

**Testimony of
Larry Burton of
Business Roundtable
Before the
Senate Finance Committee
on
The Medicare Modernization Act
Tuesday, September 14, 2004**

Introduction

Thank you, Chairman Grassley, Ranking Member Baucus, and all members of the committee for giving me the opportunity to testify today on this important issue.

I'm Larry Burton, Executive Director of Business Roundtable, an association of chief executive officers of leading corporations with a combined workforce of more than 10 million employees in the United States and \$4 trillion in annual revenues. Our companies alone provide health care coverage to approximately 25 million people.

Rapidly rising health care costs are a challenge for families and individuals. These costs are creating a major drag on economic growth for American companies, and our country. Health insurance premiums have increased at a double-digit pace each of the past three years. Premiums for employer-sponsored health coverage for families rose 11.2 percent in 2004, which is about five times the rate of inflation.

Additionally, more than half (58%) of Roundtable member CEOs have identified rising health care costs as the most significant cost pressure facing their companies.

That is why a major priority for the Roundtable is to promote policies that help reduce health care cost burdens and strengthen the system of market-based health care coverage for millions of American workers and their families.

Which brings me to the three points I want to share here today.

1. First, Business Roundtable believes that the Medicare Modernization Act (MMA) is a strong step toward addressing some of the challenges of our health care system. We support the MMA because it encourages employers to continue providing retiree health care coverage.
2. Second, implementation of the law is challenging for employers, unions, health plans, and Pharmacy Benefits Managers (PBMs) – so it is crucial that the rules are finalized so that the marketplace develops in a quick fashion. This will allow our employers to make the best and most informed decisions about how they may continue offering retiree coverage.
3. And finally, the Roundtable believes it is important to educate seniors and their families about the benefits of this complex law.

Medicare Modernization Act

There is a widespread misperception about what employer-sponsored retiree coverage is. Companies that provide health coverage to their retirees over the age of 65 offer benefits that exceed those offered under the traditional Medicare program. The company's extra benefits "wrap around" the traditional Medicare benefit – in other words, they supplement traditional Medicare coverage.

With the dramatic rise in health care costs over the past few years, sustaining employer-sponsored retiree coverage has been difficult. In fact, over the past 15 years, the number of medium and large companies offering employer-sponsored retiree health benefits has reduced by half. Typically, though not universally, these plans offer generous health benefits that simply supplement the current Medicare program, including the new prescription drug benefit. Today, about 12 million seniors – one in three – have supplemental Medicare coverage through their employers.

A May 2003 survey found that of the 65 Business Roundtable companies that responded, all offer retiree benefits that supplement Medicare. The benefits average \$2,333 per year per beneficiary, of which an average of \$1,498 is spent on outpatient prescription drug

coverage. Retiree plans use PBMs or private insurers to manage these prescription drug benefits. Employers have a vast array of expertise in offering retiree health care benefits and in driving quality improvements through innovation.

Given these factors, the Roundtable supports the MMA for the following reasons:

1. It provides options for employers to continue providing retiree health care coverage to retirees;
2. It recognizes that an employer-sponsored retiree plan is “group” coverage and, as such, certain requirements such as geography, premium, and payment may be modified through a waiver process; and
3. It contains important steps toward providing all consumers with certain information on cost and quality.

Medicare Modernization Act Regulations

The Center for Medicare & Medicaid Services (CMS) rules provide further context for the law’s employer-sponsored retiree plan options. Employers are likely to choose to continue to offer benefits as follows:

Employers who offer drug benefits to their retirees who are eligible for prescription drugs could:

(1) Provide prescription drug coverage through employment-based retiree health coverage. If employment-based retiree health coverage is at least actuarially equivalent to the standard prescription drug coverage, the sponsor would be eligible for a special Federal subsidy for each individual;

(2) Contract with a PDP sponsor or Medicare Advantage (MA) organization to enroll Medicare beneficiaries covered under the retiree plan into a prescription drug plan (PDP) or Medicare Advantage-prescription drug (MA-PD) plan. Alternatively, the sponsor itself could apply to be a PDP sponsor or MA organization and offer a PDP or MA-PD plan to its retirees. Employers could offer drug coverage that is more generous than that offered under the standard prescription drug coverage under Medicare Part D.

(3) *Provide prescription drug coverage that supplements, or “wraps-around,” the coverage offered under the PDP or MA-PD plans in which their retirees (and retiree’s spouse and dependents) enroll.¹*

All of these options continue to involve the employer in offering some form of retiree health care coverage, and it’s important to note that these options still equate to offering that coverage. The flexibility of this reform allows employers to continue to coordinate their extra benefits around the Medicare benefits offered to their retirees.

Implementation Issues

In order to implement the employer provisions of the MMA, the final rules must be promulgated so that employers can accurately assess their options, and contracting prescription drug or Medicare Advantage plans can finalize their strategies such that a marketplace exists for employers. At this point in time, employers do not know what entities will be offering PDP plans and Medicare Advantage plans, so it is essential for CMS to move quickly in addressing these implementation issues.

Furthermore, employer plans need full flexibility to select from the options offered by the law – receiving a subsidy; electing and enhancing benefits offered by a Prescription Drug Plan; or enrolling beneficiaries in a Medicare Advantage plan. Business Roundtable companies have, on average, seven different retiree plans.

Implementation is a complex issue that requires health insurers and PBMs to work with employers and human resource managers. We urge CMS to move swiftly and we support their efforts to make this new system work.

Medicare Education Campaign

Turning now to my final point, I want to emphasize the importance of communicating the benefits of the Medicare reform to retirees, and their families and friends. It is critical that they have information to allow them to make informed choices.

¹ Fed. Reg. Vol. 69, No. 148, Tuesday, August 3, 2004

This spring, the Roundtable commissioned a study to determine the value of this benefit for seniors. The study detailed the state-by-state value of the Prescription Drug Discount Card and the drug benefit, revealing \$24.1 billion in valuable new drug benefits for seniors.

Because this benefit will only be realized if seniors take advantage of it, we then undertook an effort to communicate the message about the Medicare benefit and reform. Since May, Business Roundtable has been conducting a national consumer education campaign to inform America's seniors of this new option and benefits available to them as part of the new Medicare law.

In conjunction with this education campaign, the Roundtable also produced several educational materials to help communicate the benefits of the new Medicare plan. A brochure called *10 Things You Should Know About the New Medicare Prescription Drug Benefit*, newsletter articles, and handouts were created to assist companies in presenting information to their current and former employees. With your permission, I offer these materials for the record.

Again, let me emphasize the importance of working together to ensure that retirees have clear, concise information about this new law.

Conclusion

In conclusion, we believe that the MMA is an important step forward in improving health care coverage for America's seniors and encouraging employers to continue providing coverage. We look forward to continuing to work with CMS to expedite the implementation process, and we support all efforts to communicate its benefits to seniors.

Business Roundtable will continue to work with all stakeholders to ensure effective implementation.