

Medicare Part D: Prescription Drug Coverage



In January of 2006, Medicare implemented the Part D prescription drug benefit. Prior to this law being signed, if you were outside of the hospital setting, you would be responsible for the entire cost of your prescription medication.

How does Part D work?

For this example, we are going to assume that a person is taking a Part D plan without an annual deductible.

Numbers are rounded up to make this concept easier to explain and understand.

(See figures on the following pages)

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How does Part D work? (Continued)

From \$1 – \$4,000 (You will pay Co-Pays)

You pay approximately 25% and the prescription drug plan is taking up the other 75%. That equals to 100% OR the True Retail Value.

Co-pays

Represents approximately 25% of the actual cost of medication.

True Retail Price and The Donut Hole

The True Retail Price is used to get you to the *Donut Hole**.

For example, if you're paying \$5 for a prescription medication that means \$15 is being picked up by the prescription drug plan. The total cost of the medication is \$20. And this is the *True Retail Price*. The entire \$20 is being counted toward the donut hole, not just the \$5 that you have been paying.

Once you get to the *Donut Hole*, you will be responsible for a larger portion of the cost of your medication.

*Healthcare.gov's definition of the donut hole:

Most plans with Medicare prescription drug coverage (Part D) have a coverage gap (called a "donut hole"). This means that after you and your drug plan have spent a certain amount of money for covered drugs, you have to pay all costs out-of-pocket for your prescriptions up to a yearly limit.

<https://www.healthcare.gov/glossary/donut-hole-medicare-prescription-drug/>

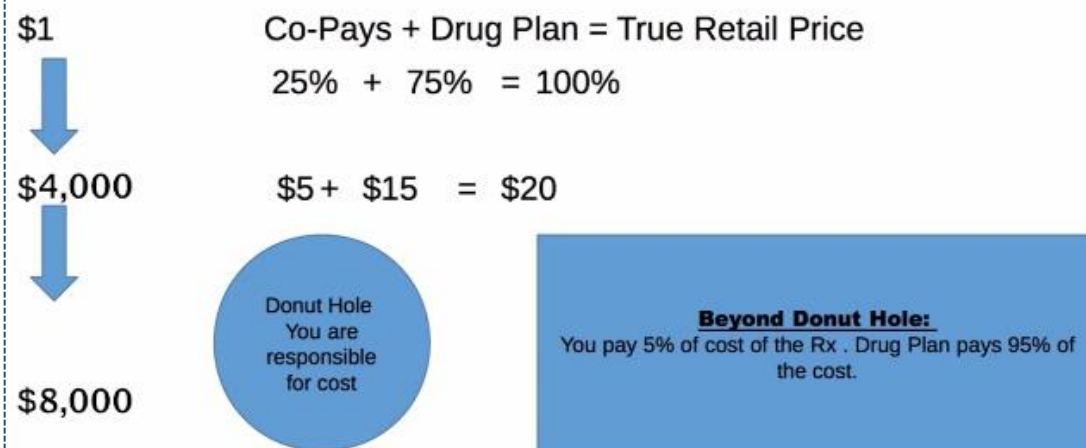
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How does Part D work? (Continued)

From \$4,000 - \$8,000

You are in the Donut Hole and responsible for a larger portion of the cost of your medication.

Graph Example of Prescription Drug Plan



Most people will not reach the *Donut Hole*. However, in the event that you do and go through it, you will be responsible for 5% of the total prescription cost and the prescription plan pays the other 95% until the end of the calendar year.