



Information Partners Can Use on:

Understanding True Out-of-Pocket (TrOOP) Costs

Medicare Prescription Drug Coverage

As of October 2006

True out-of-pocket (TrOOP) costs are the expenses that count toward the annual Medicare drug plan threshold of \$3,600 (\$3,850 in 2007) for the year. These expenses determine the start of a person's catastrophic coverage. The drug plan will keep track of each person's TrOOP costs. For every month that a person buys prescriptions covered by their plan, they will be mailed an explanation of benefits (EOB) that shows their TrOOP costs to date.

What payments count toward TrOOP?

The following payments count toward a person's true out-of-pocket costs:

- The amount a person pays for prescriptions before their drug plan begins to pay (annual deductible)
- The amount a person pays for each prescription (copayments or coinsurance)
- Any payments a person makes during the time they are responsible for 100% of drug costs (in the coverage gap)
- Payments made will only count toward TrOOP if the drugs
 - Are on the plan's formulary
 - Were not on the formulary, but by a coverage determination, exceptions process, or a special appeal were allowed to count toward true out-of-pocket costs
 - Were purchased in a network pharmacy
 - Were purchased at an out-of-network pharmacy in accordance with the plan's out-of-network policy



What payments count toward TrOOP? (continued)

Payments **count** as true out-of-pocket costs if they are made by

- People with Medicare
- Family members or friends
- State pharmacy assistance programs (SPAPs)
- Medicare's extra help (low-income subsidy)
- Most charities (unless it is established, run or controlled by a current or former employer or union)

What payments DON'T count toward TrOOP?

The following payments **don't count** toward a person's true out-of-pocket costs:

- The monthly premium
- Drugs purchased outside the United States and its territories
- Drugs not covered by the plan
- Drugs covered by the plan that are excluded by Medicare law (such as benzodiazepines)
- Over-the-counter drugs or vitamins (even if they are required by the plan as part of step therapy)

Payments **don't count** as true out-of-pocket costs if they are made by

- Group Health Plans such as the Federal Employees Health Benefit Program (FEHBP) or your employer or union retiree coverage
- Other types of insurance
- Government-funded health programs such as TRICARE, Workers Compensation, the Indian Health Service (IHS), the Department of Veterans Affairs (VA), Federally Qualified Health Centers (FQHCs), Rural Health Clinics (RHCs), the State Children's Health Insurance Program (SCHIP), black lung benefits and Ryan White CARE Act funds
- Other third party groups with a legal obligation to pay for the person's drug costs

If a person has coverage from one or more of the third parties listed above that pay part of their out-of-pocket costs, they must let their Medicare drug plan know.



How is TrOOP affected if a person switches Medicare drug plans?

A person's TrOOP balance is transferred from the former to the new Medicare drug plan. Medicare has established processes for transferring TrOOP balance and total drug plan spending information when someone disenrolls and periodically thereafter as required to provide updates on late claims. A person may need to give a copy of their most recent explanation of benefits (EOB) to their new plan.

What is the difference between TrOOP and a person's total drug plan spending?

A person's total drug plan spending is the sum of a person's plan premium for a year and the amount a person pays during the different coverage periods throughout their plan. Each plan is different. In 2006, more than half of Medicare drug plans have no deductible, and almost 25% of plans offer some type of coverage in the coverage gap ("donut hole").

Depending on the plan, these coverage periods may include the following:

1. **Paying the deductible**—when a person pays the full drug cost for their drugs up to \$250 (\$265 in 2007) (but may be lower).
2. **Initial coverage period (ICP)**—when a person pays a mix of copayments or coinsurance depending on the drug and the plan. This period ends when the person meets their initial coverage limit (ICL). The ICL is calculated based on the full cost (also called "negotiated price") of the drugs that a person gets, not the copayments or coinsurance paid during the ICP.
3. **Coverage gap**—when a person pays the full drug cost. This period begins when the person reaches the ICL and continues until they spend \$3,600 (\$3,850 in 2007) in true out-of-pocket costs.
4. **Catastrophic coverage**—starts when a person's true out-of-pocket drug costs have reached \$3,600 (\$3,850 in 2007).

Payments made during these first three periods count toward TrOOP if they are made from the sources mentioned above that count toward TrOOP.

More information about the different plan benefit structures is available in "The Plan Benefit Structures" tip sheet, and more information about annual drug plan costs is available in the "How Annual Cost is Calculated" tip sheet. Both are located at www.cms.hhs.gov on the web under MMA Outreach Publications.



What if the new and former plan benefit structures are different?

As an example, say a person's former plan had no deductible and the new plan has a deductible of \$250. The coinsurance or copayments the person paid in the initial coverage period in the former plan counts toward the deductible in the new plan. The TrOOP accumulated in the former plan through these coinsurance or copayments is added to the TrOOP the person will start accumulating in the new plan.

How is TrOOP affected by the Enrollment Reconciliation process?

Medicare is taking steps to ensure that TrOOP costs follow the person to their new plan. Medicare instructed plans to forward the explanation of benefits (EOB) for any person affected by the enrollment reconciliation to their new plan.

Note: This tip sheet isn't a legal document. The official Medicare Program provisions are contained in the relevant laws, regulations, and rulings. Dollar amounts and limits are subject to change in the future.