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**May 2006**

**To: Chief Fiscal Officers**

**From: Division of Local Government Services and Economic Development**

**Subject: Medicare Part D – Federal Prescription Drug Benefits Program**

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**Please provide copies of this bulletin to others who may need this information.**

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### **Purpose of Bulletin**

This bulletin highlights the Medicare Part D Federal prescription drug benefits program and provides appropriate accounting guidance for Federal subsidies received under this program.

**The provisions of this bulletin are not applicable to municipalities and school districts who do not provide prescription drug coverage to retirees.**

### **Overview**

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 established prescription drug coverage for Medicare-eligible beneficiaries under Medicare Part D. Provisions of Medicare Part D address employers who provide prescription drug benefits to retirees. If an employer provides to its Medicare-eligible retirees prescription drug benefits that are at least actuarially equivalent to those that otherwise would be provided by Medicare, the Federal government will make subsidy assistance payments either directly to or on behalf of the employer. It is expected that these Federal subsidy payments will equal 28 percent of allowable retiree costs (about \$600 per participant) for each Part D eligible retiree enrolled in the employer's prescription drug plan and not enrolled in Part D. The provisions of Medicare Part D became effective January 1, 2006.

The federal subsidy offered under this program is intended to provide a financial incentive or assistance to employers to continue providing prescription drug benefits to its Medicare-eligible retirees, thereby relieving the Medicare program of coverage responsibility. Generally, federal subsidy payments will be made directly to the local government employer although there may be situations when payments are made to the prescription drug plan provider on behalf of the local

government employer. For purposes of the Medicare Part D program, Federal subsidies or “reimbursements” to or on behalf of the employer are not considered Federal aid.

**New Revenue Account and Accounting Information**

A new revenue code **Account 2700 - Reimbursement of Medicare Part D Expenditures** should be used to record the amount of the Medicare Part D Federal subsidy.

*Direct Receipt of Subsidy* - In the circumstance in which the Federal government makes Medicare Part D subsidy payments directly to the local government employer, amounts received should be recorded as revenue utilizing the new revenue account 2700. Revenue should be recorded in the fund from which prescription drug expenditures were charged.

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
200	Cash		\$ XXX	
980	Revenues			\$ XXX
	2700	Reimbursement of Medicare Part D Expenditures	\$ XXX	

*On-Behalf Payments* - In the circumstance in which the Federal government makes Medicare Part D payments to the prescription drug plan provider on-behalf of the local government employer, local governments should record a revenue and corresponding expenditure for the amount of the on-behalf payment. This will ensure that the on-behalf payment transaction is recorded appropriately to capture the entire amount of the employer’s contribution for prescription drug benefits.

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
522	Expenditures		\$ XXX	
	9060.8	Hospital & Medical Insurance Employee Benefits	\$ XXX	
980	Revenues			\$ XXX
	2700	Reimbursement of Medicare Part D Expenditures	\$ XXX	

**Additional Information**

For information about the Medicare Part D Federal prescription drug benefits program, please contact 1-800-MEDICARE, or visit the web site [www.cms.hhs.gov](http://www.cms.hhs.gov). If you have accounting questions, please contact the State Comptroller’s regional office that serves your government. A listing of regional offices is enclosed.

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