



# AMERICAN BENEFITS COUNCIL

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## EMPLOYER-SPONSORED RETIREE DRUG COVERAGE COST ANALYSIS AND FEDERAL REVENUE EFFECTS OF PROPOSED TAX ON RETIREE DRUG SUBSIDIES

This paper covers two related issues. First, it compares the relative cost to an employer of providing retiree prescription drug coverage, compared with the employer cost to move its retirees to an external Part D plan. Second, it shows the cost to the federal government when participants move from employer-provided coverage to an external Part D program. As employers drop the coverage, tax revenue to the government declines *and* direct government costs increase. Furthermore, the direct cost increases at three times the rate that tax revenue declines. At this rate, government outlays will exceed tax revenue collected if as few as 24% of retirees are moved from employer-sponsored coverage to Part D.

### Per Capita Net Cost to Employer of Retaining Drug Coverage for Retirees

Per Capita Employer Cash Cost, Reflecting a 25% Marginal Tax Rate	Retain Employer-Sponsored Retiree Drug Coverage	Employer Cost if Retiree is Covered by Part D Plan	Additional Employer Cost to Retain Prescription Drug Plan
Current Retiree Drug Expense	\$ 2,500	\$ 391	
Government Subsidy <sup>(a)</sup>	(628)	-	
Tax Deduction Effect	<u>(625)</u>	<u>(98)</u>	
<b>Current Net After-Tax Cost</b>	<b>\$ 1,247</b>	<b>\$ 293</b>	<b>\$ 954<sup>(b)</sup></b>
Additional Cost if the Subsidy is Taxed	<u>157</u>	<u>0</u>	
<b>Net Cost With Proposed Tax</b>	<b>\$ 1,404</b>	<b>\$ 293</b>	<b>\$ 1,111<sup>(b)</sup></b>

**NOTES:** (a): Part D subsidy rates are consistent with 2009 Medicare Trustee assumptions.

(b): Even with the higher cost, many employers currently continue to provide prescription drug coverage because of the coverage gap in Part D plans. Removal of the coverage gap and the accounting implications of the proposed new tax will materially alter the employer decision-making process.

### Revenue (Cost) to Government for the Proposed Tax on Retiree Drug Subsidies

Per Capita Retiree	Government Revenue	Cost to Government <sup>(a)</sup>	Net Government Gain (Loss)
Retiree Stays in Employer Plan	\$ 157	\$ 628	
Retiree Moves to Government Plan		<u>1,142</u>	
Incremental Cost to Government of Moving Retiree to Part D Plan		\$ 514	
<b>For Every 100 Eligible Retirees:</b>			
If 0 Move out of Employer Plan	\$15,700	\$ 0	\$ 15,700
If 24 Move out of Employer Plan	11,932	12,336	( 404)
If 50 Move out of Employer Plan	7,850	25,700	(17,850)

**NOTES:** (a): Part D costs are consistent with 2009 Medicare Trustee assumptions, including low-income subsidies.