

BETWEEN THE LINES

August 2005

MEDICARE PRESCRIPTION DRUG COVERAGE

What Does the new Medicare Prescription Plan Pay?

After a \$250 annual deductible, Medicare pays 75% of the next \$2,000 of eligible prescription costs.

The next \$2,850 of prescription drug costs are not covered at all. However all further drug costs are 95% reimbursed.

What Does it Cost?

Initially, the monthly premium will be approximately \$37. Benefit limits, thresholds and deductibles will be indexed to the rise in per capita drug spending. The premium will cover about 25% of the true cost of the benefit. The premium, deductibles and coinsurance is further subsidized for the lowest-income beneficiaries.

The cost to taxpayers is estimated by the GAO to be \$8.1 trillion over 75 years. That will add to the total estimated federal debt of \$459 trillion, or about \$145,000 for each U.S. resident.

Employer Disclosure Notice Requirements

The Medicare Modernization Act provides for a number of new Medicare benefits, including coverage for prescription drugs effective January 1, 2006. This is the first time in history that Medicare will cover outpatient prescription drugs.

Every Medicare-eligible person will be eligible for the new prescription drug program (Medicare Part D). This includes those who may be covered by other programs, such as those covered as active employees or as insured retirees on employer-sponsored plans.

There will be an initial open enrollment period for the prescription drug program. If you are currently covered by a prescription drug plan providing benefits that are at least as good as the Medicare plan, you can defer enrolling in the Medicare drug program during the initial open enrollment period.

Then, when you are no longer covered by your present plan, you can then enroll in the Medicare prescription drug program without paying any penalty for late enrollment.

If your health plan does not provide prescription drug benefits that are at least as good as Medicare's, and you decide not to enroll in the Medicare prescription drug program during the initial open enrollment period, you will pay a higher premium for Medicare prescription drug coverage once you do enroll. That surcharge will increase with every month beyond the initial enrollment period that you did not enroll, and this additional premium will be permanent.

For this reason, it is very important that employers notify Medicare-eligible people who are covered by employer-sponsored plans as to whether or not the prescription coverage they have is at least as good as the Medicare program Part D coverage. The Centers for Medicare and Medicaid Services (CMS) requires all employers to provide a disclosure notice to their employees who are Medicare-eligible to provide them this information. The following resources will assist employers in meeting this requirement.

California Corporate Benefits

Robert Recchia, CLU ChFC
16955 Via Del Campo
Suite 100
San Diego, CA 92127
Phone: 858-753-4102
Fax: 858-487-2913
Email: bobr@cabenefits.com
www.cabenefits.com

Thank You

All of us at CCB would like to take this opportunity to say "thank you" again for your business. We appreciate the opportunity to work with you.



Quick Overview of Employer Notice Requirements

Who must receive the notice?

All Part D eligible individuals who are covered by an employer health plan with outpatient prescription drug coverage must receive a notice, regardless of whether the employer coverage is primary or secondary to Medicare. The notice must be provided to active employees and their spouses as well as those who are covered as retirees, disabled or on COBRA.

What is Part D?

Part D is a new Medicare prescription drug program beginning January 1, 2006.

Who is eligible under Part D?

If the individual is entitled to Medicare Part A and/or enrolled in Part B, they are eligible for Part D. For coverage under a specific Part D plan, they must reside in the service area where it is being offered.

How do I know if someone is eligible for Medicare Part A or B?

A person has Part A coverage if they have attained age 65 and receives monthly Social Security benefits or is a qualified railroad retirement beneficiary. Individuals under age 65 may also become entitled to Medicare benefits if they receive at least 24 months of Social Security benefits based on disability. Employees of Public Agencies may also be eligible if they have attained age 65 and have elected to contribute to Medicare.

It may be difficult for me to keep track of this information. Is there an easier way to meet the notice requirement?

The simplest way is to provide the notice to all employees and retirees covered by your health plan each year prior to November 15th.

How does Part D enrollment work?

There is an initial open enrollment period beginning on November 15, 2005 and continuing through May 15, 2006. After the initial enrollment period, newly eligible individuals are eligible to enroll during the 3 months before their Medicare eligibility date, the month of their eligibility date, and until 3 months after that date. If an eligible individual doesn't enroll during this period, they will pay a higher premium for late enrollment.

How does this relate to the employer disclosure notice?

If an eligible individual is covered under a health plan that is providing prescription drug coverage as good as the Medicare program coverage (called creditable coverage), they will not be charged a late enrollment penalty if they choose to continue their employer sponsored coverage and enroll in a Medicare prescription drug program at a later date. If the coverage for prescription drugs under their health plan is not as good as the standard Medicare prescription drug coverage (called non-creditable coverage) and they go beyond their initial open enrollment period, they will pay a late enrollment penalty for the rest of the time they are enrolled in the Prescription Drug program.

Is there a simple way an employer can determine if the coverage provided under their plan is as good as the Medicare program?

Unless an employer is applying for the retiree prescription drug subsidy, a statement by an actuary is not necessary.

The employer can determine that its prescription drug plan is as good as Medicare if it meets all four of the following standards:

1. Provides coverage for brand and generic prescriptions;
2. Provides reasonable access to retail providers and, optionally, for mail order coverage;
3. The plan is designed to pay on average at least 60% of participants' prescription drug expenses; and
4. Satisfies at least one of the following:
 - a. The prescription drug coverage has no annual benefit maximum benefit or a maximum annual benefit payable by the plan of at least \$25,000, or
 - b. The prescription drug coverage has an actuarial expectation that the amount payable by the plan will be at least \$2,000 per Medicare eligible individual in 2006.
 - c. For entities that have integrated health coverage, the integrated health plan has no more than a \$250 deductible per year, has no annual benefit maximum or a maximum annual benefit payable by the plan for at least \$25,000 and has no less than a \$1,000,000 lifetime combined benefit maximum. An integrated plan is a plan that has one or more benefits combined, such as medical and prescription drug, medical, dental and prescription drug, etc.

YOUR HEALTH INSURANCE PLAN CAN ASSIST YOU WITH THIS DETERMINATION.

What are the employer disclosure notice requirements?

CMS has provided for flexibility in distribution of the notice. It need not be sent as a separate mailing and may be provided with other plan participant materials. If the notice is included with other plan participant materials, it must be prominently referenced in at least 14-point font. One notice for the eligible individual and all covered dependents is permitted, unless it is known that a spouse or dependent resides at a different address. The employer can provide the notice through electronic means but only if the Medicare beneficiary has indicated that he or she has adequate access to electronic information and has been informed of his or her right to obtain a paper version.

California Corporate Benefits reports this information from sources we believe to be accurate. We offer it as information, not as specific advice to any individual or company. We cannot give legal or tax advice and we recommend that you contact your legal counsel or tax professional for advice on these issues.

What should the disclosure notice say?

CMS has developed sample model notices for creditable and non-creditable coverage that are available on our web site.

When should the employer disclosure notices be distributed?

1. Prior to the Medicare Part D Annual Coordinated Election Period beginning November 15th each year;
2. Prior to an individual's initial enrollment period for Part D;
3. Prior to the effective date of coverage for any Medicare eligible individual that joins the plan;
4. Whenever prescription drug coverage ends or changes so that it is no longer creditable or becomes creditable; and upon a beneficiary's request.

Note: Items 1 and 2 will be deemed to be met if the notice is provided to all plan participants at least once a year, prior to November 15. RECOMMENDED.

The employer must provide a copy of their notice to CMS on an annual basis. CMS will provide future guidance relating to this requirement in the fall of 2005.

The employer may arrange for this notice to be provided by a third party, such as their health insurance carrier.

Many insurance carriers are planning to directly notice members insured on their plans as a service to their employer clients. However, there will likely be differences in the level of service from carrier to carrier. We are soliciting details from all carriers and will communicate their responses on the Medicare section of our web site described below.

Where can I obtain model notices?

You will find these documents on the California Corporate Benefits web site. Follow this link: www.cabenefits.com. Click your mouse on the Public link at the lower left hand corner on the home page. From the drop-down list, select Medicare.

Additional resources are provided below:

For guidance on Creditable Coverage Certificates (with templates for certificates), visit CMS's website at <http://www.cms.hhs.gov/medicarereform/Credcovrg.asp>.

For employers looking into their eligibility for a Medicare Drug Subsidy, please visit <http://rds.cms.hhs.gov/>.

Credits

California Corporate Benefits wishes to thank the National Association of Health Underwriters for the very valuable information presented in this newsletter.