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Special:

Circular Letter

TO: ALL PEMHCA CONTRACTING AGENCIES HEALTH BENEFITS OFFICERS AND ASSISTANT HEALTH BENEFITS OFFICERS

SUBJECT: DISTRIBUTION OF MEDICARE FUNDS TO CONTRACTING AGENCIES

ATTENTION: FINANCE / FISCAL SERVICES

CalPERS will distribute approximately \$15 million in Medicare Retiree Drug Subsidy (RDS) funds to contracting agencies that made contributions toward health care premiums for their retirees and beneficiaries in calendar year 2007. The target disbursement date is June 15, 2009.

CalPERS collected RDS subsidy dollars from the Centers for Medicare and Medicaid Services (CMS) for providing Medicare prescription drug benefits (Part D) to Medicare eligible members, who were not enrolled in the Kaiser Permanente Medicare Senior Advantage Program. Subsidy payments equal 28 percent of each qualifying retiree's allowable prescription drug costs between the applicable cost threshold and cost limit (e.g., drug spending between \$265 and \$5,350 for 2007). RDS subsidy dollars are based on eligibility information from CalPERS and claims information from CalPERS health plans.

CalPERS used the following formula to calculate the disbursement:

- Step 1: Amount of each contracting agency employer's contribution toward annuitant health care premiums.
- Step 2: Total amount contributed toward these premiums by all contracting agency employers.
- Step 3: Contribution ratio (Step 1 divided by Step 2).
- Step 4: Contribution ratio times RDS funds attributable to contracting agency employers.

For example, assume that:

- A contracting agency contributes \$50,000 toward annuitants' health care premiums
- The total of all contracting agency employer health care premium contributions for annuitants is \$400,000, and

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- The RDS funds attributable to contracting agency employers is \$100,000

CalPERS calculates the share for this hypothetical contracting agency as follows:

Contracting Agency Contribution Toward Annuitant Health Care Premiums	Total Amount Contributed Toward Annuitant Health Care Premiums by all Contracting Agencies	Relative Contribution Ratio	RDS Attributed to Contracting Agencies	Contracting Agency Employer Subsidy Share
\$50,000	÷ \$400,000	= 12.5%	× \$100,000	= \$12,500

The 12.5 percent Relative Contribution Ratio is this employer's percent of the total annuitant health care premiums paid by all contracting agencies. CalPERS uses this percent to calculate the employer's share of the subsidy. Other employers would have different contributions and different ratios.

If you have questions about the information provided in the Circular Letter, please call the CalPERS Employer Contact Center at **888 CalPERS** (or **888-225-7377**).

Sincerely,

Holly A. Fong, Chief
Employer and Member Health Services