



OVERVIEW OF MEDICARE PART D

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The Medicare Modernization Act (MMA) of 2003 created the Medicare Part D prescription drug program. The MMA's main purpose is to provide prescription drug coverage to Medicare beneficiaries through private insurance companies called plan sponsors. People with Medicare Part A, Part B, or both, are eligible to join a Part D drug plan of some kind.

Plan Sponsors

There are two ways to get Medicare drug coverage through these plan sponsors:

- Through stand-alone Prescription Drug Plans (PDPs). Generally, PDPs work with the Original Medicare program by adding drug coverage to the beneficiary's Part A and/or Part B health insurance.
- Through a Medicare Advantage (MA) plan, or health plan, that operates under Medicare Part C. For the most part, Medicare Advantage plans are open to those with both Part A and Part B. Examples of these plans include Medicare Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), and Private-Fee-for-Service (PFFS) plans.

Medicare Advantage plans with Part D (MA-PDs) deliver health benefits equivalent to those in the Original Medicare program, including hospital, medical, and drug coverage, yet they are delivered outside of the Original Medicare program. When a beneficiary enrolls in an MA-PD, he joins a private health plan whose operation differs from that of Original Medicare and, in effect, opts out of Original Medicare. Thus, it is essential for beneficiaries to understand how joining an MA-PD plan could change their costs and access to health care providers, aside from the plan's Part D drug benefits. While many MA plans offer a Part D drug benefit, the MMA does not require all Medicare Advantage plans to do so.

The Standard Benefit Design

The federal government does not sponsor its own standard benefit drug plan. Rather, the MMA establishes a standard prescription drug coverage benefit design. The standard coverage design has an annual deductible, a 25 percent coinsurance amount, and a coverage gap which are established by law. A number of plan sponsors offer a Part D drug plan that conforms exactly to the standard coverage model. The MMA also allows Part D plan sponsors to use the standard coverage design as a baseline for other Part D drug plans with many different coverage features. These include plans that are actuarially equivalent to the

standard coverage benefit but have tiered copayments instead of the 25 percent coinsurance charge. Some plan sponsors also offer Part D plans, called alternative prescription drug coverage, that go beyond the coverage of standard plans. The plan sponsors, within broad guidelines, set the premiums, cost-sharing amounts, and coverage limits for their Part D plans. The Centers for Medicare & Medicaid Services (CMS), the federal agency that oversees Medicare, approves these private drug plans for inclusion in the Part D program using the standard coverage model as a baseline for coverage.

Access to Drugs

The MMA requires all Part D drug plans to provide access to medically necessary medications including generic and brand name drugs. Under Medicare rules, Part D drug plan formularies must cover at least two drugs within each diagnostic or therapeutic class. Many plans actually cover more than two drugs in each class, though most plans do not have open formularies that cover all possible prescription medications.

The MMA specifically excludes some drugs from Part D coverage. Part D plans do not cover prescription drugs that are covered by Medicare Part A or Part B, such as chemotherapy drugs. Other drugs that are generally excluded from Part D coverage are located in the section on formularies on page 56.

Creditable Coverage and Late Enrollment Penalties

Enrolling in the Part D program is voluntary. But the MMA established defined time frames when beneficiaries can enroll in and/or disenroll from a Part D drug plan. A decision not to join a Part D plan during an available enrollment period may result in late enrollment penalties added to the monthly premium for those who do not have existing creditable coverage. Creditable coverage is drug coverage that is financially equal to or better than Medicare's standard drug benefit. This means that people without creditable coverage who are eligible to join a Part D drug plan but choose not to do so may pay higher monthly premiums when they eventually sign up. In contrast, people with creditable coverage can keep their current coverage without penalty if they join a Part D drug plan later.

Note: You may already have some experience with Medicare and the Part D drug benefit, or you may be brand new to this work. Regardless, the Part D program will affect beneficiaries differently, and each encounter with a client may teach you something new. For this reason, the counseling experience is essential for learning about the Part D program in practical terms. This manual explains many of the concepts behind Medicare Part D, but it is in the actual counseling sessions where the real learning – and mastery of this material – begins.

Low-Income Subsidy or Extra Help

For people with limited financial means, the MMA established the low-income subsidy (LIS) or “Extra Help” program to help pay the premiums and other out-of-pocket costs connected with the Part D plans. The LIS is available for Medicare beneficiaries receiving Medicaid benefits, for those enrolled in one of the Medicare Savings Programs (MSPs), and for those whose monthly income is at or below 150 percent of the Federal Poverty Level (FPL). All who meet the income criteria must also have no more than \$12,510 for a single person (\$25,010 for a married couple) in countable assets from all sources (2010). The Social Security Administration (SSA) processes applications for the LIS program. When beneficiaries are found eligible for the LIS program, Medicare directly pays their drug plans for some or all of their Part D costs, including premiums, deductibles, and coinsurance charges or copayments.

