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DISTRIBUTION TO EMPLOYEES OR RETIREES**

### **CREDITABLE COVERAGE ANALYSIS FOR PREFERRED CARE**

As you are aware, with the addition of Medicare's Part D Prescription Drug Benefit, there are additional requirements for employers that currently offer prescription drug benefits to their Medicare eligible active employees as well as Medicare eligible retirees.

One key requirement of the legislation that was passed in 2003 (the Medicare Modernization Act) is that employers must notify their Medicare eligible employees and retirees who receive prescription drug benefits through the employer's benefit plan of whether the prescription drug coverage they offer is "creditable." Creditable coverage is defined as "whether the expected amount of paid claims under the employer's prescription drug coverage is at least as much as the expected amount of paid claims under the standard Part D benefit." A Medicare eligible individual must have this notification in order to avoid a late enrollment penalty if they later decided to enroll in Medicare Part D directly.

In order to assist you in determining whether the prescription drug coverage you offer your employees, Preferred Care retained the actuarial firm of Reden & Anders, Ltd. (R&A) to review all of the prescription drug benefit designs that Preferred Care will offer in 2007 to determine which ones are "creditable" and which ones are not. R&A has completed this analysis of Preferred Care's prescription drug benefit plans, and Preferred Care is providing this letter to you to share the results of that analysis for your current benefit design. Please keep in mind that if you change benefit designs between now and 2007, you may need to discuss with your Preferred Care representative whether the new benefit design will be creditable.

### **CREDITABLE COVERAGE ANALYSIS**

R&A used their Medicare Part D Pricing Model to perform the calculations necessary to determine if prescription drug coverage is creditable. To determine if a prescription drug plan passed or failed, R&A calculated the ratio of paid claims for an average population to the total allowed claims for each benefit design, after including rebates. This "benefit factor" was then compared to the "benefit factor" for the standard Medicare Part D benefit, which has the following benefit design:

- \$265 up-front member deductible
- 25% member coinsurance from \$265 in allowed to \$2,400 in allowed
- 100% member cost sharing from \$2,400 in allowed until \$3,850 in member out-of-pocket costs (reached at \$5,451.25 in allowed under the standard benefit design)
- Member copayments of the greater of \$2.15 generic / \$5.35 brand or 5% of the cost of the prescription after the member reaches \$3,850 in true out-of-pocket costs

The analysis indicated that the standard Medicare Part D benefit design had a benefit factor of 0.47, indicating that the plan would pay 47% of total costs and the member would pay 53% of total costs under the Standard Part D benefit design, after incorporating rebates. In evaluating the Preferred Care benefit designs, R&A compared the benefit factor for the Preferred Care benefit design to the 0.47 for the standard Medicare Part D design, and if the benefit factor was greater than 0.47, R&A determined that the coverage was creditable.

R&A has communicated to Preferred Care that R&A believes the approach used to determine which benefit designs meet the creditable coverage criteria promulgated by CMS follows actuarial standards and is consistent with the legislation and regulations regarding the Medicare prescription drug benefit.

### **SUMMARY**

We hope that this information is helpful to you as you attempt to fulfill your obligations under the Medicare Modernization Act to notify your employees of their creditable coverage status. For more information about creditable coverage and your obligations, we recommend you visit the following CMS website:

<http://www.cms.hhs.gov/medicarerereform/Credcovrg.asp>

This website also contains sample notification letters that you can use in communicating to your Medicare eligible employees and retirees the status of their coverage. If you have any questions about this letter, or need information regarding the creditable coverage status of other Preferred Care benefit plans, please feel free to contact your Preferred Care Sales Representative.