



Highlights of [GAO-05-205](#), a report to congressional committees

Why GAO Did This Study

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) created a prescription drug benefit for beneficiaries, called Medicare part D, beginning in January 2006. The MMA included incentives for sponsors of employment-based retiree health plans to offer prescription drug benefits to Medicare-eligible retirees, such as a federal subsidy when sponsors provide benefits meeting certain MMA requirements. Plan sponsors cannot receive a subsidy for retired Medicare beneficiaries who enroll in part D. In response to an MMA mandate, GAO determined (1) the trends in employment-based retiree health coverage prior to the MMA and (2) which MMA prescription drug options plan sponsors said they would pursue and the effect these options might have on retiree health benefits.

GAO identified trends using data from federal and private sector surveys of employers' health benefit plans and financial statements of 50 randomly selected Fortune 500 employers. Where data for Medicare-eligible retirees were not available, GAO reported data for all retirees, including Medicare-eligible retirees. To obtain plan sponsors' views about options they were likely to pursue, GAO reviewed the 50 employers' financial reports and interviewed benefit consultants; private and public sector plan sponsors, including the Office of Personnel Management for federal employees' health benefits; and other experts.

www.gao.gov/cgi-bin/getrpt?GAO-05-205.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Kathryn G. Allen at (202) 512-7118.

RETIREE HEALTH BENEFITS

Options for Employment-Based Prescription Drug Benefits under the Medicare Modernization Act

What GAO Found

A long-term decline in the percentage of employers offering retiree health coverage has leveled off in recent years, but retirees face an increasing share of costs, eligibility restrictions, and benefit changes that contribute to an overall erosion in the value and availability of coverage. Although the percentages and time frames differed, two employer benefit surveys showed that the percentage of employers offering health coverage to retirees has declined since the early 1990s; this trend, however, has leveled off. The cost to provide retiree health coverage, including coverage for Medicare-eligible retirees, has increased significantly: one employer benefit survey cited double-digit increases each year from 2000 through 2003. Prescription drugs for Medicare-eligible retirees constituted a large share of retiree health costs. Employers and other plan sponsors have used various strategies to limit overall benefit cost growth that included increasing retiree cost sharing and premiums, restricting eligibility for benefits, placing financial caps on health care expenditures, and revising prescription drug benefits.

Many plan sponsors had not made final decisions about which MMA prescription drug options they would choose for their Medicare-eligible retirees at the time of GAO's review. Specifically, 13 of the 15 private and public plan sponsors GAO interviewed were undecided for some or all retirees. However, most plan sponsors interviewed had chosen the federal subsidy option for some or all retirees or were considering the subsidy as one of several options. Alternatively, some plan sponsors that had set caps on their retiree health benefit obligations were considering supplementing (known as "wrapping around") the new Medicare prescription drug benefit for some or all retirees rather than providing their own comprehensive prescription drug coverage in lieu of the Medicare drug benefit. Also, some plan sponsors and benefit consultants said they were waiting to see how the market for other MMA options, such as Medicare Advantage plans, develops. About two-thirds of financial statements GAO reviewed for Fortune 500 employers reporting obligations for retiree health benefits had begun to reflect reduced obligations resulting from the MMA options. While plan sponsors contacted said they did not anticipate reducing their drug coverage in view of new coverage offered through the MMA, increasing health care costs might cause them to do so in the future. Benefit consultants and other experts interviewed said that the MMA was not likely to induce employers to begin to provide prescription drug coverage or to supplement the Medicare drug benefit if they had not previously offered retiree health coverage.

In commenting on a draft of this report, the Centers for Medicare & Medicaid Services and four experts generally agreed with the report's findings. The Office of Personnel Management indicated that it has not made final decisions about which MMA prescription drug option it would choose for the Federal Employees Health Benefits Program, but it does not expect to choose the subsidy option.