



Highlights of [GAO-07-572](#), a report to congressional committees

Why GAO Did This Study

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) created a prescription drug benefit for beneficiaries, called Medicare Part D, beginning in January 2006. The MMA resulted in options for sponsors of employment-based prescription drug benefits, such as a federal subsidy payment—the retiree drug subsidy (RDS)—when sponsors provide benefits meeting certain MMA requirements to Medicare-eligible retirees. The MMA required GAO to conduct two studies on trends in employment-based retiree health coverage and the MMA options available to sponsors. The first study, *Retiree Health Benefits: Options for Employment-Based Prescription Drug Benefits under the Medicare Modernization Act* ([GAO-05-205](#)), was published February 14, 2005. In this second study, GAO determined which MMA prescription drug coverage options sponsors selected, the factors they considered in selecting these options, and the effect these decisions may have on the provision of employment-based health benefits for retirees.

GAO identified options that sponsors selected using data from employer benefit surveys and the Centers for Medicare & Medicaid Services (CMS), the federal agency that administers Medicare. To obtain sponsors' views about the factors they considered and the effects of their decisions, GAO also interviewed private and public sector sponsors and experts.

www.gao.gov/cgi-bin/getrpt?GAO-07-572.

To view the full product, including the scope and methodology, click on the link above. For more information, contact John E. Dicken at (202) 512-7119 or dickenj@gao.gov.

RETIREE HEALTH BENEFITS

Majority of Sponsors Continued to Offer Prescription Drug Coverage and Chose the Retiree Drug Subsidy

What GAO Found

According to survey data GAO reviewed, a majority of retiree health benefit sponsors reported that for 2006 they continued to offer prescription drug coverage and accepted the RDS. However, the size of the reported majority differed across the surveys. For example, one survey of private sector sponsors with 1,000 or more employees found that 82 percent of these sponsors accepted the RDS for 2006. Another survey of private and public sponsors found that 51 percent of surveyed sponsors with 500 or more employees accepted the RDS for 2006. Data from CMS showed that more than 3,900 sponsors, representing about 7 million retirees, were approved for the RDS for 2006. According to the surveys GAO reviewed, much smaller percentages of sponsors reported selecting other MMA options for 2006. For 2007, according to one survey, 78 percent of surveyed employers reported that they planned to apply for the RDS for that year. CMS data showed that about 3,600 sponsors were approved for the RDS for 2007.

Public and private sponsors GAO interviewed reported considering a variety of factors when selecting MMA prescription drug coverage options, including whether they could offer the same retiree health benefits they offered prior to the MMA and their ability to save on costs. In general, in order to implement most MMA options, sponsors would likely have to change the prescription drug benefits they offer. For example, sponsors that offer their own Medicare Part D plan must generally meet all CMS requirements for Part D plans, such as providing coverage for specific categories of prescription drugs. In contrast, sponsors that select the RDS option can offer the same retiree health benefits they offered prior to the MMA, as long as a sponsor's coverage remains at least actuarially equivalent to the standard Part D benefit. When deciding which, if any, options to pursue, public sponsors were affected by some factors that did not affect private sponsors.

In the short term, sponsors' decisions regarding the MMA options appear to have resulted in benefits remaining relatively unchanged, in part because a majority of surveyed sponsors reported that they continued to offer prescription drug benefits and accepted the RDS the first 2 years the RDS was offered. Over the longer term, the effect of sponsors' decisions about the MMA options is unclear. For example, some experts GAO interviewed indicated that the MMA may extend the amount of time that sponsors offer benefits without reducing coverage, while other experts said the availability of the Medicare Part D benefit may make it more likely that sponsors will stop offering prescription drug benefits for retirees. In addition, it is unclear to what extent sponsors will continue to select the same MMA option in the future. To the extent that sponsors that have accepted the RDS select other MMA options, sponsors' provision of retiree health benefits may change.

In commenting on a draft of this report, CMS and four experts agreed with the report's findings.