



Information Counselors Can Use on:

# EMPLOYER & UNION OPTIONS FOR WORKING WITH MEDICARE PRESCRIPTION DRUG COVERAGE

New Medicare Prescription Drug Coverage

As of November 28, 2005

## Medicare Prescription Drug Coverage Is Coming

Starting January 1, 2006, everyone with Medicare will be eligible for prescription drug coverage. Approximately 11.5 million people with Medicare are currently covered by employer and union-sponsored health plans that offer prescription drug benefits, including:

- Active employees and retirees
- Spouses and dependents
- Participants in private health plans (including church-sponsored plans)
- Participants in Federal health plans (e.g., FEHB, TRICARE, VA) and state/local government health plans

Medicare is working with plan sponsors to offer a variety of options for people who already have employment-related retiree drug coverage, including incentives to help employer and union retiree plan sponsors continue to offer drug coverage to their retirees with Medicare.

**IMPORTANT:** In some cases, if a person joins a Medicare drug plan, their drug and/or health (doctor and hospital) retiree coverage could change as well. For example, a person may not be able to drop their retiree prescription drug coverage to join a Medicare drug plan without also dropping their retiree health coverage. And if they drop their retiree prescription drug and/or health (doctor and hospital) coverage, they and any family members covered by the plan may not be able to get the coverage back.

## Different Options for Employer/Union Retiree Plan Sponsors

All employer and union plans are different, but in general, employer and union retiree plan sponsors have the following options:

They can offer retiree coverage that takes the place of Medicare prescription drug coverage. Employer and union plan sponsors that continue to offer retiree prescription drug coverage that meets applicable Medicare

standards can receive payments that are free from federal taxation to reimburse a portion of their costs for retirees who do not join a Medicare drug plan. These federal tax-free payments are known as the “Retiree Drug Subsidy.” Employers and unions that apply for the Retiree Drug Subsidy must provide retiree drug coverage that is “actuarially equivalent” (i.e., on average, of equal or greater value to Medicare standard prescription drug coverage, taking retiree premium contributions into account).

Under the Retiree Drug Subsidy option, the retiree maintains prescription drug coverage through the employer or union and **would not** join a Medicare drug plan. Note that if the retiree joins a Medicare drug plan, the employer/union cannot collect the Retiree Drug Subsidy for that retiree’s drug costs. Although the MMA does not prohibit employers and unions from offering supplemental coverage to these retirees, many have chosen not to offer such coverage.

They can offer retiree coverage through a separate, stand-alone drug plan that supplements Medicare standard drug coverage (similar to how many plan sponsors supplement Parts A & B now). This plan does not replace Medicare prescription drug coverage, but adds to Medicare drug coverage. With this option, the retiree **must join a Medicare drug plan** to receive full prescription drug coverage. The retiree receives prescription drug coverage from a Medicare drug plan, and supplemental coverage from his or her employer/union plan. It’s important to note that with this plan design, the supplemental employer/union coverage does not count toward the retiree’s \$3,600 true out-of-pocket limit.

Employer and union plan sponsors can provide customized Medicare coverage with additional retiree prescription drug coverage. In this case, the employer/union purchases supplemental drug coverage from a Medicare drug plan, or contracts with a specific Medicare drug plan, or contracts directly with Medicare to become a Medicare drug plan and provide the coverage. The retiree receives Medicare prescription drug coverage and employer/union supplemental coverage from the same entity. With this option, the retiree must join the

Medicare drug plan the employer/union has chosen to get the additional coverage.

**Finally, some employers or unions may choose to pay part or all of their retirees' Medicare drug plan premiums.** In this case, the retiree must join a Medicare drug plan to get Medicare prescription drug coverage. Employers and unions can choose this option regardless of whether they also provide retiree drug coverage.

**NOTE: This section only applies to retiree coverage; different rules and options apply to people who are actively working. How Medicare prescription drug coverage works with active employee coverage will be outlined in a separate document.**

### Employer Requirements Under the MMA

Employer and union drug plan sponsors are required to provide a disclosure to all people eligible for Medicare prescription drug coverage—including active workers, disabled workers, individuals on COBRA, retirees and their dependents—whether their current drug coverage is “creditable,” that is, whether the drug coverage is, on average, at least as good as Medicare standard prescription drug coverage. Medicare-eligible employees and retirees need to know whether their coverage is creditable because they will not have to pay a premium penalty to join a Medicare drug plan after May 15, 2006, provided they do not go without creditable coverage from another source for 63 continuous days or longer.

Plan sponsors can incorporate the creditable coverage disclosure into other plan communications, but they must disclose their creditable coverage status to beneficiaries by November 15, 2005. Some employers and unions will include this disclosure information with other communications they may give employees and retirees about their prescription drug coverage. For example, this information may be included in the material beneficiaries receive about their health plan's annual open enrollment period, or as part of their summary plan description. Other employers will provide this information in a separate disclosure notice. CMS has model language available for employers to use in these disclosure notifications at <http://www.cms.hhs.gov/medicarereform/credcovrg.asp>.

### Where Can People With Medicare Learn About Their Options?

Because employment-related drug coverage can work with Medicare prescription drug coverage in several different ways, the best source of information about an individual's existing prescription drug coverage is the communications they get from their employer or union (or the plan that administers their prescription drug coverage). Medicare does not have information about an individual's specific employment-based prescription drug coverage, or details

about how it will work with the new Medicare prescription drug coverage.

People should look for communications from their employer/union about their current coverage, and read them carefully. If they have questions, they should visit the plan's website, or call the number listed in the communications materials. If there's no number listed, they should call their plan or benefits administrator, or the office that answers questions about their benefits.

### All People With Medicare Have a Decision to Make

Individuals should compare the monthly premiums, annual and lifetime plan design caps and limits, co-payments, deductibles and coinsurance requirements of their employer/union plan versus a Medicare drug plan. They should also check the brand-name and generic drugs covered by each plan, to determine whether the drugs they take are covered. Note that the creditable coverage standard does not take drug plan premiums or an individual's specific prescription use into account, so even people with creditable coverage may find it to their advantage to sign up for a Medicare drug plan that costs them less after all factors are considered.

### Employer Coverage and the Extra Help

People with limited income and resources (in 2005, resources of no more than \$11,500; \$23,000 for married couples) may qualify for extra help, even if they already have prescription drug coverage through their employer or union. Even “actuarially equivalent” employer/union coverage may not cover as much as Medicare drug coverage for people who qualify for extra help. Because Medicare with extra help pays more drug costs than many employer or union drug plans, it may make sense for people who qualify to get this extra help to join a Medicare drug plan, even if their employer or union drug plan provides coverage that is intended to take the place of Medicare. Remember that before they make any decisions, people with Medicare need to know how their employer/union plan benefits (including coverage for doctor and hospital services) will change if they join a Medicare drug plan.

## To Learn More

For more details about how employer and union drug coverage can work with Medicare prescription drug coverage, visit <http://www.cms.gov> to access the statute, regulations and additional guidance relating to employer/union coverage and Medicare prescription drug coverage.