# The “Donut Hole”

Everyone loves donuts! No one likes to explain the “donut hole”.

The “donut hole” refers to the gap in prescription drug coverage under Medicare Part D. Every year, the costs and limitations change. No client is the same and some may fall into the gap, while some may not come anywhere near it. In today’s blog post, I’ve answered the most common questions about an unpopular part of the prescription drug program.

**What is the “donut hole”?**

Most Medicare Part D Prescription Drug Plans have a coverage gap, sometimes called the Medicare “donut hole.” This means that after you and your Medicare drug plan have spent a certain amount of money for covered prescription drugs, you will then be responsible for an increased amount, up to a certain out-of-pocket limit. The yearly deductible, co-insurance, or co-payments, and what you pay while in the coverage gap, all count toward this out-of-pocket limit. The limit doesn’t include the drug plan’s premium.

There are Prescription Drug Plans that offer some coverage while you’re in coverage the gap; for example, some plans provide coverage for generic drugs. However, plans with gap coverage may charge a higher monthly premium. Check with the Medicare Part D Prescription Drug Plan first to see if your drugs would be covered during the coverage gap.

Once you reach the plan’s out-of-pocket limit during the coverage gap, catastrophic coverage automatically kicks in. Catastrophic coverage means that when you’ve spent up to the plan’s out-of-pocket limit for covered drugs, you will only pay a small co-insurance amount, or a co-payment, for the rest of the year.

**What are the costs?**

The coverage gap starts when the total drug costs reach a set amount over the course of the calendar year. In 2018, the amount is $3,750.

When the beneficiary reaches this amount, they are in the coverage gap. Because of the ACA, they will get discounts to help pay for their drugs during the coverage gap. In 2018, there is a 65% manufacturer's discount on most brand-name drugs, and a 56% discount for generic drugs. This means that a beneficiary will pay 35% for brand-name drugs, and 44% for generic drugs, that are listed on their Medicare Part D Prescription drug's formulary.

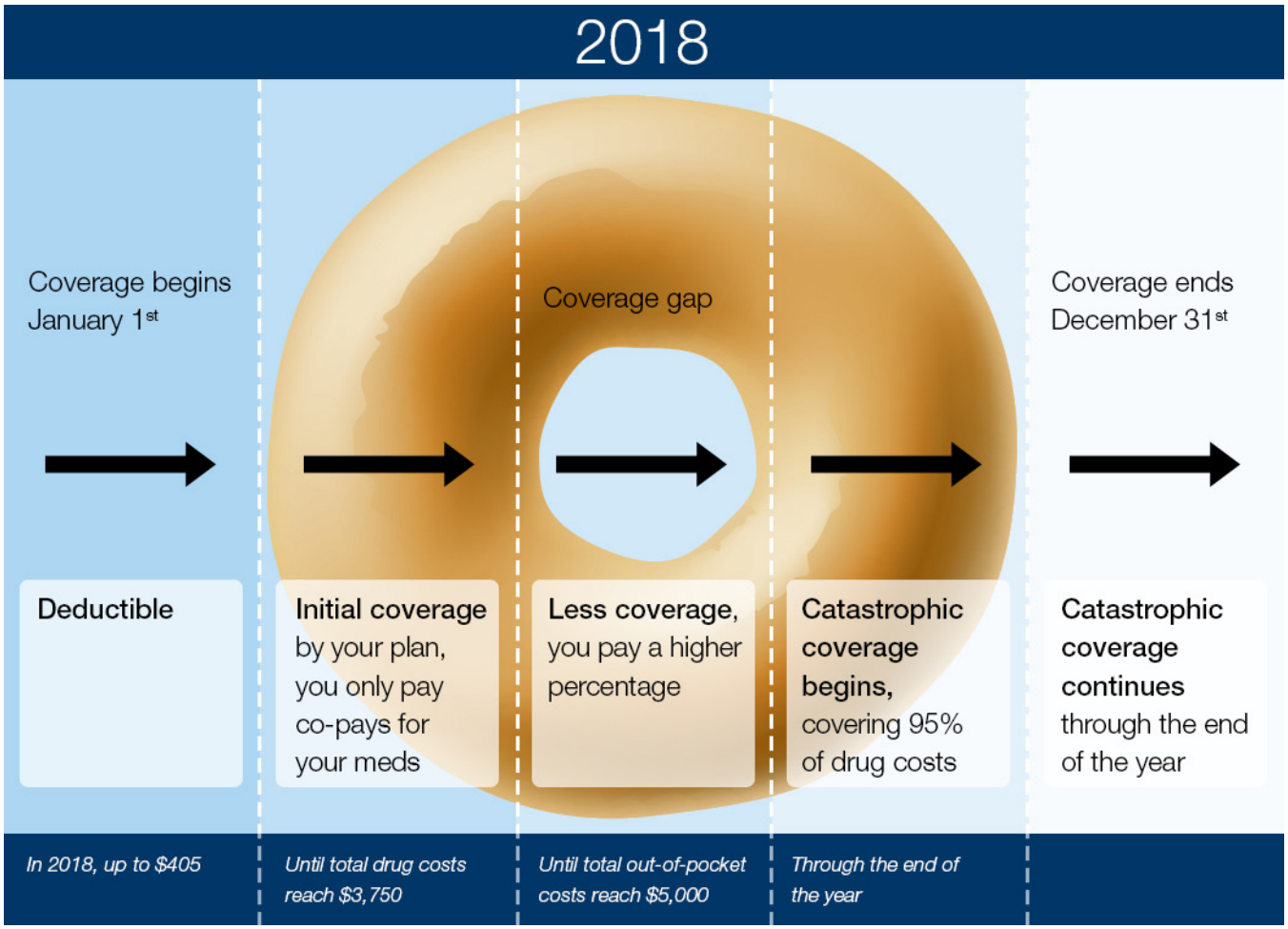
The Medicare Part D Prescription drug plan should keep track of how much money has been spent out-of-pocket on the covered prescription drugs and which coverage period the beneficiary is in. This information should be printed on their monthly statements.

**What are the stages?**

Stand-alone Medicare Prescription Drug Plans and Medicare Advantage Prescription Drug plans can have the following four coverage phases, as applicable:

- Deductible phase: For most stand-alone Medicare Prescription Drug Plans and Medicare Advantage Prescription Drug plans, you'll pay 100% for medication costs until you reach the yearly deductible amount (if your plan has one). After you reach the deductible, the Medicare plan begins to cover its share of prescription drug costs. The deductible amount may vary by plan, and some plans may not have a deductible. If your Medicare plan doesn't have a deductible, then you'll start your coverage in the initial coverage phase.
- Initial coverage phase: After you've reached the deductible, you'll enter the initial coverage phase, where you will pay the plan's cost-share for covered medications. For example, if your plan benefit includes a 25% co-insurance in this phase and you're taking a medication that costs $400 a month, your out-of-pocket-cost would be approximately $100 a month. Once you and your plan have spent $3,750 in 2018 for covered drugs, including the deductible amount, you've reached the initial coverage limit and have entered the coverage gap. This initial coverage limit may change annually.
- Coverage gap, also known as the "donut hole": Not everyone will reach this phase; it begins if you and your plan spend a combined $3,750 in 2018. While in the coverage gap, you'll typically pay 35% of the plan's cost for brand-name drugs, and 44% of the plan's cost for generic drugs, in 2018. You're out of the coverage gap once your yearly out-of-pocket drug costs reach $5,000 in 2018. Once you have spent this amount, you've entered the catastrophic coverage phase.

- Catastrophic coverage phase: Again, not everyone will reach this phase; it begins if your out-of-pocket costs reach $5,000 in 2018. During the catastrophic coverage phase, you'll only pay a small co-insurance or co-payment for covered prescription drugs for the remainder of the year.




**What counts towards the out-of-pocket spending limit?**

- Yearly deductible (if your plan has one)
- Co-pays & co-insurance during the initial coverage period
- Any out-of-pocket payments you make for your drugs while you're in the gap
- The discount on the brand-name drugs in the coverage gap
- Co-payments and co-insurance spent by you in the coverage gap

**What does not count towards the limit?**

- The monthly premium for your Medicare Prescription Drug Plan or Medicare Advantage Prescription Drug plan
- The costs you pay for prescription drugs that aren't covered by your Medicare plan
- Payments for drugs bought at a pharmacy outside your plan's network
- Pharmacy dispensing fee
- The value of free or low-cost drugs provided by a drug manufacturer's assistance program
- The value of drug samples provided by a doctor free of charge
- Any drugs bought from Canada or other foreign countries

**What if my client receives assistance?**

People who get Medicare Extra Help to pay drug costs won't have a coverage gap and will pay a small or no co-payment once they reach catastrophic coverage. Extra Help is a special part of Medicare prescription drug coverage that gives more assistance to people with limited incomes than the regular program does.

**How can my client avoid the "donut hole"?**

- Many expensive prescription drugs have a generic, or lower-cost alternative. Switching to lower-cost drugs may help them avoid entering the coverage gap. Have them talk to their doctor, or prescriber, about whether there are lower-cost prescription drugs available that may be just as effective for their condition.
- Individuals who don't meet income requirements for Extra Help may be eligible for financial assistance from the drug manufacturer of the brand-name drug. The can visit Medicare.gov to find out if there's a Pharmaceutical Assistance Program for the medications they take.
- There are also State Pharmaceutical Assistance Programs available, depending on where they live. These programs may help with Medicare Part D costs, and they may be eligible even if they don't qualify for Extra Help. Visit Medicare.gov to find out if your state has a program.
- Taking the time to compare their Medicare Part D coverage options may help lower their out-of-pocket prescription drug costs and keep them out of the coverage gap. Costs like co-payments, co-insurance, and deductibles can vary greatly from plan to plan and may affect their chances of entering the coverage gap.

**What will change in 2020?**

Federal health care reform legislation has addressed the problem by steadily reducing the prescription drug coverage gap over several years. By 2020, the prescription drug coverage gap will be closed completely, meaning that the “donut hole” will cease to exist, and beneficiaries will only have to pay 25% of the cost of their prescription drugs until they reach their annual out-of-pocket limit.