



medicare  
changes  
*that could  
affect you*



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This booklet is part of a series of AARP publications that provide life answers for people age 50 and over.



## how changes in medicare could affect you

**The Medicare Prescription Drug, Improvement and Modernization Act of 2003**, which was signed into law in **December 2003**, makes major changes to Medicare, the nation's health insurance program for people age 65 and over and some persons with disabilities. These changes include a new voluntary prescription drug benefit, changes to the program that deal with private health plans in

Medicare (known as Medicare+Choice), new coverage, and changes in costs. Many people have questions about how these changes will affect them, how and when they will occur, and what steps people must take to get these new benefits. This booklet outlines the highlights of the Medicare law, and what these changes could mean to you.



Starting in June 2004, discount cards with a Medicare-approved seal will save you about 10 to 15% on your total prescription drug costs.

## prescription drug assistance

The most important part of the law is a new benefit to help people in Medicare with their prescription drug costs. This assistance will go into effect in two stages. The first stage begins in **May 2004** when people in Medicare can sign up for a discount card to help them with some drug costs. This is a temporary program that phases out when the second stage of assistance, a Medicare drug benefit, goes into effect on **January 1, 2006**. After **December 2005**, the discount cards will no longer be used.

### Discount Drug Card

Starting in **June 2004**, discount cards with a Medicare-approved seal will save you about 10 to 15% on your total prescription drug costs. Medicare will contract with private companies to offer these cards. The cost for a card will be no more than \$30.

This card is optional. If you decide to get a Medicare-approved discount card from a private company, you may pay less for your prescription drugs than you do now. Discounts will vary by card, and each plan will be slightly different. For example, some cards can only be used at certain pharmacies. You need to decide if a Medicare-approved discount card will help you. Shop around to see if there is a card that can help meet your needs.

Important facts for you to consider:

- You can only get one Medicare discount drug card at a time.
- If you already have a different discount card, you **can** keep that card. You can also get a Medicare discount card. Use whichever one gives you the best deal.
- If you are in a Medicare+Choice plan, your plan may decide to offer a Medicare discount drug card. If it does, you can **only** choose that card. If your Medicare+Choice plan does not offer a discount drug card, you can choose any available Medicare discount drug card.
- If you are in a state Medicaid program with drug coverage, you will **not** be able to get the discount card.
- If you have drug coverage through an employer or former employer, you may not need the discount card.
- If you have a Medigap plan with drug coverage, you may get lower prices using the card. The card should not affect your drug coverage.
- If you have a low income, you **can** get additional help. See “**Low Income**” section, page 10.

### Medicare Prescription Drug Benefit

You may see this benefit called **Medicare Part D**. In **January 2006**, Medicare’s new drug benefit will go into effect. People with Medicare will be able to join a drug plan. All the plans will be run by private companies. The first enrollment period is from **November 15, 2005** to **May 15, 2006**. The drug benefit is voluntary. You do not have to sign up. There may be a penalty if you sign up at a later time.

### How It Works

Here is how the standard drug benefit will work in 2006 for each person. After 2006, these amounts will go up each year.

- You will have to pay a premium each month. The premium will likely be about \$35 a month. Some plans will charge more, others will charge less.
- The plans will vary. Some plans may offer coverage that looks like the standard benefit. Others may look different, but are worth the same. Still others will include additional drug coverage. Premiums will vary based on what each plan offers and where it is offered.
- You will have a \$250 deductible each year.



Catastrophic Benefit for 2006 starts when your out-of-pocket drug costs (not including premiums) equal \$3,600.

## Coverage Gap/Doughnut Hole

In 2006, you pay all drug costs above \$2,250 until your out-of-pocket drug costs (not including the premium) equal \$3,600. If you do not have any other drug coverage, then \$3,600 in out-of-pocket costs is the same as \$5,100 in total drug costs.

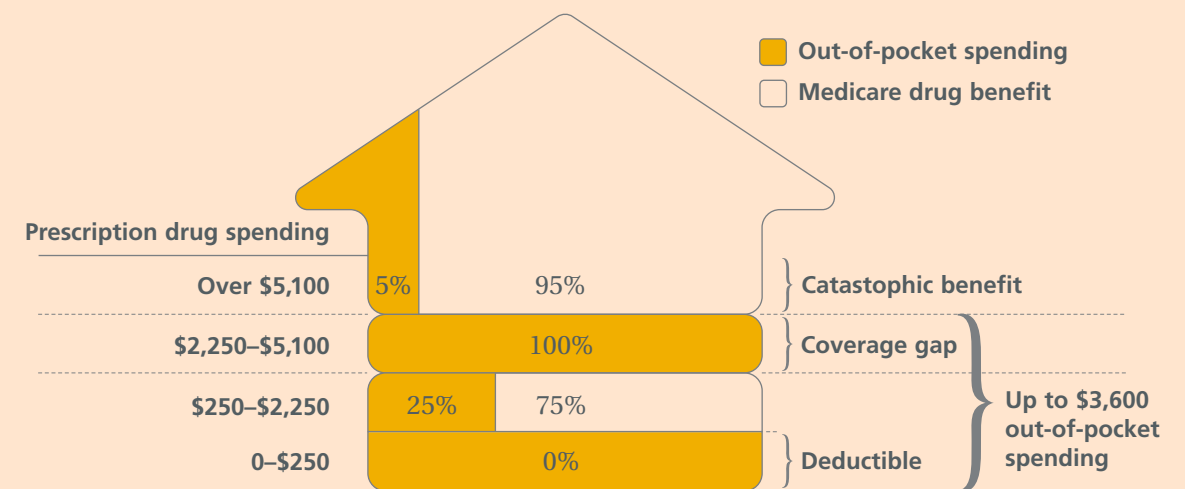
(\$3,600 you pay + \$1,500 Medicare pays + \$0 other drug coverage = \$5,100 total drug costs)  
 (\$2,250 first spending level + \$2,850 coverage gap = \$5,100 total drug costs)

- After the deductible, Medicare will cover 75% of drug costs, up to \$2,250.
- You will pay 25% of drug costs up to \$2,250.
- After total drug costs reach \$2,250, you will pay an additional \$2,850 in out-of-pocket drug costs before Medicare will continue coverage. This is called the **coverage gap**, also known as the **doughnut hole**.
- Once your out-of-pocket drug costs, not including premiums, reach \$3,600 (\$250 deductible + \$500 co-insurance + \$2,850 coverage gap) Medicare will start paying again.
  - Now, Medicare will cover up to 95% of drug costs (also called **catastrophic benefit**).
  - Now, you will pay either \$2 for generic drugs and \$5 for brand-name drugs or 5% of the prescription drug cost, whichever is greater.
- **Drug Choice.** Drug plans may have lists of drugs they cover. These lists are called formularies or preferred drug lists. The drugs will be in groups. The groups are called therapeutic classes. There will be at least one drug for each therapeutic class. There will also be an appeals process to get a drug not in the formulary.
- **Late Enrollment Penalty.** As with Medicare Part B enrollment, there will be a penalty for not enrolling in the Medicare drug benefit in the first six months that you are eligible. The penalty will be about 1% of the premium for each month you delay. This penalty does not apply if you lose drug coverage that you had from another source, which was at least as good as the Medicare drug benefit.

## Medicare Drug Benefit 2006 At-a-Glance

Prescription Drug Spending (no drug coverage other than Medicare)	Medicare Pays	Person Pays (no drug coverage other than Medicare)
0-\$250	0	Up to \$250 Deductible
\$250-\$2,250	Up to \$1,500 (75% of drug costs)	Up to \$500 (25% of drug costs)
\$2,250-\$5,100 Coverage Gap/Hole	0 (0% of drug costs)	Up to \$2,850 (100% of drug costs)
<b>Subtotal:</b>	<b>Up to \$1,500+</b>	<b>Up to \$3,600 out-of-pocket = \$5,100 total</b>
Over \$5,100 (Catastrophic Benefit)	95%	5% or \$2 copay/generic \$5 copay/brand name

Note: Your premium (about \$35 per month/\$420 per year in 2006) is not included.



Note: Premiums not included.

## case study

Marie and Evan are a middle income married couple. Evan has heart disease and Marie takes medicine for arthritis. Their drugs cost \$6,810 a year—\$1,960 for her, \$4,850 for him. In 2006, under the Medicare drug benefit, Marie would save 44%, but Evan, with higher costs, would save only 22%. That’s because he’d fall partly into the coverage gap. Remember, the coverage gap is all drug costs above \$2,250 until your out-of-pocket drug costs equal \$3,600. Together, the couple would pay \$4,868 out-of-pocket and save \$1,942.



Marie	\$ / Year in 2006
Total Drug Costs:	\$1,960.00
Total out-of-pocket spending: (with premium, which does not count toward \$3,600 out-of-pocket)	\$1,097.50
Savings:	\$862.50
<b>Out-of-Pocket Spending Counted Toward Medicare Drug Benefit:</b>	
Annual premium (estimated \$35/mo)	\$420.00
Annual deductible	\$250.00
25% copay on next \$2,000 in total drug spending after \$250 deductible	\$427.50
Full cost of drugs above \$2,250 in total drug spending and below \$3,600 in out-of-pocket drug spending (coverage gap)	\$0.00
5% copay above \$3,600 in out-of-pocket drug spending	\$0.00

Evan	\$ / Year in 2006
Total Drug Costs:	\$4,850.00
Total out-of-pocket spending: (with premium, which does not count toward \$3,600 out-of-pocket)	\$3,770.00
Savings:	\$1,080.00
<b>Out-of-Pocket Spending Counted Toward Medicare Drug Benefit:</b>	
Annual premium (estimated \$35/mo)	\$420.00
Annual deductible	\$250.00
25% copay on next \$2,000 in total drug spending after \$250 deductible	\$500.00
Full cost of drugs above \$2,250 in total drug spending and below \$3,600 in out-of-pocket drug spending (coverage gap)	\$2,600.00
5% copay above \$3,600 in out-of-pocket drug spending	\$0.00

*Note: Total out-of-pocket spending = out-of-pocket spending on drugs + annual premium*





### How the Medicare Drug Benefit Works with Other Coverage

- **Medigap Drug Coverage.** If you are in a Medigap plan that does not have drug benefits, your coverage is not affected. If you have a Medigap plan with a drug benefit, you will have to choose between keeping your current Medigap drug benefit and enrolling in the Medicare drug benefit.
  1. If you like your current Medigap plan with drug benefits, you can choose to keep it and not enroll in the Medicare drug benefit. But if you later change your mind and want to get the Medicare drug benefit, you will likely have to pay a late enrollment penalty. Also, Medigap plan premiums may go up in the future.
  2. You may decide you want the Medicare drug benefit. You can either enroll in another Medigap plan without drug benefits or keep your current Medigap plan, but drop its drug benefit and pay a lower Medigap premium. Or you can sign up for a Medicare Advantage plan with drug coverage (see page 12).

*Note:* Once Medicare's drug benefit starts in 2006, new Medigap policies with drug benefits can no longer be sold. People who do not already have a Medigap policy with drug benefits will not be able to buy one.

- **State Pharmacy Assistance Programs.** Some states have their own programs to help people with drug costs. Each state will decide how its program will work with the Medicare drug benefit. This could affect things like the cost of premiums, copays, deductibles and coverage gaps.

State pharmacy assistance programs can pay for drugs during the coverage gap. Unlike retiree benefits, these payments count towards the \$2,850 out-of-pocket spending.
- **Retiree Health.** Over the past several years, employers have begun to cut back or eliminate prescription drug coverage for their retired employees. Many people worry that the new Medicare law will cause more employers to drop retiree coverage. Employers who provide prescription drug benefits that are at least as good as the Medicare drug benefit will get a federal subsidy. This subsidy will cover some of the companies' drug costs as long as their retirees don't enroll in the Medicare drug benefit. It is your choice whether to enroll,

even if you are now covered for drugs by a retiree health plan. Decisions your former employer makes about coverage in 2006 will likely affect your choice.

You can still enroll in Medicare's drug benefit and your former employer can "wrap around" the benefit with your retiree health plan. However, in that case, the employer will not get the federal subsidy.

Important facts for you to consider:

- The Medicare drug benefit does not start until 2006. By then, you will have more information from Medicare and your former employer that will help you decide whether or not to enroll.
- Employers will make choices about whether to change their retiree drug coverage. For example, they may decide to wrap their benefit around the Medicare program to fill in gaps in coverage. Or, they may decide to only pay the Medicare drug premium for retirees. However, in both cases your employer will not be eligible for the federal subsidy.
- Retiree benefits can help pay for prescription drug costs during the Medicare coverage gap. But the amounts paid will not count toward the \$3,600 in your total out-of-pocket spending.



If your income is less than about \$12,000 a year for one person, you may get up to \$600 to help pay for prescription drugs in 2004 and again in 2005.

- The Medicare drug benefit is voluntary. However, if your employer chooses to provide drug benefits that wrap around Medicare's benefit, you would need to be enrolled. Your employer will not be eligible for the federal subsidy.
- If your employer cancels your retiree health benefits after your initial chance to enroll in the Medicare drug benefit, you will be able to enroll later—as long as your employer's plan is at least as good as the Medicare Part D benefit. A late penalty may apply under certain conditions.

### Low Income Features

For people with low incomes, Medicare drug assistance has special features.

#### Discount Card Program

If your income is less than about \$12,000 a year for one person, or \$16,000 for a married couple, you may get up to \$600 to help pay for prescription drugs in 2004 and again in 2005. Also, you will not have to pay a fee for your discount card. While you have money on your card, you will have to pay a low copay (5% to 10%) each time you use it. If you use up the \$600, the card can still be used for discounts.

If your drugs are covered by Medicaid, you cannot get the discount card. If you have drug coverage from an employer or the federal government, you cannot get the special low income features of the discount card.

### Medicare Prescription Drug Benefit

Many people with low incomes will get extra help with their Medicare drug benefit. People with the lowest incomes will pay no premiums or deductibles, small or no copays, and will have no coverage gap. Those with

slightly higher incomes will have a reduced deductible and some will have a sliding scale premium and small coinsurance.

This chart shows how people with low incomes will be helped in 2006 when the benefit starts:

### Medicare Prescription Drug Benefit

People with Medicare and full Medicaid coverage (Dual Eligible). Income below \$9,630 single/ \$13,000 married couple:	Income below \$13,000 single/ \$17,550 married couple. Assets* below \$6,000 single/\$9,000 married couple:	Income below \$13,000 single/ \$17,550 married couple. Assets* below \$10,000 single/\$20,000 married couple:	Income between \$13,000–\$14,450 single/\$17,550– \$19,500 married couple. Assets* below \$10,000 single/\$20,000 married couple:
<ul style="list-style-type: none"> <li>■ No premium</li> <li>■ No deductible</li> <li>■ No coverage gap</li> <li>■ \$1 copay for generic</li> <li>■ \$3 copay for brand-name</li> <li>■ No copay if in nursing home</li> <li>■ No copay over the catastrophic limit (\$3,600 out-of-pocket)</li> </ul>	<ul style="list-style-type: none"> <li>■ No premium</li> <li>■ No deductible</li> <li>■ No coverage gap</li> <li>■ \$2 copay for generic</li> <li>■ \$5 copay for brand-name</li> <li>■ No copay over the catastrophic limit (\$3,600 out-of-pocket)</li> </ul>	<ul style="list-style-type: none"> <li>■ No premium</li> <li>■ \$50 deductible</li> <li>■ No coverage gap</li> <li>■ 15% coinsurance</li> <li>■ \$2 generic or \$5 brand-name copay over the catastrophic limit (\$3,600 out-of-pocket)</li> </ul>	<ul style="list-style-type: none"> <li>■ Sliding-scale premium</li> <li>■ \$50 deductible</li> <li>■ No coverage gap</li> <li>■ 15% coinsurance</li> <li>■ \$2 generic or \$5 brand-name copay over the catastrophic limit (\$3,600 out-of-pocket)</li> </ul>

\* Assets that count include savings and investments. Assets that do not count include the home you live in, your car, a burial plot and/or a life insurance policy up to \$1,500 each. You can also keep \$1,500 for burial funds.

Note: The income amounts in this chart are estimates for 2006. Real amounts are not yet set.



There are some differences among Medicare Advantage plans, and the plans may vary widely.

## medicare advantage

Medicare Part C, the Medicare+Choice program, is being renamed Medicare Advantage. Medicare Advantage is a way to get Medicare coverage through a private health plan. These plans may be less expensive than original Medicare, and they may offer some benefits that are not covered by Medicare. Medicare Advantage plans are very similar to Medicare+Choice plans.

They may be a:

- Health Maintenance Organization (HMO)
- Point-of-Service (POS) plan
- Private Fee-For-Service (PFFS) plan
- Local Preferred Provider Organization (PPO)

Although each type of Medicare Advantage plan differs, they have certain features in common:

- The plan is run by a private company.
- The amount of money that the company gets from the government for your care is set, no matter how many or how few services you use.
- The private company decides the rules for covering your benefits and payments. Each year, it can change benefits, premiums and other costs to you.
- Each year, the private company decides whether or not to offer a Medicare Advantage plan.
- Each year, you can decide whether to stay in your plan, switch to another, or return to traditional Medicare.



- Starting **January 1, 2006**, all companies offering Medicare Advantage plans except Private Fee-For-Service plans must offer at least one plan with drug coverage. If you select a Private Fee-For-Service plan or another Medicare Advantage plan without drug coverage, you may select a Medicare drug benefit plan in your area.

There are some differences among Medicare Advantage plans, and the plans may vary widely. In some plans, you can pick your doctors only from the plan's network. In others, you can either choose doctors from in-network, or you can go outside the network. Some of the plans pay only for in-network care, while others will pay for care both in- and out-of-network. Generally, going out-of-network costs more. Remember, no one has to enroll in a Medicare Advantage plan. You can stay in the traditional Medicare program.





Income-related premiums will be phased in over five years, from 2007 to 2011.



## other changes in medicare

In addition to the changes that were outlined in the first part of this booklet, there are other important changes to Medicare that may affect you.

### Part B Deductible

Starting in **January 2005**, the yearly deductible for Medicare Part B—the part of Medicare that helps you pay for doctor bills—will increase from \$100 to \$110. **After 2005**, there will be yearly increases in the deductible based on increases in Medicare Part B costs.

### Part B Premiums

Starting in **2007**, people with Medicare who have higher incomes will pay higher premiums for Medicare Part B coverage. Currently, the premium for everyone is about 25% of the actual cost of Part B coverage. Income-related premiums will be phased in over five years, from 2007 to 2011. The new system will look like this:

## Changes in Medicare Part B Premiums

Annual Income in 2007*	Part B Premium in 2004	Part B Premium in 2007	Part B Premium in 2011
Below \$80,000 (individual) Below \$160,000 (married couple)	25% of actual cost	25% of actual cost	25% of actual cost
\$80,000–\$100,000 (individual) \$160,000–\$200,000 (married couple)	25% of actual cost	27% of actual cost	35% of actual cost
\$100,000–\$150,000 (individual) \$200,000–\$300,000 (married couple)	25% of actual cost	30% of actual cost	50% of actual cost
\$150,000–\$200,000 (individual) \$300,000–\$400,000 (married couple)	25% of actual cost	33% of actual cost	65% of actual cost
Above \$200,000 (individual) Above \$400,000 (married couple)	25% of actual cost	36% of actual cost	80% of actual cost

\*Income amounts will go up each year with inflation.



### **Additional Preventive Services**

Starting in **January 2005**, Medicare will expand coverage for preventive services. These will include an initial physical exam after enrolling in Medicare and screening tests for heart disease and diabetes.

### **Chronic Care Improvement Program**

The Chronic Care Improvement Program will be evaluated over the next several years. This program will be created for people with Medicare who have certain chronic conditions. It will include education for patients and their caregivers, coordination of health care services and new technologies to monitor health.

## **need more information?**

Medicare will give you more information as the benefits start. Each November, new information will be available. Fifteen days before the annual sign-up period, people with Medicare will get a list of plans in their area and a comparison of the coverage options of each plan. Use this information to decide which plan best meets your needs.

Medicare has a web site ([www.medicare.gov](http://www.medicare.gov)) and a toll-free telephone number (800-MEDICARE or 800-633-4227 or TTY 877-486-2408). For those who prefer to get help in person, there are counseling programs that can provide direct assistance.

AARP has a web site ([www.aarp.org](http://www.aarp.org)) and a phone number (888-OUR-AARP or 888-687-2277) to give you information to help you understand your Medicare and prescription drug choices. Also, AARP Bulletin on-line has a Medicare Drug Benefit Calculator.



Look to AARP for more information in the future as additional details become available.



## what happens when? timeline for medicare changes

- |               |   |
|---------------|---|
| December 2003 | <ul style="list-style-type: none"><li>• Act signed into law</li></ul>   |
| May 2004      | <ul style="list-style-type: none"><li>• Sign up for discount card</li></ul>   |
| June 2004     | <ul style="list-style-type: none"><li>• Discount card program starts</li><li>• \$600 credit on discount card for low income</li></ul>   |
| January 2005  | <ul style="list-style-type: none"><li>• Another \$600 credit on discount card for low income</li><li>• Medicare Part B annual deductible goes up from \$100 to \$110 (It goes up each year after 2005)</li><li>• Additional Preventive Services covered by Medicare</li></ul> |

- |                   |  |
|-------------------|--|
| November 15, 2005 | <ul style="list-style-type: none"><li>• Initial Medicare Drug Benefit (Part D) enrollment starts</li></ul>   |
| January 2006      | <ul style="list-style-type: none"><li>• Discount card program phases out</li><li>• Medicare Drug Benefit starts</li><li>• Medicare Advantage changes begin</li></ul> |
| May 15, 2006      | <ul style="list-style-type: none"><li>• Initial Medicare Drug Benefit enrollment ends</li></ul>  |
| 2007              | <ul style="list-style-type: none"><li>• Income-related Part B premiums start</li></ul>   |

## learn more...

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