

MGL Ch. 32B, Section 18 – Optional Section/Non-Revocable

Background:

This section requires that Medicare eligible retirees, spouses, and dependents enroll in “Medicare extension plans”^{*} provided that the benefits under the Medicare extension plan plus Medicare Part A and Part B together are of comparable actuarial value to the benefits under the retiree’s existing coverage.

The governmental employer must pay any Medicare Part B premium penalty assessed by the federal government on retirees, spouses, and dependents as a result of enrollment in Medicare Part B at the time of transfer into the Medicare extension plan.

A Medicare eligible individual may enroll in Part B only at the time s/he is first eligible for Part B or as a late enrollee during January through March of each year for an effective date of July 1 of that year.

The Part B premium penalty for late enrollment is 10% of the Part B premium for each year the retiree was eligible but did not enroll. The penalty is assessed ongoing.

Retirees who do not comply with the employer’s requests for information of Medicare eligibility lose their eligibility for their existing coverage.

Why adopt Section 18?

To identify retirees who are entitled to Medicare coverage in order to coordinate benefits with Medicare and reduce employer costs.

To facilitate the filing for the Medicare Part D Retiree Drug Subsidy (RDS) or to require retirees who are Medicare eligible to obtain Part D coverage and thereby reduce employer prescription drug costs.

Issues associated with adoption of Section 18:

Communicating this change with current ≥ 65 retirees can be challenging and time-consuming.

Some employers have contribution strategies that encourage retirees to remain on active employee plans. For these employers, adopting S. 18 will be politically challenging. For those employers that contribute a fixed percentage to retirees regardless of which plan they select, adoption of S. 18 should be easier but will nevertheless require a great deal of communication.

Part B is increasingly costly and represents a retiree expense. Part B premium penalties that the employer must pay can be costly for employers with many very old retirees on active employee plans.

Adoption of S. 18 for a town is by town meeting vote. Adoption is time-sensitive because of the three-month window each year during which retirees can enroll in Part B for late enrollment.

Employer should probably document “actuarial comparability”.

Retirees who are Medicare eligible but who have younger dependents who are not Medicare eligible or retirees below age 65 who have Medicare eligible dependents would have to pick up two health plans: a Medicare extension plan and an active employee plan.

Prepared by Group Benefits Strategies, 9/27/05

^{*} term used in MGL Ch. 32B to refer to Medicare supplement plans and Medicare Advantage plans.