Employer Group Waiver Plans

Reduce costs and save money on prescription drug benefits for Medicare-eligible retirees
A new approach with Employer Group Waiver Plans

The Retiree Drug Subsidy (RDS) program has been the approach of choice for most employers since Medicare began prescription drug coverage. With RDS, employers can provide retirees with the same prescription drug benefits that they currently have.

The RDS program was offered as the cost-effective alternative to qualified employer plans providing a prescription drug benefit to Medicare-eligible retirees. RDS has significantly reduced drug expenses for employers, by 20% on average, and RDS payments have been tax-exempt.

This has now changed. As a result of the Patient Protection and Affordable Care Act of 2010, RDS payments are no longer tax-exempt as of January 1, 2013. For taxable employer plans, this means that the value of the subsidy has been reduced by one-third. Coupled with recent changes to health care laws, the effectiveness of RDS breaks down. Now is the time to consider alternative solutions for providing retiree prescription drug benefits.

Employer Group Waiver Plans (EGWPs) are well-positioned solutions to help you keep costs down and offer valuable retiree benefits. An EGWP has financial benefits that significantly exceed current RDS payments.

You should consider an EGWP if you are:
- An employer currently participating in the RDS program
- A non-taxable entity
- A taxable entity with little or no tax liability
- An employer offering prescription drugs to Medicare-eligible retirees
- A plan sponsor with a drug plan that does not pass the actuarially equivalence test for RDS
- A government entity that wishes to reflect Medicare Part D impact in its GASB 43/45 accounting
- A plan with at least 100 Medicare-eligible retirees and covered dependents (available funding options will vary based on PBM)
- A plan contemplating an end to post-65 retiree benefits due to the cost
- A plan looking for strategies to better manage retiree premiums
How an EGWP works

An EGWP is a Medicare Part D prescription drug plan (PDP). Employers partner with a Pharmacy Benefit Manager (PBM) that has contracted directly with Medicare to be a Part D provider. The EGWP provides the standard Medicare Part D prescription drug coverage only to the Medicare-eligible retirees and covered Medicare-eligible dependents of the sponsoring employer. An EGWP is not open to the individual market. It is a specific plan only available to employer plans.

The Medicare Part D portion of the EGWP has the same stages as the standard Medicare Part D plan:
- Stage 1: Annual deductible ($310 in 2014)
- Stage 2: Initial coverage period when retiree pays 25% and plan pays 75%
- Stage 3: Coverage gap where retiree pays most of the cost
- Stage 4: Catastrophic coverage where the plan pays most of the cost (but is reimbursed 80% of the cost by Medicare)

In addition, Medicare Part D excludes certain classes of drugs, including prescription drugs for treatment of coughs and colds, erectile dysfunction, etc.

To mirror your current prescription drug benefit, you can contract separately with your PBM to supplement, or wrap, your EGWP.

The wrap:
- Covers drugs not included on the PBM’s Medicare Part D formulary, as well as drugs excluded by Medicare
- Allows you to offer the same plan design available through your commercial plan, including copayments, coinsurance, and maximum out-of-pocket, if applicable

In the example below, the chart compares the value of an employer’s current plan to an EGWP with a wrap. In both scenarios, the retiree is in the coverage gap and pays the same 20% coinsurance for a brand-name drug. However, with the EGWP+wrap, the plan saves $100 due to the manufacturer’s discount.

<table>
<thead>
<tr>
<th>Prescription drug payment coverage</th>
<th>Current plan (RDS)</th>
<th>EGWP + wrap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross drug cost</td>
<td>$200.00</td>
<td>$200.00</td>
</tr>
<tr>
<td>Manufacturer discount</td>
<td>N/A</td>
<td>$100.00</td>
</tr>
<tr>
<td>Medicare base plan pays</td>
<td>$160.00</td>
<td>$5.00</td>
</tr>
<tr>
<td>Medicare wrap plan pays</td>
<td>N/A</td>
<td>$55.00</td>
</tr>
<tr>
<td>Retiree responsibility</td>
<td>$40.00</td>
<td>$40.00</td>
</tr>
</tbody>
</table>

Converting your current plan to an EGWP plus wrap allows you to maximize revenue in the coverage gap while keeping retirees whole.

With an EGWP, you could save an additional $500-$700 per Medicare-eligible retiree or covered dependent per year compared to RDS.
Benefits of an EGWP

Once all EGWP subsidies are received, your organization could realize an additional annual cash savings of $500-$700 per Medicare-eligible retiree or covered dependent per year compared to RDS. If you are a plan sponsor with a large Medicare-eligible population, this additional cash savings can amount to hundreds of thousands or even millions of dollars per year. In addition, EGWP subsidies are generally paid more frequently than RDS subsidies.

For government entities subject to GASB accounting, an EGWP offers accounting advantages over RDS. EGWP savings can be reflected in the current year liability calculation under GASB accounting where future projected RDS reimbursements cannot. These cash savings and accounting advantages can be achieved without reducing benefits.

How Buck can help

Buck’s Health and Productivity consultants at Xerox have extensive experience measuring the financial impact of moving from RDS to EGWP, as well as partnering with employers to implement an EGWP with most PBMs.

We can help with:
- Strategy and plan design
- Financial analyses
- Contribution strategy
- Vendor evaluation and selection
- PBM negotiations
- Clinical assessments
- Implementation oversight
- Plan administration
- Compliance
- Retiree communication

Why Buck

At Xerox, Buck Consultants has been at the forefront of assisting large corporate, governmental, and not-for-profit employers and group plans maximize available subsidies and savings, both on a cash and accounting basis. Our analyses have indicated that a change in approach will capture subsidies that exceed RDS and offset accounting liability.

We’re experienced. We’ve served as strategic advisors to employers on retiree healthcare benefits for more than 35 years and continue to provide innovative solutions to ensure that you and your retirees maximize the health care benefits that are offered in conjunction with Medicare.

We’re a flexible intermediary. Our team is experienced in working with union plans with limitations to make changes, salaried groups with the ability to make changes, and organizations that have the added complexity of providing benefits for all groups. We know what can work and can recommend solutions to help you achieve your goals.

We’re on top of Medicare changes. We have up-to-date information on compliance and pending/approved decisions related to Medicare, disability, pharmacy benefit management, and third party administration issues, and can guide you through the changes to keep you ahead of the game.

Success story: $2.5 million in savings

A North Carolina-based health care organization with 5,200 retirees had been sponsoring a traditional self-insured group prescription drug plan as part of its retiree health care benefits program and was receiving RDS payments. The group wanted to continue sponsoring retiree health benefits for competitive reasons, however, it decided to evaluate alternative financing arrangements.

We assessed and presented the potential savings, leading the employer to implement an EGWP solution with our help. After the first year, the group realized $2.5 million in annual savings with no reduction in retiree benefits.

Consider all your options

There are many benefits of an EGWP, but it may not be the optimal solution for your organization. Even if you decide to continue with your current program and collect RDS, we can help you understand the cost savings that may be available to you should your situation change.

We’ve developed several comprehensive tools to ensure you’re getting the most out of your plans while helping your retirees navigate the complexities of the Medicare maze. We can help you determine which solution is right for you.

Contact us

To begin exploring an EGWP as a substantial cost-savings alternative for your retiree prescription drug plan, or to learn more about our other retiree health care solutions, please contact us: 1 866.355.6647 or hrconsulting@xerox.com.

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