

Clients Lost In Medicare Lurch By Karen DeMasters

A new prescription plan, known as Part D, is complex and confusing, and mistakes can be costly.

Although some of the more than 40 million eligible Medicare recipients in the nation already have signed up for the new Medicare prescription drug benefits program known as Part D, many people still are seeking the advice of financial planners and weighing the options that are available to them until the cut-off date of May 15.

The most fundamental changes to be made to the Medicare system since its inception in 1965 kicked in on January 1, reportedly bringing with them confusion and a degree of chaos to pharmacies around the country. Many of the nation's Medicare recipients signed up for the new insurance coverage before the beginning of the year and flooded the Medicare system and insurance companies with the need to issue new policies and new insurance cards. When the newly insured began going to pharmacies, some without the insurance cards as proof of coverage, parts of the system came to a grinding halt, according to beleaguered pharmacists and those seeking coverage.

However, a large group of potential recipients have not joined a program because, for this first year only, seniors have until May 15 to make that initial decision. After that, many will be penalized for not joining a prescription drug plan by the May 15 deadline.

The next rush of applicants after May 15 could cause new difficulties, according to people familiar with the system, although many problems created by the large number of applications processed in November and December and the many changes pharmacists coped with in the first week of January reportedly have been ironed out.

> What It Costs <

- Under the standard benefit for 2006, participants will pay a premium of between \$20-40 a month with an annual deductible of \$250. Participants then will pay \$500 of the next \$2,000 of drug costs. After that, the next \$2,850 in drug costs will have to be borne by the participant since Medicare requires recipients to pay \$3,600 out of pocket before Medicare pays any more.

> How You Pay <

- Premiums may be automatically deducted from monthly Social Security checks or paid directly to the plan. Unfortunately, spouses don't get a break. Everyone picks a plan and pays separate premiums. You'll be able to keep track of your spending from a monthly statement from your Plan D provider.

Source: Financial Planning Assn.

In the meantime, some financial planners are advising colleagues to learn enough about the details of Medicare Part D to be able to help clients make informed decisions. The Financial Planning Association considered the changes far-reaching enough to declare last October "Medicare Month," and created an educational series to help planners understand the new system. On average, retirees spend 25% or more of their retirement income on health care and a couple retiring today can expect to need \$175,000 for medical care, according to the FPA, a figure that is only going to increase as people live longer and medical care and drug costs increase.

Robert Wander, CFP, founder of Wander Financial Services LLC in New York City, was part of a local television show explaining some of the new system. "For financial planners, how much you need to know depends on the kind of practice you have. If you have a number of elderly clients, you should be informed about what affects them, so Medicare Part D (the new prescription drug plan) is something that you need to have knowledge of," Wander says. "There are a number of things to consider in determining whether Medicare is advantageous for your clients."

Because the new system uses private insurance companies to provide the drug coverage, there are many policies to choose from. Each policy differs somewhat, and what is offered differs from one state to the next. But some retirees won't need to sift through the options.

"If a retiree has prescription drug coverage through a private company pension or union pension, the benefit is probably going to be far superior to what is offered by Medicare Part D," says Wander. These people would not want to substitute Medicare Part D and do not have to. But anyone who is not part of such a plan will need to enroll in a plan or be penalized when they finally do decide to join.

The government is subsidizing the cost of the Medicare plan and, as with any insurance, its success depends on obtaining the largest number of enrollees possible. For those who are eligible now but do not enroll until later, the premiums will increase by 1% for each month they were eligible but did not join. If a person does not join for two years, he or she will be faced with premiums that are 24% higher than they would otherwise pay.

Those premiums, according to the Centers for Medicare and Medicaid Services, will vary greatly, from literally nothing, if the coverage is added to other supplemental Medicare coverage, to more than \$100 a month for top-of-the-line benefits. It is anticipated most will range between \$20 and \$35 a month. Under the average plan, the insured person will pay a \$250 deductible and 25% of the

next \$2,000 of drug costs. Then there will be a gap, the so-called "doughnut hole," that will require the insured to pay 100% of drug costs, until the total reaches \$3,600 in out-of-pocket expenses. After that, the insured will pay 5% of any remaining drug costs.

So under most policies, people with relatively modest drug costs and those with catastrophic costs will benefit. Those caught in the "doughnut hole" will see much smaller benefits. But policies will differ, with some paying the costs during the gap for an added premium. To further complicate the system, each policy can cover different drugs. The residents of each state will be faced with a different array of policy options. The smallest number are being offered to the residents of Alaska, where there are 27 plans approved by Medicare. Residents of large urban areas or their advisors will have to sort through even more—99 in Miami and 83 in Los Angeles, for instance.

"For those with significant drug expenses, it comes down to making a list of all the drugs the person takes and comparing it to the drugs covered under the different policies," Wander adds.

The government Web site, www.medicare.gov, has tools for comparing policies in each state, and AARP, the FPA and other organizations have issued bulletins to help recipients and advisors sort through the options. Medicare also has a hotline at 1-800-633-4227 to help with comparisons.

"Health costs and prescription drug coverage have always been a concern," notes Leon Rousso, a CFP licensee in Ventura, Calif. "Until now the only private insurance plans offered did not make economic sense because of the small benefits and high cost. But Medicare Part D now offers a wonderful opportunity. It is confusing, but once you get through the confusion, it is a great program. But you will not get many insurance agents who will deal with this because there is very little financial gain in it for them, so there is not going to be a lot of advice out there for people.

"From a price point, it is absolutely ridiculous for a senior not to sign up for a plan because, even if they are healthy now, they don't know what will happen in the future," says Rousso, who has had several clients ask him about the options. "I would advise financial planners to print out the plans available in their state from the Medicare Web site so that you can show your clients what is available. It is an awesome responsibility for a financial planner to try to advise clients on a prescription drug plan, but having a list of options would be a great place to start. I don't recommend a specific plan to anyone, but I tell them their options and then advise them to invest an hour or so to find out what is going on. I try to give them guidelines."

Christine Povenmire, CFP of Columbus, Ohio, also stresses the need to consider all the options. "I talked about this in one of my newsletters to clients recently," she explains. "I outlined the basic information and advised everyone to look at the options. We need to help people because they are going to have some comparisons to make and many may not have access to the Web. One thing that is very important are the deadlines, the next one being in May," she warns.

Even AARP warns, "There are complex trade-offs among premiums, deductibles, copays and extra coverage. Beneficiaries should look carefully at each when comparing plans. Medicare offers plan-to-plan comparisons. Even so, it may still be difficult to compare plans that charge a flat copay for each prescription with plans that charge a percentage of the drug's cost."

But, after they have been in the system for awhile, if a recipient feels a poor decision was made, changes can be made at the same time new enrollees enter the system, at the end of each calendar year.

"You have to understand Part D in terms of what your clients need, so you need to know who needs to sign up and what the options are," Povenmire advises.

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