Drug Deals

How to help your clients make sense of Medicare Part D.

By Janet Aschkenasy

February 1, 2006- Susan Ould, the CEO of a small New York City-based real estate firm with four employees, was at the end of her rope. Her assistant Jane's husband Larry had had a serious kidney condition for some time. He was covered by the company's health plan--and his prescription drugs alone cost somewhere between $7,000 and $8,000 a year. As a result, Ould's firm had to pay an additional $400 a month in premiums last year. Nevertheless, "We didn't want to kick him off the policy," says Ould. Larry had been unable to work for the past two years and received disability to help make ends meet. Even after he recently qualified for Medicare, which has a two-year waiting period for chronic conditions like Larry's, Ould was biting her nails. "He had better coverage through me," she says. "My company's Oxford policy included prescriptions; Medicare did not."

Larry's situation--and Ould's--changed radically for the better on Jan. 1, when, thanks to a little something called the Medicare Modernization Act, millions of seniors and other Medicare recipients became part of Medicare's brand new, voluntary prescription drug program. For the first time in its 40-year history, Medicare now offers coverage for prescription drugs. The coverage, known as Medicare Part D, is available to everyone who qualifies for Medicare, regardless of income level and resources, pre-existing conditions or current prescription expenses, according to the Centers for Medicare & Medicaid Services (CMS).

As you probably know by now, Medicare Part D, like the drugs it covers, has some uncomfortable side effects. For one, the wide variety of choices available vis-a-vis insurance suppliers, prices, drug categories, deductibles and coverage options have scores of seniors and their loved ones flummoxed. This is particularly true if one is not Internet-savvy (and many seniors are not). "A lot of them throw their hands in the air, their eyes glaze over, and they really don't get it," says CFP Bob Wander, head of Wander Financial Services in New York. "There are so many different options; some seniors have reportedly been walking out of town-hall meetings held by the Social Security Administration in tears."

Susan Ould sympathizes. When the new Medicare program first began open enrollment on Nov. 15, 2005 (open enrollment for 2006 will continue through May 15), Ould and her associates began doing research, but none of them were able to understand Part D.

Another nasty Part D side effect: The early days of the program have been marked by bureaucratic nightmares, with seniors unable to verify their coverage and pharmacists stuck in voice-mail limbo for hours. Medicare officials swear that the problems are normal startup pains, but by mid-January, the red tape was still tangled.

Your Costs in 2006 (Basic Plan, Only)...

If your annual drug costs are between...	You pay...	Up to a maximum of...	Your total costs are shown below, not including the annual premium...
$0-250	100%	$250	up to $250
$251-$2,250	25%	$500	up to $750
$2,251-$5,100	100%	$2,850	up to $3,600
Over $5,100	5%	No limit	$3,600—plus, for each additional drug you pay $2 for generic, $5 for brand name drugs, or 5% of the cost, whichever is greater

MAKING PART D WORK

Fortunately, some planners are willing to hold their clients' hands and walk them through the enrollment process, much of which can be executed online at the www.medicare.gov website once you know what to do.

Wander, who does employee benefit consulting for a number of small businesses like Ould's, came to the rescue with a solution that allowed Larry to purchase coverage cheaply on his own through a managed-care alternative, Medicare Advantage. Formerly called Medicare + Choice, this program is offered in most states through private vendors. Larry chose an HMO-like version from Oxford, an insurer in the New York area, which is attractive to those willing to visit only network physicians. It costs members significantly less out-of-pocket than does the straight Part D program. "In general, the Medicare Advantage plans offer richer benefits than traditional Medicare," says Wander. "But you have to live with their restrictions."

To choose an appropriate insurer, Bob asked Larry's wife Jane to list all the medications Larry took. Armed with information including Jane and Larry's zip code and preferred pharmacy, Wander ran Medicare's online calculator to find out which plans covered what combination of drugs, at what cost. Wander took an additional step, however, inquiring with an insurance brokerage that specialized in Medicare and Medigap-type coverage. "They represent different carriers," says Wander. The brokerage firm recommended insurer First United American to supply Larry's Part D insurance. But Oxford's Medicare Advantage--available in New York, New Jersey, Connecticut and part of Pennsylvania--turned out to be a better fit because it covered Larry for doctor visits and hospitalization with fewer deductibles and copays than traditional Medicare.

The managed-care plan seemed like a simpler way to approach the Part D conundrum. In practice, though, Jane and Larry encountered their own set of side effects. When they went to the pharmacy, some of Larry's drugs were not covered by the plan after all. As of early January, the couple was reconsidering their choice.

THE DONUT HOLE

Here's a third side effect, one that hurts Medicare recipients right in the wallet: Most Part D plans have a gap in coverage after you spend $2,250 on prescriptions each year. Politicians and the media call this gap, which closes again once drug expenditures reach $5,100, "the donut hole." Often, even seniors who have no trouble understanding their new benefits dislike Medicare Part D because their expenses are likely to reach the donut-hole level, explains planner David John Marotta of Marotta Asset Management in Charlottesville, Va. At that point, they're buying their medications out of pocket.

Basic plan costs are as follows: There is generally (though not always) a plan deductible of $250 a year to satisfy. "After that," says Marotta, "you pay 25% of your costs up to $2,250. From $2,251 to $5,100--the donut hole benefit gap--you pay all drug costs." After $5,101, you pay $2 for generic drugs, $5 for brand-name drugs, or 5% of the drug's total cost, whichever is greater.

"Essentially," says Marotta, "if you have high drug costs, you will pay $3,600 a year. After that, Medicare pays roughly 95% of your drug expenses."

REASONS TO SIGN UP NOW

Clearly, the intricate cost structure has led many seniors to question why they should sign up for Medicare Part D at all, Marotta says. There is, however, a penalty for not registering: Premiums will rise 1% for every month they delay--for a total of 60% over a five-year period. If a client is already covered through a retiree healthcare plan, this may not be a huge incentive to enroll; but it should be considered. Many retirees have found themselves unceremoniously dumped by their old employers.

Those with existing employer coverage deemed at least as good as the new Medicare drug coverage (the technical term is "creditable coverage")--and who choose to remain on their employer's plan for the time being--face no penalty for deciding to switch to Plan D later on. These folks will generally find that their employer plan is richer than what the government is offering.

But there is a public policy side to the sign-up question: "If seniors wait until they need excessive pharmaceuticals to join, only the most expensive seniors will participate in the program," says Marotta. That's a clear case of reverse selection. "Any insurance program relies on those with lower health costs to fund the rest. Although the program is voluntary, it is trying to be coercive as well," he adds.

WHAT PLANNERS NEED TO KNOW

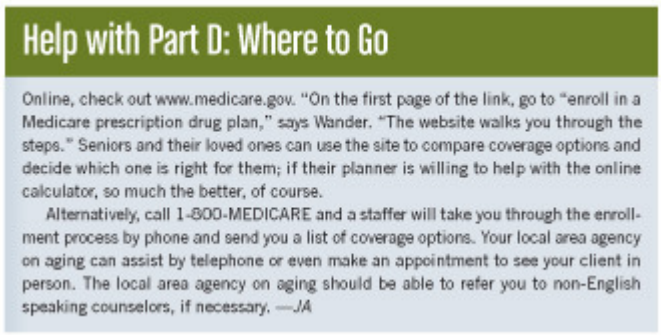
Clearly, planners can help their Medicare-eligible customers avoid seeing Part D planning as a nightmare they don't even want to think about. Before you begin, here are some key facts you'll want to know about the program:

- Eight insurance companies will offer coverage nationwide, while other insurers will offer coverage regionally, explains the Financial Planning Association, quoting CMS material. The eight companies offering nationwide coverage are Aetna Life Insurance, Connecticut General Life Insurance, Memberhealth, Pacificare Life and Health Insurance, Silverscript Insurance, Unicare, United Health Care Insurance and Wellcare Health Plans. Beneficiaries will have at least 11 plans to choose from (including those offered by local providers), and those in larger states, such as New York and Texas, will can choose from a menu of about 20 plans.
- Prices vary considerably. Marotta notes that costs will average about $37 a month, depending on the level of coverage elected and the types of drugs covered by the plan. An insured in the state of Virginia, for example, can choose from plans whose premiums range from $8.81 to $68.61 per month.
- Public workers and teachers are likely to have the most generous retiree coverage packages, Wander notes, and may never need to switch to Medicare Part D. Corporate health coverage for retirees, on the other hand, has dwindled. Even among corporations with 500 or more employees, only 29% were offering coverage to pre-Medicare-eligible retirees and 21% to Medicare-eligible retirees as of last summer, when Mercer Health & Benefits LLC conducted its latest national survey of employer-sponsored plans. To encourage employers to maintain their retirees' prescription benefits, Congress has offered them a 28% tax-free subsidy to help them cover the cost. According to a CMS spokesman, 5.9 million retirees enrolled in employer plans had enrolled in Part D as of late December, and an additional 600,000 were in the process of enrolling. Those seniors with creditable coverage should have been notified by mail.

- "Dual" insureds who have both Medicare and Medicaid coverage need take no action; they should be automatically enrolled in Part D.
- As of late December, about half of the eligible population, or 21 million seniors and people with disabilities had signed up for the program, according to the U.S. Department of Health and Human Services. This includes 6.2 million dual insureds, 4.4 million in Medicare Advantage plans, and about 5.9 million retirees enrolled as the result of the retiree subsidy for employers.

Marotta notes that explaining the ins and outs of Part D is not a money-making exercise for planners, but a service to one's clientele. "I wouldn't even know how to charge for something like this," says the fee-only planner. A lot of seniors don't know enough to even consider Part D enrollment, he says, and "if we didn't do it, we didn't know who else would."

Marotta recommends signing up early for the least expensive coverage you can get, even if your prescription needs today are minimal. "I think the program is going to end up covering more," he says, adding "I don't know of any government program that shrank over time." In other words, get in now, while the getting is good. \



Help with Part D: Where to Go

Online, check out www.medicare.gov. "On the first page of the link, go to "enroll in a Medicare prescription drug plan," says Wander. "The website walks you through the steps." Seniors and their loved ones can use the site to compare coverage options and decide which one is right for them; if their planner is willing to help with the online calculator, so much the better, of course.

Alternatively, call 1-800-MEDICARE and a staffer will take you through the enrollment process by phone and send you a list of coverage options. Your local area agency on aging can assist by telephone or even make an appointment to see your client in person. The local area agency on aging should be able to refer you to non-English speaking counselors, if necessary. —JA

SIDEBAR: Help with Part D: Where to Go

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