COLD TODAY: Sun and flurries. High 24, low 13. Map, B8.

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MONDAY, DECEMBER 12, 2005

ARTS & LIFE

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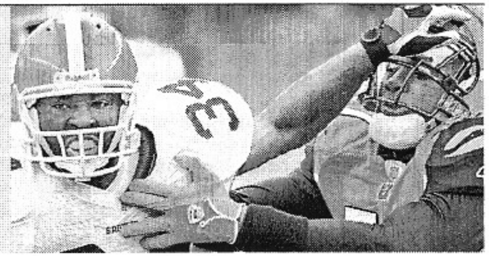

Medicare dangles Rx carrot

Subsidy of drug costs aims to keep retirees off Uncle Sam's tab

SUSAN JAFFE
Plain Dealer Reporter

SURVEY: How companies plan to handle retiree prescription coverage. **A11**

Marge Townsend raised pigs in Ashtabula for 30 years, but because her husband worked for the public library, her medicine is covered by the Ohio Public Employee Retirement System.

She called the system last week to find out whether she should join one of the dozens of Medicare drug plans that begin Jan 1.

"You read such confusing things, it's possible it might be better to sign up," said Townsend, 77, who lives at the Judson Manor retirement community in Cleveland.

"They said I'm covered already and don't do anything," she said.

Starting next year, PERS, FirstEnergy, Goodyear and many of the nation's major corporations providing retiree drug coverage will get help paying the bill — subsidies worth several billion dollars a year from federal taxpayers.

The money — which totals roughly $71 billion tax-free through 2013 — is part of the Medicare Modernization Act, which added a drug benefit to Medicare.

It is aimed at encouraging employers to maintain their coverage instead of forcing retirees onto Medicare's tab.

Some members of Congress and seniors' advocates feared that without a financial incentive, the Medicare drug benefit would become one more reason — in the face of rising health-care costs — for companies to reduce or eliminate the drug coverage promised to their retired employees.

SEE MEDICARE | A11

Medicare subsidies

Starting next year, many companies will be eligible for tax-free federal subsidies to help pay for their retirees' drug coverage. Medicare will subsidize 28 percent of the cost, up to $1,330 per retiree in 2006. Some Ohio companies and public retirement plans estimate their subsidies will reduce their future drug bills by millions of dollars.

Projected savings over several years:
FirstEnergy Corp.: $318 million
American Electric Power Co.: $202 million
Sherwin-Williams Co.: $21.4 million
Lubrizol Corp.: $5.8 million

Projected savings for one year only:
Goodyear Tire & Rubber Co.: $63 million
Ohio Public Employees Retirement System: $50 million
State Teachers Retirement System: $33 million

MEDICARE

FROM A1

Uncle Sam dangling carrot for employers

The incentive seems to be doing the job in Ohio and elsewhere around the country — at least for 2006.

Beginning next year, the federal government will give PERS a subsidy of roughly $50 million annually for providing drug coverage.

The subsidy covers 28 percent of each retiree's drug costs, or up to $1,330 in 2006.

To qualify, the employers' drug plan must be the same or better than the standard Medicare drug benefit. And the employers' share of the cost must at least equal Medicare's share of the standard benefit to prevent employers from turning the subsidy into a profit.

The measure was intended to slow the increasing number of employers who have been slashing health-care benefits for retirees. In 1988, 66 percent of employers provided health care coverage for retirees, compared with 33 percent today. More than 12 million retirees now get drug coverage from their employers.

Next year, the State Teachers Retirement System expects a $33 million reduction in retiree drug costs.

Over the next several years, FirstEnergy Corp. estimates the subsidy will reduce its drug bills by $318 million and Sherwin-Williams Co. expects to save $21.4 million.

"This just shifts a portion of the cost from the company to the government and does not affect the benefits we offer the retirees," said FirstEnergy spokeswoman Ellen Raines.

According to John Ryan, executive secretary of the Cleveland AFL-CIO Federation of Labor, it's money well spent.

"Increasingly, companies have been reducing health-care coverage for retirees, so it is an incentive to do the right thing," he said.

A complete list of companies and their subsidies, approved in October and November, is not available from Medicare, spokesman Gary Karr said.

He said the agency did not have "a neat report" of approved companies and could not provide copies of letters or other correspondence.

But the information is not exactly a military secret.

Some subsidy estimates are listed in the companies' filings with the U.S. Securities and Exchange Commission.

Clues are also in the notices that retirees were supposed to get by Nov. 15 from their former employer, indicating whether their drug plan next year met the subsidy criteria of equal to or better than the standard benefit. The notices assure plan members that they won't have to pay a late fee if they decide to join a Medicare drug plan later.

A survey released last week by the Kaiser Family Foundation and Hewitt Associates of 300 businesses with more than 1,000 employees found that four out of five expect to collect the subsidy.

Companies can use the savings to defray their share of drug coverage costs or the beneficiary's contribution, or both, said Dave Repko, a top consultant at the Cleveland office of Towers Perrin, a national human-resource and employee benefits consulting firm.

Most of his Ohio clients, which include many of the state's largest employers, are not making changes in their drug plans.

Repko's view echoes the Kaiser survey findings, where only a minority of companies getting the subsidy reported that they would increase the retiree's share of the coverage or impose restrictions to control costs.

That's despite the fact an employer can receive the subsidy and still cut typically more generous benefits as long as the employer's drug plan still equals the value of the standard Medicare drug benefit.

Most employer plans don't have the standard benefit's gap in coverage or a $250 deductible, Repko said.

He said the status quo is largely a result of timing — employers didn't have much of an opportunity to review the Medicare drug plans offered by insurance companies, which were unveiled about the same time the subsidy applications were due.

Employers didn't want to drop coverage if it meant retirees would have a severe cut in coverage, Repko said.

"No one knew how to integrate their benefit plan with a [Medicare] plan," he said.

Next year, he predicts, will be different.

John Rother, chief lobbyist for AARP, which insisted on the subsidy as a condition for backing the Medicare drug benefit, conceded that more employers want to cap their share of retiree drug costs — with or without a federal subsidy.

As long as drug prices continue to soar, Rother said, retirees will be shouldering a growing portion of the cost.

"It's a gradual exit strategy for employers," he said.

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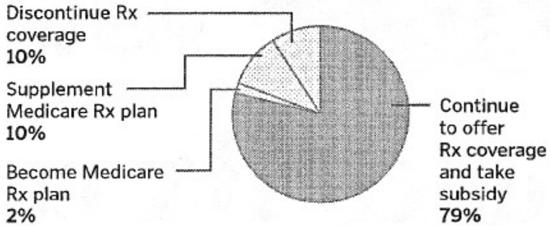
Employer-sponsored drug coverage for retirees and Medicare drug benefit

Next year's Medicare drug benefit provides a 28 percent subsidy for employers who continue their retiree drug coverage. A survey of 300 companies with more than 1,000 workers which offer health insurance to retirees found that most intend to take the tax-free subsidy and maintain drug coverage for 2006.

What companies plan to do about retiree Rx coverage



SOURCE: Kaiser/Hewitt 2005 Survey on Retiree Health Benefits THE PLAIN DEALER