the other 75% of these costs). Once a person reaches \$2,250 in total drug costs (not including premiums), there is a gap in Medicare's coverage. While the person is in this coverage gap, the plan will pay nothing toward their drug costs. But the person will pay the drug plan's discounted rate for their drugs during this time.

Note: Only about 28% of people with Medicare who have drug coverage are in a plan that has a coverage gap. The other 72% of people with Medicare will not have a coverage gap. These people have coverage from former employers, are getting extra help because they have limited income and resources, or are in a Medicare drug plan that provides some type of coverage during the gap. People who have limited income and resources and qualify for full extra help will not be affected by the gap in coverage. However, they will have to pay a small copayment or coinsurance amount for each prescription they get.

continued on back



How does the coverage gap work?

The coverage gap works differently for everyone because each Medicare drug plan is structured differently. When a person with Medicare enrolls in a Medicare drug plan, the plan sends them information about how costs work during their coverage gap. People should read this information carefully, and call their plan if they have questions. Remember, everyone has a chance to switch or join a Medicare drug plan once a year. People may want to consider switching to a plan that doesn't have a coverage gap during their open enrollment period from November 15—December 31 of each year. If a person joins a plan during this time, coverage will be effective January 1 of the following year. Each state offers at least one plan with some type of coverage during the gap.

Who tracks a person's out-of-pocket expenses during the coverage gap?

When a person gets prescription drugs through a Medicare drug plan during their coverage gap, the plan tracks and calculates the person's out-of-pocket costs automatically. The person with Medicare should **always use their Medicare drug plan card**, even during the coverage gap. This will allow them to buy their prescription drugs at the drug plan's discounted rates.

People with Medicare will get an "Explanation of Benefits" (EOB) from their plan in the mail every month that they use their plan's services. The EOB will show how much they have spent for the year and how close they are to reaching the plan's coverage gap.

Note: Only Medicare-covered drugs on their plan's formulary will count toward their out-of-pocket costs (unless the plan has granted them an exception for a drug it doesn't usually cover).



Can a person use a discount card or other pharmacy discounts to get their prescriptions? Will they still count toward their out-of-pocket costs?

Yes, if they use a network pharmacy. In some cases, a network pharmacy may accept a discount card or offer another cash price discount so the person can pay less for a prescription than their plan's negotiated price. The person should tell their pharmacist they are in their plan's coverage gap. If they are able to obtain a cash discount to pay an amount that's lower than their plan's price, they will need to send their receipt to their Medicare drug plan. This ensures that their plan will count the amount they paid towards their out-of-pocket costs.

Example: Mrs. Smith is in the coverage gap. She has to pay for the total amount for her prescription. The plan usually charges \$100 (its negotiated price) for the drug she needs. Mrs. Smith learned that by using a discount card, she could get that drug for \$95. If Mrs. Smith uses her Medicare drug plan card, she will pay \$100. If she doesn't use her Medicare drug plan card and uses the pharmacy's savings card, she will pay \$95. Mrs. Smith takes advantage of the lower price, and sends her receipt to her drug plan. Her plan counts it toward her total out-of-pocket costs and total drug spending under the plan.

What if another plan pays for a person's drugs during the coverage gap?

Medicare drug plans will work with other insurers to make sure the person with Medicare gets the correct coverage. Not all types of extra coverage will count toward a person's out-of-pocket costs.

Costs that DO count

- Costs that are paid by family members
- Some costs that are paid by state pharmacy assistance programs
- Costs paid by some charities that are not affiliated with employers or unions

Costs that DON'T count

- Costs that are paid by other insurance such as
 - Employers
 - Unions
 - Workers' compensation
 - Government programs



What happens after the coverage gap?

In 2006, after the person with Medicare has paid \$3,600 out-of-pocket (not including premiums), they pay 5% of drug costs (or a small copayment) for the rest of the calendar year. The plan covers the rest of their prescription costs until the end of the calendar year. There is no limit to this coverage in any one year.

How can a person with Medicare delay or avoid reaching the coverage gap?

To delay reaching the coverage gap, people with Medicare should ask their doctor if a generic drug or lower-cost brand name drug would work just as well as the one they take now. Using generic drugs can also reduce a person's copayments. Recent reports show that by using lower-cost generics and similar drugs, people with Medicare could save enough to stay out of the coverage gap entirely.

Estimates also show that more than 90% of people with Medicare either won't reach the coverage gap or will have at least some coverage available to them during the gap.

For more information about Medicare prescription drug coverage...

- Visit www.medicare.gov on the web and under "Search Tools," click on "Compare Medicare Prescription Drugs" to get personalized drug plan information.
- Call 1-800-MEDICARE (1-800-633-4227). TTY users should call 1-877-486-2048.
- Call a State Health Insurance Assistance Program (SHIP). They offer free personalized health insurance counseling to people with Medicare. See the "Medicare & You" handbook or call 1-800-MEDICARE for SHIP telephone numbers.