Retiree Health Care Strategy

Medicare Part D Prescription Drug Coverage for Montgomery County Agency Retirees

March 27, 2014

Prepared by Consulting
Health & Benefits | Retirement
The Impact of Health Care Reform on Retiree Strategy

**Challenges**

- **2011:** Group insurance market reforms including benefit design and compliance requirements
- **2011:** Medicare Advantage program changes
- **2012:** New taxes and fees
- **2013:** Loss of RDS tax deductibility
- **2014:** Individual coverage mandate and additional group market reforms
- **2018:** Excise tax on high-cost plans

**Opportunities**

- **2010:** Early Retiree Reinsurance Program
- **2011:** 50% discount on brand drugs dispensed in the Medicare Part D “donut hole”
- **2011:** Closing of Medicare Part D “donut hole” (through 2020)
- **2014:** Introduction of individual insurance market reforms and state-sponsored health insurance exchanges

Health care reform introduces significant challenges and opportunities for plan sponsors and creates the impetus for change.
Medicare Retirees Prescription Drug Coverage

- MC Agency converts the current Rx arrangement into a group Standard Part D plan design.

- MCA Agency provides a secondary, or “Wrap”, plan design around the Standard Part D plan which attempts to preserve the current prescription drug plan design (copays) and formulary strategy (covered drugs), from the retiree's perspective.

  - The Standard Part D and Wrap coordinate at the pharmacy, with one ID card, so that retirees only experience the Wrap plan design and formulary strategy.

  - This can ensure that virtually no benefit disruption is created for the retiree.

- Called an “EGWP+Wrap”.

Provides revenue from Federal government and brand drug manufacturers to offset MC Agency’s drug costs for Medicare retirees.
What is an EGWP?

**Employer Sponsored Group-Based Medicare Part D Plan**

- Plan sponsor contracts directly with one or more Prescription Drug Plans (PDPs) to provide at least Part D level prescription drug coverage to its Medicare-eligible participants on a group basis
  
  - **Plan sponsor typically converts the current commercial prescription drug program into a group-based Medicare Part D plan supported by the current PBM (PDP)**

- CMS has established a federal waiver process (“800-Series” EGWP) in order to facilitate group-based offerings
  
  - Intended to eliminate some requirements and provide plan sponsors with flexibility
  
  - Waives the need for the PDP to provide numerous individual local market filings in support of a regional or national plan sponsor strategy

- PDP handles main administrative requirements, manages all federal interaction, collects federal Part D plan subsidies, and assumes compliance responsibilities
  
  - Removes administrative burden of collecting Retiree Drug Subsidy (RDS) reimbursements from plan sponsor
  
  - Minimizes plan sponsor federal audit risk

- Retirees enroll in the Part D program through the plan sponsor’s PDP
Why is the EGWP Financially Appealing?

Medicare Part D Subsidies to EGWPs are Significant Relative to the RDS

- Federal subsidy to EGWP takes the form of:
  - **Direct capitation payments**: fixed dollar, based on the national average individual market PDP competitive bids for the year
    - Adjusted for risk-profile of plan sponsor’s population
  - **Reinsurance payments**: for catastrophic coverage, if applicable
  - On average, CMS expects these subsidies to represent 74.5% of Standard Part D Plan costs

- Health care reform closes the Standard Part D Plan “donut hole” over time
  - As the “donut hole” is phased-out, Medicare will assume an increasing share of cost in the coverage gap
  - **This will permit EGWP strategies to be eligible for greater federal capitation payments over time as the donut hole is phased-out**

- Creates material cash and accounting savings opportunities for plan sponsors relative to the RDS strategy
  - Public sector plan sponsors subject to GASB accounting rules are not permitted to reflect the RDS in their liability and expense calculations, but EGWP revenue directly offsets plan costs in the GASB valuation, **which makes EGWP-based strategies very valuable to GASB-based plan sponsors**
Phase-Out of Medicare Part D “Donut Hole”

Exhibit 1: Standard Medicare Prescription Drug Benefit, 2020
Without Health Reform

- 5% paid by enrollee
- 15% paid by plan; 80% paid by Medicare
- Catastrophic coverage
- Coverage gap
- Initial coverage limit
- Deductible
- 100% paid by enrollee

Exhibit 2: Standard Medicare Prescription Drug Benefit, 2020
With Health Reform

- 5% paid by enrollee
- 15% paid by plan; 80% paid by Medicare
- Catastrophic coverage
- Coverage gap
- Initial coverage limit
- Deductible
- 100% paid by enrollee

Exhibit 3: Cost Sharing for Brand-Name Drugs in the Medicare Part D Coverage Gap, 2010-2020

- Paid by Enrollee
- Paid by Plan
- Manufacturer Discount

Exhibit 4: Cost Sharing for Generic Drugs in the Medicare Part D Coverage Gap, 2010-2020

- Paid by Enrollee
- Paid by Plan


SOURCE: Kaiser Family Foundation illustration of standard Medicare drug benefit for 2020 under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010.

SOURCE: Kaiser Family Foundation analysis of the standard Medicare drug benefit under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010.
56% of plan sponsors anticipate changing their Medicare Part D or broader Post-65 retiree strategy due to reform, with about two-thirds of them having already decided on a new approach, generally due to two specific reform provisions:

- Loss of tax deductibility of the RDS beginning in 2013
- Enhancements in subsidies to Part D plans over time due to phase-out of the “donut hole,” including the introduction of the 50% pharma discount on brand drugs in 2011

Plan Sponsors Altering Post-65 Strategy

- No 44%
- Yes 56%

(n=424)

Expected Timing of Changes

- Made changes for 2011, 2012, or 2013: 43%
- Made changes for 2014 or later: 23%
- Currently exploring what actions to take and when: 34%

(n=239)

Source: 2014 Aon Hewitt Retiree Health Care Strategy Survey
Medicare Part D Strategy—Phase-Out of RDS Strategy

- **68%** of plan sponsors filed for the RDS in 2010, but by 2015, as few as **20%** may continue
  - The change in RDS tax treatment for 2013 and the Medicare Part D program enhancements are key drivers of change; more and more plan sponsors are expected to abandon the RDS strategy over time for more favorable alternatives
  - Medicare Trustees predict that the 17% of Part D eligibles currently covered under employer-sponsored RDS strategies will fall to 2% by 2016

Source: 2014 Aon Hewitt Retiree Health Care Strategy Survey
Medicare Retirees Prescription Drug Coverage: EGWP + Wrap

- Proposed effective date: January 1, 2015
  - Need at least six (6) months to implement, but suggest longer due to several clients looking to implement with Caremark for 2015

- Each MC Agency contracts with Caremark’s Medicare Part D plan, SilverScript

- Currently, each MC Agency applies for and receives Retiree Drug Subsidy (RDS) from the federal government for its Medicare eligible retiree members’ drug utilization
  - EGWP + Wrap replaces the RDS and will result in more revenue to offset costs than RDS

- Illustrative net cash savings in total plan Medicare retiree Rx costs, over RDS approach:

<table>
<thead>
<tr>
<th>Montgomery Agency</th>
<th>Illustrative Incurred Cash Savings * ($ millions)</th>
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<tbody>
<tr>
<td>Government</td>
<td>$0.9</td>
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<td>Schools</td>
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<tr>
<td>College</td>
<td>$0.1</td>
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<tr>
<td>Park and Planning</td>
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</tbody>
</table>

Results for calendar year 2014, except College and Park and Planning are 2015 estimates
Medicare Retirees Prescription Drug Coverage: EGWP + Wrap

- Estimated **net GASB OPEB savings** for EGWP approach over RDS approach for FY2015
  - RDS is not recognized in GASB OPEB valuation as an offset to costs or liability for the plan
  - EGWP subsidies are recognized as an offset to plan costs and therefore they offset GASB OPEB costs

<table>
<thead>
<tr>
<th>Change for FY2015</th>
<th>Accrued Liability ($Millions)</th>
<th>Annual Required Contribution (ARC)</th>
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<tr>
<td>Government</td>
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<tr>
<td>Schools</td>
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<tr>
<td>College</td>
<td>$18.5</td>
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<tr>
<td>Park and Planning*</td>
<td>$43.0</td>
<td>$2.6</td>
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</table>

*Provided by outside actuary
Medicare Retirees Prescription Drug Coverage: EGWP + Wrap

- The impact on Medicare retirees is minimal to none
- Plan design (copays) under the current retiree plan will continue for Medicare retirees
- Caremark’s formulary (covered drugs and preferred status) for the plan covering early retirees and actives, which will likely change annually as it does today, will continue for Medicare retirees
  - EGWP+Wrap will first process under Medicare Part D EGWP formulary, but then the Wrap will protect the member experience at the pharmacy and honor early retirees’ plan formulary
  - Because the EGWP formulary is different than the early retirees’ formulary, Medicare Part D requires additional communications to retirees when they submit for a drug different than how the EGWP formulary would cover it
    - Could result in increased communications for some retirees
    - SilverScript customer service can assist with retiree questions
  - Some retirees may be required to gain prior authorization for certain drugs they are taking that could result in waiting for their medication at the pharmacy
    - During implementation, retirees currently on these drugs will be advised to get with their physician to prepare for the prior authorization request the first time they need this medication after the effective date
Medicare Retirees Prescription Drug Coverage: EGWP + Wrap

- Some retirees eligible for low income subsidies under the Part D program will pay less for coverage
  - Low income status is determined by the federal government after the retiree applies for it through Social Security
  - Applies to individuals with income less than 150% of Federal Poverty Level ($17,200 in 2013 for single person) and assets less than $11,570 (for single person in 2013)

- Subsidies vary by income levels and take the form of premium subsidies and cost share subsidies

- Typically, employer groups have a small segment of their retiree population who qualify for low income subsidies from Medicare Part D
**Medicare Retirees Prescription Drug Coverage: EGWP + Wrap**

- High income retirees will see additional premiums for Rx coverage just as they do now for Medicare Part B coverage, based on their filing status and yearly income (adjusted gross income) 2 years prior.
  - Extra premiums range from $12 - $69 per person per month in 2014, based on adjusted gross income (AGI) in 2012.
  - Triggers at $85,000 AGI for single income tax filer and $170,000 for joint income tax filer.

<table>
<thead>
<tr>
<th>File individual tax return</th>
<th>File joint tax return</th>
<th>File married &amp; separate tax return</th>
<th>You pay (in 2014)</th>
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<td>$85,000 or less</td>
<td>$170,000 or less</td>
<td>$85,000 or less</td>
<td>your plan premium</td>
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<td>above $170,000 up to $214,000</td>
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<td>$12.10 + your plan premium</td>
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<td>above $320,000 up to $428,000</td>
<td>above $85,000 up to $129,000</td>
<td>$50.20 + your plan premium</td>
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<tr>
<td>above $214,000</td>
<td>above $428,000</td>
<td>above $129,000</td>
<td>$69.30 + your plan premium</td>
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