



The Vita Viewpoint

Important Information for Decision Makers

Medicare Part D

Overview

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Part D) was enacted. This new legislation created a new prescription drug benefit will for Medicare beneficiaries beginning January 1, 2006. Although this addition to Medicare benefits is a welcome relief to many seniors, a large number of current Medicare beneficiaries already receive a prescription drug benefit either through employment-based or retiree benefits. Medicare Part D impacts all employers providing coverage to Medicare-eligible individuals (active employees and their dependents as well as any retirees). It is vital that employers are aware of the impacts of this landmark legislation.

Action is Required!

The Centers for Medicare & Medicaid Services (CMS) has recently outlined three specific requirements for employers with Medicare eligible employees or retirees. These requirements are outlined below.

Overview of Requirements for Employers

1. Determine Whether the Prescription Drug Benefits Qualifies as Credible Coverage

The CMS provided the following four standards in which an employer may determine if their plan qualifies as credible coverage. The plan must meet all four standards to qualify as credible coverage.

- a. Provides coverage for brand and generic prescriptions
- b. Provides reasonable access to retail providers and a mail order option
- c. Plan design pays an average of 60% of prescription drug expenses
- d. Satisfies one of the following (i and ii for non-integrated plans):
 - i. No annual benefit maximum or an annual maximum of at least \$25,000
 - ii. Expected claims experience is \$2,000 per Medicare eligible employee
 - iii. If the prescription drug benefit integrated with the health plan then the annual deductible must be less than \$250 with an annual benefit of at least \$25,000 and a lifetime maximum of at least \$1,000,000.

2. Deliver Disclosure Notice to Medicare Eligible Individuals

Once the prescription drug plan's credibility has been determined notification must be provided to all Medicare eligible beneficiaries in the form of a Disclosure Notice. The CMS requires that the Disclosure Notice must be provided to any employee, retiree or covered dependent who is Medicare eligible.

The Disclosure Notice may be delivered to the employee with all other plan documents during enrollment or the plan renewal. Although, an employer must provide a dependent with a separate disclosure notice if the employer is aware the dependent is Medicare eligible and resides at a different address.

When to deliver the Disclosure Notice

1. Prior to Medicare Part D Election Period (November 15 through December 31)
2. Prior to the individual's Initial Enrollment Period for Medicare Part D

3. Prior to the effective date of coverage for a Medicare eligible employee joining the plan
4. Whenever prescription drug coverage ends or the credibility status changes.
5. Upon request.

The CMS has provided a sample Disclosure Notice for Credible and Non-Credible Coverage which contains all the required format and language. These notices may be found at www.cms.hhs.gov/medicareform.

3. Notification to CMS of an employer's prescription drug plan credibility

Employers must submit notification to the CMS the status of their prescription drug plan's credibility on an annual basis. In addition, the CMS must be notified if there is any change in an employer's prescription drug plan which affects their credibility. Rules for submitting disclosures to the CMS have yet to be determined.

Medicare Part D Retiree Drug Subsidy

The CMS has created an incentive for an employer to continue offering a prescription drug benefit to their Medicare eligible employees through a subsidy. The CMS is trying to maintain Medicare's prescription drug benefit within the private sector by providing employers with the subsidy. As such, employers providing a prescription drug benefit to retirees may qualify for a subsidy from Medicare if their plan qualifies as credible coverage. The CMS has specified five steps for an employer to receive the Retiree Drug Subsidy.

1. Submit an application by September 30 for all calendar year plans to qualify for the subsidy beginning January 1. All non-calendar year plans must submit applications 90 days prior to the effective date of the plan.
2. Attach to the application an actuary attestation that the prescription drug plan qualifies as credible coverage.
3. Certify that the disclosure notice of credible coverage has been delivered to all Medicare eligible employees.
4. Electronically submit retiree and dependent prescription drug plan enrollment details.
5. Electronically submit year-end drug cost incurred and reconcile cost data.

The CMS would like employers to maintain their current prescription drug benefit for retirees and have created the subsidy as a cost savings incentive for employers. An early estimate of the tax-free subsidy an employer may receive is \$668 per participant in 2006.

Decision Point for Employers

There are essentially three paths an employer may elect in complying with the new prescription drug requirements for retiree coverage.

Subsidy – The employer provides the retiree with drug coverage that is equal to or better than the standard Medicare Part D benefit. In return, the employer receives a federal subsidy up to 28% percent of each retiree's annual qualifying pharmacy drug expenses between \$250 and \$5,000. The CMS estimates this option to be worth approximately \$662 per member per year. An employer interested in this option must submit an application to CMS by September 30, 2005. This employer option will typically not impact premiums for retiree prescription coverage.

Wrap – The employer's coverage coordinates with the member's Part D plan. CMS is building an electronic interface so that both primary and secondary coverage payments can be paid at the point of purchase. For retiree coverage, group insurance will be considered secondary coverage. Although each specific employer's benefit design is different, the overall discount to retiree pharmacy premium is estimated to be 20% to 25%.

Waiver – Combines Medicare Part D coverage with the employer's enriched benefits into one benefit design. This option can be offered as a standalone drug benefit or incorporated into a group's existing coverage with many insurers. With waiver, it can be expected that the overall discount to the retiree's pharmacy premium will be approximately 30-35%.

Communications to Retirees

An employer must decide which coverage option is the best solution for providing their retirees with benefits. Once a decision is made, the employer will need to communicate with their retiree population regarding whether or not they should enroll in individual Medicare Part D coverage.

The Part D benefit is an optional benefit which must be purchased by the member or the employer on the member's behalf. If a Medicare-eligible member is covered by a group insurance plan, the employer must inform them whether or not their coverage is equal to the standard Medicare benefit. This is referred to as a "creditable" or "non-creditable" coverage notice.

If the member or employer decides not to sign up for Part D coverage when a member first becomes eligible, a creditable coverage letter allows members to enroll at a later date without being charged a higher premium.

Medicare beneficiaries must receive "creditable" or "non-creditable" coverage letters before November 15, 2005. This includes Medicare beneficiaries who are:

- Active employees
- Retirees
- Covered as spouses or dependents under active or retiree coverage

Employers have various choices in offering Medicare Part D coverage and most carriers are developing a range of integrated solutions.

Employers with no Medicare Eligible Employees and/or Retiree Plans

Medicare does not require any action be taken by employers with no current Medicare eligible employees or retiree plans. Although, it is important for all employers to understand the employer requirements for Medicare Part D in the event a Medicare eligible employee is acquired or an employee becomes Medicare eligible. Vita recommends that employers determine an action plan in advance for when a Medicare eligible individual may be added to the plan.

For questions or additional information, please contact Vita Benefits Group at (650) 968-8811.