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SMART STRATEGIES FOR RETIREMENT INCOME SPECIALISTS

Details Count When Assessing Medicare Part D

By Jim Connolly

Trying to decipher the options in the new Medicare Part D prescription drug program may be taking an emotional piece out of many seniors.

But the wrong choice may also take a financial chunk out of their monthly income flow as well, say a consumer advocate and financial planners.

Potential Part D applicants faces a daunting array of choices which offer different premium and co-pay options and coverage differences, according to drug and plan calculators on the Medicare Part D Web site (see www.Medicare.gov).

When looking at this from a purely cost/benefit standpoint, there is not an easy way to do one calculation because of the way plans are designed, says Bonnie Burns, a training and policy specialist with California Health Advocates, Scotts Valley, Calif. The programs are very different and there is no ability to do a side by side comparison, she adds.

Also, the parameters such as the tiers of medications ranging from the least expensive Tier I drugs to the most expensive Tier III drugs are not always simple to categorize, Burns says. The reason, she continues, is that 4 levels of controls can actually make a Tier II level drug cheaper than a Tier I drug.

So, the actual drivers of cost will be whether a drug is generic and preferred by the plan or not preferred, whether it is accessed through a participating pharmacy or not, and whether it is a specialty drug or not, she says. If looking only at Tier I, II or III, there is no way to cross these points, she says.

Other points that can affect coverage and cost include quantity limits, prior authorization, and step-up therapy which allows for substitution of cheaper drugs than the drug that the patient is currently on, Burns says. It is often up to the patient to prove that the drug that was originally being used is the more effective drug, she adds.

“The number of potential permutations is huge,” Burns continues. Although a plan may appear to be generous and provide comprehensive coverage, these permutations can ultimately raise costs for consumers, she notes.

If financial planners want to make sure their clients’ medications are truly covered, then Burns recommends a 3-step approach: check the Medicare Web site, check the company Web site, and then check with the plan.

Burns says that planners need to note that if a client has an employer plan with drug coverage and that client enrolls in a Medicare PDP, the client could risk losing all health coverage. This fact “should be in red and in a box,” she stresses.

For instance, a November 15, 2005 memo of the California Public Employees' Retirement Systems (CalPERS), states that in April 2005, the CalPERS board directed staff to pursue a bill (Negrete McLeod, AB 587) that states a member enrolled in a PDP other than CalPers approved Medicare Advantage prescription drug plans may not be enrolled in a CalPERs health benefit plan. However, members who inadvertently sign up for Part D could dis-enroll without losing CalPERS health benefits, according to the memo.

So, Burns says, the big caveat for planners is to know how signing on to a Medicare PDP could impact health coverage. She recommends that planners "do nothing until you know that. It could be a lawsuit waiting to happen."

A planner needs to know that a client's coverage will not be dropped and needs to have that in writing, she recommends.

Financial planners interviewed or contacted by *Income Planning* are saying that from the number of questions they are receiving, the issue is weighing on many seniors. And, they add, as professionals, it often takes them several hours to wade through as many as over 40 plan options. That task is even more daunting for older seniors who are not computer savvy, they add.

Questions about Part D are "at the top of the list," according to Marc Vorcheimer, a certified financial planner with Integrated Financial Consulting, LLC, Nanuet, N.Y.

Vorcheimer says that he believes that "pure insurance protects people from disaster" and that Part D offers catastrophe protection. The important point is that clients not have huge drug costs in the future, not necessarily their co-pays, he explains. "That won't break the bank." What can break the bank, he continues, is the cost of very expensive drugs. And, "for $10-$30 a month, for the protection, it is not a lot of money."

What Vorcheimer says he doesn't know is the type and expense of medications that clients might need in the future. As a result, he looks for plans with a bigger list of prescription drugs that might afford future protection.

Curt Fey, a certified financial planner in Pittsford, N.Y., says that Part D does come up in his pro bono work. One interesting trend he has found is that people are attracted to "the little frills" rather than protecting themselves against larger losses. For instance, they favor a plan that has lower fees but much higher co-pays which ultimately cost them more.

People who are watching their cash flow are more aware of immediate expenses, Fey continues. However, the key point is to plan against catastrophe, he adds.

In certain states such as New York, there are state plans that can offer low-income seniors drug coverage that is added to a Medicare Advantage plan that does not have a donut hole, Fey says.

The "donut hole" is the amount a Part D participant has to pay fully out of pocket. The payment structure for a participant is as follows: a $250 deductible followed by a co-pay of 25% from $250 to $2,250; followed by a "donut hole" of 100% out of pocket of $2,850 in drug costs, followed by a 5% co-pay for the rest of the year after $3,600 is spent out of pocket. Co-pays are shared with participant and the plan.

Fey says other options should be considered such as whether a client is eligible for Medicaid or eligible for an employer plan with better coverage. He echoes caution about signing on to Part D and getting dropped from one's current plan.

The “donut hole” is an income planning issue that people need to be considering, according to John Cullum, a certified financial planner with Abacus Planning Group, Columbia, S.C. People who don’t plan for it could be “slapped hard,” he says.

Planners need to help clients figure out when the “donut hole” is going to hit during the year and to plan for that, Cullum continues. “When it is 100% out of pocket, you need to be ready for that,” he says. If medicines change during the year and if the new medications are more expensive, he adds, the “donut hole” might be reached sooner than a client anticipates.

If a plan turns out not to be the right choice for a client, then there is the ability to change during the next open enrollment, he says. “That is the good part. But people have to be aware enough of where they are in order to change.”

Sometimes, it will pay for a husband and wife to be on different plans, depending on the medications that they need to take, Cullum says.

Ted Bush, a certified financial planner with Capital Advantage in Plano, Texas, says he is spending about 3 hours per client, helping decide whether it is better for them to move or to stay with their existing plans.

If the decision is that the existing plan is better, then the clients need confirmation that they have credible coverage. It is best if that confirmation is in writing, Bush says.

That decision is important, Bush says, because after May 15, 2006, there will be a 1% increase per month in premium for those who sign on late. Once a person has signed on, there is no penalty for changing plans later on, unless coverage has lapsed, Bush explains. So, for example, if a client has coverage through September, drops it, and then picks it up again in December, there will be a 2% increase in premium, he says.

Bush says he does not think it is necessary to look for a plan with the broadest coverage because a client can change that plan at the end of the year if necessary.

Some employers are not issuing waiver letters, so it is important that a planner makes sure his client gets one when needed, says Andrew Tignanelli, president of Financial Consulate, Lutherville, Md. That could make a difference later if a client needs to subscribe to Part D, does not have a waiver letter and gets a 1% per month late sign-on penalty, he adds.

And, he says, there is a difference between national and regional programs that planners need to make their clients aware of. If, he says, a client is going to be doing a lot of traveling, then a national plan is better. A Part D participant can stock up on prescription medications but if you live in Maryland and are going to be in California for an extended period, it might be difficult to access medications.

Understanding the program is important for planners not only for existing clients but also because companies are burdened by growing health care costs and if plans are dropped in the future, planners may be called upon to help clients decide on a plan, Tignanelli says.

Part D is a consideration not only for senior citizens but also for those who are disabled, according to Bob Wander, a certified financial planner with Wander Financial, New York. Wander recounts the story of a client who is on a daily regimen of 10 different medications a day at a cost of “thousands upon thousands of dollars for that particular individual.” For such an individual, it is critical to make the right plan choice, he says.