

the temporary drug discount card and more will be at stake," said Judith Stein, director of the Center for Medicare Advocacy, a nonprofit that counsels beneficiaries.

The final regulations for the permanent Medicare prescription drug benefit were released on Jan. 21. Since then, analysts and health plans have been combing through the 2,000 pages to sort out the regulations.

At the heart of the forthcoming drug program are two choices: Beneficiaries can stay in traditional fee-for-service Medicare and enroll separately in private prescription drug plans, or they can enroll in integrated Medicare Advantage plans for all benefits, including drugs.

With either choice, a private insurer will be providing the drug discount benefit. Under the rules, at least two providers in every region of the country must offer the drug benefit.

But how much will seniors save on their drugs?

A lot depends on how high their drug costs are each year.

In 2006, beneficiaries will pay the first \$250 in drug costs, and Medicare will pay 75 percent of the next \$2,000. Medicare will not cover any drug costs from \$2,250 to \$5,100, or a total out of pocket cost of \$3,600. This gap in coverage has been dubbed the "doughnut hole." (see chart).

After participants spend that \$3,600 out of pocket, they climb out of the doughnut hole and Medicare covers 95 percent of drug expenses over \$5,100 each year.

Supplemental prescription drug coverage, such as coverage provided in a pension plan, cannot be applied to the doughnut hole. Each year, beneficiaries start over from zero and pay the initial deductible, which will rise every year, to \$275 in 2007 and \$300 in 2008.

Enrollees will pay a premium for their drug coverage, with an estimated average of \$37 a month. Importantly, they must continue to pay the monthly premium while they are in the doughnut hole paying out-of-pocket for their drugs.

"That sounds like nuts to people," Stein said.

The nonpartisan Congressional Budget Office estimates that participants will save about \$465 on prescriptions the first year of the plan.

Very low-income beneficiaries won't pay premiums or deductibles and won't have any gap in coverage, and could gain the most from the program.

"It's very hard to generalize across 42 million people as to what the benefit will be," said Patricia Neuman, a Medicare expert with the Kaiser Family Foundation. "However, the law includes significant help for those with low incomes."

Rep. Pete Stark, D-Fremont, ranking Democrat on the House Ways and Means Committee, did not support the Medicare

reform bill, signed by President Bush in December 2003. He said the new regulations are a giveaway to the drug companies and private health plans.

“The doughnut hole doesn't make any damn sense,” Stark said.

Initially, the doughnut hole was sold to Congress as a cost-saving measure to keep the drug-benefit expenses at \$400 billion in the first decade. Last week, the Centers for Medicare and Medicaid pegged the price tag at \$724 billion and federal officials admitted the initial cost estimate was artificially low. An alternative Democratic plan Stark supported didn't have a doughnut hole and would have cost \$900 billion.

“Unless you are very low-income, the discount doesn't amount to poop - you're much better off going to Canada for your drugs,” Stark said.

Details are just starting to emerge on which classes of drugs the plans must cover. As with the temporary drug discount cards, each plan will have its own formulary, or drug list. They must include at least two drugs from each class and must provide adequate coverage of the most common types of drugs.

For example, Medicare revealed earlier this month that it will cover drugs for impotence - though the individual health plans can decide whether they will cover Viagra or at least two other drugs in that class.

The health plans can change the drugs on their formulary provided they give 60 days notice to members. But beneficiaries can't switch plans more than once a year. If a patient wants or needs a drug not on the formulary, they must go through a complex appeals process, and the desired drug won't be covered while the appeal is pending.

Kaiser Permanente officials are still sifting through the new regulations and said it was too early to know details about the formulary or how Medicare enrollees could benefit, a spokesman said.

Health plans that want to offer the Medicare prescription drug benefit must submit their bids by July to the federal government. The bids will be awarded in September, and information about each plan will be available to the public in October. Enrollment in the program starts in November.

Another key issue is the timeline for seniors to sign up. Forristal was able to delay choosing a temporary drug discount card for months after the program started. But those who delay signing up for the permanent benefit will be penalized.

The first enrollment period will run from November 2005 to May 2006. If people choose to enroll in the next period, starting in November 2006, they will pay a penalty of between 1 percent and 12 percent of the total monthly premium, depending on how many months they sign up late.

The massive and complex program also will affect seniors

and the disabled who now get their drug coverage through Medicaid, the health insurance program for the poor that in California is called Medi-Cal.

The 6.3 million people nationwide enrolled in both programs, known as "dual eligibles," will be automatically switched over to the Medicare drug benefit on Jan. 1, 2006. It's unclear whether they will have the same prescription drug benefits they have today under Medicaid.

Earlier this month, Stark and Sen. John D. Rockefeller, D-W. Va., sent a letter to President Bush expressing concern over the nearly 12 million Medicare beneficiaries who get their health benefits through former employers.

Former employers must offer benefits at least equal to Medicare to receive the new government subsidy for drug coverage. Stark and Rockefeller said the program allows former employers to reduce benefits retirees currently enjoy.

"We fear that the final Medicare regulations will shift more costs onto retirees and lead to millions of retirees having less adequate prescription drug coverage than they do now," Stark and Rockefeller wrote.

The administration has argued that the Medicare drug subsidy will be an incentive for companies to retain coverage for their former employees amid soaring drug costs.

"The idea behind the subsidy is that it encourages employers to hang in there," Neuman said. A recent survey by the Kaiser Family Foundation indicated that most employers plan to uphold current retiree health benefits, though maintaining coverage over the long-term remains in doubt.

Mark Beach, spokesman for AARP California, admitted the program is flawed but reiterated the reason AARP backed the Medicare reform bill.

"The doughnut hole is one of the major flaws of this legislation, no doubt about it," Beach said. "The positive is that it's a drug benefit that going to be available to all Medicare beneficiaries." Some details of the program could change, as members of Congress introduce legislation to modify the act.

On Feb. 1, Sens. Dianne Feinstein, D-Calif., Olympia Snowe, R-Maine, and John McCain, R-Ariz., and several others announced legislation to repeal a provision of the law that prohibits the Secretary of Health and Human Services from negotiating with drug companies for bulk purchases for Medicare. Called the Medicare Enhancement for Needed Drugs Act, or MEND, the bill would also require the federal government to determine the average member savings of each plan - allowing consumers to compare and contrast savings. MEND would also require the General Accounting Office to review retail costs of prescription drugs since 2000 to ensure that drug companies don't raise prices artificially.

An AARP report released in December indicated that average prices for nearly 200 commonly prescribed drugs increased by more than three times the rate of inflation in September 2004 over the same month the previous year.

Feinstein said in a statement that when she learned that Medicare reform didn't include a provision to purchase drugs in bulk, as the Veteran's Administration does, she "knew there was a major problem."

It's too early to tell whether any proposed modifications to the Medicare drug law will have enough support to make it through Congress, Neuman said.

Even if the program remains unchanged, observers hope Medicare officials will incorporate lessons learned from the temporary drug discount program. For example, relying less on the Internet to deliver information because many seniors are not Internet savvy, or if they are, they may not have access to a printer.

"One of the lessons of the discount card experience is that it takes some time to educate seniors and people with disabilities about new programs," Neuman said. "Seniors are inundated with marketing materials so they have skepticism about new programs."

Later this year, the federal government plans to spend \$300 million in a campaign to educate Medicare beneficiaries about the new drug program. First and foremost is letting seniors know this benefit is coming.

"In less than a year, seniors will get critical new help with access to 21st century, prevention-oriented medical care," said Dr. Mark B. McClellan, administrator for the Centers for Medicare and Medicaid Services, when unveiling details of the new benefit.

Kristin Stoops is a volunteer at the Health Insurance Counseling and Advocacy Program in Oakland, which helps seniors navigate through the pitfalls of Medicare. A chance conversation Forristal had with Stoops led to Forristal's big drug savings.

Stoops offered to look at the various drug discount cards to find one that might work for Forristal. Armed with Forristal's drug and income information, she identified United HealthCare's card as one she thought could help.

Forristal agreed to pay the \$20 fee to sign up. She expected to see little savings until she went to the pharmacy and was pleasantly surprised.

Stoops said Forristal's experience with Medicare was not uncommon - with one exception. Unlike many seniors, Forristal, who is 76, is familiar with complicated government forms. She works part-time as a tax preparer.

"The material she received from Medicare was so confusing," Stoops said. "She was totally with it, and even she couldn't figure it out."

Contact Rebecca Vesely at rvesely@angnewspapers.com.

MEDICARE

DRUG PLAN FACTS

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- stay in traditional fee-for-service Medicare and enroll separately in private prescription drug plans; or
- enroll in integrated Medicare Advantage plans for all benefits, including drugs.

With either choice, a private insurer will be providing the drug discount benefit. Under the rules, at least two providers in every region of the country must offer the drug benefit.

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- Federal Information — (800) MEDICARE, www.medicare.gov
- Free and confidential Medicare counseling — (800) 434-0222, www.calhealthadvocates.org
- Information on Medicare in California — www.calmedicare.org
- AARP — (888) OUR-AARP, www.aarp.org

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