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PA 05-22

MEMORANDUM

TO: Participating Agency Chief Executive Officers and Health Benefits Administrators

FROM: Robert W. DuBois, Director, Employee Benefits Division

SUBJECT: Medicare Part D Retiree Drug Subsidy

DATE: September 30, 2005

Retiree Drug Subsidy

The Medicare Modernization Act that created Medicare Part D prescription drug coverage for Medicare beneficiaries offers several options to employer drug plan sponsors that provide coverage to Medicare beneficiaries. The Department of Civil Service, as the plan sponsor for the New York State Health Insurance Program and the Empire Plan, has elected to receive the Retiree Drug Subsidy (RDS) for the plan year 2006. The RDS was established to encourage employers to continue to provide high quality prescription drug coverage to their Medicare eligible retirees. Based on surveys conducted by the Centers for Medicare and Medicaid Services (CMS) the RDS is the option most plan sponsors are electing for the following reasons:

- The subsidy can be implemented with no or minimal benefit changes. (There will be no benefit changes under the Empire Plan Prescription Drug Program for 2006.)
- Choosing the subsidy simplifies retiree communication and minimizes disruption.
- It requires less lead time than the other options to implement.

The subsidy will pay 28% of the allowable retiree costs attributable to gross covered prescription drug costs. For 2006, the subsidy will apply to covered costs above \$250 (the Medicare Part D deductible) and up to \$5,000 (the Medicare Part D cost limit). The subsidy will be paid only for retirees **not** enrolled in Medicare Part D. The subsidy earned by a Participating Agency will be based on the actual claims experience of its Medicare primary retirees and dependents. While we cannot predict exactly how much that will be for each NYSHIP Participating Agency, CMS projects that an average employer offering drug coverage can expect to earn \$668 per individual for 2006.

The purpose of the subsidy is to reduce the cost to employers of continuing to provide the current level of prescription drug coverage to its Medicare eligible retirees; however, an employer may use any RDS amount received as it sees fit.

While the Department is electing the RDS for 2006, other options that may be considered for subsequent years are:

- Make the Empire Plan Prescription Drug Program benefits secondary to Medicare, (i.e., supplement Medicare Part D coverage.). This would likely require making mandatory both Medicare Part D enrollment for eligible enrollees and dependents and Medicare Part D premium reimbursement by Participating Agencies.
- Contract with a Medicare Prescription Drug Plan to provide benefits to supplement Medicare drug coverage rather than continuing to provide benefits through the Empire Plan Drug Program for Medicare eligible enrollees and dependents.
- Execute a direct contract with CMS for NYSHIP to become a Medicare prescription drug plan and provide customized prescription drug benefits to Medicare eligible enrollees and dependents.

Administration of the RDS

The Department will administer all aspects of the RDS for Participating Agencies, including receipt and distribution of subsidy amounts. The Department has been working with CMS for several months to ensure that we satisfy all of the requirements of the RDS process. The following summarizes our current status:

- The Department is on target for filing the RDS application by the October 31, 2005 due date.
- The Department's actuarial consultant, Buck Consultants, has provided an attestation of actuarial equivalence of the Empire Plan prescription drug benefits. This will be filed with the RDS application.
- Notices of creditable coverage have been mailed to Medicare eligible enrollees and dependents along with a letter explaining NYSHIP and Medicare Part D.
- Procedures for submitting and periodically updating required enrollment information about retirees and dependents are being developed. In addition, the Department is preparing to enter into a Voluntary Data Sharing Agreement with CMS to facilitate this.
- The Department will work with the Empire Plan Prescription Drug Program insurer and administrator for 2006 (Empire Blue Cross Blue Shield and Caremark) to develop procedures for submitting to CMS claims data about drug costs incurred that qualify for the RDS reimbursement.

RDS Reimbursement to Participating Agencies

Beginning February 2006 the Department will submit prescription drug claim data to CMS on a monthly basis. We expect to receive monthly RDS payments beginning in March, or soon thereafter. At this time, the Department is planning to reimburse Participating Agencies whose Medicare primary enrollees and dependents have incurred prescription drug claims that qualify

for the RDS through a credit to the monthly NYSHIP bill. It is our understanding that the monthly subsidy amounts paid by CMS will be estimated, with reconciliation done after the end of the year. The Department will reimburse Participating Agencies on the same basis that CMS pays the subsidy to us.

Retiree Communication

The Department will handle most aspects of enrollee communication related to Medicare Part D. We have sent two letters to affected enrollees about Medicare Part D and NYSHIP, as well as the required Notice of Creditable Coverage. However, as a Participating Agency, on an ongoing basis, you will be responsible for communicating with your retirees and dependents eligible for Medicare who enroll in a Prescription Drug Plan under Medicare Part D. It will be important for you to do so to maximize the savings available to your agency as the result of Medicare Part D.

As noted above, the RDS will only be paid for individuals **not** enrolled in Medicare Part D. The Department will receive reports from CMS periodically identifying NYSHIP enrollees who have enrolled in Medicare Part D and, therefore, are not RDS eligible. We will send to each agency a list of the agency's enrollees/dependents appearing on this list. There are two categories of individuals who may enroll in Medicare Part D based on whether or not they have been approved for the Medicare Part D Low Income Subsidy:

- ***Eligible for the Medicare Part D Low Income Subsidy (LIS):*** Your agency has the option of offering a no-drug Empire Plan option to enrollees who have been approved for the LIS at a reduced premium. If you elect to offer this option it will be your responsibility to obtain a copy of the LIS approval and provide it to the Employee Benefits Division to verify eligibility for the lower cost, no-drug Empire Plan option. (Please refer to PA Memo PA 05-16, dated September 21, 2005, for more information.)
- ***Not Eligible for the Medicare Part D LIS:*** Despite information that discourages enrollment in Medicare Part D except for NYSHIP enrollees eligible for the LIS, some of your agency's Medicare eligible retirees may choose to enroll in Medicare Part D. While CMS prohibits an employer from telling its retirees that they may not enroll in Medicare Part D, you may want to provide additional information to anyone who does enroll, pointing out the negative effect it will have on their Empire Plan prescription drug benefits. (Please refer to PA Memo PA 05-16, dated September 21, 2005, for more information.)

Effective communication with enrollees who enroll in Medicare Part D may result in substantial savings for your agency.

More Information

CMS continues to provide the Department with information and guidance regarding the RDS as it is implemented. We will share any pertinent updates with you. CMS also has detailed information on their website at: <http://cms.hhs.gov/medicarereform/pdbma/employer.asp> or <http://rds.cms.hhs.gov> that you may find helpful.