



# Facts on Aging: Medicare Part D

The Pepper Institute on Aging and Public Policy  
Florida State University

***For the first time ever, everyone with Medicare, regardless of income, health status, or prescription drug usage, will have access to prescription drug coverage. However, to be covered you must enroll in one of the many plans offered by a host of private providers. This new coverage started on January 1, 2006.***

## *The Basics on the New Medicare Drug Coverage*

- **Who?** Everyone on Medicare can get drug coverage, regardless of income or health.
- **How?** To get coverage participants must choose one of the many private drug plans Medicare has approved.

*Source: AARP Special Report on Medicare Drug Coverage*

- **Need Help?** Almost 1 in 3 people will qualify for “Extra Help” if they have limited income, and thus will pay very little.
- **What Protection?** It protects against catastrophic drug expenses, as the program pays 95% of all drug expenses after a certain level each year (\$5,100 in drug costs).
- **Which drugs qualify?** The plan pays for brand-name as well as generic drugs.

*Source: www.medicare.gov*

- **Enrollment:** The current enrollment period continues until May 15, 2006. Coverage begins on January 1, or on the first day of the month after a beneficiary enrolls.
- **Changing plans:** After May 15, 2006, people can change plans during the annual open enrollment period, which will be from November 15 through December 31 each year.

*Source: www.medicare.gov*

## *What Does the Plan Cover?*

- **Formulary:** The list of drugs that a Medicare drug plan covers. It must include at least two drugs in the categories and classes of drugs most commonly prescribed to people with Medicare. Each plan covers different drugs – so choosing the right plan is important.
- **Coverage Gap:** In the standard plans, once costs reach a certain coverage limit, participants pay 100% of their prescription costs. This “gap” in

coverage is generally between \$2,250 and \$5,100 in total drug costs (or \$3,600 out-of-pocket). After that, Medicare pays 95% of the remaining costs for the rest of the calendar year. Some plans may offer additional coverage to help fill this gap (also referred to as the ‘donut hole’.)

- **Convenience:** Drug plans – which vary by region – must contract with local pharmacies. Some plans may offer a mail-order program that allow participants to have drugs sent directly to their homes.

*Source: www.medicare.gov*

## *How Much Does it Cost?*

- **Premium:** The monthly cost paid to join a Medicare drug plan. Premiums vary by plan, the national average currently is around \$32. In some areas some plans may have no premium at all.
- **Deductible:** Amount paid for prescriptions before the plan starts to share in the costs; deductibles also vary by plan. No plan may have a deductible of more than \$250 in 2006.
- **Copayment/Coinsurance:** Amount paid for prescriptions after the deductible has been paid. Depending on the plan, participants pay either the same copayment (a set amount) or coinsurance (a percentage of the cost) for any prescription.

*Source: www.medicare.gov*

- **Extra Help:** People with limited incomes receive extra assistance under the new Medicare drug coverage. Often this means they pay no premiums or deductibles, only a small fee per drug (\$1-2 for generics, \$3-5 for brand names), and nothing for catastrophic drug coverage.

*Source: AARP Special Report on Medicare Drug Coverage*

## *A Labyrinth of Choices*

- Florida alone has over 110 different drug coverage plans to choose from, offered by 41 different

health care providers. About a third of these plans are so-called Stand Alone Prescription Drug Plans which work in addition to the traditional fee-for-service Medicare; the others are Medicare Advantage or other health plans which offer drug coverage as part of a complete managed-care package.

Source: [www.medicare.gov](http://www.medicare.gov)

now should still consider joining a drug plan in 2006. For most people, joining now means paying a lower monthly premium in the future, since they avoid the penalty for late enrollment. Plus, they're insured against rising drug costs as their health declines.

Source: [www.medicare.gov](http://www.medicare.gov)

*The Rising Cost of Prescription Drugs* —

- People who already have a drug plan don't have to sign up immediately. However, unless the plan is at least as good as the new Medicare drug coverage (or "creditable", which most so-called "Medigap" plans are not) there will be a penalty for late enrollment. At least an extra 1% of the national average premium will be added to the premium for each month that one delays, and the penalty will be paid for as long as one has Medicare drug coverage.
- People who have comparable employer drug benefits will not incur the penalty if they later lose that coverage and switch to Medicare's coverage within 63 days.
- People who don't take a lot of prescription drugs

**A Word About Medicare**

Medicare is a federal health insurance program that provides health care coverage for individuals from age 65 on, as well as certain persons under age 65 with disabilities.

Medicare's cost-sharing requirements are sometimes substantial and its benefit package is lacking in key areas. As a result, the program paid just under half (48%) of total personal health care expenditures for all beneficiaries in 2003. Many Medicare beneficiaries obtain some type of supplemental insurance.

- The average annual price increase for brand name prescription drugs most widely used by older Americans was more than 2.5 times the rate of general inflation in 2004.

Source: *AARP Public Policy Institute*

average of 8.3% a year from 1994 to 2004 (from an average of \$28.67 to \$63.59), more than triple the average annual inflation rate of 2.5%.

Source: *Kaiser Family Foundation*

- About one-quarter (27%) of seniors age 65 and above, and one-third of poor (34%) and near-poor (33%) seniors, had no drug coverage in 2003.

Source: *AARP Public Policy Institute*



**Pepper Institute on Aging and Public Policy**

Florida State University  
 College of Social Sciences  
 Tallahassee, FL 32306-1121  
 (850) 644-2831 • [aging@fsu.edu](mailto:aging@fsu.edu)  
[www.pepperinstitute.org](http://www.pepperinstitute.org)

