



MEDICARE PART D UPDATE

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Medicare Part D: The Basics

Background

- The Medicare Prescription Drug, Improvement and Modernization Act was signed into law on December 8, 2003
- A goal is to preserve retiree prescription drug coverage provided by employers and multiemployer plans
 - In 1988, 66% of large employers provided retiree health coverage
 - In 2002, only 34% of large employers provided retiree health coverage
- Administered by the Centers for Medicare and Medicaid Services ("CMS")
- Medicare Part D is effective January 1, 2006

Impacted Entities

- Employers, unions, churches, and other plan sponsors who have Medicare Part D-eligible active employees or retirees covered under their prescription drug plans

Eligibility

- Eligibility for Medicare Part D
 - Individuals eligible for Medicare Part A or enrolled in Medicare Part B
 - Individuals who reside in covered geographic areas
 - Includes retirees and active employees and their dependents
- Monthly premium: estimated at \$37 for 2006

Standard Part D Benefit

Prescription Drug Expenses	Medicare Pays	Total Medicare Benefit	Retiree Pays	Total Retiree Payment
\$0-\$250	0%	\$0	100%	\$250
\$251-\$2,250	75%	\$1,500	25%	\$750
\$2,251-\$5,100	0%	\$1,500	100%	\$3,600 (TrOOP) (\$2,850 + 750)
\$5,101+ ("catastrophic level")	95%	Unlimited	Greater of: 5% or copay of \$2 generic \$5 other	

True-Out-Of-Pocket Expenses (“TrOOP”)

- TrOOP includes:
 - Deductibles
 - Copays
 - Coinsurance
- TrOOP does not include:
 - Costs reimbursed by third parties
 - Medicare Part D premiums

A light blue background featuring a blurred image of several business professionals in a meeting. On the left side, a person in a dark suit is visible from the waist down, holding a white folder or document. The rest of the scene is out of focus, showing other people in business attire.

Creditable Coverage

Definition of Creditable Coverage

- Prescription drug coverage is “creditable coverage” if the coverage is equivalent to or as good as the Standard Part D benefit
- There are 2 methods for determining whether prescription drug coverage is “Creditable”

Methods to Determine if Coverage is Creditable

- **Method 1: Actuarial Equivalence**
 - Coverage is creditable if the actuarial value of the prescription drug benefit equals or exceeds the actuarial value of the Standard Part D benefit
 - This is the same as the “gross value test” discussed later

Methods to Determine if Coverage is Creditable

- **Method 2: Alternative Test/Safe Harbor**
 - Only for plan sponsors not seeking the subsidy
 - Under this test, coverage is creditable if it:
 - Provides coverage for brand name and generic prescriptions
 - Provides reasonable access to retail providers and, optionally, for mail-order coverage
 - Is designed to pay on average at least 60% of participants' prescription drug expenses, and
 - Meets maximum benefit requirements
 - If the plan does not meet this alternative test, the prescription drug coverage still may be creditable, in which case you still may need an actuary

Creditable Coverage Notices to Individuals

- Plan sponsors must provide a Notice of Creditable Coverage or of Non-Creditable Coverage to Part D-eligible individuals who are covered by or apply for the plan's prescription drug coverage
- But, plan sponsors are not required to provide notice if they contract with Medicare directly as a prescription drug plan ("PDP"), or they contract with a PDP to provide qualified prescription drug coverage
- Notice must be provided before November 15, 2005, and annually thereafter
- Notice may be provided by vendor or third party

Reason for Creditable Coverage Notices

- Notices assist Part D-eligible individuals decide whether and when to enroll in Medicare Part D
- Eligible individuals who fail to enroll timely in Medicare Part D and are not covered by creditable coverage will face late fees/penalties

Content, Form and Manner of Notice

- CMS has issued sample notices, but plan sponsors can opt to use customized notices
- Notices may be sent with other plan participant information, such as enrollment information, but the Creditable Coverage language must be “prominent and conspicuous”
- A single notice may be provided to the Part D-eligible participant and his/her Part D-eligible dependents, unless they reside at different addresses
- Electronic notice is possible if certain requirements are met

Creditable Coverage Notice to CMS

- Employers also are required to provide annual notice of creditable or non-creditable coverage to CMS
- Additional guidance regarding this notice is expected



Plan Sponsor Options

Option 1: Subsidy

- Tax-free payment to sponsors of plans that are actuarially equivalent to the Standard Part D benefit
- Two part test determines whether plan is actuarially equivalent to the Standard Part D benefit
- Subsidy equal to 28% of the allowable annual prescription drug costs between \$250 and \$5,000 (up to \$1,330 for 2006) per employee
- Must submit an annual application to CMS

Subsidy

- Advantages
 - Tax-free subsidy
 - If actuarially equivalent, no change to plan design
 - Retirees are not required to enroll in a Medicare PDP
- Disadvantages
 - Administrative burdens associated with annual application and reporting requirements

Subsidy

- Plan sponsors that wish to apply for the subsidy should:
 - Inform Medicare-eligible retirees that they should not enroll in a Medicare PDP
 - Consult with an actuary to determine if the plan is actuarially equivalent
 - Submit application to CMS annually (by September 30, 2005 for 2006, can request 30 day extension)
 - Maintain records for audit for 6 years

Option 2: Supplement

- A sponsor can design a plan that supplements the Standard Part D benefit by
 - Designing a Stand-Alone plan (“Wrap Plan”)
 - Integrating (or contracting) with a Medicare PDP

Supplement – Stand Alone Approach

- A Wrap Plan:
 - Provides benefits in addition to, but not duplicative, of the Standard Part D benefit
 - Is a separate plan than Part D

Supplement – Stand Alone Approach

- Advantages
 - Potential cost savings
 - No annual application requirement
- Disadvantages
 - Modification of plan design
 - Retirees required to enroll in Medicare Part D
 - Coordinating benefits with Medicare
 - TrOOP

Supplement – Stand Alone Approach

- A plan sponsor that chooses the Stand Alone approach must
 - Design a plan that supplements the Standard Part D benefit
 - Coordinate plan benefits with Medicare Part D
 - Inform Medicare-eligible retirees that they must enroll in a Medicare PDP

Supplement – Integrated Approach

- Under the integrated approach, a plan sponsor may provide enhanced benefits by
 - Becoming a Medicare PDP
 - Contracting with a Medicare PDP

Supplement – Integrated Approach

- Advantages
 - Potential cost savings
 - Administrative ease
- Disadvantages
 - Limitation on plan design
 - Retirees required to enroll in a Medicare PDP
 - TrOOP

Supplement – Integrated Approach

- A plan sponsor that chooses the integrated approach must
 - Determine the enhanced benefits to provide in addition to the Standard Part D benefit
 - Contract with a Medicare PDP
 - Inform Medicare-eligible retirees that they should enroll in the Medicare PDP with which the sponsor contracted

Option 3: Terminate Retiree Prescription Drug Coverage

- A plan sponsor may be able to terminate prescription drug benefits for retirees, but the sponsor must evaluate whether any promises have been made to retirees that may limit their ability to do so

Terminate Retiree Prescription Drug Coverage

- Advantages
 - Cost savings
 - Reduced administrative burdens and expense
- Disadvantages
 - Impact on retirees and employee relations
 - Still have to send notice of creditable coverage to active Part D-eligible employees and their dependents

Terminate Retiree Prescription Drug Coverage

- A plan sponsor that chooses to terminate its retiree prescription drug benefits must
 - Eliminate benefits through a plan amendment
 - Inform retirees that they should enroll in a Medicare PDP at their own cost

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Timeline

Timeline

Accounting periods beginning after June 15, 2004	Recognition for financial accounting purposes of the impact of the federal subsidy for qualifying retirement health plans (FASB FAS 106)
April 18, 2005	Deadline for plan sponsors to submit PDP applications
Aug. 3 – Sept. 30, 2005	CMS accepts plan sponsor subsidy applications
Sept. 14, 2005	CMS approves bids for PDPs

Timeline

Sept. 30, 2005	Deadline for plan sponsors to submit attestation of actuarial equivalence
Sept. 30, 2005	Deadline for plan sponsors to apply for subsidy
Oct. 1, 2005	Approved Part D plans begin marketing

Timeline

Nov. 15, 2005 – May 15, 2006	Election period for 2006 Part D enrollment for all beneficiaries
Prior to Nov. 15, 2005	Plan sponsors provide notice of credible coverage to Part D eligible individuals
Jan. 1, 2006	Medicare Part D coverage begins
Feb. 28, 2006	Retiree drug subsidy payments begin

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To-Do List for Plan Sponsors

To-Do List For Plan Sponsors

- Evaluate the best option for the plan sponsor
- If you are exploring the subsidy option:
 - Determine if administrators can provide claims data on a regular basis to CMS for purposes of the subsidy
 - Request claims data for the actuary to determine creditable coverage and actuarial equivalence
 - Determine whether the plan sponsor's plan is creditable coverage and/or actuarially equivalent
 - Apply for the subsidy by September 30, 2005

To-Do List For Plan Sponsors

- If you are exploring the supplement option:
 - Determine if the current administrator will be a Medicare-approved PDP for purposes of evaluating the supplement options
 - Consider negotiating contracts with other administrators
- Provide Notices of Creditable Coverage (or Non-Creditable Coverage) prior to November 15, 2005

CONTACT INFORMATION

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