



P.O. Box 942714
Sacramento, CA 94229-2714
(888) CalPERS (225-7377)
TDD – (916) 795-3240
www.calpers.ca.gov

Date: May 5, 2008
Reference No.:

Circular Letter No.: 600-020-08
Distribution: **VII**

Special:

Circular Letter

TO: PEMHCA CONTRACTING AGENCIES

SUBJECT: DISTRIBUTION OF MEDICARE FUNDS TO CONTRACTING AGENCIES

ATTENTION: FINANCE / FISCAL SERVICES

On April 23, 2008, the CalPERS Board of Administration (Board) approved the distribution of Medicare Retiree Drug Subsidy (RDS) funds to CalPERS contracting agency employers based on each agency's contribution toward its annuitants' health care premiums. The Board also directed CalPERS staff to establish a procedure and implement processes for distribution of the funds. This circular letter provides the latest information regarding CalPERS plan to distribute approximately \$13 million dollars in RDS funds.

RDS funds are funds that CalPERS received from the Centers for Medicare and Medicaid Services (CMS) for providing Medicare prescription drug benefits (Part D) to Medicare-eligible members not enrolled in the Kaiser Permanente Medicare Senior Advantage Program. CMS based its RDS payments on eligibility information from CalPERS and claims information from CalPERS health plans.

CalPERS will provide disbursements to contracting agency employers that contributed to their annuitants' health care premiums in 2006. To calculate the disbursement, CalPERS will use the following formula:

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

For example, assume that:

- A contracting agency contributes \$40,000 toward annuitants' health care premiums
- The total of all contracting agency employer health care premium contributions for annuitants is \$400,000, and
- The RDS funds attributable to contracting agency employers is \$100,000

We would calculate 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	Contribution Ratio	RDS Attributed to Contracting Agencies	Contracting Agency Employer Subsidy Share
\$40,000	÷ \$400,000	= 10%	× \$100,000	= \$10,000

The 10% Contribution Ratio is **this employer's** percent of the total annuitant health care premiums paid by all contracting agency employers. CalPERS staff would use this percent to calculate the employer's share of the subsidy. Other employers would have different contributions and different ratios.

CalPERS is currently working with the State Controller's Office to distribute these funds. We will keep you posted on the date you can expect a disbursement.

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