Retiree Drug Option Gives Brokers Opportunity to Ride to the Rescue

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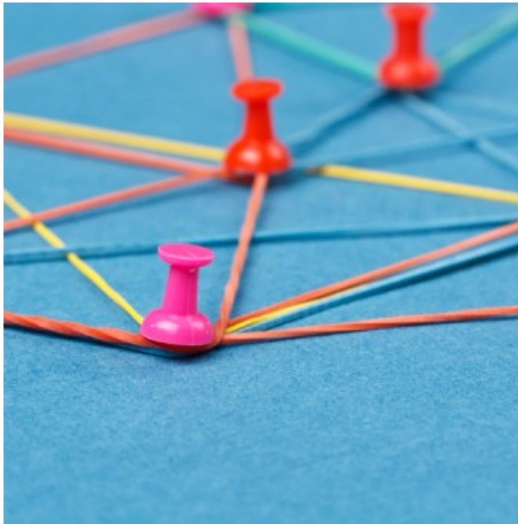

As the countdown to the full implementation of the Patient Protection and Affordable Care Act continues, so many parts are still in motion that many employers are uncertain where they will stand when everything falls into place. Should they continue with their current health benefits? Should they look for alternatives that give them more flexibility? Should they drop their plans entirely?

As the old adage makes clear, however, one thing is always certain: taxes, and in this case an increase in taxes. This has been particularly true for employers who took the federal government up on its offer of a 28 percent Retiree Drug Subsidy to keep retired workers who already had benefits from flooding the then-new Medicare Part D program. Under health reform, employers will no longer be able to write off the 28 percent of their pharmaceutical costs that are covered by the subsidy. In addition, the administrative costs associated with the Retiree Drug Subsidy will no longer be deductible.

Although these changes will not take effect until the 2013 tax year, the repercussions for businesses were immediate because of accounting standards that require reporting now about future cost increases. Just days after the law was enacted, a number of companies ratcheted their future earnings downward. For AT&T, it was a $1 billion change; Verizon came in at $970 million; Deere & Co. took a $150 million charge; and 3M Co. listed an $85 million to $90 million charge.

As a result of the decreased value of the Retiree Drug Subsidy, many employers are considering alternatives. According to a recent survey conducted by the National Business Group on Health, 69 percent of large companies have the Medicare Part D subsidy issue “under review.”

With financial losses like these looming, brokers have an opportunity to rescue employers who are exploring their options. By bringing employers solutions that address their concerns, brokers can demonstrate the value they bring to the table that goes well beyond auto-pilot annual renewals.

But what are those options that brokers should be offering?

While implementing Medicare Part D can be complex, one of the best ways to make it simple for employers is to explain the advantages of an Employer Group Waiver Plan – known by the acronym EGWP, and often called Egg Whip.

Back to the Beginning

To help employers understand EGWP, brokers should first make sure they are well grounded in the history of the Retiree Drug Subsidy. For many employers, the Retiree Drug Subsidy was a great deal.

The federal government paid for up to 28 percent of the costs for covered retiree drugs. The benefit came with

burdensome administrative requirements, but the subsidy was worth it to many. Not only did companies receive the tax-free 28 percent subsidy, but they also were able to add it to their costs and potentially write off 100 percent of their parmaceutical costs.

While the tax benefits were almost too good to be true, the federal government had sound financial reasons for offering this incentive. When Medicare Part D was implemented, the government had to do something to prevent scores of employers from terminating their private-plan prescription drug coverage and allowing their employees to instead take advantage of the federal government's program. Too many plan participants would have been a costly drain on the program. The Retiree Drug Subsidy was the way for the government to encourage employers to continue their own drug coverage.

While the benefit came with a heavy paperwork requirement, the subsidy provided employers with an average value estimated at more than $500 per Medicare beneficiary per year.

When health reform passed in early 2010, lawmakers had to find ways to fund their plans to overhaul the health system and extend insurance coverage to more people. One way was to change the tax status of the Retiree Drug Subsidy. According to the Employee Benefit Research Institute, the average cost of the subsidy for the government is roughly $665 per person.

According to benefits consultant Towers Watson, more than 3,500 employers received the subsidy in 2008. With the health reform changes to the tax status of the subsidy, Towers Watson estimates increased taxes for employers of $233 per year for each retiree and spouse. The incremental nationwide cost to employers is expected to be roughly $14 billion.

Transitioning to EGWP

Instead of accepting the subsidy to keep their current plans, employers can switch to an EGWP with the help of a knowledgeable broker.

At its core, an EGWP allows an employer to become a prescription drug plan sponsor, providing prescription drug benefits to retirees and dealing directly with the federal government for reimbursement.

Under this structure, the government uses a nationally based formula to pay the company a capitation fee or predetermined amount per participant. In some cases, the fee paid is as much as $200 per member per year more than the Retiree Drug Subsidy. In fact, experts say the federal government covers 35 percent or more of an employer's prescription drug costs with EGWPs, compared to roughly 20 percent with the drug subsidy.

The advantages for an employer of an EGWP plan include:

- Retaining sponsorship of their retiree benefit plan at a lower net cost.
- Maximizing flexibility in regard to contribution options.
- Maximizing the Medicare Part D government contribution.
- Customizing benefits to match current offerings for retiree group.
- Providing the option of including stop-loss insurance (an important provision in today's world of increasingly expensive specialty drugs).
- Minimizing disruption to members during transition through employer control.

Of course, becoming a prescription drug plan sponsor involves a full layer of administrative functions, including servicing the needs of plan participants, creating networks of providers, processing paperwork and completing government reports. All of these functions involve expertise and costs that employers may wish to avoid.

A more appealing strategy may be for employers to engage a third-party administrator with expertise in EGWP solutions. This strategy should sound familiar to self-funded employers, most of who already partner with third parties to carry out the administrative portions of their benefit package.

Brokers can play an important role in helping employers find a good fit to administer the EGWP plan. Baseline services provided should include, enrollment and fulfillment; medical underwriting; claims management; eligibility maintenance; billing and collection; customer service; and records management.

In addition, brokers can help employers identify third-party administers that have expertise and a documented track record of providing value through extra services. These can include auditing services, custom products, integrated stop-loss insurance, national resources and benefits management processes that target high costs without lowering the quality of patient care.

Take Action

While the federal health reform brings with it many unknowns, one thing is clear: It will affect everyone – businesses and individuals – one way or another. In order to best position themselves for doing business in a new healthcare world, employers must monitor the changes taking place that may have a considerable impact on their bottom line. Exploring their options will be critical not only to profitability, but also to the welfare of employees and retirees.

Agents and brokers can play a pivotal role in helping employers stay on top of the trends that affect their businesses. They can serve as trusted advisors and knowledgeable partners in wading through these complex changes. Through relationships with third party experts, agents can provide innovative and cost-saving solutions, like EGWPs, that will help employers protect their bottom lines, as well and the health and wallets of their employees and retirees.

Additional Sources:

http://www.aishealth.com/Bnow/hbd090310.html

About The Author

Samuel H. Fleet *is President of AmWINS Group Benefits, a leading wholesale broker/TPA of comprehensive group insurance programs and administrative services. With more than 20 years of health and benefit experience, Sam has guided the rapid rise of AmWINS Group Benefits from a small regional organization to one of the most successful wholesalers and group insurance administrators in the country.*

In the era of the Patient Protection and Affordable Care Act (PPACA), innovative health benefits strategies and industry-leading products will be more important than ever before – and under Fleet's leadership, AmWINS has proven to be an expert at providing both.

By analyzing the 2,500-page measure signed into law in early 2010 and staying abreast of bureaucratic efforts to build a regulatory framework around PPACA, AmWINS has determined that the wave of the future is self-funding – an option that gives employers the greatest control over benefits, quality and cost. In fact, AmWINS has already developed responsive products to meet the needs of employers in a post-PPACA environment. These include:

- *The 800 Series Employer Group Waiver Plan (EGWPs, also known as "egg whips") to help employers manage their self-funded retiree drug programs in the wake of the diminished subsidy value.*
- *A creative captive-pool approach to self-funding that will allow companies of all sizes to enjoy the control of self insurance while spreading the risk over a larger base of employees.*
- *AmWINS Specialty Pharmacy Protection protects plan sponsors from the escalating cost and incidence of specialty pharmaceuticals.*
- *Dialysis Management Solutions offers multiple techniques and re-pricing options to help control costs and meet employers' most difficult dialysis claim situations.*

These products join a long list of others that AmWINS has specifically created for the group market. While some industry offerings fall short of meeting customer expectations, AmWINS has focused its group benefits business on what truly matters by emphasizing solid plan design, unique distribution and flawless administration.

As the founder of the company that became AmWINS Group Benefits, Sam Fleet is frequently sought after for his knowledge and experience as a speaker at conferences of the Council of Insurance Agents and Brokers, the National Association of Life Underwriters and Benefits Selling Expo. His success has been recognized in such prestigious industry publications as Best's Review, Employee Benefit News, Benefits Selling, Business Insurance and Employee Benefit Adviser.