

# Committee on Ways and Means

## Medicare Modernization Act Will Help Seniors Keep the Retiree Health Coverage They Have

- In a July 13<sup>th</sup> article, the *New York Times* reported that employers will reduce or eliminate prescription drug benefits for 3.8 million retirees when the Medicare Drug Benefit begins in 2006.
- Over the past decade, the number of large employers offering health coverage to their retirees dropped *nearly 25 percent*, from 80 percent in 1991 to 61 percent in 2003.
- The MMA actually provides employers with an incentive to retain their coverage by providing them with a new federal subsidy designed to protect these benefits:
  - First, the law provides a 28% subsidy for retiree prescription drug costs between \$250 and \$5,000 so employers can continue to provide drug coverage. To qualify, the employer must offer drug coverage of equal or greater value than the Medicare drug benefit. The average subsidy for retiree drug coverage will be about \$750 per retiree.
  - Second, the MMA excludes the retiree subsidy from federal taxation, which dramatically increases the subsidy's value and helps employers continue offering this coverage.
  - Third, the law provides additional flexibility for employers to structure plans that complement Medicare's new drug benefit.
- Overall, the Medicare law provides \$89 billion in direct subsidies and tax benefits to protect retiree health coverage. This funding makes it more likely, not less likely, that employers will continue their retiree benefits.
- The *NYT*, however, misses the basics of cause and effect. Even with the subsidies offered under MMA, some employers may still elect to end their retiree coverage, as they would have done without the MMA. But unlike retirees who lost coverage over the past decade and were left with nothing, the MMA now assures all retirees that they will have access to coverage through the Part D benefit, even if they do not have employer-sponsored coverage.