

Federal Update 2003-27

November 18, 2003

TO: NCTR Members

FROM: Cindie Moore

RE: Whether Subsidy for Retiree Health Care Plans Applies to State and Local Governments

I reported to you yesterday about the Medicare Prescription Drug Agreement. I noted the open question of whether the subsidy for prescription drug coverage in retiree health care plans applies to state and local governments.

Under the Agreement, providers of such plans that offer actuarially equivalent coverage receive a 28% subsidy payment for a beneficiary's drug costs between \$250 and \$5,000. The payment is excludable from taxation. The subsidy is to encourage employers that currently offer retiree health care with drug coverage to continue to do so.

I just received confirmation from Senate staff that the subsidy payment will apply to any such plans offered by state and local governments. In other words, they will be entitled to the payment (assuming they meet the other criteria) just as eligible private sector entities with such plans will be. The income exclusion will not apply, however, because state and local governments are not subject to federal tax.