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Medicare Part D Basics



Medicare Modernization Act (MMA)

- Enacted on December 8, 2003
- Administered by The Centers for Medicare & Medicaid Services (CMS)
- Discount Prescription Drug Card
 - June 1, 2004
- Creates Medicare Part D
 - Prescription drug benefit starting January 1, 2006
 - Allows for an employer tax subsidy




Part D Benefit Highlights

- \$250 beneficiary deductible
- Medicare will pay 75% of drug costs up to \$2,250
- The beneficiary will pay 25% of these costs
- Beneficiary will pay 100% of drug costs between \$2,250 and \$5,100
- After \$3,600 in true out-of-pocket spending (TrOOP), Medicare will pay approximately 95%

The Standard Benefit


Benefit Stages	Coverage Ranges		% Covered by Part D
	From	To	
Annual Deductible	\$0	\$250	0%
Initial Coverage	\$250.01	\$2,250	75%
Coverage Gap	\$2,250.01	\$5,100	0%
Catastrophic Coverage	\$5,100.01	NO MAXIMUM	95%

Medicare Part D Options for Employers




Plan Sponsor Options

- Do Nothing (maintain current plan)
- Apply for Tax-free Subsidy of 28%
- Employer as Prescription Drug Provider (PDP) or Medicare Advantage Prescription Drug (MA-PD)
- Contract with PDP or MA-PD
- Arrange Supplemental Coverage



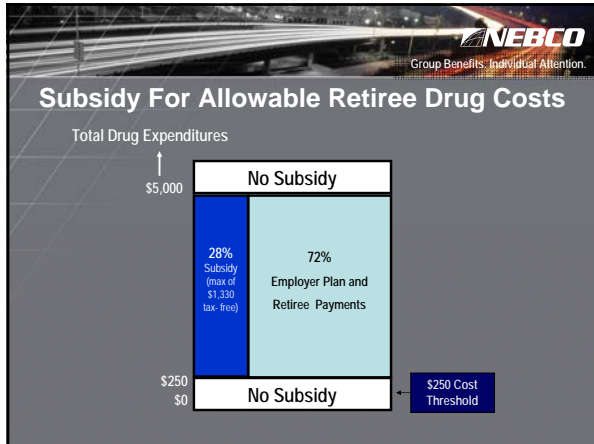
Purpose of Subsidy

- Maximize employer-based drug coverage
- Avoid windfalls
- Minimize the administrative burden
- Minimize the costs to the government

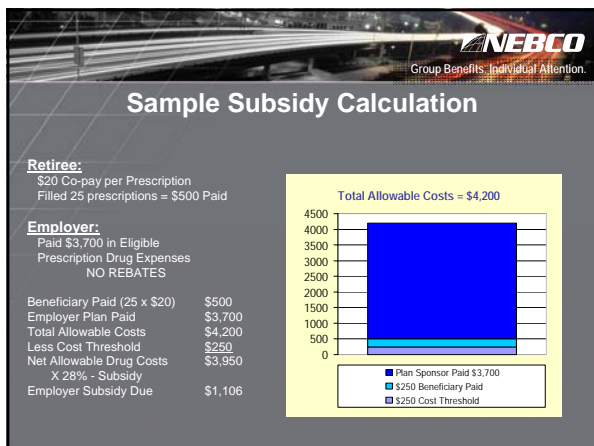



How Does The Subsidy Work?

- Plan must be "Actuarially Equivalent" to The Part D benefit
- 28% of the allowable costs attributable to covered prescription drug costs
 - Between \$251 (cost threshold) and \$5,000 (cost limit)
 - Cost limit and threshold to be indexed after 2006
 - Maximum \$1,330
 - Estimated Average Subsidy = \$611
 - Increase in value for employers subject to corporate income tax
 - Example: Estimated average subsidy \$611 equals almost \$940 of taxable income for employer at 35% tax rate
- Conditional on the individual not enrolling in Medicare D




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- Subsidy Availability?**
- Group Health Plan Sponsors (Section 2(16)(B) of ERISA) that provide a prescription drug benefit to retirees
 - Private Plans
 - Federal, State or Local Governmental Plans
 - Collectively Bargained Plans
 - Church Plans






Supplemental Coverage & TrOOP

- Employers may decide to offer supplemental drug coverage to Part D
- Supplemental coverage impact on TrOOP
 - The catastrophic cap is extended
 - Supplement coverage does not count towards TrOOP
 - Supplement coverage is beneficial to participants




True Out-Of-Pocket (TrOOP)

- TrOOP is the amount the beneficiary must spend on *Part D-covered drugs* to reach the catastrophic cap
- TrOOP consists of the three pieces:
 - The deductible
 - The 25% coinsurance
 - The coverage gap
- Total TrOOP for '06 is \$3,600



Non-Standard Coverage


- Plans have the option of structuring their basic Part D benefits differently
 - Must be at least as good
 - TrOOP applies to the basic benefit no matter how it is structured
- Employers, may offer additional drug coverage that enhances or supplements a beneficiary's Part D plan
 - TrOOP still applies to the basic Part D benefit
- The beneficiary must always satisfy TrOOP to reach the catastrophic coverage stage of Part D



Supplementing The Standard "D" Benefit

Covers 75% At Coverage Gap Stage


Benefit Stages	Coverage Ranges		Covered by Part D		Covered by Supplement		Beneficiary's Responsibility	
	From	To	%	\$	%	\$	%	\$
Annual Deductible	\$0	\$250	0%	\$0	0%	\$0	100%	\$250
Initial Coverage	\$250	\$2,250	75%	\$1,500	0%	\$0	25%	\$500
Coverage Gap	\$2,250.01	\$13,650.00	0%	\$0	75%	\$8,650	25%	\$2,850
Catastrophic Coverage	\$13,650.01	No Maximum	95%	No Maximum	0%	\$0	5%	No Maximum



Employer Waiver


- Employers can become a PDP (April filing)
 - CMS contracts directly with employers
- Employers can contract with PDP's and MA plans to provide "supplement" benefits to retirees
 - cost-sharing amounts
 - basic premiums
 - supplemental premiums (dental, drugs)

Advantages and Disadvantages of Options




Summary Of Employer Options

- Do nothing
- Apply for subsidy
- Apply for waiver
- Contract with a PDP
 - Basic Plan
 - Supplement




Do Nothing

Advantages	Disadvantages
No disruption of benefits to retirees	No FASB reduction
No expense for actuarial services for Federal direct subsidy qualification	No Federal direct subsidy
	No third-party risk sharing




Apply For Subsidy

Advantages	Disadvantages
28% Federal direct subsidy (not taxable)	No third-party risk sharing (assuming self-funded)
Estimated to be \$600 per participant, per year	Annual attestation requiring actuarial expense (testing expected to be extensive)
FASB reduction	Expense and business disruption for possible federal audit
Opportunity to change current plan to one that promotes greater retiree cost sharing	Timing of subsidy payments likely to lag behind need for benefit payments
Prospectively, no disruption of benefits to retirees (based on plan design)	Cap Issues
Maintain design control	Accounting for retirees who sign up for Medicare Part D independently (must be excluded from subsidy)



Apply For Waiver

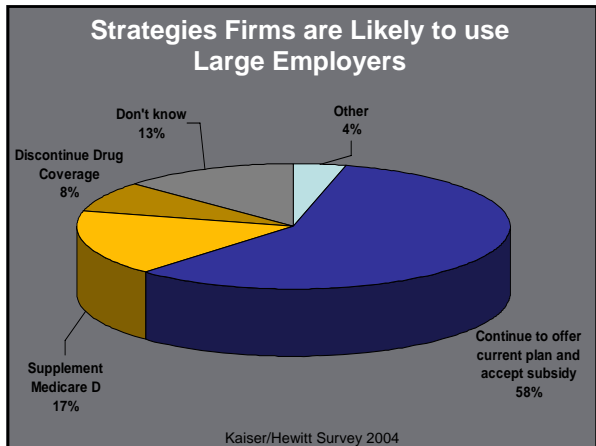
Advantages	Disadvantages
Eligible for payments from CMS	Difficult filing procedure
CMS risk sharing partner	Risk sharing arrangement capping experience gains
Current Plan can remain the same	Expense and business disruption for possible federal audit
No disruption of benefits to retirees (based on plan design)	Retirees who independently sign up for Medicare Part D are excluded
	Accounting for retirees who sign up for Medicare Part D independently

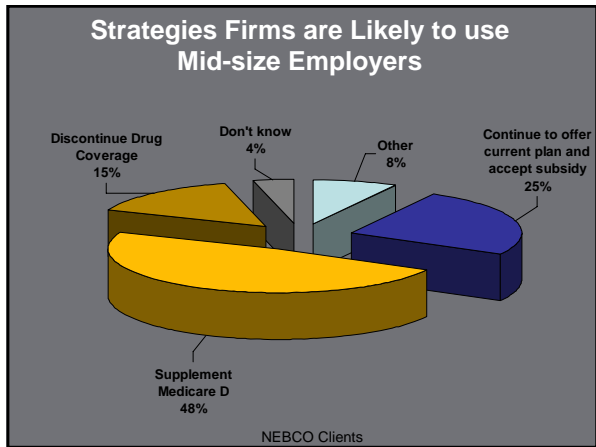


Contract To A PDP With Insured Supplement


Advantages	Disadvantages
FASB reduction	No Federal direct subsidy
Can be funded or voluntary	Will need to assist retirees with Medicare Part D enrollment
Medicare Part D will be primary payor	Possible confusion for retirees
Third-party risk taker (cost shift to PDP)	
Benefits can be designed with limited disruption to retirees	
Opportunity to change current plan to plan that promotes more retiree cost sharing	
No additional actuarial expense	
No annual attestation	
Eliminate the most costly and volatile segment of your retiree health care program	
Flexibility	

What Strategies are Employers Implementing






Responsibilities



What should you be doing now

- Analyze and document retiree population
- Determine which groups would qualify
- Identify which retirees fit into each group
- Assess vander capabilities
- Submit subsidy application by September 30, 2005
- Assess financial risks

How We Can Help?



How We Can Help?

- Evaluate medical benefits
- Arrange comprehensive Medicare "D" plan
 - Enhance Part D (with supplement)
 - Replace Part D (apply for subsidy)
- Perform all enrollment/communications
- Provide "end to end" administration
- Superior customer service
- Track record of results



Evaluate Medical Benefits

- Massive insurance pools
 - Greater spread of risk
- Guaranteed rates (multi-year contracts)
- Electronic integration with Medicare
- Fully inclusive administration



Enhance Part D with our Supplement

- Use our National PDP for Base Part D Benefits
- Provide Supplemental “Coverage Gap” filler plan
- One administrator to integrate all benefits
- Enrollment and communications
- Program reporting



Apply for Subsidy

- Actuarial Attestation Assistance
- Letters of Creditable Coverage to retirees
- Letter of Creditable Coverage to CMS
- Assist with filing for subsidy
- Program reporting and record keeping assistance




Full Administration

- Strategy development and recommendations
- Plan Documents and program filings
- Retiree communications
 - Solicit Medicare ID numbers
 - Letters of Creditable Coverage (retirees and CMS)
- Medicare Part D Enrollment
- Medical Plan Enrollment
- Customer Care Center
- Billing and collections of premiums
- Reporting package



Getting Started

- Arrange conference call or meeting
- Provide the following data:
 - Current Plans Designs (for all plans)
 - Census (including Age, Gender and Zip-code for all covered lives)
 - Claims Experience (past 2 year separated by Medical and Rx)
 - Contribution Amounts or Schedules for all classes
 - Goals and Objectives



Q & A
