



# Second National Medicare Prescription Drug Congress: Employer Response to Part D

November 1, 2005

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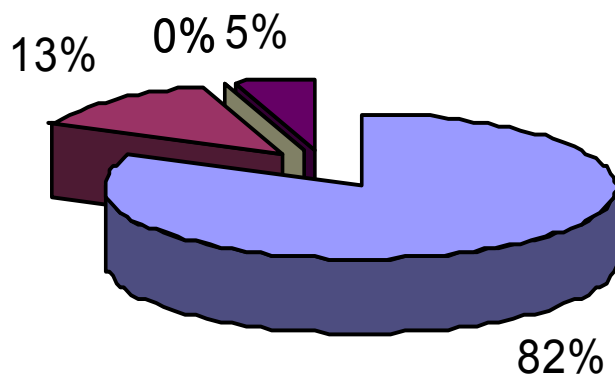


# Agenda

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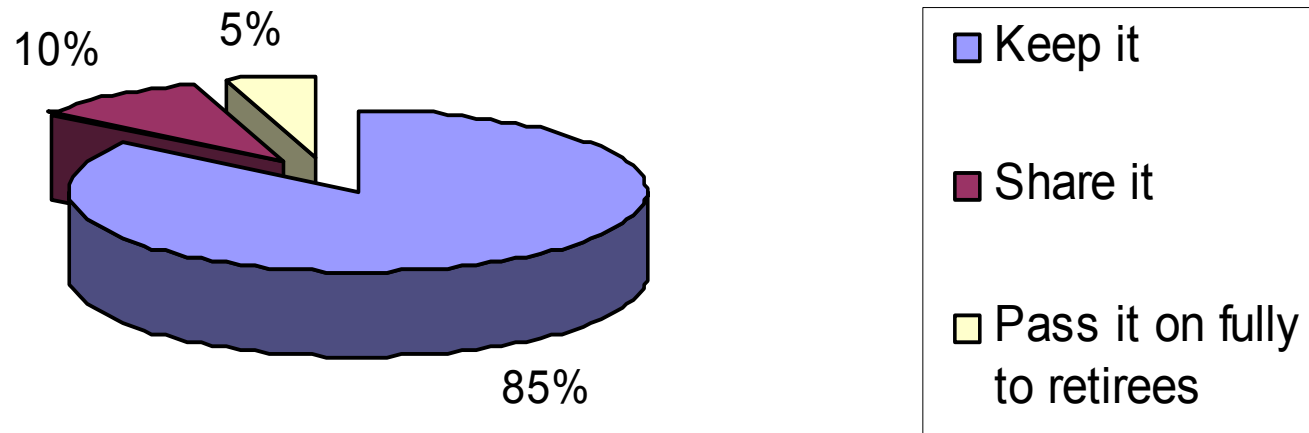
- Survey Results
- Strategic Options
- The Crystal Ball: What the Future Likely Holds

# Question 1: What Changes are You Planning to Make to Your Retiree Medical Plan in 2006?\*

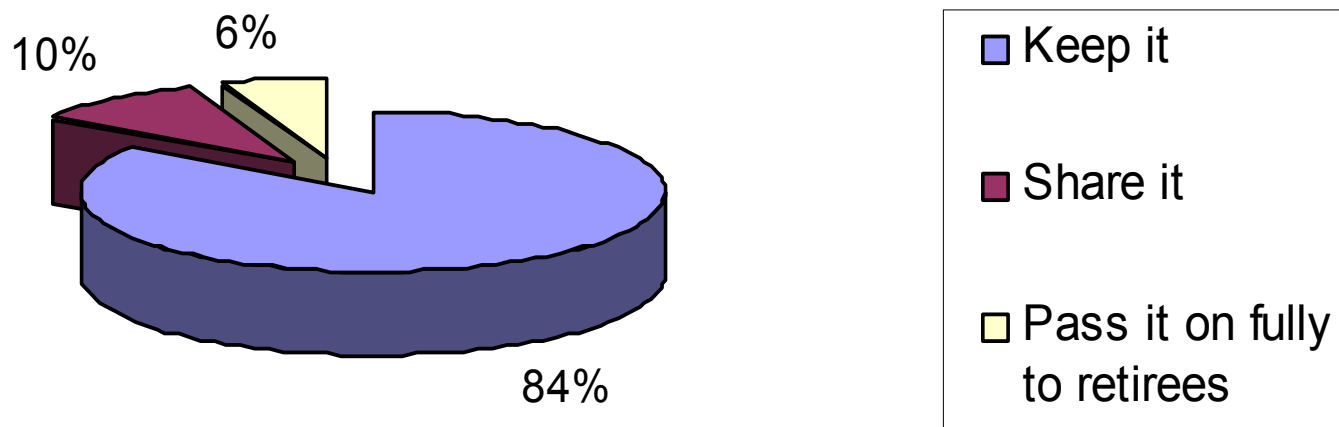


- Take the federal subsidy
- Coordinate with Part D plans
- Use employer waivers to offer your own PDP
- Support external plan premiums
- Exit retiree medical in 2006

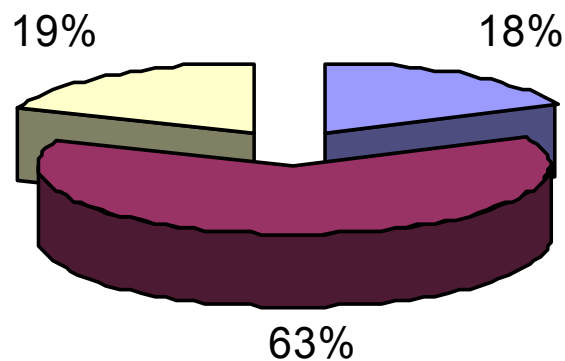
## Question 2: If You Plan to Take the Subsidy and Have Uncapped Retirees, How Do You Plan to Use the Subsidy?\*



## Question 3: If You Plan to Take the Subsidy and Have Capped Retirees, How Do You Plan to Use the Subsidy?\*



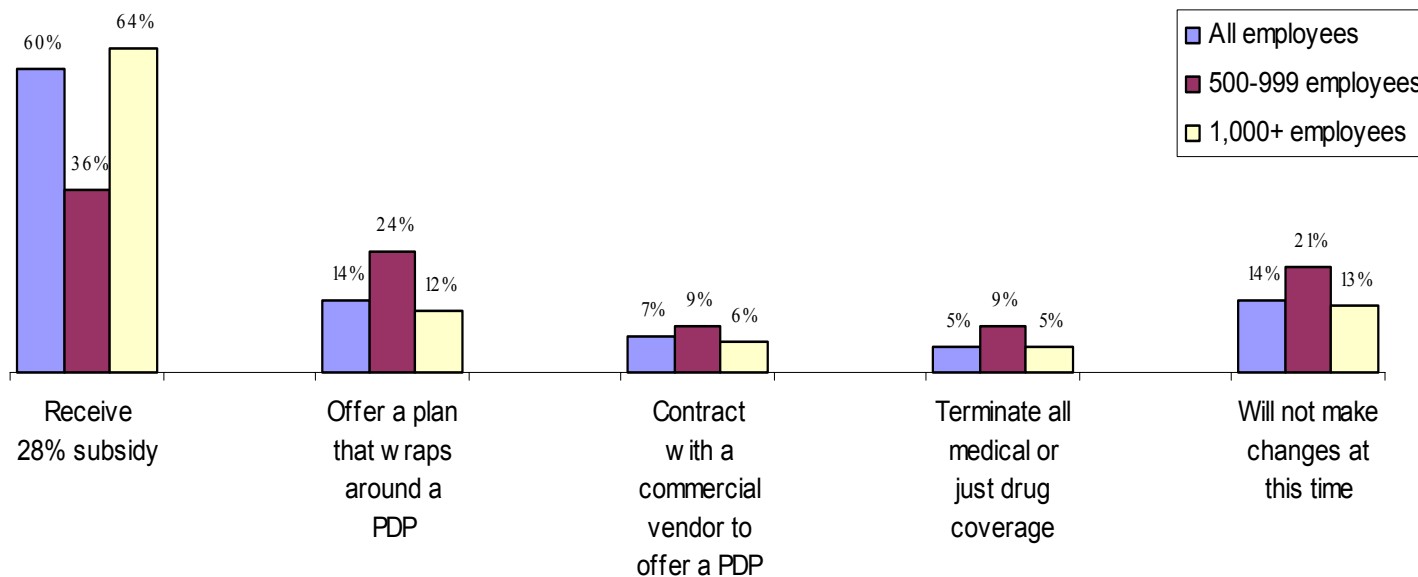
## Question 4: As a Result of Medicare Reform, Which Direction Do You Think Your Retiree Medical Program Will Go?\*



- Eventually exit
- Strategic redesign
- Minimal changes from current state

# Retiree Medical Plan Sponsors Anticipate Cost Relief From New Medicare Drug Benefit\*

Most likely response to Medicare Part D benefit



# The 'Ownership Society' – *Employer Window of Opportunity*

## Key Factors Are Aligning

- A call to action as Part D begins
- Employers eager to reduce costs and take advantage of MMA savings
- Medicare Advantage – reinvigorated
- Tax-preferred retiree health savings enabled by HSA legislation

## Changes Tied to the MMA

- Take the direct federal subsidy
- Coordinate with Medicare
- Contract with a PDP or MA-PD
- Form your own PDP or MA-PD

## Broader Strategic Changes

- Redesign all retiree medical
- Shift to an account-based design
- Exit from plan administration
- Modify financial support level

*Creating a window of opportunity for dramatic change.*



## The Picture is Now Clearer

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- Most employers taking subsidy for 2006
  - Past the administrative hurdles now
  - Administration fear of employers exiting post-65 retiree medical in droves did not happen in large part due to subsidy option
- Robust market offers employers strategic options
  - Strategic changes will likely follow in 2007
  - Options also created for retirees; however, market fear is very real (given past experience with Medicare risk HMOs)

# Range of Employer Options: *Strategic Opportunity*

Keep existing plan and take *qualified employer plan subsidy* or *coordinate* with Part D plans

*Change post-65 plan design* in response to law or reallocate support elsewhere

*Perform a strategic redesign* of both the pre-65 and post-65 benefits

*Set up an employer waiver PDP or MA-PD plan*

*Provide only financial support* for Parts B and D or MA-PD/PDP plan premiums

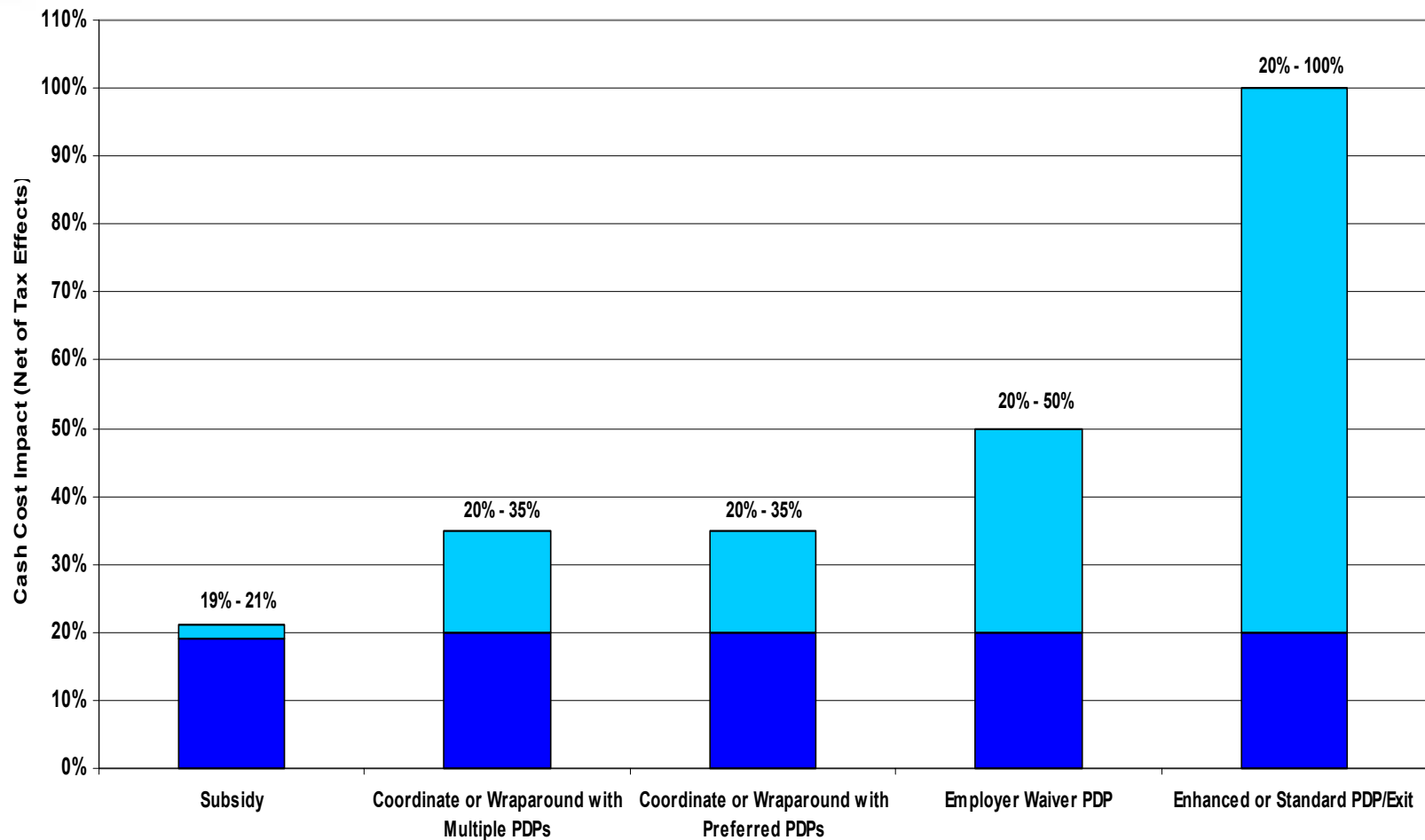
Use the MMA as an *exit strategy* from retiree medical

*Increasing Savings Opportunities*

*Considerations: paternalistic culture, administrative complexity, federal requirements*

# Medicare Part D Delivery Approaches

## Side by Side Comparison of Savings (as a Percentage of Covered Rx Charges)



# Case Study – Utility Industry

## CASE STUDY

- Issue
  - Address the rising cost of providing medical and pharmacy plan benefits to employees in order to create a sustainable health care plan
- Active and retiree medical strategy study, including
  - Medicare Part D options
  - Health management initiatives
  - Plan design provisions
  - New options, including high deductible health plans with HSAs and retiree medical accounts
  - Considered caps for retiree medical; did not institute
- Results
  - Three options presented with savings from 20% to 28%
  - Developed significant FAS 106-related savings

# State of the Market

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- Prescription drug plans
  - A national market is emerging with robust competition
  - All regions have multiple plans available
- Lower than expected beneficiary premiums (\$32.20 national average)
  - Potential for zero premium options for employers in many markets
- Medicare Advantage availability is expanding

# Emerging Vision for Future Retirees

- Convergence of active and retiree health care strategies
  - Account-based programs
  - More individually oriented
  - More tax-efficient savings opportunities
  - More education
  - Provide access to coverage, particularly important for pre-65 retirees

# Medicare Reform Is Not Just About Maximizing Savings

- Now is the time to begin planning for 2007 changes

**Revisit** *the objectives of employer-sponsored health benefits*

and ...

**take advantage** *of the law's short-term opportunities*

then ...

**evaluate** *strategic redesign for a long-term solution*

# The Risks of Benefits

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*"If we take a late retirement and an early death, we'll just squeak by."*



# Medicare Part D Delivery Approaches – Side by Side Comparison

	Subsidy	Coordinate or Wraparound With Multiple PDPs	Coordinate or Wraparound With Preferred PDP	Employer Waiver PDP	Enhanced or Standard PDP/Exit
Plan Design	Current or alternate employer design	Current or alternate employer design	Standard + supplement to replicate current or alternate employer design	Current or alternate employer design	Enhanced or standard coverage
Procurement	Arranged by employer	Standard coverage arranged by retirees; employer supplements benefit using chosen vendor	Arranged by employer	Arranged by employer	Coordinated by employer, or, if exit arranged by retirees
Standard Benefit Funding	Self-insured (most circumstances)	Insured	Insured	Self-insured	Insured
Standard Benefit Underwriting / Contract	Group ASO contract	Individual	Group	Group ASO contract	Individual
Supplemental Benefit Funding	ASO (most circumstances)	ASO	ASO	ASO	Insured
Equivalence Testing Required	Yes	No	No	No	No
CMS Reporting Required	Yes	Not by employer	Yes	Yes	Not by employer
Plan Design Flexibility	Flexibility as long as actuarial equivalence is maintained (gross and net basis)	Full flexibility as long as actuarial equivalence is maintained (gross basis)	Full flexibility as long as actuarial equivalence is maintained (gross basis)	Full flexibility as long as actuarial equivalence is maintained (gross and net basis)	Limited flexibility, subject to market availability
Administration	Identical to current	Very difficult; employer may be required to report out-of-pocket expenses to numerous PDPs providing individual PDP policies	Integrated; PDP and supplemental administrator the same entity, thus eliminating claim submission and TROOP reporting needs	Identical to current, except for CMS requirements, many of which are waived	Integrated and handled by PDP vendor
Cash Cost Impact (Net of Tax Effects)	19% to 21%* savings plus tax impact	20% to 35%* savings	20% to 35%* savings	20% to 50%* savings	20% to 100%* (if exit) savings

\*Of covered prescription drug charges.