



Medicare Part D: Retiree Drug Subsidy

Medicare Part D is a voluntary prescription drug program for Medicare beneficiaries. Medicare Part D includes an employer subsidy (the Retiree Drug Subsidy), which is designed to encourage employers to provide prescription drug coverage to Medicare-eligible retirees even though Medicare Part D is available.

The Retiree Drug Subsidy (RDS) is available to certain employers that sponsor group health plans covering retirees who are entitled to enroll in Part D but elect not to do so. To participate in the RDS program, eligible employers must submit an application to the Centers for Medicare & Medicaid Services (CMS) prior to the beginning of the plan year.

In general, the RDS is equal to **28 percent** of each qualifying covered retiree's costs for prescription drugs otherwise covered by Medicare Part D that are attributable to costs between the cost threshold and cost limit.

LINKS AND RESOURCES

More information about the RDS program is available from CMS through its [RDS webpage](#), including:

- [RDS Program Overview](#)
- Answers to [common questions](#) about the RDS program

Overview

- The RDS program allows eligible employers to provide drug coverage to their Medicare-eligible retirees at a lower cost.
- An employer must show that its prescription drug coverage is “actuarially equivalent” to, or at least as generous as, Medicare Part D coverage in order to be eligible for the subsidy.

Tax Rules

- Employers receive the RDS subsidy tax free.
- The Affordable Care Act (ACA) prohibits employers from also taking a deduction for the subsidy amount.

Calculation of RDS

The RDS program allows employers to directly offset a portion of the costs of providing drug coverage to Medicare-eligible retirees. In general, the RDS is equal to **28 percent** of each qualifying covered retiree's costs for prescription drugs otherwise covered by Medicare Part D that are attributable to costs between the cost threshold and cost limit.

RDS Parameter	2021	2022	2023	2024
Cost Threshold	\$445	\$480	\$505	\$545
Cost Limit	\$9,200	\$9,850	\$10,350	\$11,200

A “qualifying covered retiree” is a Part D eligible individual who is:

- A participant, or the spouse or dependent of a participant;
- Covered under employment-based retiree health coverage that includes a qualified retiree prescription drug plan; and
- Not enrolled in a Part D plan.

The RDS program is subject to the mandatory reductions in federal spending in accordance with the Balanced Budget and Emergency Deficit Control Act of 1985. This process of payment reduction is referred to as sequestration. In 2004, CMS released [guidance](#) detailing the impact of the sequestration on RDS payments. Due to the sequestration, CMS applies a mandatory **2 percent payment reduction** on all plan months of April 2013 and beyond when calculating the reconciliation payment request.

Note: The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), enacted on March 27, 2020, **temporarily suspended sequestration** of Medicare programs between May 1, 2020 and Dec. 31, 2020. This suspension was subsequently extended (through various pieces of legislation) through March 31, 2022. As a result, the calculated subsidy amount for final costs incurred within this period are exempt from the 2% sequestration reduction when those months’ costs are reconciled and final payment is requested. Beginning April 2022, the reductions resumed but were limited to 1%, and beginning in July 2022, the full 2% reductions are applied.

Employer Eligibility

The RDS is available to employers satisfying certain eligibility requirements, regardless of whether they pay taxes or are tax-exempt. Employers must meet the following requirements to be eligible for the RDS:

- The employer must provide coverage of retiree health care costs, including prescription drugs, under a group health plan;
- The plan’s retiree prescription drug coverage must be **creditable coverage** (notices of creditable coverage must be provided to Medicare beneficiaries); and
- The employer must submit an attestation that the actuarial value of the plan’s retiree prescription drug coverage is at least equal to the actuarial value of the defined standard prescription drug coverage under Part D.

For purposes of qualifying for the RDS, health plan coverage must meet a two-prong test for actuarial equivalence. The first prong is a gross value test that is the same test as that for determining whether coverage is creditable or non-creditable for purposes of notifying plan participants and CMS. The second prong is a net value test, which takes into account employer financing of the coverage. This net value test only applies when determining creditable coverage for purposes of qualifying for the RDS.

Tax Issues

Employers receive RDS payments tax-free; however, the ACA prohibits employers from taking a deduction for the subsidy amount.

Application Process

To qualify for the RDS program, plan sponsors must electronically submit an application prior to the beginning of the plan year by a date specified by CMS in published guidance—usually no later than **90 days prior to the beginning of the plan year** (unless granted an extension, which is usually 30 days).

Each application must include the actuarial attestation of creditable coverage, as well as identifying information for each retiree, spouse and dependent whose costs the sponsor believes will qualify for the subsidy. CMS will match the names on the application with its Medicare records and will notify the plan sponsor regarding which individuals qualify for the subsidy. Plan sponsors must also certify that creditable coverage disclosure notices have been or will be provided to plan participants and CMS.

Employers that apply for the RDS program must retain certain records (such as actuarial attestation documents) for six years and must periodically update enrollment information about retirees and dependents.

Plan sponsors who receive the RDS may elect to receive payments on a monthly, quarterly, interim annual or annual basis. When a monthly or quarterly payment frequency is elected, the plan sponsor may submit up to 12 or four interim payment requests, respectively. Actual frequency of payments will depend on the submission of the payment requests. Once a payment request has been submitted to the RDS Center and is approved, the subsidy payment will be electronically deposited into the account designated in the Electronic Funds Transfer (EFT) section of the RDS application. Once electronically deposited, the RDS Center will post a notice in the sponsor’s online RDS account.

CMS maintains a webpage dedicated to helping employers apply for the RDS program. The [RDS Center](#) allows employers to fill out, save and submit RDS applications online, and serves as a resource center for all informational and operational needs for plan sponsors who wish to become participants in the RDS program.

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