New Options for Employers

Employers have important new options available under the Medicare law. One of the options is a new federal subsidy for employers that continue to offer high-quality prescription drug coverage to their retirees and dependents. The Congressional Budget Office estimates that the employer subsidy represents $71 billion in funding for over 10 years for employers that maintain prescription drug coverage for their retirees. This program is intended to stem the erosion of employer-sponsored retiree drug coverage. Alternatively, employers may coordinate with Medicare to help provide and possibly enhance prescription drug coverage for retirees.

These alternative options allow employers flexibility to coordinate with or supplement standard Medicare Part D coverage for their retirees. Specifically, employers may want to consider enrolling their retirees in a Medicare Part D prescription drug plan or a Medicare Advantage plan. Moreover, employers may also want to consider sponsoring or becoming a Medicare Advantage plan under Medicare law. One of the options is a new federal subsidy for employers to receive a tax-advantaged subsidy while maintaining valuable benefits for their retirees. The subsidy amount is equal to 28 percent of allowable retiree prescription drug costs — including costs paid by the employer and the retiree. CMS will subsidize only those prescription drug costs that fall between $250 and $5,000 per retiree or dependent in 2006. These cost thresholds and cost limits are annually adjusted for inflation. Moreover, only Medicare Part D covered drugs qualify for the subsidy. Under the new Medicare law and rule, administrative costs, price concessions, rebates, and discounts on prescription drugs are not eligible for the subsidy. The new federal subsidy is also tax-deductible — thereby increasing its value, especially for firms with relatively high marginal tax rates.

Estimated Value of the Employer Subsidy (For Retirees)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average pre-tax value</td>
<td>$668</td>
</tr>
<tr>
<td>Average after-tax value (25% tax rate)</td>
<td>$891</td>
</tr>
<tr>
<td>Average after-tax value (55% tax rate)</td>
<td>$1,028</td>
</tr>
<tr>
<td>Maximum pre-tax value</td>
<td>$1,330</td>
</tr>
</tbody>
</table>

Source: CMS Discussion Paper: Retiree Drug Coverage under the MMA: Issues for Public Comment to Maintain Equivalence in Drug Coverage and Reductions in Drug Costs for Retirees

Qualifying for the Subsidy

To qualify for the new federal subsidy, employers must annually apply to CMS for the subsidy and offer retiree prescription drug coverage that is at least actuarially equivalent to standard Medicare Part D drug coverage. According to the rules, employers need to submit their applications by September 30, 2005 to receive subsidy payments in 2006. To that end, employers must prepare and submit an actuarial attestation (signed by a qualified actuary) that the coverage is at least equal to standard Part D coverage. Although the standard for actuarial equivalency has yet to be determined by CMS, it is expected that the majority of employers’ retiree plans provide benefits that meet or exceed the value of Medicare Part D standard benefits. In addition to the attestation and application, employers must provide CMS with detailed data on their retiree’s, maintain records for auditing purposes, and notify CMS and beneficiaries that the coverage is creditable (at least equal in value to Medicare Part D).

Checklist for Employers to Apply for the Subsidy

- Submit application to CMS (including all required information)
- Prepare actuarial attestation (signed by a qualified actuary)
- Agree to comply with all federal laws and regulations and acknowledge that information is being provided to obtain federal funds
- Notify and disclose to CMS and beneficiaries that retiree drug coverage is creditable (e.g. at least equal in value to Medicare Part D)
- Maintain access to records for at least 6 years (for auditing purposes)

Data Elements Required to Qualify for the Employer Subsidy

Under the rule, CMS has proposed an extensive set of data requirements for employers (or third-party administrators or insurers) to submit to CMS. These include the full names of each qualified covered retiree and dependent (if Medicare eligible) enrolled in the plan and the following information:

- Health Insurance Claim number;
- Date of birth;
- Sex;
- Social Security number; and
- Relationship to the retired employee.

Deadlines and Timelines for the Employer Subsidy Program

CMS has set out September 30, 2005, as the deadline for employers to submit their applications to receive the subsidy in 2006.

Key Issues for Employers to Consider

Employers will have to carefully consider a number of issues in deciding whether to participate in some of the new options created by the Medicare law. In order to maximize the value of these new options, employers will have to weigh some important operational and technical issues with the new program.

Timing of the Final Rules

Final rules implementing the employer provisions of the Medicare law were published in January 2005. This is a very short timetable for implementing a complex new program. Employers considering participating in the new subsidy program should carefully examine their current health benefits for retirees to ascertain if it is as generous as Medicare Part D coverage. If the coverage is not as comprehensive as Medicare Part D, employers can choose to supplement Part D coverage or make changes in their benefits to qualify for the subsidy. Moreover, employers may want to help educate their retirees about options available to them under the new Medicare program – especially if employers are considering coordinating with a new Medicare Part D plan.

Operational Issues

CMS envisions extensive data collection requirements and submissions for employers and third-party administrators or insurers in order to receive the subsidy. Compiling and submitting all of the required data elements promises to be a daunting challenge and will require collaboration by employers and contracted administrators (e.g. insurers and pharmacy benefit managers). Reviewing and compiling all of the required data elements in advance can help all parties identify potential gaps in data and reduce potential for confusion and errors.

Employer Option Subsidy

Continue offering qualified prescription drug coverage for retirees under employer-sponsored plan. Yes

Supplement or wrap-around standard Medicare Part D coverage. No

Pay all or some of the premium for standard Medicare Part D coverage. No

Contracting with or becoming a Medicare Part D plan. No

CMS Subsidy Program:
The Basics

The employer subsidy program provides the opportunity for employers to receive a tax-advantaged subsidy while maintaining valuable benefits for their retirees. The subsidy amount is equal to 28 percent of allowable retiree prescription drug costs — including costs paid by the employer and the retiree. CMS will subsidize only those prescription drug costs that fall between $250 and $5,000 per retiree or dependent in 2006. These cost thresholds and cost limits are annually adjusted for inflation. Moreover, only Medicare Part D covered drugs qualify for the subsidy. Under the new Medicare law and rule, administrative costs, price concessions, rebates, and discounts on prescription drugs are not eligible for the subsidy. The new federal subsidy is also tax-deductible — thereby increasing its value, especially for firms with relatively high marginal tax rates.

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Overview:
On December 8, 2003, President George W. Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003. This landmark legislation will provide access to prescription drug coverage through Medicare (under new Medicare Part D and existing Medicare Advantage plans) and expands choices and benefits to beneficiaries, including preferred provider organizations (PPOs). The bill also provides new options for employers to maintain and enhance prescription drug coverage for retirees—either through an employer-sponsored plan or by coordinating with Medicare. Taken together, the new law represents the most fundamental and extensive changes to the Medicare program since its inception nearly 40 years ago.