The Medicare Maze

Add value by helping your clients navigate the new Medicare prescription drug rules.

Here are some startling numbers: In 2003, seniors spent 22% of their income on health care. The cost of prescription drugs has increased more than 3 times as much as the average annual rate of inflation — 8.3% versus 2.5% — since 1994.

Such rapidly escalating costs, combined with an estimated 91% of senior citizens who rely on prescription drugs on a regular basis, leave many facing difficult choices. With already tightly-stretched budgets, some are left with little choice but to skimp on health-related expenses and needed medications.

But there’s a new resource on the horizon that should help ease this squeeze just a bit.

Medicare as we’ve known it has had a major facelift. Yes, Part A and Part B are still around, but they’ve been joined by a new component – Part D – or have been combined into updated packages.

Finding one’s way around the new Medicare landscape takes time, additional knowledge and patience. Helping your clients navigate through the sometimes bewildering smorgasbord can result in significant savings and enhanced peace of mind.

Medicare Parts A And B

Recall that Part A helps cover inpatient care in hospitals, skilled nursing facilities, home health care and hospice care if certain conditions are met. Basic coverage does not include outpatient prescriptions, dental services, hearing aids, most eyeglasses or long-term nursing care.

Part B helps cover the cost of doctors’ services (not routine physical exams), outpatient medical and surgical services and supplies, diagnostic tests, ambulatory surgery center facility fees for approved procedures, ambulance charges, outpatient therapy and other professional services, as well as durable medical equipment such as wheelchairs, hospital beds, oxygen and walkers.

Both Part A and B require separate annual deductibles. In general, individuals who have earned at least 40 quarters’ credit (typically equal to 10 years of work) are eligible for Medicare Part A at no cost. Those who have accumulated less than 40 quarters’ credit can access Part A by paying the applicable premium. Part B requires a monthly premium, regardless of work credits.

Medigap Coverage

Having Medicare Part A and Part B does not, however, ensure full coverage for health-related issues. As with many types of insurance, after meeting the deductible, the covered individual also must pay a portion of the costs via co-payments.

That’s why Medigap policies have been helpful. Typically written by a third-party provider, Medigap policies fill some of the gaps in coverage provided by Medicare Part A and B. Medigap policies require a separate premium and serve as a supplementary type of insurance. They do not typically have first-dollar coverage, instead relying on benefit coordination with the coverage provided by Medicare under Part A or B.

Medicare Part D

The new Medicare Part D, which became effective January 1, 2006, adds prescription drug coverage as a stand-alone program designed to supplement Parts A and B. Its nationwide availability gives seniors much broader access than the earlier
hybrid plans, which offered a package of benefits. Like its cousins, Part D generally requires a separate annual deductible and monthly premium. Individuals must elect to participate in Part D; there is no automatic enrollment. And unlike Part A and B, which are government-sponsored programs, the actual providers of the drug plans available under Part D are private drug and health care companies.

Under the standard Medicare Part D plan seniors would pay:
- The first $250 of drug costs for covered drugs each year (the $250 applies to the deductible)
- Co-pays equal to 25% of the cost of covered drugs between $251 and $2250
- 100% of the cost of covered drugs between $2251 and $5100 (this is known as coverage gap or “doughnut hole”)
- 5% of the cost of covered drugs above $5100 or co-pays of $2 for covered generic/preferred drugs and $5 for covered brand-name drugs, whichever is greater (this provision provides catastrophic coverage)

Under the standard plan, individuals would have to reach $3600 in total out-of-pocket costs before they reach the catastrophic coverage level. Monthly premium estimates under this base plan average $32 nationwide.

The Congressional Budget Office projects that, on average, participants in Medicare’s new Part D will spend $792 out of pocket annually on prescription drugs, excluding premiums. That’s 37% less than the $1257 they would have spent before the new plan was available.

Participating providers may offer variations from the standard benefit, and many do. In fact the number of drug programs offered (including the scope and premiums) varies significantly by state. Alaska, with 27 plan options, has the fewest. The most options offered tend to be found in large urban areas, such as in Miami (where 99 options are available) and Los Angeles (where there are 83 options available).

Some variations from the standard plan waive the Part D deductible entirely. Some have very minimal premiums. Some eliminate the doughnut hole. Some offer a more limited selection of covered drugs. Others combine the prescription drug coverage typically found under Part D with a managed benefits component, creating a package known as Advantage plans. Advantage plans may include some preventive and vision care and require lower out-of-pocket costs, but many restrict access to a network of doctors, hospitals and other providers. Plans that offer extra coverage generally have higher monthly premiums.

**Sorting Things Out**

Prevailing logic says that more choices in the marketplace will lead to greater competition; that, in turn, will keep premiums affordable. But an abundance of choices makes it tough to determine the most attractive plan.

Helping seniors evaluate their options is an area where you can provide a distinct advantage. Some seniors may, however, rely on their physician or pharmacist to tell them which plan is better. While some doctors and pharmacists may be in a good position to offer advice, they will not have the same objectivity and insights that you do. And there is always the possibility that some may base their advice on the programs that will generate the greatest volume of business or revenue-sharing potential for themselves.

Let your clients know that you are available to help them make essential decisions. Mention it in your newsletter, send out an email or a post card, put a P.S. at the bottom of routine correspondence. If you are seen as a holistic and caring advisor, you will have a competitive advantage in the marketplace.

Several good resources can assist you in your evaluations. Medicare’s site (www.medicare.gov) contains basic information for the plans available in a specific geographic area, as well as a formulary review feature that identifies which drugs are covered under each plan. There’s a handy plan comparison tool as well. Seniors can enroll online. Personalized assistance is also available by calling 1-800-633-4227. Another excellent resource is AARP’s “The Basics: Medicare Drug Coverage.”

Participating in Medicare Part D may not be the best choice for all individuals. People who have prescription drug coverage through current employment or retiree benefits that meet Medicare’s basic standards (known as “creditable coverage”) are probably better off without Part D. And some low-income seniors may qualify for full coverage that does not require an annual deductible or premium payments. Each case will vary, so the circumstances must be carefully evaluated individually. There’s no single “right” decision for everyone.

Talk with your clients about the new Medicare prescription drug benefit. Whether the decision is for themselves or their loved ones, you can provide the advice they need to enhance their coverage and lower the costs. Creating peace of mind and a secure financial situation are two of the greatest benefits you can provide.

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