



MAKING SENSE OF MEDICARE PART D: For Employers Who DO NOT Offer Retiree Drug Coverage

OVERVIEW

The primary focus in preparing for the arrival of Medicare Part D for **employers who offer no retiree benefits** is the communication to their employees and the dependents of those employees. All employers, regardless of whether or not they offer retiree benefits, will need to provide a disclosure notice to all Medicare-eligible individuals. This disclosure notice clarifies whether or not the employer's drug coverage is as good as or "creditable" to Medicare Part D.

COMMUNICATING CREDITABLE COVERAGE TO EMPLOYEES & DEPENDENTS

What is the purpose of the notification?

All employers providing prescription drug benefits to Medicare-eligible individuals (active or retired) must communicate to those individuals whether their drug coverage is creditable to Medicare Part D by **November 15, 2005**. Put simply, "creditable" means that the employer's drug benefit equals or exceeds the value of the new Medicare drug benefit.

The objective of this notification is to help Medicare-eligible employees and dependents make the decision between the employer's Rx plan and Medicare Part D. It will be important for individuals to be aware of whether or not their employer's coverage is creditable to Part D in order to avoid late enrollment penalties. Beginning in the fall of 2005, Medicare-eligible individuals will be mailed the *Medicare & You 2006* handbook which will list the available prescription drug plans and explain how to enroll. Individuals can also get assistance by calling 1-800-MEDICARE.

Eligible individuals who DO NOT enroll in Part D during the initial open enrollment period of **November 15, 2005** until **May 15, 2006** may have to pay a premium surcharge if they later enroll in Part D, unless they had coverage through a creditable Rx plan. The premium surcharge is 1% of the premium for each month without creditable coverage. For individuals who will not be Medicare-eligible prior to May 15, the normal initial enrollment period (IEP) will run concurrent with the 7-month IEP for Part B (3 months prior to the month when the individual first becomes eligible and 3 months following the first month of eligibility). Following the IEP, the individual must be enrolled in Part D or be covered by a creditable Rx plan to avoid paying the Part D premium surcharge.

How do I calculate creditable coverage?

Employers can perform a simplified calculation in order to determine if the coverage they provide can be considered creditable. The Centers for Medicare and Medicaid Services (CMS) have provided the following simplified calculation:

Simplified Calculation of Creditable Coverage

1. Drug coverage must be available for brand and generics;
2. Reasonable access to retail drug providers must be available;
3. Plan must be designed to pay at least 60% of member's drug expenses;
4. Plan must meet "maximum benefits test" below.

Maximum Benefits Test is met if one of the three criteria below is met:

1. Drug benefit is *not integrated* with other benefits (such as medical or dental) and has a maximum benefit of at least \$25,000;
2. Drug benefit is *not integrated* and is expected to pay at least \$2,000 per individual in 2006;
3. Drug benefit is *integrated* and has a deductible that is not more than \$250, a benefit maximum of at least \$25,000 and a lifetime maximum of at least \$1 million.

Although not clearly indicated, it appears that plans that have a prescription drug card are not considered "integrated" with the group's medical plan. However, a drug benefit that is subject to the overall deductible of the health plan would be considered integrated. In general, standard prescription drug card plans with copay structures will likely pass the maximum benefits test and be considered creditable.

How do I notify my employees and their dependents?

CMS has provided two model notices employers can use to communicate whether or not their Rx coverage is creditable to Medicare Part D:

1. [Medicare Creditable Coverage Notice](#) and
2. [Medicare Non-Creditable Coverage Notice](#)

Click above to open the CMS model notices in Word format. These notices may be provided to employees and their dependents in conjunction with other material, such as during open enrollment. One notice can be provided to both the employee and dependents, unless it is known that a Medicare-eligible spouse or dependent lives at a separate address.

The notice obligation is waived if an employer is offering drug coverage through an approved Medicare prescription drug plan (PDP) or an integrated managed Medicare Plan with Rx (MA-PD) because that coverage, by definition, is a Part D equivalent.

Notice of creditable coverage status must also be provided to CMS. Model language for this disclosure is pending from CMS.

JUNE 24, 2005

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