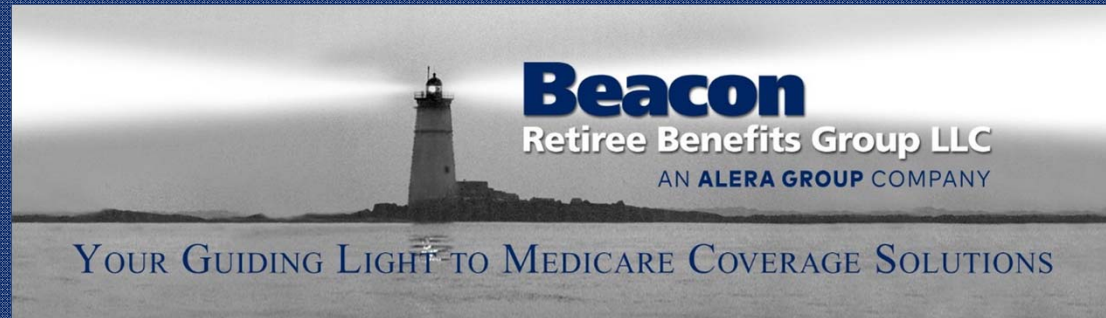


Reducing Retiree Benefit Plan Costs



November 16, 2017

Today's Agenda

Ways to Reduce Retiree Benefit Costs

- ▣ RDS vs. EGWP (some call it “EggWhip”)
- ▣ Medicare Mandatory Reporting (MMR)
- ▣ Watching the Store
 - Medicare Supplement Plans
 - Medicare Part B drugs and supplies

RDS vs. EGWP

Retiree Drug Subsidy vs. Employer Group Waiver Plan

- ❑ Two methods for an employer to receive Federal subsidy for retiree prescription drug costs.
- ❑ Anyone retired and enrolled in Medicare Part A and/or Medicare Part B is eligible for subsidy.
- ❑ Employer is entitled to subsidy for each eligible retiree or spouse.

History of the RDS Program

- ▣ Developed upon rollout of Medicare Part D – signed into law in 2003
(Medicare Modernization Act or MMA)
- ▣ Provides a Federal subsidy for qualified retiree prescription drug costs to employers with “actuarial equivalent” drug coverage.
- ▣ Subsidy was tax-free until January 1, 2013.

Facts about RDS - Retiree Drug Subsidy

- ❑ Employer can retain identical benefit structure.
- ❑ Employer must apply annually to participate.
- ❑ Annual actuarial attestations are required.
- ❑ Creditable coverage letters are required.
- ❑ Subsidy cannot be utilized to offset OPEB liability.
- ❑ PBM submits claim data to RDS and employer can receive subsidy monthly, quarterly or annually.
- ❑ Employer must reconcile retiree eligibility data annually and monitor on an ongoing basis.
- ❑ RDS does not require that employers receive 100% pass through on pharmaceutical rebates.

RDS - Retiree Drug Subsidy Thresholds

Employers receive 28% of qualified drug costs between the Cost Threshold and the Cost Limit

Plan Year Ending	Cost Threshold	Cost Limit	Maximum Subsidy
2015	\$320	\$6,600	\$1,758.40
2016	\$360	\$7,400	\$1,971.20
2017	\$400	\$8,250	\$2,198.00
2018	\$405	\$8,350	\$2,224.60

Cost Threshold – defined and adjusted annually by the Feds. Drug spend up to the Cost Threshold is not eligible for subsidy.

Cost Limit – defined and adjusted annually by the Feds. Drug spend exceeding Cost Limit is not eligible for subsidy.

History of EGWP

- ❑ EGWP – Employer Group Waiver Plan or Group Medicare Part D – started in 2006
- ❑ In early years, some difficulty in administering custom prescription drug benefits.
- ❑ Affordable Care Act (ACA) brought upon some attractive changes implemented on January 1, 2011.
- ❑ The closing of the “Donut Hole” or “Coverage Gap” began...

Employer Group Waiver Plan Government Subsidies

Employer Group Waiver Plans (EGWPs) are eligible for all of the following Federal Part D subsidies:

CMS (Centers for Medicare & Medicaid) reimburses as follows:

Direct Subsidy: CMS provides a per member per month direct subsidy regardless of claims – based on Part D national average subsidy, risk adjusted for demographics and health status of each member.

Reinsurance Subsidy (Catastrophic): CMS makes subsidy payments equal to 80% of drug costs paid by plan during catastrophic stage of Part D.

Low Income Cost Sharing Subsidy (LICS): CMS makes payments for cost-sharing subsidies on behalf of qualified LIS members.

Low Income Premium Subsidy (LIPS): CMS makes advance monthly payments for premium subsidies on behalf of qualified LIS members.

Employer Group Waiver Plan Pharmaceutical Subsidies & Rebates

Pharmaceutical manufacturers reimburse as follows:

Coverage Gap Discount Reimbursement:

Pharmaceutical manufacturers must fund 50% of the retail cost of brand drugs dispensed while the member is in the Coverage Gap stage of the benefit (excluding dispensing fees). This is done on a reimbursement basis.

Generic drugs are discounted with Federal Government subsidies when dispensed while member is in the Coverage Gap.

Pharmaceutical Rebates:

100% of pharmaceutical rebates are passed through to the employer.

Three Phases of Medicare Part D Employer Group Waiver Plan

Initial Coverage Limit (ICL)	Member remains in ICL until total drug spend reaches \$3,700 in 2017. Total drug spend is the total retail cost of medications. Employer receives PMPM Federal subsidy for all members of the plan.
Coverage Gap (CG) Also known as the “Donut Hole”	Once ICL is reached, member enters Coverage Gap. 50% of brand name costs receive Coverage Gap Discount Reimbursements from manufacturers. Feds contribute towards generic costs. Member remains in CG until out of pocket costs + pharma discount reaches \$4,950.
Catastrophic Coverage	Employer receives 80% back in Federal Reinsurance

Maximum Subsidy Comparison Specialty Drugs – RDS vs. EGWP

Example 1: Revlimid – a chemotherapy drug that targets specific proteins within cancer cells and stops the cancer cell from growing. Monthly retail cost for 21 pills - \$12,297.78

Annual Cost	Maximum RDS subsidy*	EGWP Subsidy**	EGWP Savings over RDS
\$147,573.36	\$2,198.00	\$63,951.39	\$61,753.39

* 28% of cost thresholds for 2017

** Assumes member pays a \$60 copay monthly for this specialty medication. Reimbursements are impacted based on member cost share. The higher the member cost share, the higher the reimbursements.

Maximum Subsidy Comparison Specialty Drugs – RDS vs. EGWP

Example 2: Humira – a drug used to treat rheumatoid and psoriatic arthritis, Crohn’s, ulcerative colitis and other conditions.
Monthly retail cost for 2 pens - \$4,672.12

Annual Cost	Maximum RDS subsidy*	EGWP Subsidy**	EGWP Savings over RDS
\$56,065.44	\$2,198.00	\$27,430.90	\$25,232.90

* 28% of cost thresholds for 2017

** Assumes member pays \$40 copay monthly for this specialty medication. Reimbursements are impacted based on member cost share. The higher the member cost share, the higher the reimbursements.

Low Income Premium Subsidy

Low Income Subsidy Levels	Low Income Premium Subsidy Amount	Percent Subsidy
1 - 6	\$31.30	100%
7	\$23.50	75%
8	\$15.70	50%
9	\$7.80	25%

Employer pays member's prescription premium

Low Income Subsidy amount decreases amount employer pays. **Represents a savings to employer.**

If retiree pays a portion or all of their prescription drug premium

Low Income Subsidy decreases retiree's prescription premium. **Represents a savings to retiree.**

Low Income Cost Sharing Subsidy

Low Income Subsidy Levels	Stage 1 - Initial Coverage Limit Member Costshares	Stage 2 - Catastrophic State Member Costshares
1	\$0.00	\$0.00
2	\$1.25 for Generics/\$3.70 for Brands	\$0.00
3 & 4	\$3.35 for Generics/\$8.35 for Brands	\$0.00
5 through 9	15%	\$3.35 for Generics/\$8.35 for Brands

Employer benefits from Low Income Cost Share reimbursements.

Advantages of EGWP Employer Group Waiver Plan

- ❑ CMS PMPM subsidy is paid monthly regardless of claims.
- ❑ No annual actuarial attestations, claims reporting or reconciliation required.
- ❑ Creditable coverage notices are not required.
- ❑ Premiums, claim costs and enrollee & employer cost shares are reduced for low income subsidy eligibles.
- ❑ EGWP plans are eligible for 50% pharmaceutical manufacturer brand drug discount reimbursements in “Coverage Gap.”
- ❑ EGWP plans receive 100% pass through on rebates.
- ❑ EGWP plans receive substantial Federal reinsurance subsidies when retirees reach catastrophic coverage (80%).
- ❑ EGWP plans can be custom designed to meet commitments in collective bargaining agreements

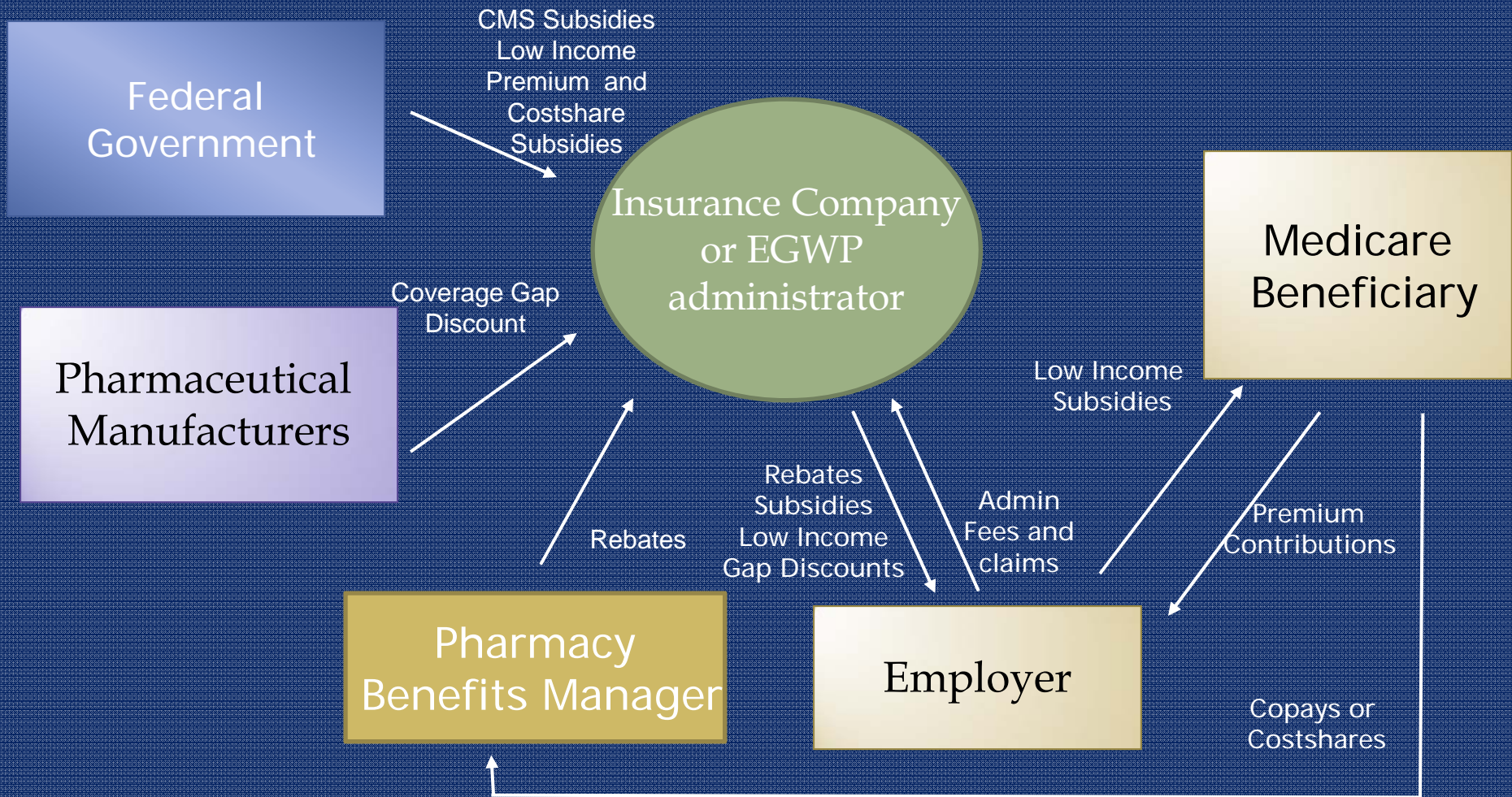
Advantages of EGWP Employer Group Waiver Plan

Impact on OPEB

- ▣ *Under GASB – RDS receipts are considered general revenues and do not count as a cost reduction when calculating OPEB liability.*
- ▣ *Under GASB – EGWP subsidies directly lower the cost of retiree prescription drug coverage and this cost reduction can be credited to future liabilities (OPEB).*

Flow of Funds

Government and Pharma Subsidies



Medicare Mandatory Reporting (MMR)

MMR is a process for exchanging information with the Centers for Medicare & Medicaid (CMS)

- ❑ Requires data sharing with CMS to identify participants eligible and enrolled in Medicare.
- ❑ The process used to determine who pays primary (employer plan or Medicare).
- ❑ If the participant is actively employed, the employer plan should pay primary.
- ❑ If the participant is retired, Medicare should pay primary.

But ...Who's Watching the Store?

- ▣ **When Medicare is primary...**
 - **Confirm that claims are being coordinated correctly – on average – 30% of these claims are processed incorrectly if the plan is not set up and administered on the proper platform.**
 - **Self funded plans are most susceptible to errors and should be audited to ensure Medicare is paying primary appropriately.**
 - **Medicare “Carve Out” plans can often pay claims denied by Medicare in error.**

Who's Watching the Store?

- ▣ **Medicare Part B Drugs & Supplies**
 - **Some medical supplies and drugs are covered under Medicare Part B at 80%.**
 - **Often, self funded plans, whether medical or prescription plans, pay these claims as the primary payer in error.**
 - **Often, self funded plans pay at 100% or subject to a small cost share or copay when employer plans should pay 20% or less of the cost.**

Who's Watching the Store?

- ▣ **Examples of Medicare Part B Drugs & Supplies:**
 - **Diabetic Supplies (lancets, test strips)**
 - **Immunosuppressives**
 - **Drugs used in durable medical equipment**
 - ▣ **i.e. nebulizer, infusion pump**
 - **Injectable and infused drugs given by a licensed medical provider**
 - **Injectable osteoporosis drugs administered by a home health nurse or aide**

Who's Watching the Store?

- ▣ Medicare Part B Drugs & Supplies (cont'd)
 - Some antigens
 - Some oral and injectable End Stage Renal Disease drugs
 - Some oral cancer drugs
 - Some anti-nausea drugs
 - Blood clotting factors

Thank you!

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