

Medicare Prescription Drug Plan & Retiree Drug Subsidy - What is the difference?

All Segments

There's a lot to consider when choosing a prescription drug program for your retirees. Do you choose a Prescription Drug Plan [PDP] or Retiree Drug Subsidy [RDS] prescription program? Before selecting a plan, consider the pros and cons.

To learn more about
PDP and RDS, call
The Hartford's
Group Retiree
Health Sales
Contact line at
1-877-223-9782.

PDP

Pros:

- Up-front federal dollars indirectly lower final costs
- PDP federal subsidy is more predictable than RDS returns
- Less administrative burden for employers
- Catastrophic benefit included in all plans
- No creditable coverage notice required
- No employer contributions necessary
- FASB reduction due to lower plan premiums
- Opportunity to adjust cost-sharing levels
- No additional actuarial expense and annual attestation

Cons:

- May change existing benefit plan, funding and formulary
- Different benefits for Medicare and non-Medicare eligible retirees
- No tax benefit from federal direct subsidy
- Lower tax deduction for benefit costs due to lower premiums
- No enrollment support for retirees
- Opt-out language may be confusing to retirees
- Retirees who change from one PDP to another may accidentally cancel medical coverage also
- Restrictive formulary
- Susceptible to yearly CMS benefit changes
- Possible complications with low-income assistance or late enrollment penalties

RDS

Pros:

- No change to current (creditable) benefit plan
- Able to keep coverage consistent if retiree (creditable) prescription plan same as active
- FASB reduction for fully-insured plan
- Opportunity to adjust cost-sharing levels
- Twenty-eight percent federal direct tax-free subsidy has increased value to businesses subject to corporate income tax
- Tax deduction for benefit costs
- Easy front-end eligibility process
- Online application
- RDS Web site provides easy access to information

Cons:

- Yearly application and attestation which includes actuarial expense to request data and perform testing
- Meaningful employer contributions necessary to meet attestation requirements
- Must manage eligibility, claim and rebate data
- Required to send creditable coverage notice to members and CMS
- Possibility of expense and business disruption for federal audit
- Risk of adjusted subsidy payments at reconciliation



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CMS = Centers for Medicare and Medicaid Services
FASB=Financial Accounting Standards Board

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