



P.O. Box 942714
 Sacramento, CA 94229-2714
 (916) 326-3970
 Telecommunications Device for the Deaf
 No Voice (916) 326-3240
 www.calpers.ca.gov

Date: November 2006
 Reference No.:
 Circular Letter No.: 600-077-06
 Distribution: VII

Special:

Circular Letter

TO: State and Public Agency Health Benefit Officers

SUBJECT: Medicare Part B Premium Changes for 2007

Beginning January 1, 2007, the federal government will begin basing its Medicare Part B premiums on a member's reported 2005 Modified Adjusted Gross Income (MAGI). This process is called "income relating," or more commonly, "means testing."

This letter is to update you on what this means for you as a CalPERS employer, and how your Medicare-enrolled employees and retirees may be impacted.

What is changing?

Currently, the federal government subsidizes 75% of the full Medicare Part B premium and Medicare beneficiaries pay the remaining 25% of the premium.

Beginning January 1, 2007, the federal Medicare Part B premium that members pay will be based on their MAGI. Individuals with higher incomes will pay a higher Medicare Part B premium.

Adjusted Gross Income is the member's "total income," as defined by the federal tax code, less specified adjustments. The **Modified Adjusted Gross Income** adds back certain items (such as IRA contributions), as specified by law.

The table attached to the enclosed member letter shows the Part B premium categories outlined in the Medicare Modernization Act (MMA), based on tax filing status and income. Members in the below-threshold income categories (\$80,000 and under for singles and \$160,000 and under for marrieds) will continue to pay the 25% premium.

Why is it changing?

The MMA was signed into law in December 2003. The MMA included several changes to the Medicare program, including the creation of the new Medicare Part D prescription drug coverage.

It also included changes requiring Medicare to bill Medicare Part B premiums based on individual MAGI levels, according to very specific income guidelines.

How does this affect CalPERS employers?

Beginning January 1, 2007, the Medicare Part B premium for some of your Medicare-enrolled employees and retirees may change as a result of the Part B means testing.

For **State employers**, the amount you contribute toward the Medicare Part B premium may increase.

Contracting Agency employers are not required to contribute toward the Part B premium for their employees and retirees, and CalPERS does not administer this benefit on your behalf. As such, any effect that this change has on contracting agencies will need to be addressed between the contracting agency and its Medicare-enrolled employees and retirees.

How will members be affected?

Based on their income levels, your members' 2007 Medicare Part B premium may change as a result of the federal Part B means testing.

- Each Medicare-eligible individual will receive a notice from the Social Security Administration telling them how much their Medicare Part B premium will cost in 2007.
- In November, Medicare will send letters to individuals who will pay higher Part B premiums, with more information.

State Agencies: *REMIND YOUR MEMBERS TO STORE THESE DOCUMENTS IN A SAFE PLACE* – they will need to provide copies to prove that they are eligible for a higher Medicare Part B reimbursement amount. The process for requesting additional reimbursement is included in the enclosed member letter.

Why is CalPERS involved?

The **State** reimburses employees and annuitants for their Part B premiums, if the member's total premium is less than the State employer contribution amount. This "Part B premium reimbursement" cannot exceed the State contribution amount.

What is CalPERS doing about this?

The State will continue to reimburse State members' federal Medicare Part B premiums to the fullest amount allowed by State law. All eligible State members will receive monthly reimbursements based on the lowest Part B premium level. Members who submit documentation to CalPERS demonstrating that they qualify for higher Part B premium reimbursement amounts will receive a check in early 2008, containing the remainder of the Part B reimbursement to which they are entitled for 2007.

Over the next several weeks CalPERS will also send the enclosed letter to State Active and Retired members who are enrolled in a CalPERS Medicare Supplement plan.

We will keep you fully informed as additional information becomes available.

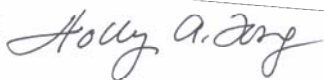
Contact Information

If you have questions about how your members' federal Medicare Premiums may change, please contact Social Security at 1-800-772-1213 or visit their web site at: <http://www.socialsecurity.gov>.

A detailed fact sheet explaining these changes, "Medicare Part B Premiums: New Rules For Beneficiaries With Higher Incomes," is available at <http://www.socialsecurity.gov/pubs/10161.html>.

If you have questions about how CalPERS will implement this change, please contact CalPERS at **888 CalPERS (888 225-7377)** or visit our web site at: <http://www.calpers.ca.gov>.

Sincerely,



Holly A. Fong, Chief
Office of Employer and Member Health Services

Attachment: Medicare Part B Premium Letter (with attached chart)