



Information Partners Can Use on:

Calculating the Late Enrollment Penalty

Medicare Prescription Drug Coverage

As of October 2006

People with Medicare who don't join a Medicare drug plan when they are first eligible, and who don't have prescription drug coverage that is at least as good as standard Medicare prescription drug coverage (creditable drug coverage) may pay a late enrollment penalty if they join a Medicare drug plan later. People must pay the late enrollment penalty if they join a Medicare drug plan after having a period of 63 days or longer without Medicare prescription drug coverage or other creditable prescription drug coverage after they are first eligible to join. This period starts after either May 16, 2006, or 3 months after they are first eligible for Medicare.

People will have to pay a penalty for every month they were eligible to join a Medicare drug plan and weren't enrolled in one. They will have to pay this penalty in addition to their monthly premium for as long as they are enrolled in a Medicare drug plan.

The late enrollment penalty amount is at least 1% of the "base beneficiary premium" (the national average premium) for each full uncovered month that someone was eligible to join a Medicare drug plan and didn't. Currently, the penalty is 1% of the national average premium. The national average premium for 2006 is \$32.20. The national average premium for 2007 is \$27.35.

Example 1

Mrs. Jones is currently eligible for Medicare and was eligible to join a Medicare prescription drug plan until May 15, 2006. She doesn't have prescription drug coverage from any other source. She didn't enroll by May 15, 2006, and instead enrolls when she is next eligible to join, from November 15 – December 31, 2006. Her drug coverage is effective January 1, 2007. Since Mrs. Jones is without creditable drug coverage from June through December 2006, her penalty will be 7% (or 1% for each of the 7 months from June through December) of \$27.35 or \$1.91. She will pay \$1.91 each month in addition to her plan's monthly premium in 2007.



Will someone who didn't enroll in a plan until one month after he or she was first eligible to join have a penalty?

No. A person must be without creditable prescription drug coverage for 63 days or longer. Most people with Medicare won't have another opportunity to enroll in a Medicare drug plan after May 15, 2006, until November 15 through December 31, 2006, with their coverage effective January 1, 2007. However, some people will have a special opportunity to join a plan in 2006.

Will certain people have to pay a late enrollment penalty for 2006?

Yes. If a person has a special opportunity to join a Medicare drug plan and hasn't had creditable prescription drug coverage for 63 days or more, the person would have a penalty for each full month he or she wasn't covered. However, Medicare and Medicare drug plans will not collect a late enrollment penalty for people who get extra help or for people affected by Hurricane Katrina who enroll in a Medicare drug plan in 2006 (see the next page for more information).

Example 2

Mrs. Smith moves into a nursing home and therefore has a special opportunity to enroll in a Medicare drug plan for coverage effective August 1, 2006. She didn't have creditable prescription drug coverage for June and July 2006 and has to pay a late enrollment penalty. Since the national average premium in 2006 is \$32.20, her penalty in 2006 would be 64 cents per month (or 2% of \$32.20). She will pay 64 cents each month in addition to her plan's monthly premium in 2006.

What happens to Mrs. Smith's penalty in 2007?

The current year's national average premium is used to recalculate the penalty each year. In 2007, Mrs. Smith will pay 2% of \$27.35, which is 55 cents. She will pay this penalty in addition to her plan premium each month.

Example 3

Mr. Ray doesn't have creditable prescription drug coverage and waits to join a Medicare drug plan until December 2007 so that his coverage is effective January 1, 2008. He wasn't enrolled for 7 months (June through December) in 2006 and all 12 months in 2007. In 2008, he will have to pay 19% (assuming the penalty calculation is still 1%) of the national average premium for 2008 each month, in addition to his plan's monthly premium.



Who doesn't have to pay a late enrollment penalty for 2006?

Medicare and Medicare drug plans won't collect a late enrollment penalty for people who qualify for extra help (both the full and partial low-income subsidy) who enroll in a plan in 2006. Also, Medicare and Medicare drug plans won't collect a late enrollment penalty for people affected by Hurricane Katrina and enroll in 2006. After May 15, 2006, these people don't have to wait until November 15 through December 31, 2006 to join a plan. If they enroll in a plan or Medicare enrolls them in a plan after May 15, 2006, they won't pay a penalty for 2006. As long as they stay continuously enrolled in a Medicare drug plan, they won't be assessed a late enrollment penalty for 2006. If they disenroll from their Medicare drug plan after 2006 and don't have creditable drug coverage for 63 days or longer, they would then have a late enrollment penalty if they join a 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.