



# MMA's Impact On Employer Sponsored Plans

Steve Cigich, Consulting Actuary, and Troy Filipek, Associate Actuary, discuss what insurers will need to do to successfully provide Medicare prescription drug coverage and the options facing employers that currently provide retiree prescription drug benefits.

**E**mployers or plan sponsors providing prescription drug coverage for their Medicare-aged retirees will soon face a difficult choice. Prescription drug costs continue to escalate and retiree programs are becoming more difficult to support financially. By 2006, employers will likely do one of the following:

1. **Maintain current coverage levels as a Primary Sponsor**
2. **Become a Secondary Sponsor to a Medicare Advantage (MA-PD) or a stand-alone basis (PD) plan**
3. **Drop prescription drug coverage altogether**

The government will provide financial assistance for the first two options, encouraging employers to retain coverage, but neither of them is particularly straightforward. Now might be the time for plan sponsors to consider a prescription drug benefit exit strategy. Employers should carefully evaluate their alternatives as more details become known regarding these options.

*Under the Primary Sponsor option, for the 2006 calendar year, a plan sponsor would:*

- **Maintain current benefit levels and administration.**
- **File an attestation that the benefit level is "qualified" coverage** (at least actuarially equivalent to the standard Medicare coverage).
- **Report information regarding its expenditures on gross prescription drug costs between \$250 and \$5,000 for all Medicare-aged individuals** (these limits are subject to inflation adjustment in future years).
- **Receive a 28% subsidy of these reported expenditures** (gross individual amounts less any discounts, rebates, etc.).
- **Maintain necessary records for auditing purposes and other oversight.**

Primary Sponsors will maintain total benefit control and continuity with their current program (e.g., network access, formularies), but will be subject to audits and additional administrative requirements, including attesting that their benefit program is actuarially equivalent to the Medicare drug benefit.

*Under the Secondary Sponsor option, for the 2006 calendar year, a plan sponsor would:*

- **Provide Medicare-aged retirees with the option to purchase a PD or MA-PD plan** (the sponsor may fund a portion of or the entire premium). The plan may offer standard benefits, alternative benefits or supplemental benefits. See the accompanying article for definitions of these benefit levels.
- **Design a "wrap-around" plan** that maintains the current benefit level while coordinating with the PD or MA-PD plan.

The Secondary approach has one noteworthy complication. While the Medicare program allows a PD or MA-PD plan to be primary, the standard benefits include a "true out-of-pocket" provision before catastrophic benefits are payable. That is, an insured in 2006 must have paid \$3,600 (indexed in future years) directly for prescription drugs, without being reimbursed by a third party (e.g., an employer plan sponsor), before they can receive catastrophic coverage (and thereby qualify for government reinsurance subsidies). This provision effectively transfers the catastrophic liability beyond the annual out-of-pocket threshold back to the employer-sponsored plan.

Despite being responsible for the catastrophic liability, our initial estimates indicate that the direct premium subsidy available to an employer as a Secondary Sponsor will be greater than the benefit subsidy available to an employer as a Primary Sponsor.

Secondary Sponsors will lose continuity with their current program (e.g., networks, formularies) and experience additional

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administrative complexities associated with coordinating benefits between plans. Secondary Sponsors will need to determine if the greater subsidies make this alternative worthwhile.

Ultimately, most employers may eliminate their retiree prescription drug coverage altogether, particularly as the prescription drug benefit becomes more expensive. Employers may want to examine how to transition their retirees into a PD or MA-PD plan. However, employers that are legally or contractually bound to maintain their retiree drug benefit levels will need to carefully evaluate the Primary and Secondary Sponsor options.

For further discussion, please contact Steve Cigich, Troy Filipek, or your Milliman Consultant.

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