Retiree Drug Coverage: Don’t Fix What Ain’t Broke

Right now, employers aid their retirees by paying for drug coverage. That’s a good thing; for example, companies subsidize the purchase of drugs that would otherwise fall in the now-famous “doughnut hole” of prescription coverage, providing retirees with better coverage than Medicare Part D itself. But Congress is considering, right now, a new tax on these retiree benefits. That would be a step in the wrong direction — toward fewer benefits for retirees. And the new tax would actually cost the federal government more than it would raise.

That’s because the budget assumption for any revenue gain from the new tax presumes that less than 25% of all such retirees would switch to Medicare Part D in the face of the new tax. In fact, we believe that more than 25% would switch, as employers seek to avoid paying taxes that provide their retirees with no greater benefits. As more people switch to Medicare Part D, federal costs, obviously, will go up and up. The new tax would be health care retreat, not reform. It’s the wrong way to go.

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