



Information Partners Can Use on:

# Understanding True Out-of-Pocket (TrOOP) Costs

Medicare Prescription Drug Coverage

Revised December 2007

True out-of-pocket (TrOOP) costs are the expenses that count toward a person's Medicare drug plan out-of-pocket threshold of \$4,050 (for 2008). TrOOP costs determine when a person's catastrophic coverage will begin. The drug plan keeps track of each person's TrOOP costs. Every month that a person buys prescriptions covered by their plan, they will get an explanation of benefits (EOB) in the mail showing their TrOOP costs to date.

## What payments count toward TrOOP costs?

The following payments count toward a person's TrOOP costs:

- The amount a person pays for covered prescriptions before their drug plan begins to pay (annual deductible, if applicable)
- The amount a person pays for each covered prescription after their drug plan begins to pay (copayments or coinsurance)
- Any payments a person makes during their plan's coverage gap, if the plan has a coverage gap
- Any money a person uses from their medical savings account on their Medicare Prescription Drug Plan deductibles or cost sharing, if the person has a Medicare Medical Savings Account (MSA) Plan and a Medicare Prescription Drug Plan

Payments only count toward TrOOP costs for drugs that meet these conditions:

- Are on the plan's formulary
- Weren't on the formulary, but were allowed to count toward true out-of-pocket costs because of a coverage determination, exceptions process, or an appeal
- 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** toward a person's TrOOP costs if they are made by any of the following:

- The person with Medicare
- Family members or friends
- Qualified State Pharmacy Assistance Programs (SPAPs)
- Medicare's extra help (low-income subsidy)
- Most charities (unless they are established, run, or controlled by the person's current or former employer or union)

## What payments DON'T count toward TrOOP costs?

Payments for the following **don't count** toward a person's TrOOP costs:

- 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** toward a person's TrOOP costs if they are made by any of the following:

- 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?

Drug plans keep track of each person's TrOOP costs. When a person switches plans, their TrOOP balance transfers to their new Medicare drug plan. Medicare has established processes for transferring the TrOOP balance and total drug plan spending information when someone disenrolls and periodically thereafter as required to provide updates on late claims. If there is a discrepancy, a person may need to give a copy of their most recent explanation of benefits (EOB) to their new plan to show their current TrOOP balance.

## What is total drug plan spending?

A person's total drug plan spending includes the following:

- Amount paid for plan premiums
- Any money spent on prescriptions during the different coverage periods throughout the year

Payments made during the first three coverage periods below count toward TrOOP costs if they are made from the sources mentioned earlier that count toward TrOOP costs.

Depending on the plan, a plan's coverage periods may include the following:

1. **Paying the deductible**—when a person pays the full drug cost for their drugs up to \$275 in 2008 (but may be lower).
2. **Initial coverage period (ICP)**—when a person pays either 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 they pay 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 \$4,050 in 2008 in true out-of-pocket costs.
4. **Catastrophic coverage**—starts when a person's true out-of-pocket drug costs have reached \$4,050 in 2008.

More information about annual Medicare drug plan costs is available in the “How Annual Cost is Calculated” (CMS Publication No. 11245-P) tip sheet by visiting [www.cms.hhs.gov/Partnerships/PFP/list.asp](http://www.cms.hhs.gov/Partnerships/PFP/list.asp) on the web on the Publications for Partners page.



## **What if a person joins a new plan with a different benefit structure?**

As an example, say a person's former plan had no deductible, and they join a new plan with a deductible of \$275. The coinsurance or copayments the person paid in the initial coverage period in their former plan and what the plan paid will all count toward the deductible in the new plan. Also, any TrOOP costs accumulated in the former plan will transfer to the TrOOP balance the person will start accumulating in their new plan.