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Original Medicare: Paying for prescriptions

Prescription drugs are not covered by Parts A or B, so many Medicare recipients choose to add a Part D plan.

WHAT IS PART D?

> Private insurance that covers prescription drugs

> Add-on to Original Medicare; typically not used with a Medicare Advantage plan

> Subject to a late-enrollment penalty

COVERED DRUGS MAY CHANGE ANNUALLY

> Each plan has its own list of covered drugs

> Check yearly to make sure your plan is still the best one for you

> Those with chronic conditions may want to consider a more robust plan

> Switching plans is possible during open enrollment (October 15 – December 7)

HOW MUCH DOES IT COST?

> Monthly premiums vary by plan

> Large drug expenses may push Part D recipient into a "donut hole" coverage gap

> Similar to Part B, premiums are subject to surcharges based on your income from two years prior

Work with your financial professional to account for Medicare expenses as part of your retirement income plan.

#DecodingMedicare

ADDITIONAL DETAILS

EXPLAINING THE LATE-ENROLLMENT PENALTY

The cost of the late enrollment penalty depends on how long you went without Part D or creditable prescription drug coverage.

Medicare calculates the penalty by multiplying 1% of the national base beneficiary premium ($32.74 in 2020) times the number of full, uncovered months you didn't have Part D or creditable coverage. The monthly premium is rounded to the nearest $0.10 and added to your monthly Part D premium.

In 2020, a person who waited one full year to enroll in Part D paid about $4 per month as a late enrollment penalty (1% x $32.74 = $0.33 x 12 months = $3.93, rounded to $3.90). So the penalty may not be a huge amount, but it grows the longer you wait and continues for the rest of your life. It's just something to consider even if you're not taking any prescriptions at the time you enroll in Medicare.

EXPLAINING THE "DONUT HOLE"

Those with large drug expenses may run into a Part D coverage gap, also known as the "donut hole." In 2020, the coverage gap begins once an individual has spent $4,020 on covered drugs, and during the gap, the person would pay no more than 25% of the cost for covered brand-name prescription drugs. The coverage gap ends when they've spent $6,350 out of pocket. At that point, the person automatically qualifies for "catastrophic coverage" and there will be only a small co-insurance amount or co-payment for covered drugs for the rest of the year.

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COVERED DRUGS MAY CHANGE ANNUALLY

> Each plan has a formulary, or its list of covered drugs, that may include many pricing tiers for different drugs

> Formularies can change from year to year, even within the same plan, resulting in changes in covered medications or co-pay amounts — so it's wise to check yearly to be sure your plan is still the best one for you

> Chronic conditions deserve special consideration and may suggest that a more expensive plan — one that's more robust — should be considered at initial enrollment: if, in the future, you are prescribed a new drug, there will be a higher likelihood that it will be on your formulary

HOW MUCH DOES IT COST?

> Monthly premiums vary by plan — but the cheapest plan may not be the best value if your particular medications aren't covered

> Part D surcharges may apply if your modified adjusted gross income (MAGI) is above certain thresholds, as shown on this chart

Income-Related Monthly Adjustment Amount (IRMAA)

2018 individual income (MAGI)	Married income (MAGI)	Part D	Total monthly surcharges
$87,000 or less	$174,000 or less	Plan premium	N/A
$87,001 – $109,000	$174,001 – $218,000	+ $12.20	$70
$109,001 – $136,000	$218,001 – $272,000	+ $31.50	$176.10
$136,001 – $163,000	$272,001 – $326,000	+ $50.70	$282.10
$163,001 – $499,999	$326,001 – $749,999	+ $70.00	$388.10
$500,000 and above	$750,000 and above	+ $76.40	$423.40

Source: medicare.gov/pubs/pdf/11579-medicare-costs.pdf (November 2019).

The information in this document is sourced from medicare.gov, cms.gov, hhs.gov and some state-level sources.

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