

THE NEW FINANCIAL LONGEVITY BUNDLE®



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Understanding the Medicare Tangle

Part VI: Medicare Part D -

Costs and Penalties of Prescription Drug Coverage

Our previous newsletters have talked about the parts of Medicare that provide you medical benefits and very limited prescription drug coverage. However, there is one more “part” of Medicare that is important to your healthcare needs. This is Medicare Part D – Prescription Drug Coverage. There are two ways to obtain Medicare Part D coverage.

Medicare Part D (Prescription Drug Coverage) – Covers prescription drugs not included under Part B. Coverage is available from private insurance companies, either as a stand-alone plan or as part of a Medicare Advantage Plan.

There are two ways to get Prescription Drug Coverage.

1. Medicare Prescription Drug Plan (Part D). These plans (sometimes called “PDPs”) are a stand-alone plan which adds drug coverage to Original Medicare, some Medicare Cost Plans, some Medicare Private Fee-for-Service (PFFS) Plans and Medicare Medical Savings Account (MSA) Plans.
2. Medicare Advantage Plan (Part C) (like an HMO or PPO) or other Medicare health plan that offers Medicare prescription drug coverage allow you to get all of your Medicare Part A (Hospital Insurance) and Medicare Part B (Medical Insurance Coverage) and Prescriptions Drug Coverage (Part D) in one plan. Medicare Advantage Plans with prescription drug coverage are sometimes called “MA-PD” Plans. You must have Part A and B to join a Medicare Advantage Plan.

Medicare Part D: Premium Cost

- You pay a monthly premium for Medicare Part D.
- Medicare Part D monthly premiums vary by plan and drugs covered.
- Currently the average monthly premium is \$34 (could be more based on income).

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- Medicare Part D coverage is optional, but you may have to pay a penalty to the federal government if you don't enroll in a Part D plan, once you are eligible. This penalty can be avoided if you currently have prescription drug coverage through an employer, union retiree plan, the Veterans Administration or TRICARE. The coverage must be as good as Medicare Part D coverage.

❖ BE AWARE:

- Monthly premiums vary by plan (higher-income consumers may pay more).
- Most **Medicare Advantage Plans** include Part D (Prescription Drug Coverage) as part of the overall plan premium costs and deductibles can be found in many of the plans creating additional unexpected costs.
- Medicare Part D coverage is optional, but you should know that you may have to pay the federal government a penalty if you don't enroll in a Part D plan as soon as you are eligible.

Medicare Part D: How It Works

Whether you have a stand-alone Medicare Prescription Drug Plan or receive Part D coverage as part of a Medicare Advantage plan, it works in the same way:

- Your plan has a list of covered drugs, called a formulary.
- Formulary guidelines are set by CMS (Center for Medicare and Medicaid Services).
- The covered drugs are divided into Tiers (Tiers 1-5).
- Tiers vary based on insurance companies and the drug itself.
- You pay the same copay or coinsurance for all the drugs in each specific Tier. (Example: You might pay a \$ 3 copay for a Tier 1 drug, but you might pay a 25% coinsurance for a Tier 4 drug.)
- It is imperative to review each individual medication, to determine the tier of each drug and specific costs associated.
- Variations amongst companies can be costly.

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Medicare Part D: Benefit Stages

Medicare Part D has different stages in benefits, and your coverage may change depending on which stage you're in.

Stage 1: Initial Coverage

- You pay co-pays or coinsurance for all covered drugs based on which tier the drug is in.
- You continue to pay these copays until your total drug costs for the year reach the **Initial Coverage Limit**.
- **Initial Coverage Limit for 2017 is \$3,700 (changes occur annually)**.
- Your total drug costs are paid by both you and your insurance company.
- Your insurance company will issue monthly statements reflecting what is **paid by both parties**.

❖ BEWARE:

- It is important to review your monthly statements, to make sure you are paying the proper amount. This also helps with choosing the appropriate plan year to year.

Stage 2: Coverage Gap (Donut Hole)

- Many plans do not cover prescription drugs in the Coverage Gap.
- However, you pay discounted prices on both brand name and generic drugs.
- During this time, you pay 40% of the plan's cost for brand name drugs and 51% of the plan's cost for generic drugs.

❖ BEWARE:

- Some plans do offer drug coverage during the coverage gap.
- Make sure you check your plan's coverage details so you are not taken by surprise with additional drug costs due to the coverage gap.

Stage 3: Catastrophic Coverage

- **Catastrophic coverage begins once your out of pocket expenses reach \$4,950 in 2017.**
- Any costs paid by your insurance company are not included.

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- Once you have reached the total of \$4,950 for your out of pocket expenses, you pay either a co-payment or coinsurance for your drug costs and your plan pays the rest.
- In 2017, your costs in this stage would be a \$3.30 co-pay for generic drugs and \$8.25 co-pay for brand name drugs or 5% coinsurance, **whichever is greater!**
- ❖ **BEWARE:**
 - Cost vary and can be significant unforeseen expenses especially when you need prescription drug coverage the most.

Late Enrollment Penalties for Medicare Part D

- The late enrollment penalty is an amount added to your Medicare Part D monthly premium.
- You may owe a late enrollment penalty if, for any continuous 63 days or more after your Initial Enrollment Period is over, you go without one of these:
 - A Medicare Prescription Drug Plan (Part D)
 - A Medicare Advantage Plan (Part C) (like an HMO or PPO)
 - Another Medicare health plan that offers Medicare prescription drug coverage
 - Creditable prescription drug coverage
- ❖ **BEWARE:**
 - If you get Extra Help, you don't pay the late enrollment penalty.**
- The cost of the late enrollment penalty depends on how long you've been without Part D or creditable prescription drug coverage.
- Medicare calculates the penalty by multiplying 1% of the "national base beneficiary premium" (\$35.63 in 2017) by the number of full, uncovered months you didn't have Part D or creditable coverage.
- ❖ **BEWARE:**
 - **The Medicare Part D late enrollment penalty is added to your monthly Part D premium.**

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❖ BEWARE:

- The national base beneficiary premium may increase each year, which means your penalty may also increase.

Take some time to review our Medicare Overview information and follow the complete series of our UWM Financial Longevity Newsletter which will include more important information you need to know about Social Security and Medicare:

Health Care Unscrambled

Part I: Social Security and Medicare Simplified

Understanding the Medicare Tangle

Part II: Medicare Overview Made Simple

Understanding the Medicare Tangle

Part III: Medicare Enrollment Periods Made Simple

Understanding the Medicare Tangle

Part IV: Medicare Part A & Part B Costs and Penalties

Understanding the Medicare Tangle

Part V: Medicare Part C –Costs, Medicare Advantage vs. Supplemental Plans

Understanding the Medicare Tangle

Part VI: Medicare Part D – Costs and Penalties of Prescription Drug Coverage

Understanding the Medicare Tangle

Part VII: How Health Care Costs Impact Your Retirement Cash Flow

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