



November 14, 2003

Honorable William “Bill” M. Thomas  
Chairman  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

In connection with the conference on H.R. 1 and S. 1, I am pleased to provide additional information you requested regarding Medicare beneficiaries who receive health insurance provided by employers. First, you requested more detail on the number of Medicare beneficiaries who are projected under current law to receive prescription drug coverage through any form of employer-sponsored insurance. Second, you requested clarification about the Congressional Budget Office’s (CBO’s) projections that enactment of the new Part D prescription drug benefit under H.R. 1 would prompt some employers to cease providing supplemental drug coverage for retirees.

CBO’s analysis has focused on Medicare beneficiaries who enroll in Part B of Medicare, reflecting the assumption that those who choose not to enroll in Part B (with its 75 percent federal subsidy) would also decide not to enroll in Part D. We also project that the drug coverage available under current law to the “working aged” (who will be covered as active workers or their spouses) and to retirees enrolled in the Federal Employees Health Benefits or Tricare for Life programs would be unaffected by the new Medicare benefit. Consequently, we anticipate that they too would generally not enroll in Part D.

Therefore, to estimate the costs under Part D for individuals with employer-sponsored drug coverage, CBO focused on nonfederal retirees with relatively generous coverage. In our cost estimate for H.R. 1 and S. 1 as passed by the House and Senate respectively (dated July 22, 2003), CBO projected that 11.7 million Part B participants would have such drug coverage under current law in 2006.

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CBO expects that some employers might choose to maintain their retiree drug benefits unchanged (relying on coordination of benefits rules to lessen their obligations), and some would modify their retiree drug benefits in order to reduce their costs. In some cases, employers might offer a drug benefit to their retirees equivalent to the Part D benefit, while in other cases employers might pay the enrollees’ premiums to join a Medicare drug plan. Such actions by employers who would no longer provide drug coverage for retirees over and above the Part D benefit is sometimes called “dropping.”

Of the projected 11.7 million nonfederal retirees, CBO estimated that 32 percent, or 3.8 million individuals, would have their coverage reduced to (or replaced by) the Part D benefit under H.R. 1. Compared to all 15.6 million Part B enrollees who would have employer-sponsored drug coverage under current law (including the working aged and retirees covered by the FEHB and Tricare programs), those 3.8 million participants would constitute a smaller share—24 percent.

I hope this answers the questions you posed. Please do not hesitate to contact me (at 202-226-2700) or Steve Lieberman (at 202-226-4737) if we can be of any further assistance.

Sincerely,

Douglas Holtz-Eakin  
Director

cc: Honorable Charles B. Rangel  
Honorable W.J. “Billy” Tauzin  
Honorable John D. Dingell  
Honorable Tom DeLay  
Honorable Marion Berry

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Honorable Michael Bilirakis

Honorable Nancy Johnson

Honorable Bill Frist

Honorable Tom Daschle

Honorable Charles E. Grassley

Honorable Max Baucus

Honorable Orrin G. Hatch

Honorable John D. Rockefeller IV

Honorable Don Nickles

Honorable John B. Breaux

Honorable Jon Kyl