



## **“Employer Options for Retiree Drug Coverage under the MMA”**

April 8, 2005

The Alliance to Improve Medicare hosted a briefing to provide congressional staff with information on employer options and outreach efforts for prescription drug coverage under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA). Panelists included Julie Goon, Director of Medicare Outreach, HHS Centers for Medicare & Medicaid Services; Neil Trautwein, Assistant Vice President, Human Resources Policy, National Association of Manufacturers; and Janet Boyd, Director of Government Relations, Tax and Benefits, The Dow Chemical Company and Chair, Employers' Coalition on Medicare.

Ms. Goon stated that prescription drug coverage is an important aspect of retiree security and that the MMA's goal was to encourage employers to continue providing drug coverage. Ms. Goon reported that the MMA provided five prescription drug coverage design options to employers in recognition of the great diversity of existing retiree plans. She noted that the most attractive option to employers will likely be to offer coverage deemed equivalent to the standard Medicare drug benefit in return for a 28 percent subsidy and stated that the subsidy option is available to all employers and unions, regardless of whether they pay taxes or are tax-exempt.

Ms. Goon discussed CMS' efforts to avoid “windfalls” to employers who choose to accept the subsidy payments. She stated that the actuarial equivalence test has been designed to ensure that employers do not simply shift costs onto retirees. Rather, she reported that employers will need to demonstrate that they are spending a certain threshold amount on drug coverage in order to qualify for the subsidy payments.

She also outlined three guidance documents previously issued to employers - outlining timelines for bid submissions, waivers for licensure requirements for enrollment populations, management and operation requirements such as solvency and pharmacy access, service area requirements, and waiver of calendar year operation requirements. CMS guidance documents are available at [www.cms.hhs.gov/medicarerereform/pdbma/employer.asp](http://www.cms.hhs.gov/medicarerereform/pdbma/employer.asp).

Mr. Trautwein stated NAM's support for Medicare improvements, calling the MMA a “perfect first step.” He noted that the NAM believes retiree health care is an important pillar for improving and expanding Medicare coverage and stated that employers want to avoid reductions in health care coverage. According to Mr. Trautwein, employers currently provide supplemental health coverage to approximately 30 percent of Medicare beneficiaries and that nearly 93 percent of employer plans cover prescription drugs.

*AIM is a coalition of organizations representing seniors, doctors, hospitals, small and large businesses, medical researchers and innovators, insurance plans and providers and others dedicated to improving and strengthening Medicare for all Americans. AIM seeks to ensure that all senior citizens have more health care coverage choices, better benefits (including prescription drug coverage), and access to the latest in innovative medical practices and treatments.*

Mr. Trautwein noted that CMS has worked to provide “vital” flexibility to employers to encourage continued retiree drug coverage. He outlined the five options available to employers: 1) offer coverage deemed “actuarially equivalent” to the Medicare drug benefit in return for the 28 percent subsidy payments; 2) offer a stand-alone supplement and encourage retirees to enroll in a Medicare drug plan as primary coverage; 3) sponsor a Medicare Advantage-Prescription Drug Plan (MA-PDP) or stand alone prescription drug plan (PDP); 4) contract to offer a MA-PDP or PDP for a specially identified retiree population; or 4) reimburse all or part of Medicare drug coverage premiums.

Finally, Mr. Trautwein described employer outreach efforts to retirees and noted the challenge of tracking a mobile retiree population. He stated that “finding them, reaching them, and teaching them” about drug coverage will be a difficult challenge.

Ms. Boyd noted that many companies are still waiting for additional guidance from CMS, specifically, upcoming guidance on determining actuarial equivalence, before finalizing plans and communicating information to retirees. She then provided an overview of the Employers’ Coalition on Medicare, expected employer choices under the MMA drug benefit, and likely employer communication vehicles to current workers and retirees.

Outlining expected employer choices, Ms. Boyd cited a recent survey of employers showing that the majority of companies, nearly 70 percent, are expected to continue to offer prescription drug coverage and accept the 28 percent subsidy. Ms. Boyd noted that accepting the subsidy option is the easiest approach for employers as it will allow them to continue to offer existing plans without the need for alterations or significant outreach and education to retirees. The same survey determined that 77 percent of retired workers are likely to be in plans that continue drug benefit coverage and accept the 28 percent subsidy while only 4 percent of retirees are likely to be in plans that discontinue drug coverage. According to Ms. Boyd, CMS estimates that employers will provide retiree drug coverage or supplemental drug coverage to over 12 million Medicare beneficiaries.

Ms. Boyd described likely communications vehicles for employers providing drug coverage information. Options include annual open season notifications, summary plan descriptions, and informal retiree communications such as newsletters and event notices. Ms. Boyd stated that employers must provide plan participants with a “notice of creditable coverage” before November. While CMS guidance has determined that this notice can be included in other types of communications (such as the open season notices), notices of creditable coverage must inform retirees and their spouses or dependents of whether the plan provides creditable coverage. If the plan does not provide creditable coverage, retirees must be notified of the deadline to enroll in a Medicare prescription drug plan to avoid the late-enrollment penalty. Finally, Ms. Boyd noted that employer communications may also include information on the new Medicare drug benefit to allow retirees to compare options and decide whether the employer-sponsored option or a Medicare drug plan would best fit their individual needs.