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## Medicare Modernization Act: How Employers Can Take Advantage of Retiree Drug Subsidy

On Dec. 8, 2003 the Medicare Modernization Act (MMA) was signed into law by President Bush and expanded Medicare to include a voluntary prescription drug benefit now labeled as Medicare Part D. Beginning Jan. 1, 2006, and after the initial enrollment period this fall, the standard benefit within Medicare Part D will pay, after the deductible of \$250, 75 percent of the Medicare participant's cost of prescription drugs up to \$2,250. Participants will then pay for the full cost of their drugs until they reach a total of \$3,600 in out-of-pocket expenses (also referred to as the "donut hole"). Once the participant reaches their out-of-pocket, Medicare will pay 95 percent of their drug costs.

### What Does This Mean For Employers?

In an attempt to offset the ongoing decline in employer-sponsored retiree drug plans, the government will begin to pay an employer that sponsors a "qualified retiree prescription drug plan" a tax-free subsidy of 28 percent of "qualifying" participant's allowable prescription drug costs between \$250 and \$5,000. This is called the "retiree drug subsidy" option and for many employers is the most significant piece of the MMA.

The retiree drug subsidy is one option available to employers regardless of whether they pay taxes or are considered tax exempt. The option is very accommodating in that it allows employers to continue providing drug coverage to their Medicare-eligible "retirees" at a lower cost while retaining the continuity of high quality prescription drug coverage for their retirees. CMS has issued a subsidy estimate of \$668 per participant for 2006.

### To qualify for the retiree drug subsidy an employer must satisfy all of the following:

1. Offer coverage for prescription drugs under a program that is considered "creditable coverage" by CMS that is at least an "actuarial equivalent" to Medicare Part D and notify the plan participants that the plan qualifies. (CMS has provided a sample "Creditable Coverage" notification on the CMS Web site [www.cms.hhs.gov](http://www.cms.hhs.gov)).
2. Notify the plan participants that the plan qualifies. The notification of "Creditable Coverage" (sample notification can be located on the CMS Web site [www.cms.hhs.gov](http://www.cms.hhs.gov)) must be provided to all Part D eligible individuals each year prior to the commencement of the annual enrollment period for Part D, which begins Nov. 15.
3. Cover Part D eligible retirees and spouses under the employer

plans that are not enrolled additionally under Medicare Part D. Employers are not entitled to claim the drug subsidy on participants that have enrolled in Medicare Part D.

4. Submit an application (either paper or electronic located on the CMS Web site) by Sept. 30, 2005, to qualify for the retiree drug subsidy, which begins Jan. 1, 2006.

### The application should include:

- a. The organization identification and contact information (employer identification number, name, address, etc.)
  - b. A list of designated individuals authorized to assist the plan sponsor in submitting application information.
  - c. A list of benefit options included in the drug plan, including identifying information and contact information for each option.
  - d. The name and contact information for each actuary involved in attesting to the value of benefit options under the plan.
  - e. An electronically signed Attestation(s) of Actuarial Equivalence certifying that the plan sponsor's retiree drug plan is, at a minimum, actuarially equivalent to the standard Medicare Prescription Drug Coverage.
  - f. Bank routing and contact information (to receive RDS payments).
  - g. A Plan Sponsor Agreement electronically signed by the authorized representative from the plan sponsor.
5. Electronically submit and periodically update enrollment information about retirees and dependents. This information should include the full name of each participant enrolled in the plan, the health plan ID number or Social Security number, date of birth, gender status and the relationship to the retired employee.
  6. Electronically submit aggregate data about drug costs incurred and reconcile costs at year-end; submission of detailed individual claims data is not required. Plan sponsors can choose whether to submit data and receive payments monthly, quarterly or annually. (Additional detailed information regarding the above steps is provided on the CMS Web site [www.cms.hhs.gov](http://www.cms.hhs.gov))

Employers or plan sponsors can continue with any existing business or vendor relationships they choose to administer the plan and coordinate the subsidy process regardless of whether the vendor participates in Part D so there is minimal disruption. ★

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