Medicare Part D: Taking another look at employee group waiver plans for tax-exempt plan sponsors

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Medicare Part D, the supplemental prescription drug benefit, is approaching its fourth anniversary. While the ongoing debate over healthcare reform creates a great deal of uncertainty for healthcare in general, and Medicare specifically, there continues to be a need for employers to find the most economical way of structuring their benefits.

By now, we have seen how the various options for providing drug coverage to retirees have evolved and have learned many lessons about them. We believe it's time for some organizations—especially large plan sponsors—to consider whether or not their plans are benefiting as much as they can.

Specifically, we believe that a great many, if not most, large, self-funded organizations that are now enrolled in the retiree drug subsidy (RDS) program would benefit from switching to one of the employer group waiver plans (EGWPs). If this applies to your company or agency, it doesn't mean that your initial choice of plan was wrong; however, we believe it is wise to reconsider that choice in light of the Medicare Part D experience to date. If you start thinking about it now, you'll be able to complete the application and contracting process in time for 2011.

WHICH EGWP?

The two EGWP options for Medicare Part D are:

- Direct-contract EGWP, a self-insured program in which employers and union plans contract directly with the Centers for Medicare and Medicaid Services (CMS) to provide plan benefits and receive payments directly from the government (these payments are distinct from the subsidy)
- 800-series EGWP, an insured program in which plan sponsors contract with a third-party insurer to cover prescription-drug benefits for retirees

WHY SWITCH?

First and foremost, an EGWP is a way to lower benefit costs. Plan sponsors can increase expected CMS payments through a direct-contract EGWP or save money through the 800-series EGWP. Second, if your organization (like most) is currently providing drug benefits through the RDS program, by switching to either of the EGWP options, you could significantly reduce your Governmental Accounting Standards Board (GASB) obligations for other postemployment benefits (OPEB).

In addition, each of the two options offers further immediate advantages:

- The direct-contract EGWP pays you an up-front payment at the beginning of each month—unlike the long waiting period usually required to receive your RDS reimbursement. In addition, the federal government carries 80% of the risk in catastrophic coverage.

- In the case of the 800-series EGWP, the immediate advantage comes by way of transferring risk to a third-party insurer, along with handing over administrative burdens.

The table summarizes financial and other advantages received through the EGWP options compared with RDS.

FIGURE 1

RDS	800-SERIES EGWP	DIRECT-CONTRACT EGWP
Self-insured	Fully insured	Self-insured, but with catastrophic coverage through federal government
Flexible plan design	Plan design subject to design of third-party insurer	Flexible plan design
Subsidy received after end of year	Subsidy implicit in premiums charged by third-party insurer	CMS Payment received monthly
Limit on retiree contributions	More flexibility in setting retiree contributions	Limit on retiree contributions
Cannot reflect in GASB 45 liability	Reflected in GASB 45 liability	Reflected in GASB 45 liability

FINDING A COST-EFFECTIVE WAY TO ADMINISTER AN EGWP

Many organizations have shied away from the EGWP options because they seem complicated and expensive to administer, from the application process through implementation, management, and reporting.

A consultancy that is familiar with the Medicare industry and with Part D can provide the support that will ease your transition into an EGWP and show you how to maximize the financial benefits you can gain by making the switch. A few specific steps are especially important:

- Conduct a cost-impact study. Such a study can help you explore what it will cost to make the change, and how much you will benefit over the long run by gaining larger payments and offsetting accounting liabilities
- Understand CMS policies and requirements to help you navigate the application process
- Develop an effective implementation plan for your EGWP, e.g., during the contracting process and in communicating with your retirees
- Seek assistance with the administrative work, including formulary management, vendor management, and reporting requirements (financial reporting, eligibility reporting, etc.)

SUMMARY

In the years since the inception of Medicare Part D, a growing number of companies and organizations have adopted EGWPs. In 2007, more than 64% of employers opted for the RDS program, with fewer than 12% opting for EGWPs; but in 2009, the number of employers choosing RDS has declined to 50%, and the interest in EGWPs has grown to include almost 30% of employers.[1] The move toward heavier EGWP adoption demonstrates the value of these approaches.

As more and more companies explore EGWPs, now is an ideal time to seek the change and achieve the many benefits: easing the burden of making the switch and saving you money.

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FOR MORE INFORMATION

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