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Will Employers Continue to Offer Rx Coverage Following Implementation of the New Medicare Prescription Drug Program?

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Agenda

- Current Environment
- Winners and Losers
- Issues Employers Are Wrestling With Today
- Key Questions Employers are Asking
- How Employers View Their Options
- Long Term Issues for Employers
- Predictions

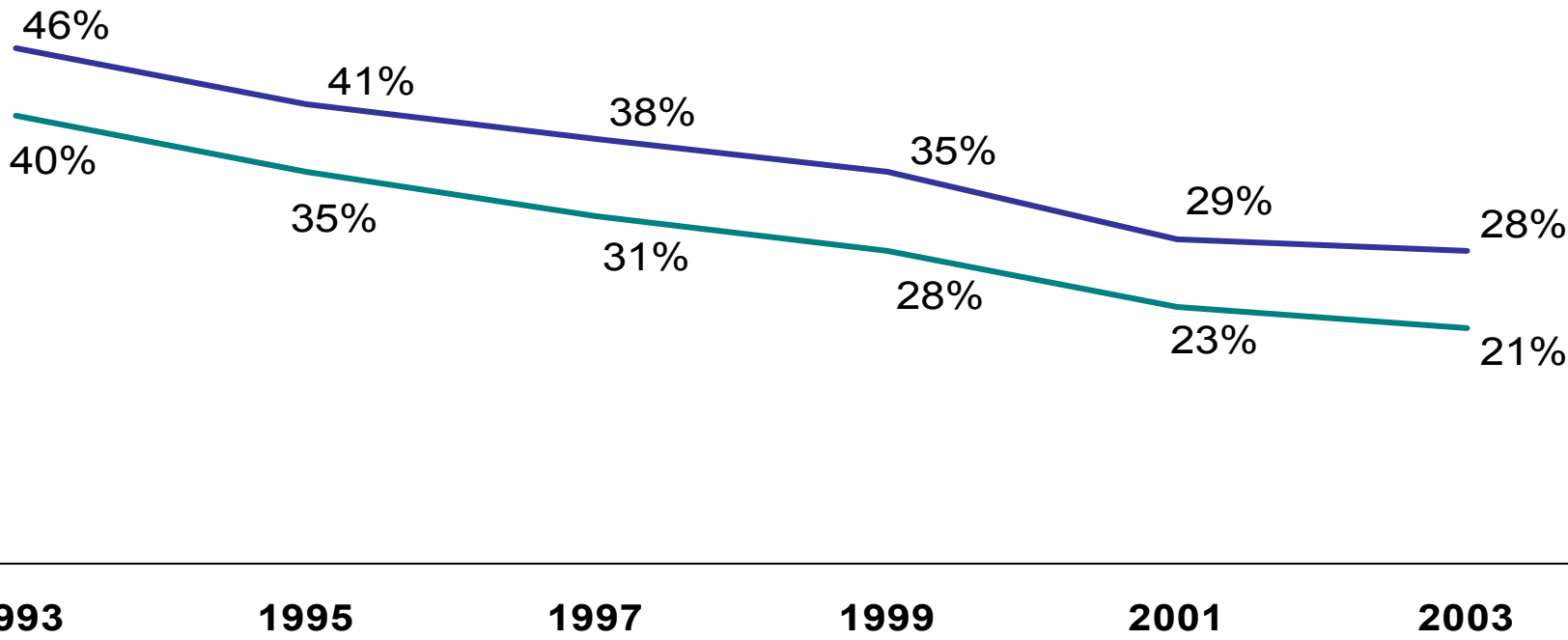


Current Environment

Continued Erosion in Retiree Medical Plans Overall ...

Based on employers with 500 or more employees

- Offer coverage to pre-Medicare-eligible
- Offer coverage to Medicare-eligible



Source: Mercer National Survey of Employer-Sponsored Health Plans



Current Environment

... And for All Sizes of Employers

Employers Offering Retiree Medical to Medicare-eligible Retirees

# of Employees	1998	2003
500 – 999	23%	18%
1,000 – 4,999	32%	22%
5,000 – 9,999	45%	34%
10,000 – 19,999	53%	35%
20,000 or more	62%	49%
All Large Employers	30%	21%

Source: Mercer National Survey of Employer-Sponsored Health Plans



Current Environment

Certain Industries Affected More Than Others

Employers offering Retiree Medical to Medicare-eligible Retirees

Industry	1998	2003
Manufacturing	23%	19%
Wholesale/Retail	14%	11%
Services	31%	21%
Transportation/Communication/Utility	54%	29%
Health Care	17%	8%
Financial Services	57%	32%
Government	55%	58%
All Large Employers	30%	21%

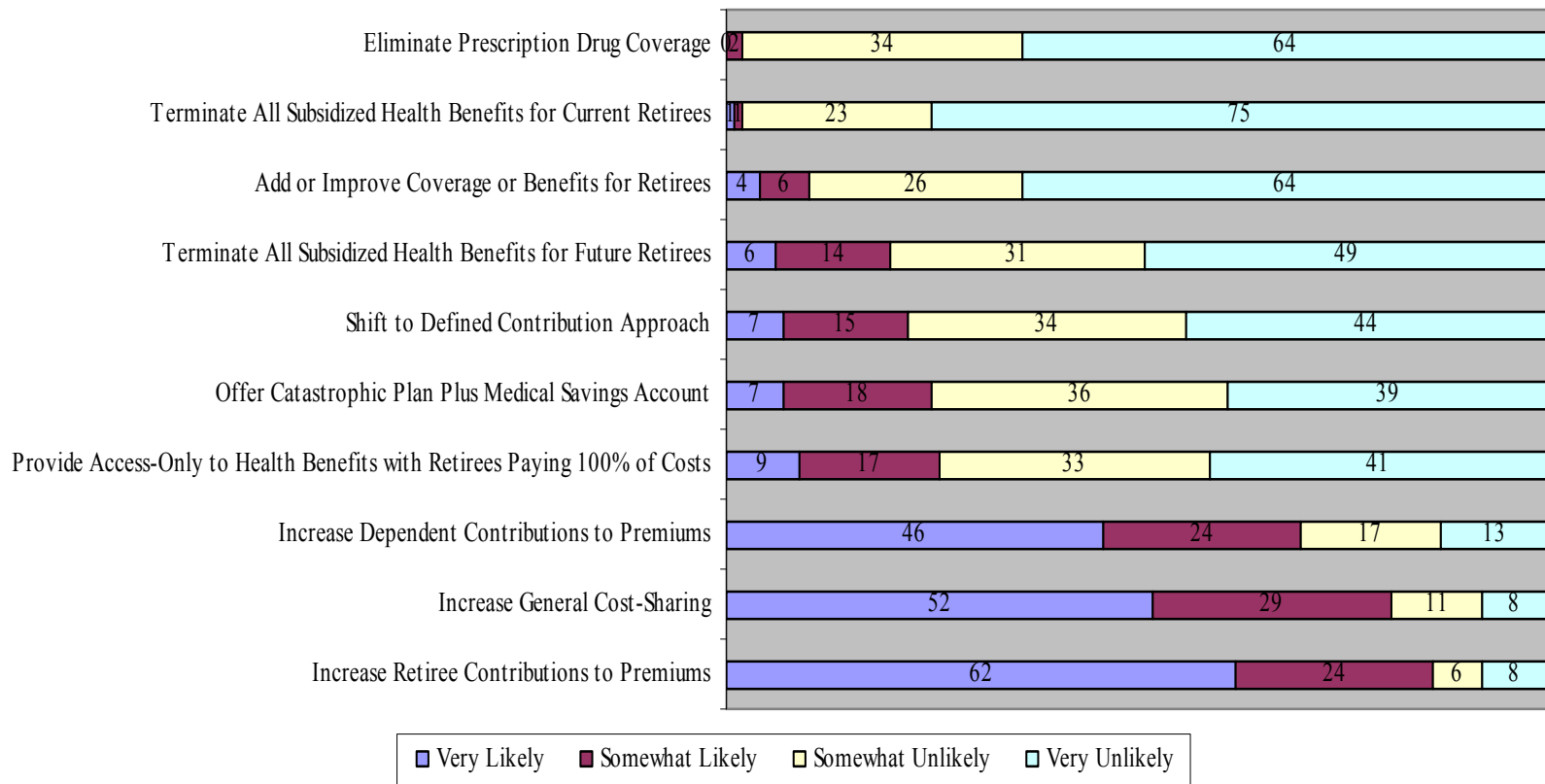
Source: Mercer National Survey of Employer-Sponsored Health Plans



Current Environment

Employers Will Continue to Make Changes Beyond Rx

Likelihood of Making Changes to Retiree Health Benefits in the Next Three Years



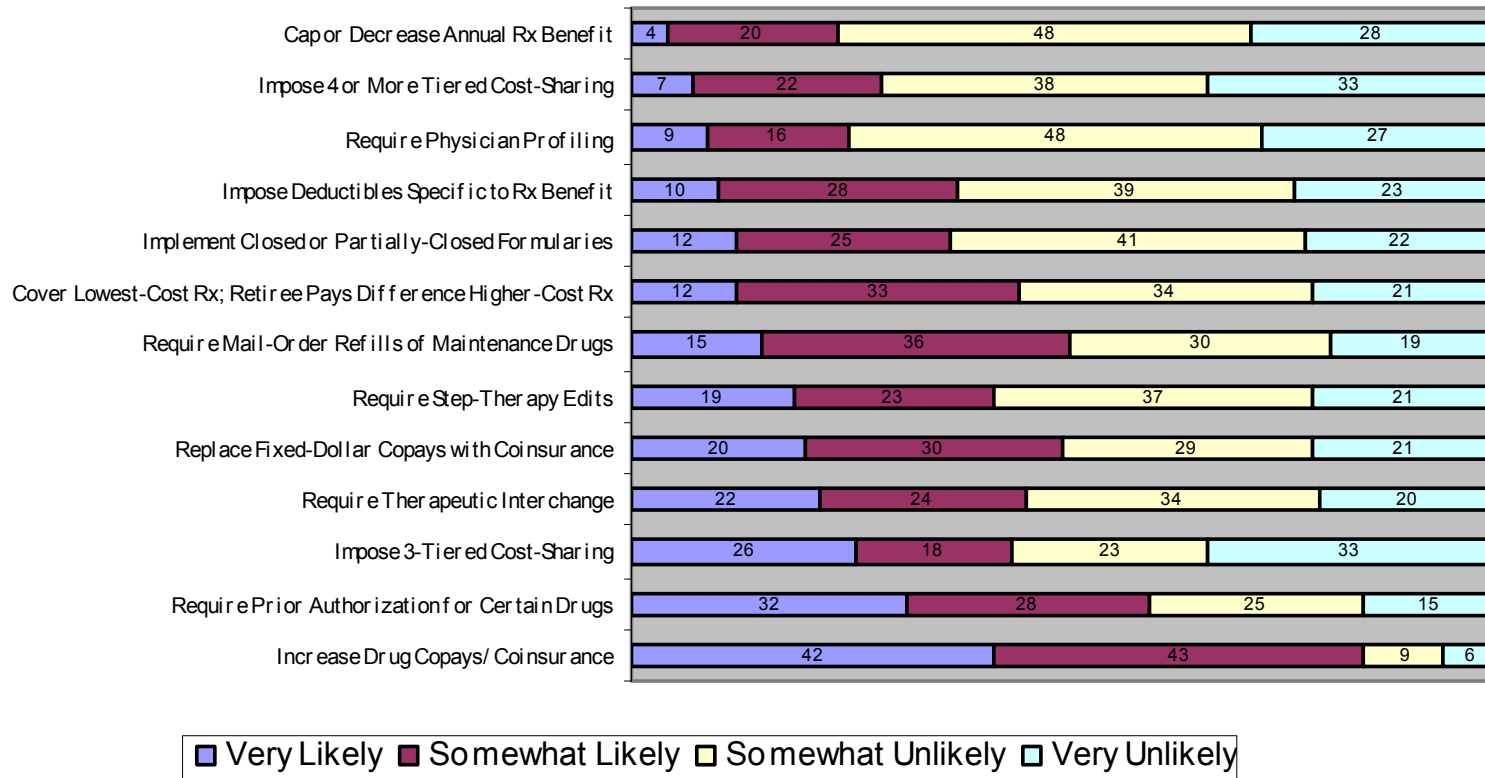
Source: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004



Current Environment

Employers May Also Make Changes to Rx Design

Likelihood of Making Changes to Manage Retiree Drug Costs in the Next Three Years



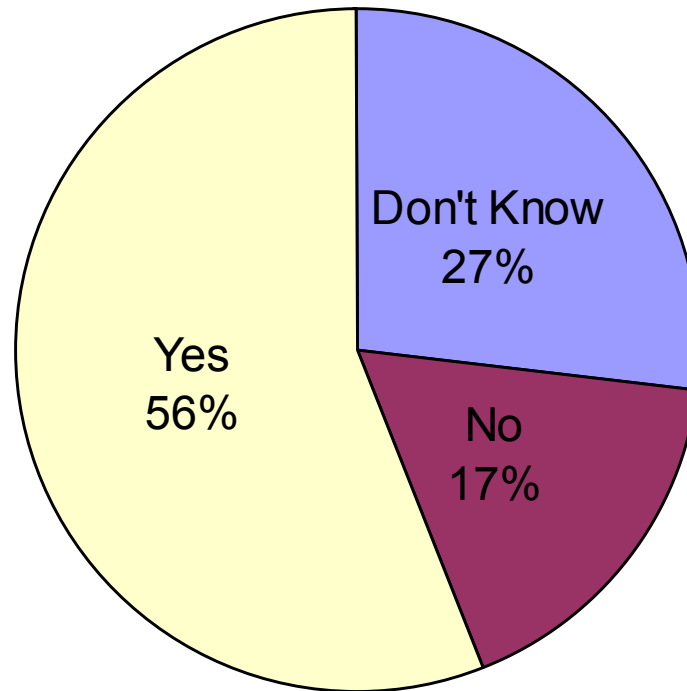
Source: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004



Current Environment

Not All Employers are Expecting a Material Benefit

Do Employers Believe A Medicare Drug Benefit Will Save Them Money?



Source: Kaiser/Hewitt 2003 Survey on Retiree Health Benefits, January 2004



Impact of New Law

What if Part D Went Into Effect Today...

Winners and Losers (if no other coverage)

Annual Drug Charges Per Member	% of Members*	Average Out-of-Pocket Drug Costs Per Member* (Part D Premium + Deductible + Coinsurance)	Average Per Member Cost/(Savings)* from Medicare Part D coverage
\$0 - \$250	34%	\$460	\$420
>\$250 - \$2,250			
- >\$250 - \$810	17%	\$737	\$218
- >\$810 - \$2,250	28%	\$965	(\$467)
>\$2,250 - \$5,100	17%	\$2,178	(\$1,080)
> \$5,100	4%	\$4,147	(\$3,500)
TOTAL	100%	\$1,088	(\$273)

Winners = 49 % Losers = 51% Breakeven Point = \$810

**Estimated from 2002 Mercer Medicare-eligible retiree drug data, not projected to 2006. May not be representative of entire Medicare population. Did not reflect anticipated savings from AWP discounts provided under Medicare plan.*



Issues Employers Are Wrestling With Today

- Most are still trying to understand provisions and nuances
- Accounting issues are receiving greatest attention
 - Less than 15% will begin recognizing immediately (assume subsidy)
 - Remainder must address soon, most likely in Q2 2004
 - May need to assume for now that they will coordinate with Medicare
 - Estimates likely will need to be updated in 2005
- Design decisions will require more study and information
 - Many will wait for some regulatory guidance to avoid announcing changes and then changing again
 - Development of marketplace over next 18 months a critical factor



Issues Employers Are Wrestling With Today Continued

- Broader strategy discussions are beginning
 - May dovetail with review or analyses already underway
 - No rush to eliminate plans because of Medicare Reform
 - Much will depend on financial situation, overall retirement plan strategy and competitiveness issues
- Many employers still concerned with affordability of plans for participants
 - Any reductions in contributions may be offset by Part D premiums
 - Cost escalation still an issue



How Employers View Their Options

Prescription Drug Coverage for Medicare-eligible Retirees

1. Continue to offer current plan design
 - Receive government subsidy if “actuarially equivalent” to Part D
2. Take advantage of Part D by offering “wrap around” plan or integrating with Medicare
 - Medicare is primary, plan sponsor secondary
 - With or without subsidy of Part D premium
3. Take advantage of new Medicare Advantage plans (formerly Medicare+Choice)
 - With or without sponsor subsidy of Medicare Advantage premium
4. Drop coverage completely, with or without Part D premium subsidy



How Employers View Their Options

If My Plan Qualifies for 28% Government Subsidy

- Plan design options with subsidy
 - Using current design (if at least actuarially equivalent)
 - Using different design (lower or higher benefits) that is at least actuarially equivalent to Part D
- Advantages
 - Could be no change for beneficiaries
 - If current plan qualifies, no immediate communication requirements to realize FAS 106 savings
 - May be only option for some groups (e.g. groups whose benefits can not be changed)
- Disadvantages
 - Requires annual certification
 - Administrative and reporting requirements
- Need to evaluate carefully, taking into account claims history and company's tax position



How Employers View Their Options

Offer a Plan that Wraps Around Medicare

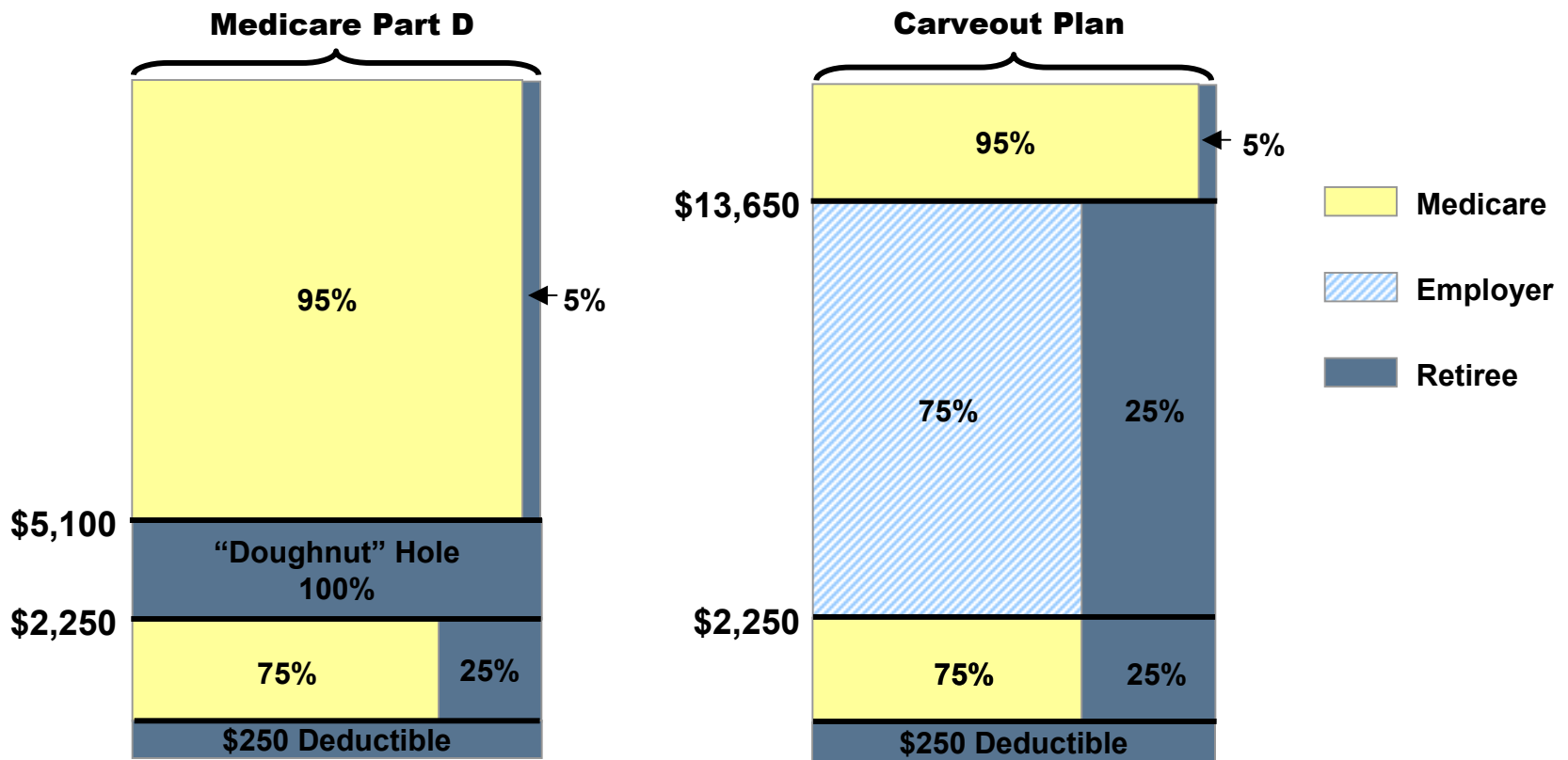
- Wrap around options
 - Fill in gaps in Part D as defined by law, approximating current design
 - Fill in gaps in actuarially equivalent Prescription Drug Plan (PDP), again approximating current design
 - Reduce plan benefits by amounts payable under Part D (whether or not retirees are enrolled in Part D)
 - Subsidize all, some or none of Part D premium
- Advantages
 - No annual certification needed
 - Some will save more than with the subsidy option
- Disadvantages
 - Doughnut hole increases in size
 - Retirees will have to pay Medicare Part D premium unless plan sponsor chooses to subsidize premium
 - Mechanics of integration with Medicare problematic



How Employers View Their Options

Offer a Plan that Wraps Around Medicare

Example: \$250 deductible; 25% retiree coinsurance to \$3,600 out-of-pocket cost; Medicare is primary



Retiree needs \$8,550 more in expenses under Carveout Plan to reach \$3,600 Medicare stop loss limit.



How Employers View Their Options

Medicare Advantage Plan

- If health plans offer national plan or regional plans at reasonable cost, Medicare Advantage could be a viable alternative for some employers
 - Plans maintain “managed care”
 - Benefits could potentially fill prescription drug “doughnut hole”
- But history is problematic
 - Growth in enrollment has been followed by tight controls on reimbursement by Medicare, followed by reductions in enrollment
 - This has made retirees and employers alike wary of such plans



How Employers View Their Options

Terminate Prescription Drug Coverage for Medicare-eligible Retirees

- Options: terminate coverage and...
 - Subsidize full Part D premium, or
 - Subsidize portion of Part D premium, or
 - Offer no subsidy
- Advantages
 - No annual certification needed
 - Simplest to administer
 - Greatest savings potential
- Disadvantages
 - Must amend plan and communicate before receiving accounting relief
 - Significant savings, but subject to Medicare inflation if sponsor pays entire Medicare premium or percentage of premium
 - Potential age discrimination issues until there is relief from the Erie decision
 - Greatest potential for retiree relations challenges



Key Questions Employers Are Asking

- Subsidy regulations
 - Qualifying: Actuarial equivalence is the focus
 - Sharing: Few, if any, expect to “make a profit” on their PRM plans
- Supplemental or wrap-around plans
 - Coordination with multiple PBMs
 - Administration of design integration with a variety of PDP designs
- Market for private drug supplemental coverage
- Viability of Medicare Advantage plans
- Age discrimination (Erie County et al)



Long Term Issues for Employers

Some Old, Some New

- Managing cost inflation
 - Forecasts for 2006 – 2008 still show drug trends of 9%+
 - Will new program change price trends?
- Basic approach question: Sponsor plan or help accumulate wealth (HSAs)
- Provide new hires with a different plan
- Affordability



Predictions: Sum of All Fears

- Administration of wrap-around plan becomes so difficult that employers 'outsource' plan to insurers
- Cost of plan greatly exceeds forecasts, Medicare Rx cut back, employer liability grows back to previous level
- Erie County decision becomes applicable countrywide, employers react by cutting pre-65 benefits
- Regulations become so onerous that employers give up, hand retirees some cash and walk away from plans wherever possible