

Special points of interest:

- **MEDICARE PART D—PRESCRIPTION DRUG COVERAGE**

Monthly Newsletter

MEDICARE PART D—PRESCRIPTION DRUG COVERAGE

As you may be aware, the Medicare Prescription Drug, Improvement & Modernization Act (MMA) implements a voluntary prescription drug benefit (Part D) for Medicare eligible individuals beginning on January 1, 2006. The benefits and premiums under Part D are:

- Annual \$250 deductible.
- 75% coverage of the next \$2,000.
- No coverage for the next \$2,850 in drug expenses resulting in a \$3,600 out-of-pocket maximum. After the out-of-pocket maximum is met, the co-payment is 5% with a minimum \$2 generic and \$5 brand name co-payments. Amounts paid by employer-sponsored plans do not apply to the out-of-pocket maximum.
- Approximately \$35 average monthly premium for 2006.

There are two key components of this Medicare program that impact group health plans:

- Part D Medicare eligible individuals must be notified by the group health plan whether or not the prescription drug coverage provided by the group health is or is not "creditable coverage". "Creditable coverage" as defined by Medicare is coverage that is equal to or greater than the coverage being offered under Medicare Part D program, and
- The Act also provides for a subsidy for employers whose prescription drug plan meets certain requirements.

The following provides an explanation of these main issues:

- **NOTIFICATION**

Plan sponsors must disclose to Part D eligible individuals if coverage in their group health plan is "creditable" so that they can make an informed decision about enrolling in Part D. The initial enrollment period is November 15, 2005 through May 15, 2006 and the notification to the Medicare eligible individuals must be distributed prior to November 15th.

BAS is in the process of analyzing all clients' prescription drug benefits to determine if the plans' coverage is creditable coverage as defined by the Act. A plan sponsor can determine if its prescription drug plan coverage is creditable to Medicare Part D if the plan design meets the following standards:

- Provides coverage for brand-name and generic prescriptions;
- Provides reasonable access to retail drug stores and, if desired, mail-order pharmacies;
- The plan is designed to pay on average at least 60% of the participants' prescription drug expenses; and
- The plan satisfies at least one of the following requirements:
 - The drug coverage has no annual maximum benefit, or provides for a minimum annual benefit payable of at least \$25,000, or
 - The drug coverage has an actuarial expectation that the plan may

- pay at least \$2,000 per Medicare eligible individual in 2006.
- When the drug coverage is integrated in the health plan, the health plan's annual deductible is no more than \$250, has no annual benefit maximum or provides for a minimum annual benefit of \$25,000; and provides at least a \$1 million lifetime combined benefit.

BAS will prepare the required notification for you to distribute to the Medicare eligible individuals. This notification will include information regarding the options that the Medicare eligible individuals have regarding prescription drug benefits effective January 1, 2006.

• SUBSIDY GUIDELINES

The Centers for Medicare & Medicaid Service (CMS) recently released guidance to implement the new prescription drug benefit under Part D of Medicare. The guidance is designed to help employers that provide prescription drug coverage to Medicare-eligible individuals to determine whether they are entitled to collect a tax-free government subsidy that can equal up to 28% of the employers' annual drug costs that are \$250 to \$5,000 per beneficiary.

Under the program, employer sponsored retiree drug coverage must be at least actuarially equivalent to the benefit that retirees would receive from Medicare Part D (that part of Medicare through which prescription drug benefits will be offered). An actuary retained by the employer would have to certify that the plan is equal to or better than the Medicare Part D benefit.

Employers may receive a government subsidy if they continue providing drug coverage to their retirees who are not enrolled in a Part D product, provided the employer coverage is at least actuarially equivalent to standard Part D drug coverage.

In order for an employer to qualify for a federal subsidy, the final rules clarify the two-part test for determining the "actuarial equivalence" of employer-provided drug coverage. The employers' retiree prescription drug plans would have to pass each prong of the two-part test. Generally, the first part requires that the employer compare, based on its claims data, the expected prescription drug costs for each retiree under its plan with the expected prescription drug costs *if* the retirees were receiving coverage through Medicare Part D.

This is a "gross value test," under which the expected amount of paid claims for Medicare beneficiaries in the employer's plan must be at least equal to the expected amount of paid claims for the same beneficiaries under Part D standard coverage.

The second part is a "net value test," which requires employers to subtract the retiree premium contributions from the value of the plan (as calculated under the first part of the test). The net value test compares the net value of the employers' contribution toward the cost of its retiree plan with the net value of Part D standard coverage.

After these calculations are completed, the net cost of the employer plan is at least equal to Part D, then it would pass the second prong of the two-prong test and the employer would be eligible to receive the Medicare subsidy. For this purpose, the net value of standard Part D drug coverage is reduced to reflect the "TrOOP" (true-Out-Of-Pocket) impact of having an employer's plan supplement or "wrap around" a retiree's Part D coverage.

Employers that decide to accept the federal subsidy for providing actuarially equivalent drug coverage will need to file an annual application for each plan; the application for the 2006 year is due by September 30, 2005. The final rules give employers the option of electing to have the subsidy paid on a monthly, quarterly or annual basis.

Go to <http://www.cms.hhs.gov/medicarerereform> for additional information and to review the final rules.

BAS will continue to provide you with additional information on this subject.