Congress of the United States

Washington, DC 20515

February 2, 2005

President George W. Bush
The White House
1600 Pennsylvania Avenue
Washington, DC 20500

Dear President Bush:

We are writing to express our serious concerns over the retiree provisions included in the final Medicare regulations. These provisions could further jeopardize the employer-sponsored drug coverage retirees have worked decades to earn and drive millions of seniors to less generous Medicare prescription drug coverage. We call on your Administration to work with us to implement policies that will protect, not erode, the health care coverage of our nation's retirees.

Employer-sponsored health insurance is the single greatest source of health coverage for retirees. Nearly 12 million Medicare beneficiaries rely on the health coverage provided by their former employers. Yet, the final Medicare regulations will undermine this critical component of our health care system and the retirement security of millions of retirees by allowing employers to qualify for the full drug subsidy without providing benefits that are at least equal to the full value of the Medicare standard benefit. The statutory language in the new Medicare law clearly states that retiree plans must offer benefits equal to at least the Medicare standard benefit in order to obtain the subsidy. It is important to note that the statutory standard is already significantly lower than the drug coverage most employer-sponsored plans offer their retirees. Allowing employers to go below that standard could result in an unprecedented reduction in the very benefits the retiree subsidy was designed to protect.

The full value of the standard Medicare benefit includes assistance for drug costs up to the cap on out-of-pocket expenses ($3600 in 2006) and catastrophic coverage for drug costs that exceed the cap (which accounts for 25 percent of the government's share of spending on the standard drug benefit). The two-pronged test that CMS plans to use in order to determine actuarial equivalence allows employers to offer drug coverage that equals the value of the government share of costs up to the cap, but excludes the value of the government share of costs above the cap. This means that employers can receive 100 percent of the drug subsidy while offering retirees 75 percent of the full value of the standard benefit. This policy provides employers an additional incentive to reduce benefits and shift new costs onto their retirees, thereby contributing to the steady erosion of retiree health benefits.

We understand the delicate balance between protecting retirees and providing employers incentives to retain coverage. Employers need immediate relief from high retiree drug costs. That is why we have consistently urged your Administration to support making the employer subsidy equal to the private plan subsidy and to support allowing employer contributions to count toward

PRINTED ON RECYCLED PAPER

beneficiaries meeting the catastrophic limit. The approach taken in the final Medicare regulations, however, will likely harm retirees. First, employer contributions do not count toward beneficiaries meeting the catastrophic limit. Second, an employer-sponsored drug benefit need only be 75 percent of the full value of the standard Medicare benefit. Third, there are no employer transparency requirements, so retirees will not know what actions their employers are taking to meet the actuarial equivalence standard. We fear that the final Medicare regulations will shift more costs onto retirees and lead to millions of retirees having less adequate prescription drug coverage than they do now.

We hope your Administration will confirm its commitment to our nation's retirees by working with us to address these concerns. Thank you for your prompt attention to this matter. We look forward to your timely response.

Sincerely,

Senator John D. Rockefeller IV

Representative Fortney Pete Stark

Senator Harry Reid

Representative Nancy Pelosi

Senator Edward M. Kennedy

Representative John D. Dingell

Senator Jon Corzine

Representative Charles B. Rangel

Senator Thomas Carper

Representative Henry A. Waxman

Senator Ben Nelson

Representative Sherrod Brown

Bill Nelson
Senator Bill Nelson

George Miller
Representative George Miller

Hillary Rodham Clinton
Senator Hillary Rodham Clinton

Robert E. Andrews
Representative Robert E. Andrews

Frank R. Lautenberg
Senator Frank Lautenberg

cc: The Honorable Michael Leavitt, Secretary, Department of Health and Human Services

The Honorable Mark McClellan, Administrator, Centers for Medicare and Medicaid Services