

## Employer Response to Medicare Part D Prescription Drugs—2005 Survey

Ninety percent of employers offering their retirees prescription drug coverage intend to continue offering some form of drug coverage after Medicare Part D drug coverage is available in 2006, according to a Deloitte Consulting LLP survey of employers. Of those, 55 percent have either decided on or are leaning toward continuing to provide prescription drug coverage for their retirees and receiving the 28 percent subsidy offered under Part D for those benefits.

The survey, conducted in late November and early January 2005, well after the Centers for Medicare and Medicaid Services' (CMS) proposed rules and other guidance had been released, found 80 percent of respondents had considered the effects of the Medicare Part D prescription drug plan on their own plan. Lawmakers creating the prescription drug coverage under the new Medicare Part D were extremely eager to encourage those employers currently offering drug coverage to retirees to continue that coverage.

Consequently, lawmakers drafted Part D to offer employers' retiree medical plans several options in dealing with prescription drug coverage. (See *Human Capital I.Q.*, December 2003; March, June, and August 2004.) The Deloitte Consulting survey responses indicated that few survey respondents were legally bound to continue their prescription drug plan. Among survey respondents only 28 percent of the plans were subject to collective bargaining agreements.



### Employer Options Under Medicare Drug Benefit

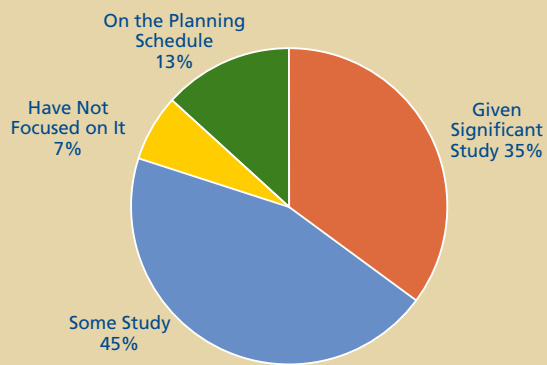
Proposed Medicare Part D rules and later CMS guidance, outlined several alternatives available to employers to encourage continued retiree prescription drug coverage.

- (1) Under the Medicare Modernization Act's explicit statutory language creating the Part D prescription drug program, employers could receive a 28 percent subsidy of the "permitted drug costs" for each employer plan participant who is eligible for, but not enrolled in, Medicare Part D, if the employer plan is "actuarially equivalent" to the Medicare prescription drug benefit.
- (2) The employer plan could be modified to supplement the Part D benefit by simply coordinating with or "wrapping around" Part D benefits.
- (3) The employer could subsidize the monthly beneficiary premium for any Medicare Part D prescription drug plan (PDP) or Medicare Advantage-Prescription Drug (MA-PD) plan chosen by the retiree or his or her dependent, as the employer does in some cases for Medicare Part B premiums.
- (4) The employer could set up its own PDP or MA-PD plan either under contract with a PDP sponsor or Medicare Advantage (MA) organization or by directly sponsoring a PDP or an MA-PD plan.
- (5) The employer could use various, as yet undetermined, CMS-granted "waivers" for the plan; these may be general class waivers or individual plan waivers.

### Employers' Views to Date

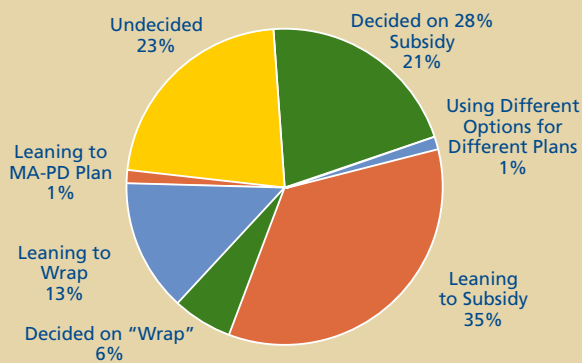
Given that the Medicare Part D rules are still being finalized, the majority of employers are undecided about their final course of action, but certainly the majority of employers are showing support for keeping their retiree drug programs, as they study the rules and evaluate their specific positions. See Figures 1 and 2.

**Figure 1. Considering Medicare Part D**



Source: Deloitte Consulting Human Capital Employer Medicare Part D Survey 2005 ©2005 Deloitte Development LLC

**Figure 2. Current Thinking on Which Part D Employer Option to Select**



Source: Deloitte Consulting Human Capital Employer Medicare Part D Survey 2005 ©2005 Deloitte Development LLC

**Critical Factors in Employer Decision-Making**

Given the cost of retiree medical coverage and its significant effect on employers’ financial statements, the decisions on the Medicare Part D option are made at the highest CXOs levels—and both the White House and CMS are conscious of that fact. More than 80 percent of those respondents who have not decided between keeping their plan or adopting a wrap-around plan to Part D said the effect on financial statements will be a very significant or significant factor. Among those favoring the wrap-around plan, 76 percent also cited these financial statement concerns, as did 62 percent of those leaning toward the subsidy.<sup>1</sup>

Both in public meetings and working with clients, Deloitte Consulting has found that, for employers, the clarity of the final Medicare Part D rules will be a critical factor in determining whether to retain the employer plan and apply for the subsidy or to coordinate with or wrap around the Medicare Part D benefit. The survey data confirm this concern, with 82 percent of undecided respondents saying that “clarity of Part D guidance and published rules” will have a very significant or significant impact on whether they will (1) keep their plan and take the subsidy or (2) drop their plan and use the wrap-around option. Among those leaning toward the subsidy, 51 percent see clarity of the rules as among the most significant factors affecting their decisions. Among those favoring the wrap-around option, half see it as significant to their decisions.

**Those Favoring the Employer Plan and the Subsidy**

Among those decided on or leaning toward taking the subsidy, their major concern is whether the plan will be eligible for the subsidy. To obtain the subsidy, the plan must be “actuarially equivalent” to the Medicare Part D benefit. Because the standard for actuarial equivalence is unclear, many employer plans are in limbo, pending further guidance from CMS. Among those favoring the subsidy, financial statement effects are the second most important factor, and communicating plan design changes ranks third in overall effect on the decision among the options.

**Effect of Various Factors on Those Favoring Retaining the Drug Plan and Taking the 28 Percent Subsidy**

Factor	Significant Effect on the Decision (5)	(4)	(3)	(2)	Little Effect on the Decision (1)
Effect on financial statement	33%	29%	14%	17%	7%
Eligibility of the plan for the subsidy	34%	45%	16%	2%	2%
Collective bargaining agreement	7%	14%	12%	7%	60%
Other legal limits on flexibility	5%	14%	34%	14%	34%
Non-binding commitment to maintain comprehensive drug benefit for retirees	14%	27%	25%	14%	20%
Administrative issues	14%	34%	39%	7%	7%
Clarity of Part D guidance and published rules	14%	37%	30%	12%	7%
Communicating plan design changes to retirees	20%	32%	23%	16%	9%
Ability to change retiree prescription drug plan in the future	16%	34%	30%	14%	7%

<sup>1</sup> In discussing the importance of factors, rankings are determined with 5 being the highest degree of significance and 1 being the lowest. In discussing respondents’ rankings of a factor’s importance, rankings of a 4 or 5 will be totaled and discussed as being very important or significant. Rankings of 1 or 2 will be totaled and discussed as being very unimportant or insignificant. Consequently, numbers in the text are combined rankings and may not equal numbers shown in individual columns in the tables.

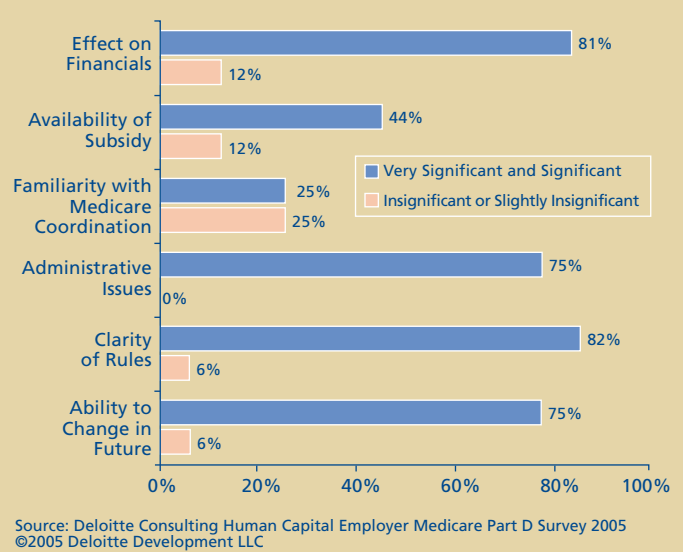
### Those Leaning Toward the Wrap-Around Option

Those employers who are favoring the wrap-around option or coordination with Medicare Part D benefits rank administrative issues as the second most influential factor (after the effect on financial statements). The third most important factor is the employer's familiarity with coordinating with Medicare, as these plans are likely to have used coordination with existing Medicare programs for many years. Both the employer and the retirees are familiar with the process and these existing processes are likely to make Part D coordination more efficient for both the employer and the retirees than adopting an entirely new approach.

### The Undecideds

Among those respondents who are not leaning toward either the subsidy or the wrap-around option, 82 percent consider the clarity of the final Part D regulations as a very significant factor in their decision and 81 percent consider the effect on financial statements as very significant. But also 75 percent report the ability to change the drug plan in the future as having a significant effect on their decisions.

**Figure 3. Factors Affecting the Undecideds' Choice Between Part D Subsidy or a Wrap-Around Plan**



### Effect of Various Factors on Those Favoring Wrap-Around or Coordination with the Medicare Part D Drug Plan

Factor	Significant Effect on the Decision (5)	(4)	(3)	(2)	Little Effect on the Decision (1)
Effect on financial statement	38%	38%	13%	0%	13%
Familiarity of coordinating with Medicare	6%	56%	31%	0%	6%
Administrative issues	38%	31%	19%	6%	6%
Communicating plan design changes to retirees	19%	38%	19%	19%	6%
Plan not actuarially equivalent	13%	13%	13%	27%	33%
Expect plan not to be actuarially equivalent in the future	19%	25%	25%	6%	25%
Clarity of Part D guidance and published rules	25%	25%	38%	0%	13%
Ability to change retiree prescription drug plan in the future	31%	25%	31%	0%	13%

### Effect of Various Factors on Those Who Are Undecided on Medicare Part D Options

Factor	Significant Effect on the Decision (5)	(4)	(3)	(2)	Little Effect on the Decision (1)
Effect on financial statement	50%	31%	6%	6%	6%
Availability of subsidy	6%	38%	44%	6%	6%
Familiarity of coordinating with Medicare	6%	19%	50%	19%	6%
Presence of collective bargaining agreement	12%	0%	0%	13%	75%
Presence of other legal limits	19%	25%	38%	19%	0%
Non-binding commitment to maintain comprehensive drug benefit for retirees	13%	19%	31%	0%	38%
Administrative issues	31%	44%	25%	0%	0%
Communicating plan design changes to retirees	6%	19%	63%	6%	6%
Clarity of Part D guidance and published rules	38%	44%	13%	6%	0%
Ability to change retiree prescription drug plan in the future	25%	50%	19%	6%	0%

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