Part D Decisions

Like other employers, many states are collecting a new federal subsidy for maintaining retiree drug coverage—but for many, that's not their "final answer."

BY RACHEL BURTON AND DONNA FOLKEMER

Although most of the attention surrounding Medicare Part D has focused on states' efforts to help low-income seniors make the transition to new drug coverage options, Part D has raised another issue for states. Just like other employers, state officials have had to decide how to modify benefits for their 5.6 million retirees in face of new Part D options.

Part D makes drug coverage cheaper to provide for many states, because they are cashing in on a new federal subsidy available to employers who provide drug coverage for retirees. Other states not spending enough to qualify for the subsidy are recommending Part D drug plans to their retirees, while a couple have dropped their coverage and urged retirees to enroll in Part D.

The most popular option so far has been to maintain existing retiree drug coverage and apply for the federal subsidy, which is available to employers who continue to offer coverage equal to or better than the Part D "standard benefit." Alaska, California, Connecticut, Maine, Maryland, Massachusetts, New Jersey, Ohio, Vermont and Washington have applied for the subsidy, which is worth 28 percent of the employer's share of drug costs between $250 and $5,000.

The Centers for Medicare and Medicaid Services (CMS) estimates that on average, the subsidy is worth $611 per person in 2006. Total state subsidies vary based on the number of beneficiaries. New Jersey, for example, which is in the upper range, anticipates getting back $78 million, because its plan also covers retired local government employees. Meanwhile, Maryland is expecting a more modest $17 million.

Maintaining existing benefits allows states to adopt a wait-and-see approach to monitor the drug coverage landscape before they consider bolder changes to their retiree drug programs. States can modify health and drug coverage offerings each year, as long as the timing of the change coincides with Part D's annual open enrollment period between Nov. 15 and Dec. 31.

LEGISLATIVE ACTION

Legislators' roles in addressing Part D have been as varied as the policies adopted. In most states, lawmakers have let benefit administrators handle Part D decisions, but a few legislatures have passed laws suggesting or requiring certain courses of action.

Legislators in several states were involved

Donna Folkemer is an NCSL expert on Medicaid, prescription drugs, and aging and disabilities. Rachel Burton, a graduate student at Georgetown University, is an NCSL intern working on health care issues.

SENATOR
PAULA HOLLINGER
MARYLAND

in deciding to maintain their existing retiree drug coverage and collect the federal subsidy. State retirees, like all retirees across the nation, had the option of enrolling in a prescription drug plan purchased on the open market, keeping their employer-sponsored retiree drug coverage, or choosing to go without drug coverage. Employers can only collect subsidies for retirees who keep their employer-sponsored coverage and don't enroll in a private drug plan.

"There was some confusion among our state retirees about what Part D would do to their existing drug benefits," says Maryland Senator Paula Hollinger. "We wanted to make this transition as smooth as possible by assuring retirees that they would continue to have access to their existing drug benefit." Maryland passed legislation in 2004 explicitly stating that it would continue offering its retiree drug benefit.

Once California decided to continue offering coverage and take the federal subsidy, legislators took a precautionary step with a law spelling out that beneficiaries cannot receive double coverage by enrolling in both a private prescription drug plan and CalPERS drug coverage – they must choose one or the other.

"I wanted to make sure that California's public employees would have no disruption in benefits," says Assemblywoman Gloria Negrete McLeod, a former chair and current member of the Assembly Public Employees Retirement and Social Security Committee. "We also wanted to maximize the amount of federal funding available to save money for the state."

Washington lawmakers passed several pieces of legislation that update statutory language in order to facilitate the receipt of the federal subsidy. It is estimated that the state will gain $28 million in calendar year 2006—which works out to $52 per member per month, or $624 annually. The state expects to collect more in coming years, as more retired employees of state government, public

ASSEMBLYWOMAN
GLORIA
NEGRETE MCLEOD
CALIFORNIA

REPRESENTATIVE
EILEEN CODY
WASHINGTON

schools and institutions of higher learning become eligible for coverage.

"We passed the bills because we knew the subsidy would save the state a lot of money," explains Representative Eileen Cody. "We had good drug benefits for our retirees and we thought it made sense to keep them."

OTHER OPTIONS

Other options pursued by some states include contracting with a private Part D prescription drug plan, contracting with the Centers for Medicare and Medicaid Services to actually become a plan themselves, dropping drug coverage entirely, offering supplemental drug coverage that "wraps around" the various Part D drug plans retirees purchase (although the diverse designs of drug plans could make this administratively burdensome), or continuing to not offer it.

Kansas and Virginia have chosen to continue administering drug coverage for their retirees, but neither state contributes financially toward such plans (making them ineligible for the subsidy). Virginia automatically enrolls its retirees in a Part D drug plan. Although retirees can opt out of the plan, only 400 of the state's 26,000 beneficiaries have chosen to do so. "Our retirees know us and trust us," says Mary Habel, director of Virginia's Office of Health Benefits.

Mississippi was one of only a couple of states that chose to drop its drug coverage. State officials decided that their health care money was best spent by eliminating drug coverage while beefing up non-drug health insurance benefits and lowering premiums. Contributing to this decision was the fact that the state's existing drug coverage was not as generous as Part D's standard benefit and was therefore not eligible for a subsidy. The state sent letters out to retirees recommending they purchase a private Part D prescription drug plan—a common response among the handful of states not covering drugs.

So far, no state has signed up to become its own prescription drug plan, but California has considered it. This option has administrative headaches, but it could reap payments from the Centers for Medicare and Medicaid Services that are greater than the 28 percent subsidy. It also would make a state eligible for waivers that could potentially allow it to modify burdensome federal requirements, such as state licensing requirements.

The California Public Employees' Retirement System (CalPERS) estimated that higher federal payments could allow the state to reduce premiums. But for 2007, at least, it will continue to apply for the federal subsidy.

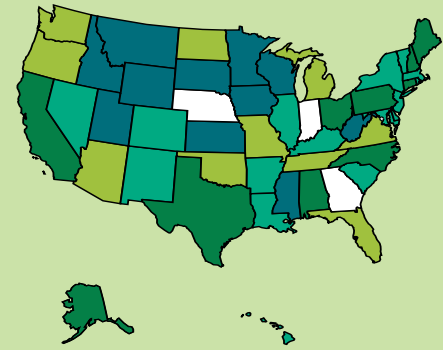
CAN ALWAYS CHANGE THEIR MINDS

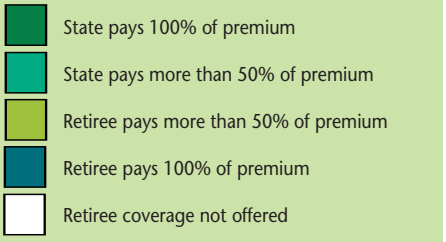
The best news is that state lawmakers can change their minds, as long as they submit their application to the Centers for Medicare and Medicaid Services for the 28 percent subsidy before the annual Sept. 30 deadline. Like other large employer groups, state lawmakers will be paying attention as Part D continues to be debated. State officials can reevaluate their options once different policies have been tried and tested by other states. If a state like California decides to manage a Part D prescription drug plan itself and successfully cashes in on higher payments, others may join in.

"CMS [Centers for Medicare and Medicaid Services] is still the wild-card in the game," says Virginia's Mary Habel. "We'll need to be prepared for any federal changes that may affect the value and cost of the benefit to our retirees."

GENEROSITY OF STATE RETIREE HEALTH INSURANCE

All but a handful of states administer health insurance plans for their retirees, and two-thirds of them contribute at least partially to the cost of coverage. This is double the rate in the private sector, where only 33 percent of firms that offer health insurance to active employees also cover retirees.





Source: 2006 State Employee Benefits Survey, Washington, D.C., Workplace Economics, Inc.