

Benefit Fact Sheet

What is it?

Employer-sponsored Medicare supplement policies are designed to cover the out of pocket costs associated with Medicare plans, such as deductibles, coinsurance, and prescription drugs. Depending on the plan design, a supplemental plan can significantly reduce or eliminate the cost of covered care for the participant. The plan may resemble a fee-for-service model, or provide benefits through a managed care organization or HMO (Medicare Advantage). A participant in an employer-sponsored supplemental plan must also be enrolled in Medicare Parts A and B. Supplemental plans pay secondary to Medicare. Alternatively, individuals can purchase an individual Medicare supplement plan, known as a Medigap plan. By law, insurance companies can offer 12 standard Medigap plans.

In June 2010, the 12 standardized Medigap plans will be modified due to federal legislation passed in 2005. The legislation, known as the [Medicare Improvements for Patients and Providers Act of 2008](#), requires states to adopt certain changes to Medicare Supplement insurance policies. As a result, four of the current Medigap plans will be eliminated and two new plans will be added; reducing the number of standardized plans from 12 to 10. These changes became law in California on July 2, 2009 when Assembly Bill 1543 was signed, but the new plans will not be effective until June 1, 2010.¹

Why offer it?

- Reward for service or company culture
- Component of a retiree program
- Bargaining unit agreement

What types of employers offer it?

Government agencies, unions, professional organizations and certain larger employers

What size employers offer it?

Typically employers with 300 or more employees

What are the critical underwriting or participation requirements?

- Carriers may only underwrite if the retiree population is no more than a specified percentage of total population (typically 5%)
- Age and/or length of service eligibility requirements for retirees
- Duration of retiree coverage
- Dependent eligibility and survivor benefits
- Location of employer and retirees

¹ California Department of Insurance, [Medicare Supplement Insurance "Medigap"](#), February 2010

Benefit Fact Sheet

What is Medicare Part D?

- The Medicare Modernization and Prescription Drug Act of 2003 (MMA) created a Medicare prescription drug benefit (Medicare Part D). In 2009, the standard benefit included a \$295 deductible and 25% coinsurance up to an initial coverage limit of \$2,700 in total drug costs, followed by a coverage gap (the so-called “doughnut hole”) where participants pay 100% of their drug costs until they have spent \$4,350 out of pocket, excluding the Part D premium. Thereafter, enrollees pay either 5% of total drug costs or \$2.40/\$6.00 for each prescription. Standard benefit amounts increase annually by the per capita Part D spending growth rate.²
- Benefits under Medicare Part D, the voluntary prescription drug program, became effective January 1, 2006. To comply with the new coverage requirements, many employers redesigned the prescription drug coverage offered through their retiree medical plans thereby making their plans at least as good as standard Part D coverage (known as “creditable coverage”).
- CMS offers a subsidy to employers who provide creditable prescription drug coverage to their retirees. The tax exempt subsidy payments equal 28% of each qualifying retiree’s allowable prescription drug costs. CMS estimated that plan sponsors who participated in the [Retiree Drug Subsidy \(RDS\)](#) program in 2009 received between \$295 and \$6,000 per retiree in subsidy payments³. Applications to participate in the RDS program are due 90 days prior to the beginning of each plan year; for calendar year plans the deadline is September 30th.

How much does it cost?

Premiums for supplemental plans can be similar to those of a PPO or traditional indemnity plan based on the age and size of the population to be insured. Premiums vary based on the level of prescription drug coverage that is provided. Premiums for Medicare Advantage plans are somewhat less expensive, but are increasing due to Medicare’s lower reimbursement levels. Subsidies are available for employers who participate in the CMS Retiree Drug Subsidy program to assist in lowering plan costs.

Pros and cons

Pros

- Retirees can generally obtain better contract terms through employer-sponsored plans
- Rewards loyal employees
- Aids in retention

Cons

- Liability of providing retiree medical coverage
- Employers with retiree medical plans are subject to FAS 106 (Employers’ Accounting for Postretirement Benefits Other than Pensions) because these plans are considered a form of deferred compensation. The FAS 158 statement requires employers to show unfunded liability on the balance sheet, rather than in a footnote.
- Plan administration
- Instability of Medicare Advantage provider networks because of insurance carrier withdrawals and provider contracting issues
- Regulatory issues for the employer when making changes, reductions, or eliminating retiree medical plans

² Kaiser Family Foundation, Medicare Fact Sheet, November 2009 (<http://www.kff.org/medicare/7044.cfm>)

³ Adjusted Cost Threshold and Cost Limit Amounts for Plan Years Ending in 2010, and adjusted parameters for Medicare Part D plans in 2010, April 2009 (http://rds.cms.hhs.gov/news/announcements/cost_threshold10.htm)

Benefit Fact Sheet

Informational link(s)

- [Medicare - The Official US Government Site for People With Medicare](#)
- [Retiree Drug Subsidy \(RDS\) Program](#)
- [Overview of Medigap Plans](#) (AARP)
- [Post-Retirement Health Insurance](#) (ArlenGroup)

Notes

- Premiums are in addition to the Part B premium paid by Medicare participants
- Employers can share the cost of coverage with the retiree

This Fact Sheet is designed to provide a general overview of the benefit program, service, or regulatory act it describes. The information included in this document is not a substitute for legal or professional opinion relative to a plan sponsor's particular fact pattern. Your ArlenGroup consultant can answer more specific questions relative to its application for your organization. A menu of additional topics is available online at: www.arlengroup.com/facts.