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Employer Deadlines	
September 30, 2005	File for Retiree Drug Subsidy (Employers with retiree medical plans)
November 15, 2005	Notice to individuals eligible for Medicare Part D Creditable coverage notice or Non-creditable coverage notice

Medicare Prescription Drug Coverage

Prescription drug coverage under Medicare Part D becomes effective for eligible individuals on January 1, 2006. Individuals entitled to Medicare Part A benefits or enrolled for Part B benefits are eligible for the new prescription drug coverage. The premium for 2006 is $37 per month, about 25% of the projected cost of the program. Those eligible can sign up for Part D during an enrollment period November 15, 2005 through May 15, 2006.

The prescription drug benefits follow a somewhat unusual design as shown in the chart below:

2006 Medicare Part D Payment Schedule

	Part D Pays		Individual or Employer Plan Pays		
Annual Drug Cost	Percent	Max $	Percent	Max $	Cum Max $
0 - 250	0	0	100%	250	250
250 - 2,250	75%	1,500	25%	500	750
2,250 - 5,100*	0%	0	100%	2,850	3,600
5,100 - no limit	95%	no limit	5%	no limit	no limit

* This coverage gap is commonly referred to as the "dough-nut hole"

Retiree Drug Subsidy

To encourage employers with retiree medical plans to continue the prescription drug coverage for Medicare eligible retirees, the government will pay employers sponsoring such plans a subsidy for all qualifying retirees who decline Part D coverage. The tax free subsidy is 28% of the qualifying retirees (and beneficiaries) allowable annual prescription drug costs between $250 and $5,000. The maximum reimbursement is $1,330 per enrollee. The Centers for Medicare and Medicaid Services (CMS) estimated the average subsidy will be about one half of this amount per enrollee in 2006.

To receive the retiree drug subsidy, the employer must apply by September 30, 2005. The application is done on-line and is relatively straight forward. The key requirement is that the plan's benefits must be "actuarial equivalent" to the benefits provided under Part D, and an actuary must certify to this standard.

To be considered actuarially equivalent to Part D, the retiree plan must meet **both** a gross benefit and net benefit standard:

> **Gross value test**: the expected claims paid by the retiree plan must be at least equal to the claims covered under the standard Part D benefit.

Net value test: the expected claims less retiree contributions for the retiree plan must be at least equal to the claims covered by Part D less the Part D required premium.

The gross value test means, for example, that the employer plan must cover brand name drugs as well as generics and that there cannot be a significant annual limit to coverage.

The final regulations regarding actuarial equivalence released in June added an additional calculation to the net test - the gross value of the Part D benefit is calculated as if the employers plan is secondary to the Part D benefit (even though it is not), with the result reduced by the expected monthly beneficiary premiums to determine the net value of Part D. This results in a lower Part D net value, making the actuarial equivalence standard easier to meet. Special adjustments to the tests are needed when the retiree drug plan is combined with the retiree medical plan for deductible or contribution purposes.

The federal subsidy can be collected monthly quarterly, or annually. Final claims data must be submitted within 90 days after the end of the year. The claims data needed is quite detailed, person by person, and prescription by prescription covered. Most insurance company or third part administrators should maintain the required information

Applying for the retiree drug subsidy is optional, although CMS expects most employers who can apply, will. Other options for the employer include:

- Establish a Medicare Part D Prescription Drug Plan (feasible only for the largest employers)
- Continue the current plan without requesting a subsidy
- Create retiree drug coverage that wraps around Medicare Part D
- Drop prescription drug coverage

Notification of Creditable Coverage

Individuals eligible for Part D must decide whether to enroll or not. They may choose not to enroll if (among other reasons) they have coverage through an employer's retiree plan. Medicare imposes a late enrollment penalty if they have a gap of at least 63 days in creditable prescription drug coverage (coverage under an employer's retiree plan may be such creditable coverage). This penalty is permanent, in that the individual will have a higher premium for life.

Because of the late enrollment penalty, the law requires that employers having prescription drug coverage available to Medicare Part D eligible individuals must notify them if the employer's coverage satisfies the creditable coverage test (or a safe harbor defined in the regulations) or does not. This is referred to as a Notice of Creditable Coverage or a Notice of Non-Creditable Coverage. The first notice is due not later than November 15, 2005. CMS has published model notices that can be modified to fit most situations.

The test for creditable coverage is essentially the gross value test described for determining the actuarial equivalence of a retiree plan to Part D. The net value test does not apply in this case.

Conclusions

The deadlines are fast approaching. Employers with retiree plans providing prescription drug coverage should prepare the required notices for participants and determine whether or not they are eligible for the retiree drug subsidy.