

Committee on Ways and Means

Medicare Prescription Drug, Improvement, and Modernization Act of 2003

Helps Stabilize Retiree Health Coverage

- About one-third of Medicare beneficiaries receive coverage for prescription drugs from their former employers.
- Retirees are generally happy with their coverage and want to keep it. But employer plans are coming under increasing pressure to drop or scale back coverage.

Rising Costs Place Increased Pressure on Employer Health Plans — About one-third of Medicare beneficiaries receive retiree coverage from their former employers. While most of these people are satisfied with their coverage, employers are under increasing pressure to drop or reduce prescription drug coverage.

- In 1988, 66% of large employers provided health benefits. In 2002, that number slipped to just 34%.
- Costs for retiree health coverage rose 16.0% in 2002 and prescription drug expenditures increased by 11.8% last year.
- Most employers predict double-digit health inflation well into the future.

Steps to Improve Medicare Will Help Ensure Retirees Continue to Receive Employer-Sponsored Coverage — The Medicare bill helps employers retain and enhance their prescription drug coverage so that beneficiaries can keep their retiree coverage. Absent this assistance, many more seniors will lose coverage.

- Employers receive a subsidy for 28 percent of drug costs between \$250 and \$5,000. This is equal to about 2/3 of the actuarial value of the standard benefit.
- The subsidy is excludable from taxation, thereby increasing the value of the subsidy by \$18 billion.
- Employer plans receive maximum flexibility. Employers are not required to change any aspect of their plan as long as it is actuarially equivalent to the Medicare benefit.
- Employers can enroll retirees in a Medicare prescription drug plan, HMO or PPO, which helps “lay-off” risk.
 - May negotiate preferential premiums for their retirees
 - May provide premium assistance
 - May provide cost sharing assistance
- Retiree plans exempted from Medicaid “best price” provision, thereby allowing them to negotiate deeper discounts from pharmaceutical manufacturers.
- Employers benefit from Hatch-Waxman reforms, which accelerate the entry of cheaper generic drugs to the market.

- Immediate relief under accounting rules because employers are less likely to reach their so-called “FASB cap,” which will improve their ability to continue to provide retiree coverage.
- CBO has said that the number of retirees losing coverage will be significantly lower in the conference report than either the House or Senate bills. CBO also commented that no retiree will go without coverage.