



## CUR<sub>x</sub>ED

### Cornell University Resource Education for Medicare Part D

## PAY NOW OR PAY LATER

### THE CASE

ME is a 76 year old female who lives in Agawam, Massachusetts. She joined Medicare when she retired at age 65, signing up for both Parts A and B. She has always enjoyed relatively good health and until recently took no prescription medications.

When Part D became available in 2006, ME did not sign up for a plan. She was taking no prescriptions at the time and thought that she would be spending her money on a premium while not getting anything in return. She also felt that the program was too confusing and the process of selecting a plan was overwhelming.

In the spring of this past year, ME was involved in a serious automobile accident. She lost her husband in the accident. ME survived but she experienced head trauma and now has a seizure disorder, occasional migraine headaches, insomnia, and severe clinical depression. She takes maintenance medication for all of these problems.

Immediately after the accident ME was hospitalized for several weeks. Upon her discharge she required antibiotics, analgesics, and a couple of other short term medications. These have all since been discontinued. Over the course of the year, ME had considerable medication expenditures for which she needed to pay entirely out of pocket.

ME now realizes the benefit of having a prescription drug insurance plan. She is in the process of selecting and signing up for a plan that will start in January, 2009. ME understands that she will have to pay a penalty now that she is signing up for a plan.

ME is worried that the penalty may make it unaffordable to purchase a plan. She is concerned that the penalty might be based on which plan she selects and the premium that the plan charges. Or, she thinks that the penalty might be based on the number of prescription medications she takes or the costs of those medications. ME would also like to know if the penalty will go away after a period of time, if it will change, or if she will always have to pay it

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**WHAT WOULD YOU DO?**  
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### Part D Trivia Question

Upon reaching the coverage gap, how long, on average, does a beneficiary remain in the coverage gap?

- A. 4 weeks
- B. 8 weeks
- C. 4 months
- D. 8 months

## THE STUDY

The penalty for not enrolling in a Medicare Part D plan is based on the base beneficiary premium and the number of months a beneficiary has been without creditable prescription drug coverage. Creditable coverage is coverage which is considered to be as good as or better than that which is provided by a Part D plan.

The base beneficiary premium is calculated annually and is derived from several factors, including the national average premium bid of all of the plans. For 2009, the base beneficiary premium is \$30.36. This number will change each year, as the plans submit new premium bids each year. Consequently the penalty will change on a yearly basis but it is impossible to determine what that amount will be for future years.

For each month that a beneficiary is without creditable coverage and delays enrollment in a Part D plan, the beneficiary will pay 1% of the base beneficiary premium as a monthly penalty for as long as they carry a Part D plan. There is no penalty, or adjustment to the penalty, that is based on the number of medications that a person takes, price of the medications, the specific plan that is selected, or any other variable.

ME has been eligible for a Part D plan since the inception of the program. The calculation of her penalty will go back until May of 2006, when the initial open enrollment period ended. Since her new coverage will begin January of 2009, her penalty will be calculated based on not having coverage for a total of 31 months. To calculate the penalty which ME will pay:

- Multiply the base beneficiary premium (\$30.36 rounded) by 1%  
 $30 \times 0.01 = 0.30$
- Multiply this number by the number of months without coverage (31 for ME)  
 $0.30 \times 31 = \$9.30$

When ME joins a plan in January, 2009, the penalty which she will pay will be \$9.30 each month. This is addition to the regular monthly premium and will not vary, regardless of which plan she chooses. The penalty will be recalculated for each subsequent year, based on the new base beneficiary premium.

When ME was considering a prescription plan back in 2006 she was looking at it from the perspective of a subsidization program. Since she had no medications, she thought that she could do without it. Part D, however, is an insurance program, or a risk protection from unexpected losses. Had ME carried this insurance since first eligible, she would not have incurred the expenses that she had during the year and she would not now be paying the premium penalty.

### Part D Trivia Answer

Results of a Kaiser analysis of 2007 prescription claims shows that on average, beneficiaries who reach the coverage gap remain there for **four months**. Half of all enrollees who reach the coverage gap, do so by the end of August. Only a small portion who reached the gap by July or later were able to realize the benefits of catastrophic coverage.

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