

I. Overview of Medicare Part D

Private Plan Sponsors 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. Persons with Medicare Part A, Part B, or both, are eligible to join a Part D drug plan of some kind.

PDP and MA-PD There are two ways to get Medicare drug coverage through these plan sponsors. The first is through stand-alone Prescription Drug Plans (PDPs). PDPs work with the Original Medicare program by adding drug coverage to the beneficiary's Part A and/or Part B health insurance. The second is through a Medicare Advantage (MA) plan, or "health plan," that operates under Medicare Part C. Medicare Advantage plans are open to those with both Parts A and B. Examples of these plans include Medicare Health Maintenance Organizations (HMO), Preferred Provider Organizations (PPO), 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 Medicare Advantage 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 co-payments 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 the Standard coverage 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 include:

- Drugs prescribed for weight-loss or weight-gain
- Drugs prescribed for the symptomatic relief of coughs and colds
- Prescription vitamins, with the exception of prenatal vitamins and fluoride
- Over-the-counter drugs, with the exception of insulin
- Prescription drugs to promote hair growth
- Fertility drugs
- Cosmetic drugs
- Drugs that must be monitored by testing services that only the manufacturer provides, such as certain anti-psychotic medications
- Barbiturates (drugs used to control seizures or used for sedation or anesthesia such as Phenobarbital or Nembutal®)
- Benzodiazepines, often referred to as minor tranquilizers, used to treat anxiety or insomnia (such as Xanax®, Valium® and Ativan®)
- Erectile dysfunction (ED) drugs, when prescribed for the treatment of sexual or erectile dysfunction¹

Creditable Coverage and Late-enrollment Penalties Enrolling in the Part D program is voluntary. But the MMA established defined time frames when one 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 a person without creditable coverage, who was eligible to join a Part D drug plan but chose not to do so, may pay higher monthly premiums when he eventually signs up. In contrast, a person with creditable coverage can keep his current coverage without penalty if he joins a Part D drug plan later.

¹ For Contract Year (CY) 2006 Erectile Dysfunction (ED) drugs met the definition of a Part D drug and were available on Plan Sponsor formularies. On October 26, 2005, Section 1860D-2(e)(2)(A) of the Social Security Act was amended to exclude ED drugs when prescribed for the treatment of sexual or erectile dysfunction for CY 2007 and beyond. Please see the CMS Q&A on ED drugs for more information available at:

http://www.cms.hhs.gov/PrescriptionDrugCovContra/downloads/QAEDDrugs_07.06.06.pdf.

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 \$11,990 for a single person (\$23,970 for a married couple) in countable assets from all sources (2008). The Social Security Administration (SSA) processes applications for the LIS program. Beneficiaries can also apply at their local Medicaid office. 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 co-payments.

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.