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Medicare Part D Hits Enrollment Targets But Receives Mixed Reviews

Despite initial confusion among seniors about how to select a plan and qualify for coverage under the new Medicare Part D prescription drug benefit, the program had met its goals for enrollment by the May 15 deadline, and most participants are generally satisfied with their plans, according to two recently published studies. But surveys also indicate that problems relating to cost and access persist, with some eligible seniors who regularly purchase prescription drugs failing to enroll in time to avoid penalties.

Medicare has met its target of enrolling 90% of eligible seniors in the Part D program since it first became available in January, according to a study published in August on the Health Affairs website. The study, by economists Florian Heiss and Joachim Winter of the University of Munich and Daniel McFadden of the University of California, Berkeley, revealed that enrollment rates were lowest among healthy seniors who take no prescription drugs and among less healthy people who use prescription drugs but had no prior drug coverage.

In total, researchers estimated, around two million eligible people who currently use one or more prescription drugs had not enrolled by the May deadline. The findings were based on surveys of 1,571 people age 65 or older who were interviewed before the enrollment period began in November 2005 and immediately after the enrollment deadline had passed. The authors noted that their results are roughly in line with figures released in June by the Centers for Medicare and Medicaid Services (CMS) indicating that, of the 34.84 million seniors eligible for Medicare Part D coverage, 24.67 million had enrolled in the program, 8.5 million had other comparable coverage, and 2.66 million had no prescription drug coverage.

Nearly one-quarter of the eligible population could be considered healthy enough to justify delaying enrollment in Part D in order avoid paying monthly premiums, according to the study. The fact that an estimated 75% to 80% of this group signed up anyway is a positive outcome for the CMS

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and insurance providers, researchers said, as high enrollment rates among this group reduces problems associated with adverse selection. Results showed, however, that a disproportionate percentage of healthy people with lower incomes or lower levels of education failed to enroll, despite the fact that people in these groups would likely benefit from insurance against future drug costs.

Of greater concern, the authors said, are vulnerable segments of the elderly population who may lack the awareness and acuity to make enrollment decisions. While the study found that CMS was largely successful in its outreach efforts to these groups, results also showed that difficulties arose in reaching certain populations, especially widows, unmarried women, and the less educated. While seniors with prior prescription drug coverage were enrolled in Medicare Part D by their insurance providers when it became available, those who lacked prior coverage did not receive comparable assistance.

When asked to assess their experiences with Medicare Part D, 57.9% of respondents agreed the Medicare Part D program is a major benefit to seniors, and 57.2% said they found that, once the enrollment process was complete, the program works well. In addition, 59.9% of respondents agreed that Medicare Part D plans offer significant protection against catastrophic prescription drug costs, and 76.6% said they believe having insurance companies compete for their business improves their options.

On the other hand, just 30.3% of those surveyed agreed the Medicare Part D program is well designed, and 56.9% said having coverage through private companies, rather than through a single government-managed program, complicates their choices. Fewer than half of respondents reported finding it easy to get questions answered (49.6%) or considered the enrollment process to be clear and straightforward (42.8%). Most respondents (83.4%) agreed that the exclusion of drugs from the formularies covered by Medicare Part D is a major drawback of the program, and 76.9% felt that the $250 deductible in the Medicare standard plan is a significant problem. Nearly all respondents (90.2%) agreed that the changing drug formularies included under Medicare Part D plans make it difficult for them to predict if a medication they might need in the future will be covered. In addition, most of the seniors surveyed (88.4%) said they view the so-called "donut hole"—the coverage gap in the standard Medicare plan of annual drug expenditures between $2,250 and $5,100—as a significant drawback of the program.

As part of a similar study on early experiences with Medicare Part D, the Kaiser Family Foundation conducted a survey of 1,585 seniors, including 623 who are enrolled in the program. Results showed that 34% of enrollees experienced major or minor problems with their plans, including having to pay unexpected costs, having to leave the pharmacy without a filled prescription, not receiving enrollment cards, or having to switch drugs because one was not covered under their new plan. Researchers noted that respondents in fair or poor health are significantly more likely to report problems with their plans than those in good health. Lower-income seniors and those who take six or more prescriptions a day were also found to be more likely to experience difficulties.

"Most seniors say they are satisfied with their drug plans, but it bears close monitoring that the sickest seniors are most likely to report problems," said Foundation President and CEO Drew E. Altman, Ph.D.

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The seniors surveyed who had enrolled in a Medicare Part D plan appeared to have a more positive view of the benefit than seniors who had not enrolled. Results showed that 40% of respondents enrolled in a plan have a favorable impression of the benefit, compared with 26% of respondents who did not participate.

The findings revealed that many lower income seniors who would benefit from additional help with prescription costs are not aware that assistance is available for those with incomes below $20,000. Among all the seniors surveyed, 35% said they know there is a program through Social Security that provides extra help to this group. But among respondents who would likely qualify for assistance, just 32% indicated they are aware of the program.

New Pension Legislation Extends Tax Breaks For Retirement Saving

Designed to bolster the nation's ailing pension system, comprehensive retirement plan reform approved by Congress in August also makes permanent the Roth 401(k) and higher contribution limits for IRAs and 401(k)s. In addition, the law clarifies the rules surrounding automatic enrollment of employees in 401(k) plans and the transition from defined benefit to cash balance plans.

The Pension Protection Act of 2006 requires defined benefit plan sponsors outside of the airline industry to cover 100% of the liabilities in their pension plans over seven years, up from the current minimum funding level of 90%. Employers operating plans that remain underfunded below certain levels face stricter funding requirements, restrictions on benefit offerings and payouts, and limits on executive deferred compensation.

The law also imposes new disclosure and reporting requirements to ensure that plan participants and company shareholders receive regular updates on the funding status of pension plans.

To ease the burden of higher minimum funding levels, the law permits larger tax deductions for contributions to pension plans—employers may deduct up to 150% of current plan liabilities. However, the measure also reduces the predictability of funding requirements by restricting the smoothing of investment returns and averaging of interest rates.

The legislation addresses the legal status of cash balance plans and other types of hybrid plans. Cash balance plans combine elements of both defined benefit and defined contribution plans. The measure shields companies with cash balance plans from lawsuits by older workers who claim they do not have time before retirement to save enough money to cover their benefit losses after their employers moved them from a traditional pension to a cash balance plan. The clarification of the rules governing the transition from defined benefit to cash balance plans could make the hybrid option more attractive to some employers.

In addition, the measure includes provisions designed to encourage employee participation in defined contribution plans. The law settles outstanding legal issues by explicitly allowing automatic enrollment of workers in 401(k) plans by employers. Employees who have been automatically enrolled in a plan retain the right to opt out, but must take action to do so. In addition, employers are permitted to make default contribution decisions on behalf of 401(k) plan participants who have made no investment choices. For the first time, plan sponsors are, under certain conditions, allowed to provide personalized investment advice to participants.

The law also makes permanent incentives for qualified retirement savings contained in the Economic Growth and Tax Relief Reconciliation Act of

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2001 (EGTRRA). These provisions, many of which were due to expire in 2010, include higher contribution limits and catch-up amounts for IRAs and 401(k) plans, accelerated vesting of employer matching contributions, and higher deductible amounts for employer contributions to employee retirement accounts. By making the newly available Roth 401(k) a permanent part of the tax code, the legislation is expected to encourage 401(k) sponsors to add a Roth option to their plans. Furthermore, the law puts an end to uncertainties surrounding 529 college savings plans by mandating that qualified withdrawals will remain tax-free in the future. The law also allows tax-free distributions from IRAs to charities through 2007, up to a limit of $100,000.

More Employers Implement Health And Productivity Management Strategies

In response to growing evidence that the health of their employees affects productivity, increasing numbers of employers are adopting strategies intended to help employees stay healthy and recover from illnesses and injuries when they occur, according to a report by the Integrated Benefits Institute.

The survey of 624 benefits professionals showed that 56% of respondents either have in place or plan to implement a health and productivity management (HPM) strategy. Broken down by size, 85% of large employers surveyed indicated they are adopting HPM strategies, compared with 45% of small employers.

Two-thirds of respondents said they believe there is a strong link between employee health, productivity, and the bottom line. When asked what factors motivated them to adopt HPM strategies, 83% said medical costs, while 67% cited the growth in overall benefits payments, including those for absences due to sickness or disability.

Results showed that 76% of those employers with an HPM strategy have in place an employee assistance program (EAP), which typically provides a mix of pre-condition prevention, post-condition management, and education. Other leading HPM-related practices implemented by respondents include employee benefits education (70%), wellness programs (63%), disease management (58%), and nurse case management (58%). Researchers noted that employers with HPM strategies usually adopt multiple practices, ranging from an average of six for small employers to eight for large employers.

Most respondents with no formal HPM strategy indicated they have adopted at least one of the following practices: an integrated return-to-work program, the use of the same medical guidelines across benefit programs, or the use of the same form of medical management of return-to-work goals for both workers compensation and group health plans. The most widely adopted HPM practices were found to be those furnished by group health plans or those that nearly all employers view as critical to prevention efforts, especially wellness and health risk assessments.

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