

Closing the Medicare Part D Donut Hole Under Health Reform: A Brief Summary



Introduction

Among the many provisions of the new Health Reform Law is one that closes the donut hole under Medicare Part D. It does this in two steps – first, it provides a \$250 drug rebate to qualifying consumers in 2010; and second, it phases out the donut hole gap over a ten-year period from 2011 to 2020.

Background on the Donut Hole

The donut hole is the gap in Medicare Part D prescription drug coverage that was put into the original law several years ago to lower its cost. Different Part D plans offered by private insurance companies may treat the gap differently, but it is present in all basic plans. The basic Medicare Part D drug benefit includes the following in 2010:

- \$310 prescription drug deductible for the consumer (in other words, the consumer pays the first \$310 of prescription drug costs);
- 25% consumer co-pay on total drug costs from \$310 up to \$2,830 (during which the plan pays the remaining 75%);
- **100% consumer co-pay after total drug costs are above \$2,830 until the consumer's out-of-pocket costs hit \$4,550** (at which time total drug costs to the consumer and plan combined will be approximately \$6,469);
- 5% consumer co-pay (often as a small flat co-pay) after the \$4,550 out-of-pocket line is crossed.

One way of looking at the Part D benefit to date is that it provides a prescription drug benefit when drug costs are fairly low and then a catastrophic benefit, but leaves a big gap in the middle. This is the donut hole.

There are two other things to keep in mind. The first is the Medicare Part D is not a free benefit. People who have Part D insurance pay a premium for it and buy it from a host of approved insurance providers. The second is that the deductible and co-insurance ranges increase each year, so each year the donut hole gets a little bigger.

How the Health Reform Act Closes the Donut Hole

Under the new law, the donut hole is being closed in the following way:

In 2010, at the close of each calendar quarter, everyone who has reached the donut hole (the \$2,850 threshold in total drug costs) will be entitled to a \$250 drug rebate. Consumers can only get one rebate during the year, however, so those who reach the threshold again in a second, third, or fourth quarter will not get more than one rebate.

Beginning in 2011 and thereafter, the consumer co-pay after hitting the threshold and entering the donut hole will decrease by 7% per year until 2020 when it will go down to 25%. In 2020 and beyond, the plan will be paying 75% of the drug costs, just as it does when the costs are below the donut hole threshold. What this means is that in 2011, the consumer will pay 93% of the cost in the donut hole and the plan will pay 7%; in 2012, the consumer will pay 86% and the plan will pay 14%; in 2013 the consumer will pay 79% and the plan will pay 21%; in 2014 the consumer will pay 72% and the plan will pay 28%, and so forth until 2020, when the consumer will pay 25% and the plan will pay 75%.

Conclusion

Because there will continue to be variations in the ways plans provide actual coverage, in coverage for generic drugs versus brand names, and in premiums from plan to plan, it will continue to be important for consumers to choose plans based on what is best for them and in their own circumstances. However, what will be the same across plans is that beginning in 2011, the donut hole will start shrinking and in 2020, it will disappear altogether.

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