EB/CAP/99/4

September 21, 1999

To: Members of the Committee on Administrative Policies

From: The Committee Secretary

Subject: **Coordination of Retiree Medical Benefits With Medicare and Reimbursement of Medicare Taxes for U.S. Staff**

The attached paper on Coordination of Retiree Medical Benefits With Medicare and Reimbursement of Medicare Taxes for U.S. Staff will be taken up at a meeting of the Committee on a date to be announced. A recommendation to the Executive Board and a draft decision appears on pages 21–23.

Mr. J. Kennedy (ext. 34665) and Mr. K. Craig (ext. 38212) are available to answer technical or factual questions relating to this paper prior to the discussion.

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INTERNATIONAL MONETARY FUND

**Coordination of Retiree Medical Benefits With Medicare and Reimbursement of Medicare Taxes for U.S. Staff**

Prepared by the Human Resources Department

Approved by Ulrich Baumgartner

September 20, 1999

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## EXECUTIVE SUMMARY

In May 1999, the Committee on Administrative Policies (CAP) discussed a staff paper (EB/CAP/99/1, 2/17/99) concerning the duplicate payments that U.S. staff members and retirees make for overlapping hospitalization insurance under the Fund's own Medical Benefits Plan (MBP) and the U.S. Medicare program. With respect to payments, U.S. staff members are required by U.S. law to pay a tax for Medicare Hospitalization Insurance (HI) on their income from the Fund during employment; U.S. staff and retirees also pay premiums to the MBP on their Fund salaries and pensions. With respect to insurance coverage, the U.S. retirees who have paid the Medicare HI taxes receive premium-free hospitalization insurance through Medicare Part A beginning at age 65; Fund staff and retirees also receive post-65 hospitalization insurance through the MBP.

From age 65, Fund retirees receive minimal additional benefit from having coverage in both the MBP and Medicare Part A. However, the dual coverage produces substantial savings to the MBP and, through it, to the Fund, which meets 75 percent of the cost of the MBP. These savings accrue because the payment of post-65 hospitalization expenses are usually coordinated between Medicare and the MBP. Medicare as the first payer, covers nearly 90 percent of the expenses while the MBP pays only the residual 10 percent.

There was agreement at CAP Meeting 99/2 (5/6/99) that this duplication should be eliminated. However, the staff proposal considered at that time—that one of the two payments by U.S. staff and retirees be eliminated by raising the portion of the tax for Medicare HI that the Fund reimburses from 50 percent to 100 percent—was not supported. The staff was asked to find an alternative approach that would reduce the cost of the initial proposal and would more closely target the remedy on retirees and the MBP than on the staff and Medicare HI taxes. A solution to the problem of duplication of payments and post-65 insurance coverage that would involve only Fund retirees and the MBP was found not to be feasible. A reduction in the retirees' MBP premiums that would provide an effective and equitable solution to the present duplication of payments and coverage would have to be larger in most cases than the entire MBP premium. It is, therefore, necessary to accompany changes in retirees' MBP coverage with some increase in the Fund's reimbursement of the Medicare HI taxes.

This paper presents the following revised proposal:

- **The MBP's coverage of hospitalization expenses that are reimbursable through Medicare Part A would be eliminated, and beginning at 65 years of age, the MBP premiums of the U.S. retirees coordinating claims with Medicare would be reduced by the share of the total MBP premium that is attributable to the excluded hospitalization.** Based on the recent ratio of hospitalization claims to all insurance claims under the MBP, the premium reduction would equal 23 percent of the total MBP premium, with a minimum reduction equal to one half of the reduction for a retiree with an average pension (the income base on which MBP premiums are calculated). The average annual premium reduction would be $238, and the minimum annual reduction would be $120. (The MBP currently provides an annual premium discount of $84 for coordinating with Medicare or other national health systems.)

- **The rate of the Fund's reimbursement of Medicare HI taxes for U.S. staff would be raised from 50 percent to 75 percent and reimbursement would bring the Fund's contribution toward the medical insurance provided through Medicare into line with the Fund's general policy, as reflected in for the MBP, of reimbursing 75 percent of the cost of medical insurance.**

Other proposals:

- **It is proposed that the same exclusion of the MBP's post-65 hospitalization coverage and the same 23 percent reduction in MBP premiums apply to all present and future retirees and dependents who are participants in the MBP and also have coverage under Medicare**. The rationale for eliminating the MBP's post-65 hospitalization coverage and providing a corresponding premium reduction is that U.S. staff/retirees should not pay twice for this insurance coverage when the insurance under Medicare eliminates their need for most post-65 hospitalization coverage under the MBP. This rationale applies not only to current U.S. staff members when they retire, but equally to present U.S. retirees and also to non-U.S. retirees and their dependents that are similarly insured by both the MBP and Medicare Part A. Exceptions would be made only when MBP participants are able to demonstrate that they are unable to claim hospitalization expenses through Medicare Part A.

- In support of this approach, it is also proposed that the **coordination** of hospitalization claims between the MBP and Medicare Part A, with Medicare as the first payer, be **mandatory** for all post-65 MBP participants—both retirees and their dependents—who are eligible for and/or enrolled in Medicare Part A.

- It is also recommended that the Executive Board authorize the staff to establish appropriate **coordination arrangements with national health systems other than Medicare Part A in the United States** when doing so could produce savings, net of premium reductions, to the MBP.

The **full-year cost** to the Fund of the revised approach would amount to about $830,000, which is approximately one half of the cost of the initial proposal. In comparison, the full-year 1999 savings that the Fund already receives from the coordination of post-65 hospitalization claims between the MBP and Medicare are estimated at $460,000. Extending the MBP proposals to retirees and dependents not currently coordinating claims and making claims coordination mandatory is estimated to generate additional savings for the Fund of about $200,000 by shifting more expenses to Medicare from the MBP.

## I. INTRODUCTION

1. On May 6, 1999, the Committee on Administrative Policies (CAP) discussed the paper "Reimbursement of Medicare Contributions" (EB/CAP/99/1, 2/17/99). The paper proposed that the Fund fully reimburse U.S. nationals on the staff for the portion of the Social Security tax paid as Medicare Hospitalization Insurance (HI). There was a consensus at CAP Meeting 99/2 that the present duplicate payments made by U.S. staff and retirees are inequitable and should be eliminated. However, the proposed solution of eliminating one of the two payments of staff/retirees by fully reimbursing U.S. staff members' taxes for Medicare HI was not supported. The CAP requested the staff to consider other approaches that would: (a) more closely target the remedy on the U.S. retirees who actually generate the savings for the MBP, and (b) lower the cost of the remedy by reducing, in particular, the ancillary expenditures on tax allowances that the Fund would be required to make on the added amounts of reimbursed taxes for Medicare HI.

2. Section II of this paper describes the proposed revised approach for remedying the duplication of payments for post-65 hospitalization insurance by U.S. staff and retirees. Details on alternative approaches that were also explored, but were not found to be feasible, are discussed in the Attachment. Section III discusses the applicability of the recommended approach to current retirees covered by both the MBP and Medicare HI and its possible extension to other situations involving claims coordination. Section IV provides information on the estimated cost of the proposals and the savings they would generate for the MBP and the Fund. Section V summarizes the recommendations and provides a proposed decision for recommendation by the CAP to the Executive Board.

## II. POST-65 HOSPITALIZATION INSURANCE FOR U.S. STAFF AND RETIREES: PROPOSED APPROACH AND ALTERNATIVES

3. As explained in the previous paper for the CAP (EB/CAP/99/1, 2/17/99), U.S. staff members are required by U.S. law to pay Social Security taxes on their Fund income during their employment (but not on their pensions after retirement). The Social Security taxes include a tax for Medicare HI, which is currently equal to 2.9 percent of gross, pre-tax income. Of this, the Fund now reimburses the 50 percent (1.45 percent of gross income) that represents the employer's normal share of the tax, and U.S. staff members pay the other 50 percent (also 1.45 percent of gross income) out-of-pocket. U.S. employees who have paid Medicare HI taxes for at least 10 years are automatically insured on a premium-free basis through Medicare Part A for hospitalization expenses beginning at age 65.[1]

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[1]Payroll taxes in the U.S. Social Security System have three parts: Old Age and Survivor Insurance (OASI), which provides pension benefits; Disability Insurance (DI); and Hospital Insurance (HI), which covers the cost of inpatient hospitalization for persons 65 years of age and older. With respect to these taxes, the proposals in this paper concern only the Medicare HI taxes. The payroll taxes for Medicare HI finance post-65 hospitalization benefits under Part A of the Medicare program. Part B of Medicare is a separate program that mainly covers physicians' services. Part B is voluntary and is financed through a combination of retirees' premiums and general tax revenues. The proposals in this paper primarily concern Medicare Part A hospitalization insurance.

4. The Fund's MBP also provides hospitalization insurance for its staff and retirees, including U.S. staff and retirees. Of the MBP's total cost, the Fund bears 75 percent and the staff/retirees meet 25 percent. Under the MBP, the post-65 hospitalization claims for U.S. retirees are generally coordinated with Medicare, with Medicare Part A as the first payer and the MBP as the residual payer. Coverage under Medicare provides no significant benefit to U.S. retirees apart from that which they would receive through the MBP. Coordination of hospitalization claims with Medicare Part A does, however, substantially lower costs for the MBP, which, in turn, produces savings for the Fund. The MBP recognizes such savings to a limited degree by providing a token discount of $7 per month ($84 annually) in the MBP premiums of retirees who coordinate claims with Medicare Part A or other national health systems.

5. Between the taxes for Medicare HI and the premiums for the MBP, U.S. staff and retirees effectively pay twice for the same hospitalization coverage that is available to other staff and retirees through their MBP premium payments alone. In response to the discussion in the CAP, the staff has considered several measures that could contribute to a remedy for this duplication; these include: (a) rebating to retirees the savings to the MBP from coordination with Medicare; (b) reducing the MBP premium payments of U.S. retirees so as to offset their earlier payments in Medicare HI taxes; (c) eliminating or reducing the MBP premium payments made by U.S. nationals while they are on the staff; and (d) eliminating, as was originally proposed, or reducing the U.S. staff members' present payment of taxes for Medicare HI, and increasing correspondingly the taxes reimbursed by the Fund.[2]

6. Upon examination, it was found that a direct rebate of the savings to the MBP from Medicare coordination would not be feasible because it would produce a rebate that would approach or even exceed the total MBP premium of the post-65 retirees. The average MBP premium for retirees is $1,030, and retirees with relatively low pensions may pay only $600–$800. This compares with average annual *per capita* savings to the MBP of $3,340, of which one half could be attributed to MBP participants as the Fund reimburses the other half of the Medicare HI tax. There is a similar imbalance between the MBP premiums of retirees, on the one hand, and U.S. staff members' Medicare HI taxes, on the other, particularly when it is considered that the Medicare tax is likely to have been paid for a longer period than the MBP premium of post-65 retirees. At the average salary level of staff ($84,000), for example, a U.S. staff member's out-of-pocket share of the annual Social Security taxes for Medicare HI is $1,705 at the present 50 percent payment rate, compared with an average MBP premium of $1,030 for retirees. Thus, the differences between the retirees' MBP premiums and both the MBP savings and the Medicare HI taxes are of a magnitude that post-retirement changes to the MBP cannot alone produce a sufficient reduction in insurance payments to remedy the present duplication, although they can contribute to a solution. (Additional information on the alternatives considered is provided in the Attachment.)

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[2]It may also be noted that the theoretical option of eliminating post-65 Medicare coverage for hospitalization is not possible in practice, because the payment of Medicare HI taxes is mandatory and post-65 coverage is automatic for those who have paid the Medicare HI taxes for 10 years.

7. An effective and equitable solution to the present duplication therefore requires that any post-retirement change in the MBP be accompanied by some pre-retirement change in either the level of MBP premiums for both U.S. staff during their employment or the reimbursement of Medicare HI taxes. Of the possible pre-retirement changes, the option of adjusting the level of MBP premiums for U.S. staff during their employment was not pursued, because it is not regarded as sound insurance practice, particularly in the context of the MBP's uniform premium structure and pay-as-you-go design (for more details please see the Attachment). Regarding the Medicare HI tax itself, full reimbursement, which would be a straightforward means of eliminating the duplication of payments, was not supported in the last CAP meeting.

**Proposed approach**

8. The recommended approach accordingly includes two measures that combine a post-retirement adjustment to the MBP and a pre-retirement adjustment to the reimbursement of the taxes for Medicare HI:

- **Post-retirement**. The MBP's coverage of hospitalization expenses that are reimbursable through Medicare would be eliminated, and beginning at 65 years of age, the MBP premiums of the U.S. retirees coordinating claims with Medicare Part A would be reduced by the proportion of the total MBP premium that is attributable to the excluded hospitalization.

- **Pre-retirement**. The rate of the Fund's reimbursement of Medicare HI taxes for U.S. staff would be raised from 50 percent to 75 percent, which would bring the Fund's contribution toward this medical insurance into line with the Fund's general policy, as reflected in the MBP, of reimbursing 75 percent of the cost of medical insurance.

**Post-retirement "carve-out" of MBP hospitalization coverage and premium**

9. The first element of this approach would remove the major part of post-65 hospitalization from the MBP for retirees who, while staff members, paid Medicare HI taxes. With respect to **insurance coverage**, hospitalization expenses that qualify for Medicare reimbursement would be paid by Medicare Part A and formally excluded from the MBP. The MBP would continue to cover only the residual hospitalization expenses that are not paid by Medicare; these expenses would normally include charges for hospital stays that are longer than the 90 days that Medicare allows, charges in excess of Medicare limits, and expenses incurred outside the United States, which are not covered by Medicare. Experience during the past five years indicates that the residual hospitalization costs that would continue to be covered by the MBP would amount to 9.5 percent of total hospitalization costs.[3]

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[3]In the five-year period 1994–98, the hospitalization expenses paid by the MBP for retirees over 65 years of age amounted to about $312,000 of the total amount of such hospitalization expenses—$3,284,000—paid by the MBP and Medicare.

10. The portion of the **MBP premium** corresponding to the excluded hospitalization coverage would be carved out of the normal premium for U.S. retirees from age 65, when Medicare coverage begins. Of the aggregate MBP premium, 25.5 percent is attributable to hospitalization claims and would be subtracted from the MBP premium if hospitalization coverage were entirely eliminated from the MBP.[4] However, as noted above, a residual of 9.5 percent of the hospitalization expenses of post-65 retirees with Medicare flow into and are paid by the MBP. To reflect these costs, a corresponding portion of the MBP premium should remain as part of the total MBP premium for post-65 retirees. With this adjustment, **the proposed net premium reduction for Medicare coordination by U.S. retirees would amount to 23 percent of the total MBP premium**. The calculation of the premium reduction is shown in the box on the following page.

11. A premium reduction of this magnitude would, at the lowest levels of pensions, result in a discount that would be smaller than the present discount of $84 per year. For example, a retiree with a pension of $20,000 per year would pay a MBP premium of $300 and, at 23 percent, the annual premium reduction would be $68.75. To avoid this situation, **it is proposed that a minimum premium reduction be set at an amount approximately equal to one half of the amount of the premium reduction at the average income base of the retirees receiving a rebate for coordination with Medicare Part A**.[5] On this basis, the minimum premium adjustment would be $10 per month, or $120 per year. It is estimated that 20–25 percent of the retirees coordinating claims between the MBP and Medicare Part A would receive the minimum reduction. An example of the minimum reduction is provided in the following box.

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[4]MBP premiums are set at the level that equalizes premium income and claims expenditures. In addition to the 25.5 percent of claims and premiums that are attributable to hospitalization, claims in the period 1994–98 for physicians' services and preventive care accounted for 52 percent of MBP costs, dental care for about 14 percent, and prescription drugs for about 8 percent.

[5]Retirees' MBP premiums are normally set on the basis of their pensions. The premiums for certain retirees who had less than 10 years of service and for persons on deferred pensions are set on the basis of their final Fund salary, with adjustments for inflation. Establishing a minimum reduction would be consistent with the progressive design of the MBP's premium structure, which is intended to lower, relative to salaries, the cost of medical insurance for staff with lower salaries.

**Box 1. Examples of the Proposed MBP Premium Reduction**

In terms of dollar amounts, the annual, single premium for **a retiree with an average pension** of $71,000 is about $1,030. Of this amount, $263 (25.5 percent) is attributable to hospitalization. If the 9.5 percent portion of total hospitalization costs not paid by Medicare ($25) is subtracted from this amount and thereby retained in the total MBP premium, the annual net reduction of 23 percent would amount to $238, and the net MBP premium would be $792.

The **minimum annual premium reduction** for a retiree with a pension under about $36,000 would be equal to one half of the $238 reduction at the average pension level, which, rounded, would be $120 per year, or $10 per month. With a pension of $30,000, the MBP premium would be reduced from $445 to $325, a reduction of 27 percent.

**Reimbursement of Medicare HI taxes for U.S. staff**

12. The second element of the proposed remedy involves the Fund's reimbursement of the Medicare HI taxes paid by staff during their Fund service. **It is proposed to raise the proportion of the Medicare HI taxes that the Fund reimburses from its present level of 50 percent to 75 percent**. This increase, which is less than the 100 percent reimbursement of Medicare HI taxes initially proposed, would bring the Fund's share of the hospitalization insurance provided to U.S. staff through Medicare into line with the 75/25 percent cost-sharing policy governing the MBP. This would mean that the Fund would annually pay 2.175 percent of Fund income and U.S. staff would pay 0.725 percent as HI taxes. At the average net salary level of U.S. staff, this would increase the Fund's Medicare reimbursement from $1,705 to $2,558, and it would reduce the staff member's out-of-pocket taxes from $1,705 to $852.

**Comments on issues raised in the CAP meeting**

13. The proposed combination of post-retirement and during-service measures responds, to the extent possible, to the guidance provided during the previous CAP discussion concerning targeting and costs, while still substantially addressing the problem of duplicate MBP and Medicare coverage and payments by U.S. staff members and retirees.

- **With regard to the CAP's guidance concerning the targeting of the solution**, this approach would direct the remedy to the MBP in the post-retirement period to the extent possible. The adjustments in the MBP post-65 coverage and premiums would, in turn, allow a smaller than initially proposed adjustment in the payment shares of Medicare HI taxes during the service of U.S. staff. As suggested by some members of CAP, the staff considered possible limits on eligibility for the 75 percent reimbursement of Medicare HI taxes (for example, to staff with 10 or more years of qualifying Medicare service or to staff who have become eligible for post-retirement MBP coverage). Such limits were suggested as a means of redirecting the reimbursement of Medicare HI taxes from short-term staff

who leave the Fund without post-retirement coverage in the MBP and who do not, it was believed, directly generate savings to the MBP. Such limits would not, however, be equitable, as both the MBP and Medicare are pay-as-you-go systems, in which each year's payments/contributions fund the current year's post-65 insurance costs. Staff are not actually pre-paying their own benefits under either the MBP or Medicare, and staff members' current payments could be viewed as partly funding the MBP and Medicare hospitalization insurance of current retirees (and thus the MBP savings). Moreover, such limits could be to the disadvantage of A1–A8 staff who are more likely than more senior staff to join the Fund without the full 10 years of prior employment.

- **With regard to costs**, the proposed approach would reduce the added cost for the Fund by about 50 percent from the amount required under the initial proposal. By reducing the added amount of Medicare HI taxes to be reimbursed by the Fund, the proposed 75 percent rate of reimbursement would also avoid 50 percent of the added expenditures required by the initial proposal for ancillary tax allowances on the Medicare HI reimbursement. These reductions in expenditures would not be offset to a significant extent by the added cost of the additional element of the post-65 premium reduction. The cost of the proposed approach and a comparison of it with the cost of the original proposal to fully reimburse the taxes for Medicare HI are provided in Table 1 and are the basis of the 1998 data used in the earlier CAP paper.

- **With regard to duplication,** the proposed approach would eliminate duplicate insurance coverage for post-65 hospitalization, and it would substantially reduce the duplicate payments by U.S. staff and retirees. Duplicative MBP premiums arising from the portion of hospitalization covered by Medicare would be completely eliminated in the period beginning at age 65 for which hospitalization insurance is already available through Medicare. Before age 65, U.S. staff members would have full MBP coverage and would pay the full MBP premium for hospitalization. During their Fund service and retirement, the payments made by U.S. staff members for Medicare and the MBP combined would be proportionately the same as for other staff—75 percent of the total. However, the total amount paid by U.S. staff/retirees for hospitalization through Medicare HI taxes and MBP premiums, while reduced from present levels, would remain greater than the cost of the MBP coverage alone and greater than the corresponding payments made by non-U.S. staff who are not subject to Medicare HI taxes.

**Table 1. Estimated Added Cost to the Fund of the Initial and Present Proposals on the Reimbursement of Medicare and "Carve-Out" of MBP Post-65 Premiums for U.S. Staff and Retirees With Medicare Coverage (Based on 1998 Data)**

(In U.S. dollars)

| Cost Element | Initial Proposal 1/ | Present Proposal | Difference | Difference (Percent) |
|---|---|---|---|---|
| Reimbursement of Medicare HI | 930,800 | 465,400 | (465,400) | (50.0) |
| Associated Tax Allowances | 609,600 | 304,800 | (304,800) | (50.0) |
| Sub-total | 1,540,400 | 770,200 | (770,200) | (50.0) |
| MBP Premium Carve-Out 2/ | N.A. | 21,000 | 21,000 | N.A. |
| Total | 1,540,400 | 791,200 | (749,200) | (48.6) |

1/ The estimates cited in the earlier CAP paper ($880,000 for direct Medicare HI reimbursement and $640,000 in added tax allowances) were for 1997.
2/ The $21,000 estimate is based on the number of retirees and dependents who currently receive a premium discount for coordinating claims with Medicare Part A.

14. It is important to recognize that there is no feasible solution to the problem of duplicate coverage and payments that would completely equalize costs and benefits for U.S. and non-U.S. staff. There are too many differences between the MBP and Medicare in the populations covered, program design, premium structures, and time periods in which premiums/taxes are paid and benefits are received for costs and benefits to be equalized on an individual basis. The proposed approach would substantially reduce the duplicate payments now made by U.S. staff/retirees for hospitalization insurance, and it would provide a reasonable and balanced remedy.

**Implementation of the proposed arrangements for U.S. staff and retirees**

15. As explained above, the present proposals involve a combination of a "carve-out" of the MBP's post-65 hospitalization coverage and premium and an increase to 75 percent of the Fund's reimbursement of U.S. staff members' Medicare HI taxes. The two parts of this arrangement would be implemented as follows:

- **Changes in the MBP**. The elimination of MBP coverage and the reduction in the MBP premium by the amount attributable to hospitalization costs paid by Medicare would begin at the age when coverage under Medicare Part A begins, currently the individual's 65$^{th}$ Birthday. The partial exclusion of hospitalization coverage under the MBP and the corresponding premium reduction would apply to all future U.S. retirees who had, as staff,

received reimbursement of Medicare HI taxes at the 75 percent rate and who are eligible for coverage in Medicare Part A.[6] As indicated above, the MBP premium reduction would generally be 23 percent of the total MBP premium, with a minimum reduction of $10 per month.[7] The size of the premium reduction would be reviewed and adjusted periodically in light of changes in MBP costs and the proportion of the premium attributable to hospitalization. The minimum premium reduction would also be adjusted in line with changes in the average MBP income base for retirees coordinating claims with Medicare Part A. These provisions would be effective from December 1, 1999, but they would apply to current staff only when they retire and reach 65 years of age. (Based on the present number of U.S. staff who are between 60 and 65 years of age, about 20 retirees will become eligible for Medicare Part A during the next 5 years.)

- **Reimbursement of Medicare HI taxes**. The Fund's reimbursement of an additional 25 percent of the Social Security taxes for Medicare HI would begin with tax payments on Fund income for calendar year 1999. Eligibility for and the calculation of the 75 percent reimbursement rate would be on the same basis as the existing 50 percent reimbursement of Social Security taxes under the tax allowance system for U.S. staff. The staff eligible for this reimbursement would continue to be the U.S. citizens who are required by law to pay the Medicare HI taxes.

## III. Applicability of the Proposed MBP "Carve-out" to Other Retirees

16. This Section discusses the extension of the "carve-out" of the MBP's post-65 hospitalization coverage and corresponding premium reduction proposed above for present U.S. staff to other current and future retirees who are enrolled in the MBP and have coverage under Medicare Part A. It also discusses the possible wider extension of comparable arrangements to other situations in which either U.S. or non-U.S. retirees coordinate claims under the MBP with national health systems other than Medicare Part A.

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[6]Staff separating before reaching 62 years of age must have at least 10 years of service in order to retain MBP coverage partly paid by the Fund. Most U.S. retirees in the MBP will, therefore, have met the eligibility requirement of 10 years' tax payments for premium-free Medicare coverage. Additional details regarding the applicability of and exceptions to the exclusion of MBP coverage and the corresponding premium reduction are discussed in paragraph 26.

[7]As at present, the premium reductions would be provided on an individual basis. A retiree with "single" MBP coverage who coordinates with Medicare Part A would receive a reduction of 23 percent of the "single" premium, and a retiree with "couple" MBP coverage would receive a reduction of 23 percent of the "couple" premium (which is twice the "single" premium) if both the retiree and spouse coordinate their MBP claims with Medicare Part A. In the case of "couple" MBP coverage, if only the retiree or only the spouse coordinates with Medicare Part A, the premium reduction would be based on the "single" premium.

**Other retirees with coverage under both the MBP and Medicare Part A**

17. Under the present provisions of the MBP, any retiree or dependent with MBP coverage who coordinates hospitalization claims between the MBP and Medicare Part A may receive a discount in his or her MBP premium. This discount—$7 per month, or $84 per year—is available to both U.S. and non-U.S. participants in the MBP.[8] In addition to the Fund's U.S. staff members, retirees who had a G–IV visa or were U.S. Permanent Residents while employed by the Fund and were, therefore, not required to pay Social Security or Medicare HI taxes on their Fund income, may qualify for Medicare Part A through other employment before or after their Fund employment. Similarly, dependent spouses, without regard to nationality, may be eligible for Medicare Part A through the retiree, and they may qualify for Medicare Part A through their own employment in the United States and their own payment of Social Security taxes.

18. The initial proposals to the CAP focussed on the Fund's reimbursement of Medicare HI taxes to staff members. For U.S. staff/retirees, the initial proposals included the phased elimination of the present coordination discount for retirees who, as staff members, had received reimbursement of 100 percent of the Medicare HI tax. This was based on the premise that the **full** reimbursement of Medicare HI taxes for U.S. staff would eliminate the duplicate insurance payments for hospitalization, in which case the retirees who had previously received the full reimbursement should pay the normal, undiscounted post-65 MBP premium. Apart from this change, the present provisions of the MBP, including its post-65 hospitalization coverage, premiums, and coordination discount for other retirees would not have been affected.

19. The rationale for the elimination of MBP hospitalization coverage and post-65 premium reduction now proposed is that U.S. staff/retirees should not pay twice for dual insurance coverage when the insurance under Medicare Part A eliminates their need for most post-65 hospitalization coverage under the MBP. While this MBP "carve-out" was developed as part of the solution to the duplicate hospitalization insurance of present U.S. staff, the rationale for the "carve-out" applies equally to present U.S. retirees and to other non-U.S. retirees who are covered by Medicare Part A. In all cases, they have acquired Medicare hospitalization insurance through their payment (and the payments of their employer, whether the Fund or another organization) of the taxes for Medicare HI. The only difference is that current Fund retirees (and dependents) would have paid **more** out-of-pocket in Medicare HI taxes than the present U.S. staff who would be reimbursed 75 percent of their Medicare HI taxes in the future.

20. **Accordingly, it is proposed that the same exclusion of MBP hospitalization coverage and MBP premium reduction proposed for present U.S. staff upon reaching age 65 be extended to all present and future retirees and dependents enrolled in the MBP who also have coverage under Medicare Part A for hospitalization**. Compared with the present annual discount of $84, a premium reduction of this magnitude would more fully and

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[8]The same monthly discount of $7 per enrollee is provided to any retiree or dependent enrolled in the MBP who coordinates medical claims with Medicare Part B in the United States or with other national health plans outside the U.S.

realistically reflect the extent to which the post-65 hospitalization costs of the broader group of retirees are paid by Medicare Part A instead of the MBP. It is expected that by providing a larger discount, the number of retirees who coordinate hospitalization claims between the MBP and Medicare would increase, which would generate additional net savings to the MBP. Providing a lower level of coverage and premiums under the MBP would be similar to arrangements in the post-retirement insurance plans of other employers in the United States, which may offer either low-cost/low-coverage options or only "Medigap" coverage for expenses in excess of those covered by Medicare.

**Implementation of coordination between the MBP and Medicare Part A**

21. The present provisions of the MBP generally require claims coordination with participants' other medical insurance, including national health systems. However, when the present discounts for retirees coordinating with national health systems were introduced in 1992, it was indicated that enrollment in national plans would be voluntary.[9] This voluntary approach to enrollment reflected concerns about the lack of consistency in the coverage and standard of care in the many different national health systems in countries where retirees reside, difficulties in obtaining appropriate or timely care under some systems, retirees' preferences for private over public health services in countries where there are dual systems, and problems for retirees in processing and reconciling coordinated claims.

22. For such reasons, most retirees outside the United States have, in practice, chosen not to enroll in their national systems or to claim the MBP discount for coordination, and most retirees in the United States have chosen not to enroll in the voluntary Part B of Medicare, which covers physicians' services. There have also been a number of U.S. retirees who have neither claimed the MBP discount nor coordinated their hospitalization claims with Medicare Part A.

23. Whilst the reasons for a voluntary approach to **enrollment** in national health systems remain valid, there are compelling reasons for ensuring that claims are **coordinated** when post-65 MBP participants do have coverage in Medicare Part A. As has been noted, such coordination generates substantial savings to the MBP. Given that the Fund's partial payment of Medicare HI taxes for U.S. staff members contributed toward their later eligibility for Medicare Part A, there is added justification for the Fund to require that claims be coordinated by these retirees. Despite intervening practice, the intent of the 1992 arrangements was to combine voluntary enrollment and mandatory claims coordination by those who are enrolled in national systems.[10] Coordinating hospitalization claims between the MBP and Medicare Part A

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[9]See "Phase II of the Review of the Medical Benefits Plan," EBAP/92/44 (3/3/92).

[10]See, for example, EB/CAP/91/9, p. 4 (8/15/91), which indicated that the Fund had not previously ". . . made a point of actively encouraging retirees to voluntarily contribute to national plans as well as to the Fund Plan. However, retirees who do choose to enroll in national plans are obliged to indicate this fact when filing claims, so that benefits under the Fund's Plan can be properly coordinated."

poses no problems with respect to choice or standards of care. In fact, retirees enrolled in both the MBP and Medicare Part A generally benefit to a small extent because their combined reimbursement can meet part of the MBP and/or Medicare deductibles/co-payments that would not be reimbursed by either plan alone. The processing of claims under Medicare Part A is straightforward and is handled nearly automatically by hospitals.

24. Given these considerations and the substantial increase in the premium reduction proposed for retirees who coordinate post-65 hospitalization, **it is recommended that the coordination of hospitalization claims between the MBP and Medicare Part A, with Medicare as the first payer, be mandatory for all post-65 MBP participants—both retirees and their dependents—who are eligible for and/or enrolled in Medicare Part A.** "Eligibility" in this regard would include any MBP participants who are eligible for Medicare Part A on a **premium-free basis** through their payment of Medicare HI taxes for 10 or more years, participants who obtain eligibility through their spouse, and other participants who have elected to enroll in Medicare Part A.[11]

25. In order to allow retirees to be advised of these requirements and of the terms of the "carve-out" of post-65 MBP hospitalization coverage and premiums, these arrangements would become effective on December 1, 1999, provided that the administrative arrangements for their implementation can be completed by that time. U.S. retirees who have not coordinated hospitalization claims to date would be presumed to have coverage under Medicare Part A if, as staff, they had previously received reimbursement for Medicare HI taxes for 10 or more years. The new MBP administrator is capable of managing this coordination. The administrator will also monitor and ensure compliance with the coordination of claims and will be authorized to confirm with hospitals whether claims submitted to the MBP have been separately paid by Medicare.

**Other retiree coordination**

26. Establishing a more realistic and meaningful premium reduction for retirees coordinating hospitalization claims between the MBP and Medicare Part A would make it desirable to also establish and implement more appropriate premium reductions in other situations where retirees' medical claims can be coordinated with national health systems. As noted above, the present monthly discount of $7 is a nominal amount that is not based on either the share of the coordinated medical costs in the MBP's premium or the savings that coordination generates for the MBP and the Fund.

27. The approach of "carving out" MBP coverage and premiums that is proposed for coordinating hospitalization claims between the MBP and Medicare Part A can be applied effectively in other coordination situations, provided that a reasonably close correspondence

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[11]Exceptions to the coordination requirement would be made (and no premium reduction would be provided) for retired U.S. staff who demonstrate that they are ineligible for Medicare Part A. Exceptions would also be made for MBP participants who are unable to claim hospitalization expenses through Medicare (e.g., retirees residing outside the United States).

can be established between the medical services provided by the national health system and the share of the total MBP costs and premium that arise from those services.

28. For the reasons explained above, enrollment in national health systems, including Medicare Part A (except when enrollment is automatic on the basis of the payment of Social Security taxes) and Medicare Part B in the United States, would continue to be voluntary on the part of retirees participating in the MBP and their dependents. Extending more realistic and meaningful premium rebates to this broader group may encourage increased enrollment in national systems, in which event expanded coordination of claims would be expected to produce savings for the MBP. However, given the wide variation in national systems, the amount of such savings is likely to be less than is the case with Medicare Part A.

29. **It is recommended that the Executive Board authorize the staff to establish appropriate coordination arrangements with national health systems other than Medicare Part A in the United States when doing so would produce savings, net of any premium reductions, to the MBP**. The detailed features of such arrangements (which could include Medicare Part B) would need to be based on the specific provisions of the national systems and the extent to which those correspond to the provisions of the MBP, and they would need to take into account administrative feasibility. The staff intends to develop other arrangements, starting with Medicare Part B, but, in the meantime, the present MBP discount and practices on coordination will be maintained.

## IV. Estimated Costs and Savings

30. This Section provides information on the **estimated savings** for the MBP, the Fund, and participants that are produced by the coordination of claims between the MBP and Medicare, and the **estimated cost** of (a) the proposed MBP premium reduction for coordinating hospitalization claims between the MBP and Medicare Part A and (b) the proposed reimbursement by the Fund of an additional 25 percent of the taxes for Medicare HI taxes.

### Coordination of the MBP and Medicare Part A

31. The proposed changes in MBP coverage and premiums for post-65 retirees would have two effects on expenditures by the Fund and MBP participants:

- The present discount and proposed premium reductions represent **foregone income** to the MBP, which translates to **higher premium costs** for the Fund and all MBP participants (i.e., both staff and retirees, and both U.S. and non-U.S. participants). In accordance with the established cost-sharing formula for the MBP, the Fund would incur 75 percent and the MBP participants would incur 25 percent of the added cost of the new premium reduction.

- The shift of hospitalization expenses from the MBP to Medicare Part A through the coordination of claims **lowers the aggregate cost** of the MBP, which translates to **lower premium costs** for the Fund and all MBP participants. In this case, 75 percent of the

resulting savings would accrue to the Fund and 25 percent would accrue to MBP participants.

32. Table 2 provides estimates of the cost in foregone MBP income from premium discounts/reductions and of savings for the MBP from claims coordination with Medicare Part A.

- For perspective, Table 2 first provides the **average annual costs and savings for the period 1994–98**; these costs are based on the annual $84 premium discount ($7 per month) and the actual division of hospitalization claims between the MBP and Medicare. The annual savings to the MBP from claims coordination ($594,000) were substantially greater than the income foregone by the MBP through premium discounts ($15,000). The Fund's 75 percent share of the annual savings from claims coordination ($446,000) was similarly significantly larger than the cost of the Fund's share of the premium discounts ($11,000).

- Table 2 also provides the **estimated costs and savings for 1999** (on a full-year basis) based on the proposed approach. The proposed changes in coordination arrangements would have no effect on the level of savings (estimated at $614,000) from **MBP participants who already receive the premium discount**, but the proposed larger premium reduction would raise the cost to the MBP of foregone premium income by $28,000, from $16,000 to $44,000. Of this increase, the proportionate share of the resulting additional MBP contributions that would be borne by the Fund would be $21,000.

- The larger premium reduction and more systematic enforcement of claims coordination that are proposed can be expected to increase the number of retirees who coordinate hospitalization claims between the MBP and Medicare Part A and who accordingly receive the MBP premium reduction. While the number of such retirees cannot be predicted, Table 2 includes an indicative estimate, based on 85 additional retirees, of the added 1999 savings and cost of expanded coordination.[12] Beginning in 1999, such an expansion would generate $277,000 in additional annual savings to the MBP, and the corresponding premium reductions would cost an additional $20,000 in foregone MBP income; the additional net savings for the MBP would amount to $257,000. The proportionate share of the added net savings for the Fund would amount to $193,000 (savings of $208,000 less foregone income of $15,000).

[12]For this purpose, it is estimated that about 50 percent of the present post-65 U.S. participants in the MBP (about 40 retirees and 10 dependents) and about 10 percent of the post-65 non-U.S. participants (35 retirees or dependents) who are not currently coordinating hospitalization claims between the MBP and Medicare Part A would do so.

**Table 2. Estimated Savings and Costs of Claims Coordination with Medicare Part A and MBP Premium Discounts/Reductions: Annual Averages for 1994–98 and Projected 1999 Amounts**

(In U.S. dollars)

| | Total Amount | Proportionate Fund Share (75 percent) | Proportionate Participant Share (25 percent) |
|---|---|---|---|
| **A. Average Annual Savings and Costs: 1994–98** (Average of 180 Participants) | | | |
| MBP Savings from Claims Coordination | (594,000) | (435,000) | (148,000) |
| Foregone MBP Income from Premium Discounts | 15,000 | 11,000 | 4,000 |
| Net MBP Savings | (579,000) | (435,000) | (144,000) |
| **B. Estimated Annual Savings and Costs (1999 Full-Year Basis)** | | | |
| **1. Retirees Currently Receiving MBP Discounts** (185 Participants) | | | |
| MBP Savings from Claims Coordination | (614,000) | (461,000) | (153,000) |
| Foregone MBP Income from Premium Discounts ($84 per year) | 16,000 | 12,000 | 4,000 |
| Added Foregone MBP Income from Premium Discounts ($238-$84=$154 per year) | 28,000 | 21,000 | 7,000 |
| Revised Total MBP Foregone Income from Premium Discounts | 44,000 | 33,000 | 11,000 |
| Net MBP Savings | (570,000) | (428,000) | (142,000) |
| **2. Potential Additional Retirees Who Do Not Currently Receive MBP Discounts** (Estimated 85 participants) | | | |
| MBP Savings from Claims Coordination | (277,000) | (208,000) | (69,000) |
| Foregone MBP Income from Premium Discounts ($238 per year) | 20,000 | 15,000 | 5,000 |
| Net MBP Savings | (257,000) | (193,000) | (64,000) |
| **3. Combined Totals for B.1 and B.2** (Estimated 270 participants) | | | |
| MBP Savings from Claims Coordination | (891,000) | (669,000) | (222,000) |
| Foregone Income from Premium Discounts | 64,000 | 48,000 | 16,000 |
| Net MBP Savings | (827,000) | (621,000) | (206,000) |

- Combining the additional savings and costs associated with the retirees who currently coordinate hospitalization claims between the MBP and Medicare Part A, the total annual savings for the MBP would amount to $891,000, and the total annual cost of premium reductions would amount to $64,000; the net savings for the MBP would total $827,000. Of this amount, $621,000 would accrue to the Fund as lower premium contributions to the MBP.

**Reimbursement of U.S. staff members' taxes for Medicare HI**

33. Compared with the present level of expenditures in the present system in which the Fund reimburses 50 percent of U.S. staff members' taxes for Medicare HI, the proposed 75 percent rate of reimbursement would directly add about $489,000 in payments for Medicare taxes. In addition, the higher rate of reimbursement for Medicare HI taxes would add about $320,000 to tax allowances for Federal, state, and local income taxes and the Social Security Taxes for retirement and disability (OASDI). The current and proposed levels of Fund expenditures are compared in Table 3. The Fund's reimbursements for Medicare would increase by 50.7 percent, and expenditures on other tax allowances would increase by 1.5 percent. The increase in the combined cost of Medicare and other tax allowances would be 3.7 percent.

**Table 3. Comparison of Present and Proposed Fund Reimbursement of Medicare HI Taxes and Total Tax Allowances for U.S. Staff (Based on Estimated 1999 Salary Levels and Tax Allowances)**

(In U.S. dollars)

| | With HI Tax Reimbursement at Present 50% Rate | With HI Tax Reimbursement at Proposed 75% Rate | Differences | |
|---|---|---|---|---|
| | | | Amount | Percent |
| **Fund Payments** | | | | |
| Medicare HI Taxes | 965,000 | 1,454,000 | 489,000 | 50.7 |
| Allowances on Income Taxes and Other Social Security (OASDI) Taxes | 21,014,000 | 21,334,000 | 320,000 | 1.5 |
| Combined Total | 21,979,000 | 22,788,000 | 809,000 | 3.7 |
| **Staff Payments** | | | | |
| Medicare HI Taxes | 965,000 | 485,000 | (480,000) | (49.7) |
| Other Social Security Taxes (OASDI) Taxes | 2,263,000 | 2,263,000 | 0 | 0 |
| Combined Total | 3,228,000 | 2,747,000 | (480,000) | (14.9) |

34. Table 3 also includes estimates of the amount by which the proposed increase in the rate of Fund reimbursement would reduce the out-of-pocket payments by U.S. staff members for the Medicare HI taxes; compared with payments at the present 50 percent reimbursement rate, the reduction would equal $480,000 or 49.7 percent.[13] Including this reduction, the Social Security taxes of U.S. staff members would be lowered by 14.9 percent.

**Consolidated costs and savings for the Fund**

35. On a full-year basis at 1999 salary and pension levels, the added cost to the Fund for the reimbursement of Medicare HI taxes and related tax allowances and the MBP premium reductions for the retirees who already receive the MBP premium discount for claims coordination would amount to $830,000, as follows:

| | |
|---|---|
| Medicare HI tax reimbursements for U.S. staff | $489,000 |
| Related tax allowances for U.S. staff | $320,000 |
| MBP premium reductions for post-65 retirees with the present discount | $ 21,000 |
| Total | $830,000 |

If the cost of the potential additional premium reduction is added to this, the full-year cost would total $845,000.

36. These costs can be compared with the $461,000 in savings to the Fund from claims coordination by the retirees who currently receive the MBP premium discount. It should be emphasized that the Fund already benefits from these savings; in the absence of the coordinated Medicare payments for hospitalization, the Fund's contributions to the MBP over the past five years would have been 2-3 percent higher than they actually were.[14] Any expansion in the number of retirees who coordinate hospitalization between the MBP and Medicare Part A would produce additional savings to the Fund; an indicative estimate of such savings is $208,000.

37. In FY 2000, the added budgetary costs of the proposed arrangements are estimated at $1.1 million. This includes $809,000 in payments for Medicare HI taxes and related tax allowances for CY 1999, and $270,000 for the first four months of CY 2000. Funds for this purpose were included in the FY 2000 Administrative Budget. Start-up and ongoing systems and administrative costs are minor.[15] FY 2000 savings to the Fund from coordination by retirees

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[13]The increase in the Fund's payments for Medicare HI is slightly more than 50 percent and the reduction in the staff member's payments is slightly less than 50 percent, because the additional reimbursement raises the total Fund income subject to the Medicare taxes.

[14]For FY 2000, the Fund's contributions to the MBP are estimated at $19.1 million.

[15]Systems development costs are estimated at $11,500, and one staff week is expected for design and testing by the Treasurer's Department. No measurable ongoing production costs or savings are expected.

currently receiving the MBP discount would be about $461,000, and the added savings from expanded coordination could amount to about one half of the full-year amount, or $104,000.

## V. Summary of Recommendations and Proposed Decision

38. During the CAP's previous discussion, there was agreement that the present duplication of payments and coverage for post-65 hospitalization insurance on the part of U.S. staff members and retirees was inequitable and should be remedied. The staff was requested to develop an approach that, in comparison to the initial proposal of fully reimbursing the Medicare HI taxes of U.S. staff, would shift the focus of the remedy to retired participants in the MBP and would cost less. The revised proposal responds to that guidance to the extent possible. It was found that an effective and equitable remedy would require a combination of adjustments to both the MBP for U.S. retirees and the reimbursement of Medicare HI taxes for U.S. staff. Thus, the following two measures are recommended: (a) the exclusion of the MBP's hospitalization coverage and the corresponding premium reduction of 23 percent (with a minimum annual reduction of $120) beginning at age 65 for retired U.S. staff with coverage under both the MBP and Medicare Part A, and (b) reimbursement by the Fund of 75 percent of the Medicare HI taxes of U.S. staff members.[16]

39. As explained above, the rationale for eliminating MBP hospitalization coverage and providing a premium reduction applies not only to current U.S. staff when they retire, but also equally to present U.S. retirees and to non-U.S. retirees who are similarly covered by both the MBP and Medicare. It is accordingly proposed that the same exclusion of the MBP's post-65 hospitalization coverage and the same reduction in MBP premiums be extended to all present and future retirees and dependents participating in the MBP who have coverage under Medicare Part A.

40. In implementing these arrangements, all U.S. and non-U.S. retirees and dependents participating in the MBP would be required to coordinate post-65 hospitalization claims with Medicare Part A, with Medicare as the first payer, if they are eligible for premium-free Medicare Part A by reason of their payment of Medicare HI taxes, if they are eligible for Medicare Part A through their spouse, or if they have otherwise chosen to enroll in Medicare Part A. As is the case at present, retirees and/or dependents who are not eligible for Medicare Part A through their payment of the Medicare HI taxes (or through their spouse) would not be required to enroll in Medicare Part A. Exceptions to the coordination requirement would be made (and no premium reduction would be provided) when retired U.S. staff demonstrate that they are ineligible for Medicare and when retirees are unable to claim hospitalization expenses through Medicare.

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[16]The amount of the premium reduction, initially 23 percent of the MBP premium, and the minimum reduction of one-half of the reduction at the average pension of the retirees coordinating with Medicare Part A would be reviewed and adjusted periodically to reflect changes in the MBP's claims experience and changes in pension levels.

41. Finally, it is recommended that the staff be authorized to establish, on lines similar to those proposed for Medicare A, additional coordination arrangements between the MBP and other national health systems (including Medicare Part B) when doing so would produce savings, net of any premium reductions, to the MBP.

**PROPOSED DECISION**

It is proposed that the Committee on Administrative Policies recommend that the following decision be adopted by the Executive Board:

(a) With effect from December 1, 1999, coverage under the Medical Benefits Plan (MBP) for hospitalization expenses reimbursable under Medicare Part A shall be excluded beginning at 65 years of age for MBP participants (retirees and dependents) who are eligible for premium-free Medicare Part A coverage or who have elected to enroll in Medicare Part A and are able to claim reimbursement from Medicare Part A; and a corresponding reduction initially equal to 23 percent (with a minimum reduction equal to one-half of the reduction at the average income base of the retirees coordinating with Medicare Part A, initially $120 per year) in the MBP's premiums shall be made for MBP participants (retirees and dependents) who coordinate hospitalization claims with Medicare Part A;

(b) Beginning with the tax payable on Fund income for calendar year 1999, 75 percent of the tax for the Medicare HI portion of the U.S. Social Security tax shall be reimbursed to eligible U.S. staff members through the tax allowance system; and

(c) The staff shall be authorized to establish additional coordination arrangements between the MBP and other national health systems (including Medicare Part B) when doing so would produce savings, net of any premium reductions, to the MBP.

**ALTERNATIVE APPROACHES FOR REMEDYING THE DUPLICATION OF PAYMENTS BY U.S. STAFF AND RETIREES FOR THE MBP AND MEDICARE FOR HOSPITALIZATION INSURANCE**

1. Following the May 1999 discussion in the CAP, the staff examined a number of methods for reducing or eliminating the duplicate payments now made by U.S. staff and retirees for post-retirement hospitalization insurance through the Fund's MBP and the U.S. Medicare system. Reflecting the guidance provided by the CAP, these included approaches that would (a) more closely target the remedy on the U.S. retirees who actually generate the savings for the MBP, and (b) lower the cost of the remedy by reducing, in particular, the ancillary expenditures on tax allowances that the Fund would be required to make on the added amounts of reimbursed taxes for Medicare HI. This note outlines some of these alternative approaches and the reasons that they were found not to be feasible.

2. In developing a revised solution, it has been necessary to take into account certain constraints that are set by the structure of the MBP. The MBP has two characteristics that are relevant in this regard:

- The MBP is structured as a single insurance plan in which premium rates are based on the plan's aggregate experience (i.e., the claims experience for all staff, retirees, and dependents). The MBP premium rates for post 65-retirees are the same as for serving staff, although the retirees' medical expenses and MBP claims (leaving aside the effects of Medicare for U.S. retirees) are, on average, well above those of staff.[17]

- The MBP is financed on a pay-as-you-go basis so that each year's total premium payments by U.S. and other staff and retirees and by the Fund are set approximately equal to that year's MBP costs. Accordingly, the premiums paid by current staff reflect the present year's costs of current staff and retirees and not the staff members' own expected costs in retirement.

These constraints precluded a number of alternatives that would have shifted more of the solution into the post-retirement period or would have avoided some added tax allowance costs.

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[17]A single premium structure is not unusual for a Plan of the size of the Fund's MBP. The number of participating retirees is too small for their claims experience to be rated separately and for separate contribution structures to be set on a reliable or stable basis.

**Return of MBP savings to post-65 retirees**

3. One such approach would rebate to post-65 retirees the annual amount of the savings to the MBP that their coordination with Medicare hospitalization generates. During the period 1994–98, the average annual *per capita* savings to the MBP for post-65 retirees (and dependents) from the coordination of hospitalization claims with Medicare amounted to $3,340, but the maximum annual MBP premium for an individual participant (retiree or dependent) is about $1,232, while the average premium is about $1,030 and some retirees with lower pensions pay only $600–$800 annually. This difference occurs because the MBP premiums reflect the average claims of all Plan participants, while the amount that would be returned as savings is based on only the hospitalization costs of post-65 retirees, which are significantly higher than the average level of hospitalization claims for the MBP as a whole.

4. Of the total savings to the MBP, the amount that could justifiably be returned to retirees would be the share that arises from a retiree's own payments of Medicare HI taxes; the remainder of the savings can appropriately be attributed to the Medicare HI taxes paid by the Fund (or other employers). Based on the present 50/50 percent sharing of Medicare taxes, the annual *per capita* savings to the MBP attributable to Medicare would be $1,670, an amount that remains greater than the maximum MBP premium for individual retirees or dependents.

**General premium reduction for U.S. staff and retirees**

5. A second approach that was considered would either "carve out" the MBP premium for post-65 hospitalization or spread a "return of savings" rebate in MBP contributions over a longer period or even the entire period in which a U.S. staff member/retiree is enrolled in the MBP. The larger cumulative amount of premium reductions that would result from these methods could more completely eliminate duplicate payments than the proposed post-65 reduction in the MBP premium. These methods would imply that there is some direct link between a staff member's MBP contributions throughout his or her career and his/her hospitalizations claims after retirement. However, there is, in fact, no such linkage in a pay-as-you-go plan. Moreover, differences in the length of service of staff (actual and expected) and periodic changes in such factors as hospitalization costs and MBP premium rates would make it impractical to determine the "right" amount of the premium reductions. Either of these methods would also significantly complicate the MBP's contribution structure, and they would give rise to questions about the equity of long-term differences between the MBP contributions of U.S. and non-U.S. staff.

**Reduction in tax allowances**

6. As noted above, the reduced level of reimbursement of the Medicare HI taxes would, in comparison with the initial proposal, substantially lower the ancillary costs of tax allowances. Consideration was given to a possible method of further reducing these costs. To achieve such reductions, the MBP and Medicare could, in theory, be fully integrated for U.S. staff, with the Fund paying 75 percent of the combined premium/tax. However, rather than increasing the

Fund's payments for Medicare, which would still give rise to additional tax allowance payments, the staff members' MBP premiums would be reduced by the corresponding amount. The U.S. staff would accordingly pay less out-of-pocket for the MBP and more out-of-pocket for Medicare, and the Fund would make additional, potentially non-taxable premium contributions to the MBP instead of taxable payments for Medicare HI.

7. Despite the potential savings from such a premium offset, it is felt that this approach would raise the same questions as direct premium reductions about the equity of different contributions by U.S. and non-U.S. staff. It is also possible that such a shift from Fund payments reimbursing Medicare HI to MBP premium reductions could be challenged by the U.S. Internal Revenue Service (IRS); if a portion of the premium reduction were found to be taxable income by the IRS, added tax allowance payments would be required.