

In the Spotlight: Health Care Reform and Medicare Part D

The Medicare Part D program was created in 2003 as a federal prescription drug benefit intended to subsidize the cost of medications for eligible Medicare recipients. Since being implemented in 2006 by the Centers for Medicare and Medicaid Services (CMS), 'Part D' has been widely hailed as a success – with one big exception, the so-called “doughnut hole.” The Affordable Care Act (ACA) includes some changes to address that exception. Medicare beneficiaries who buy prescription drugs with a Part D plan will receive additional money this year and reductions in out-of-pocket cost in future years to help narrow “the doughnut hole,” a coverage gap requiring the beneficiary to pay 100% of their drug costs.

The Coverage Gap

Currently, most Medicare Part D plans have a coverage gap. From 2006 until 2010, the Part D standard plans coverage gap first occurs when beneficiary drug expenses (what beneficiary and the plan together spend) hit \$2,830 and continues until a beneficiary's total out of pocket drug expenses reach \$4,550. At that point, the beneficiary only has to pay 5% of the drug cost.

Rebates

In 2010, all individuals who fall into the coverage gap (“doughnut hole”) are eligible for a one-time \$250 rebate check. The first round of checks was mailed in June 2010, with rebates to continue throughout the year. As of August 2010, [over 750,000](#) eligible Medicare beneficiaries had received a rebate check. There are no forms to fill out; CMS automatically mails the rebate to eligible individuals. Medicare beneficiaries can find out if they are eligible for the rebate by checking their Explanation of Benefits, mailed monthly.

Closing the Coverage Gap

Beginning in 2011, the coverage gap will gradually narrow and will disappear completely in 2020. Medicare beneficiaries will be responsible for an across-the-board cost share of 25% for both generic and brand name prescription medications until they reach the catastrophic threshold, after which they will be responsible for 5% of the cost of their prescriptions. The coverage gap will be closed through a combination approach:

- In 2011, pharmaceutical companies will subsidize brand name drugs 50% and Medicare beneficiaries will be responsible for the remaining 50%.
- The coverage gap for generic drugs will be addressed solely through benefit design, starting in 2011, when Part D plans will reduce the beneficiary's cost share of generic prescriptions by 7% each year until the share is 25% by 2020.
- PPACA changes also get a beneficiary through the coverage gap faster, qualifying the beneficiary for catastrophic coverage sooner, thereby lowering their overall costs. Now, the amount that the manufacturer pays will be included in a member's true out-of-pocket expenses (referred to as TrOOP, which represents the amount of their own money the beneficiary has paid for medication). In 2013 Part D Plans will pay a gradually increasing portion of the 50% unsubsidized cost until the beneficiary payment responsibility becomes 25% in 2020 (pharmaceutical companies will pay 50%, Plans and patients will each pay 25%).

North Carolina and Medicare Part D

Estimates on the number of North Carolinians falling within the coverage gap vary, but the White House estimates that North Carolina will have 119,000 eligible recipients of the Part D rebate.

Other Part D Relevant Reforms:

- **Premiums:** For Part D coverage, drug plan premiums will begin to be scaled based upon income. Individuals with an income above \$85,000 per year (or couples with a combined income above \$170,000) will see an increased premium starting in 2010. The calculation for determining the extra amount to be paid to CMS will

mirror the formula for determining the Part B extra premium amount “high income” Medicare beneficiaries pay. The extra Part D premium owed will be, determined and administered by the Social Security Administration and forwarded to CMS.

- **New Enrollment Periods:** Starting in 2012, open enrollment periods for Medicare Advantage and Part D will move to October 15 through December 7. There will no longer be a Medicare Advantage open enrollment period from January 1 through March 31, but there will be a new “special election period” from January 1 through February 15 which allows beneficiaries to “disenroll” from Medicare Advantage and return to Original Medicare.
- **Medicare Retiree Drug Subsidy (RDS):** Beginning January 1, 2013, employers who offer prescription drug coverage for retirees will no longer be eligible for a tax deduction for the cost of the coverage.
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What to expect long-term

The coverage gap is scheduled to be eliminated by 2020, reducing the across-the-board cost share for all patients to 25% for both generic and brand name prescriptions. Despite the substantial subsidies on brand name drugs that pharmaceutical companies will provide, PPACA included some revenue provisions to help pay for the remaining cost of this benefit expansion. Most of the revenue will be raised as a result of the repeal of the tax deduction for retiree drug subsidies for employers offering prescription drug coverage. The financial effect of this tax change upon employers could have an effect on their continued offering of retiree drug coverage.

The drug benefit will change for brand name drugs and reliance upon drug company subsidies to help pay for them may have implications for future premium trends tied to drug claims. Experts such as Milliman, Inc, one of the world's largest independent actuarial and consulting firms, have expressed concern that making the cost share for brand names the same as that for generic drugs will discourage the use of generics, which has potential to increase overall health care costs. The steep subsidization of brand name prescriptions may magnify this effect, causing Medicare beneficiaries to hit the catastrophic limit more quickly

BCBSNC Views

Blue Cross and Blue Shield of North Carolina supports the federal role in making prescription drugs more affordable for Seniors. The gap in coverage has been a significant source of dissatisfaction for many Medicare beneficiaries, and BCBSNC appreciates all efforts to provide help to those who may need it most. As with any additional coverage benefits, there may be some costs associated, which could be reflected either directly to health care consumers or via overall tax burdens.

For More Information

HealthCare.gov: <http://www.healthcare.gov/law/provisions/donuthole/donuthole.html>

Kaiser Family Foundation Part D Brief: <http://www.kff.org/healthreform/upload/8059.pdf>

CMS Prescription Drug Coverage: <http://www.cms.gov/PrescriptionDrugCovGenIn/>

FAQ about the Coverage Gap: <http://answers.hhs.gov/questions/6136>

Milliman report: <http://publications.milliman.com/publications/healthreform/pdfs/healthcare-reform-medicare-partd.pdf>

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