



Medicare Marketplaces: A Solution for Reducing Retiree Health Care Costs, Hiding in Plain Sight

by **Marianne Steger, CEBS** | *Willis Towers Watson*

Retirement without health care coverage is not secure. Indeed, lack of retiree health care coverage is often cited as a reason for not retiring. Yet the number of employers providing retiree health care continues to decline each year as plan sponsors struggle to afford costly group Medicare plans. There is a solution, however, that reduces retiree health care costs for both plan sponsors and retirees.

When I was the health care director at the Ohio Public Employees Retirement System (OPERS), I learned of this solution hiding in plain sight: The Medicare marketplace (sometimes called *Medicare exchanges*) leverages individual Medicare plans, which are typically far more affordable than group Medicare plans.

I thought sponsoring a group Medicare Advantage plan with a prescription drug employer group waiver program (EGWP) was the most affordable way to provide our retirees with Medicare health care coverage. I soon learned that those who left our plan found more affordable and often more comprehensive options with individual Medicare products.

The retirees who left us would ask: “Why doesn’t OPERS just give retirees money to pay for a more affordable individual Medicare plan?” That began my extensive research into Medicare marketplaces. Ultimately, I oversaw the largest transition in the country from a group Medicare plan to Individual Medicare marketplace (exchange). The model provided savings for OPERS and its retirees.

In general, moving to a Medicare marketplace often results in a 30-50% reduction in other post-employment benefits (OPEB) liability and a 10-25% reduction in medical spend. In addition, it reduces the administrative burden, and the retirees really like the model.

An Affordable Solution Hiding in Plain Sight

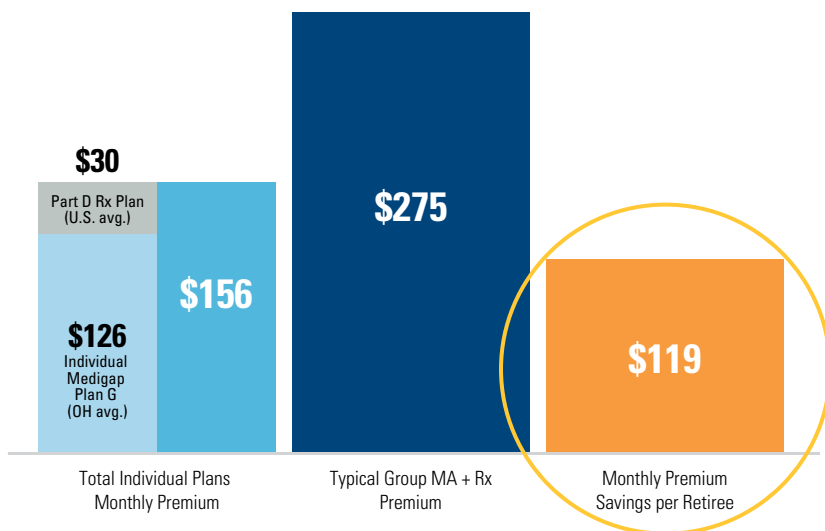
A quick trip to your state department of insurance website shows the affordability of individual Medicare plans. For example, in the state of Ohio there are 24 medigap (also called *Medicare supplement*) Plan Gs available, with an average monthly premium of \$126. This plan covers all medi-

AT A GLANCE

- The number of employers providing retiree health care coverage continues to decline as plan sponsors struggle to afford group Medicare plans.
- Plan sponsors may want to consider transitioning their retirees from a group Medicare plan to an individual Medicare marketplace. They can subsidize the purchase of individual plans by contributing to a health reimbursement arrangement (HRA).
- Medicare marketplace plans can offer retirees greater choice in plan coverages as well as lower cost for the retiree and the plan sponsor.

FIGURE 1

Premium Comparison



cal expenses at 100% after just a \$198 annual deductible. Add a Part D drug plan with an average premium of just \$30 a month, and one can quickly see the incredible affordability of the individual Medicare marketplace (Figure 1). For this low price of just \$156 a month, retirees have top-of-the-line health care coverage.

The benefits of medigap plans are the same regardless of carrier or state. In addition, there are no network requirements, so retirees get to see any doctor that takes Medicare. They tend to have higher premiums but very little out-of-pocket costs at the point of service.

While Plan G is the most expensive and comprehensive, there are even more affordable options with Medicare Advantage plans, many with \$0 premiums. While these plans offer low

premiums, they do have some cost sharing at the point of service—typically reasonable copays and no (or low) deductibles. Sometimes there are daily hospital copays for the first few days of confinement. Medicare Advantage plans have network restrictions and have drug coverage bundled with their product, so there is no need to enroll in a separate prescription drug plan.

Individualized Plans Can Save Plan Sponsors Money

So many times when you administer a group plan, there is a VIP who wants to make sure X or Y benefit is covered, or A or B drug is on the preferred formulary. Due to certain political pressures, you comply and have now added an expensive benefit for 100% of the enrollees in that plan, which of course

drives up your costs. The beauty of the individual Medicare marketplace is that people who want specific coverages can get them but at a cost only to them. Most people won't want those special coverages (think hearing aids, acupuncture, chiropractic care, new expensive drugs, etc.). But in a group model, you must pay for it for everyone, which further drives up your costs.

Why are individual Medicare plans often so much cheaper? Size matters!

I administered a group Medicare plan with 165,000 lives. I was sure we were big enough to get the best pricing. We had generous gainsharing arrangements and a strong clinical staff, and after working 30 years in the labor movement, I was a pretty good negotiator. Nevertheless, we could not compete with individual Medicare plans, which have a risk pool of 42 million retirees. The place where these individual Medicare plans can be accessed, the Medicare marketplace, has been around for decades, is stable and should not be confused with the newer Affordable Care Act (ACA) exchanges.

In general, a Medicare marketplace often results in a reduction in Medicare OPEB liability in the range of 30-50% and a reduction in annual medical spend by 10-25% (Figure 2).

The Impact of Health Status

Even in cases where a plan sponsor has a large retiree risk pool, another factor comes into play—health status, as reflected by average enrollee age. Many retiree groups are shrinking or will shrink in the coming years, as

the last wave of workers eligible for retiree benefits begins to retire. The opposite is occurring in the individual market, where premiums are kept low and stable by the influx of Baby Boomers, who are relatively young and healthy as they enroll in individual Medicare plans.

Implications of Moving to a Medicare Marketplace

Moving your retirees to individual Medicare plans via a marketplace can save money on annual health care spend and reduce OPEB liability significantly. For self-insured plans, a move to fully insured individual plans will re-

duce the risk of large claims. Even with fully insured plans, actuaries will typically assume a trend rate much higher than the 2-3% annual increase we see in individual plan premiums.

How Does a Medicare Marketplace Work?

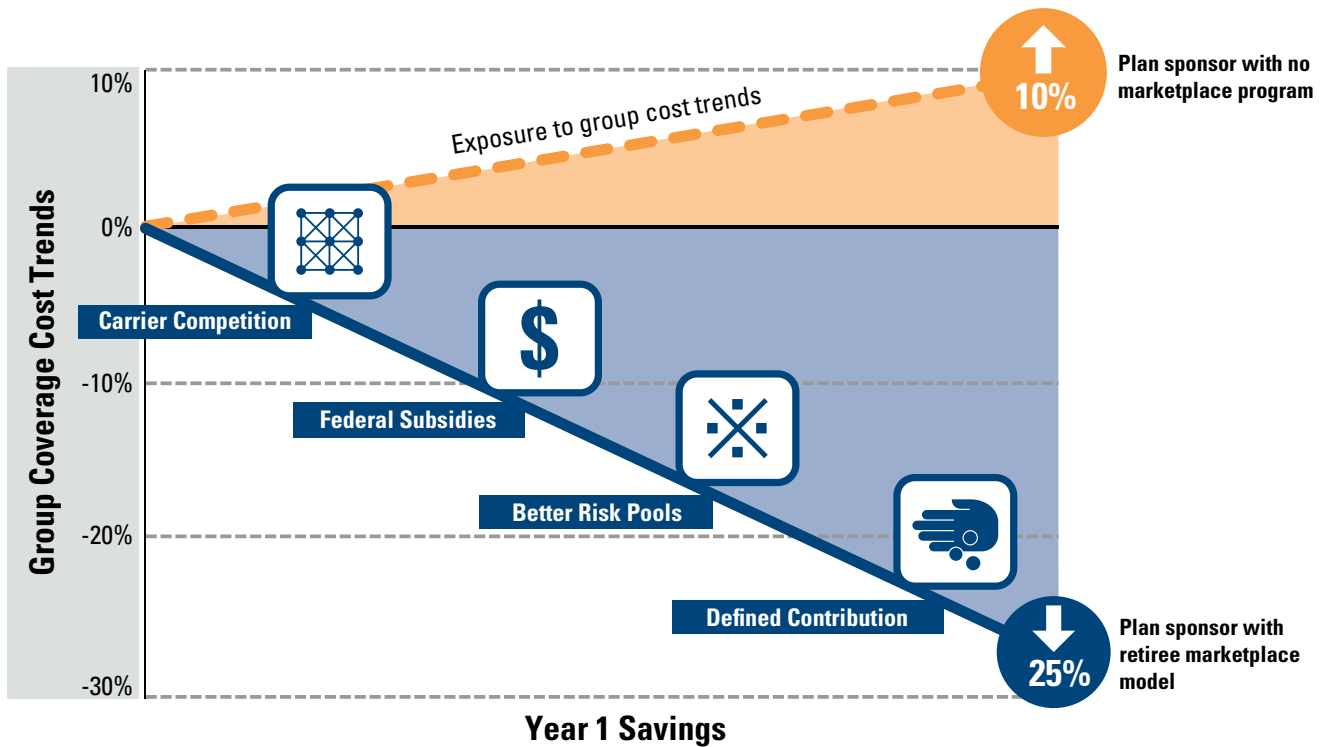
Transitioning from a group plan to a private Medicare marketplace triggers a special enrollment period for retirees, allowing them to purchase a guaranteed-issue individual plan. A retiree shopping on a private Medicare marketplace will typically have access to dozens of health plan options from an array of Medicare Advantage, me-

digap and Part D carriers. The marketplace supports the retirees with communications, online tools and one-on-one guidance from licensed, objective benefit advisors who help them understand their options and enroll them in a plan that best fits their medical and financial needs.

Plan sponsors can subsidize their retirees' purchase of individual Medicare plans by contributing to a *health reimbursement arrangement (HRA)*—a notional, tax-advantaged account used to reimburse eligible beneficiaries for qualified medical expenses. Plan sponsors can set the parameters of an HRA to allow retirees to use their funding

FIGURE 2

How a Transition to the Individual Medicare Marketplace Drives Savings



to defray the cost of Medicare premiums and, if the sponsor chooses, eligible out-of-pocket medical costs.

Reducing the Administrative Burden

Sponsors that move to a private Medicare marketplace are relieved of the administrative burden of running a health plan—Plans are offered, open enrollment is completed and HRAs are administered, all through the marketplace. The point of contact for lifetime help is the Medicare marketplace (Figure 3). Ending the three-to-five-year cycle of exhausting procurements, followed by implementations, then holding multiple vendors accountable, was a relief for me personally. Relinquishing the responsibility of administering a retiree health plan allows sponsors to redeploy resources to other pressing matters within their organization.

The Retiree Experience

I was a pretty hands-on health care director at OPERS. Retirees knew me in part because I had worked for the union that represented them during their working career—the American Federation of State County and Municipal Employees (AFSCME). For the most part, they were fairly

candid with me and would let me know when they were not happy.

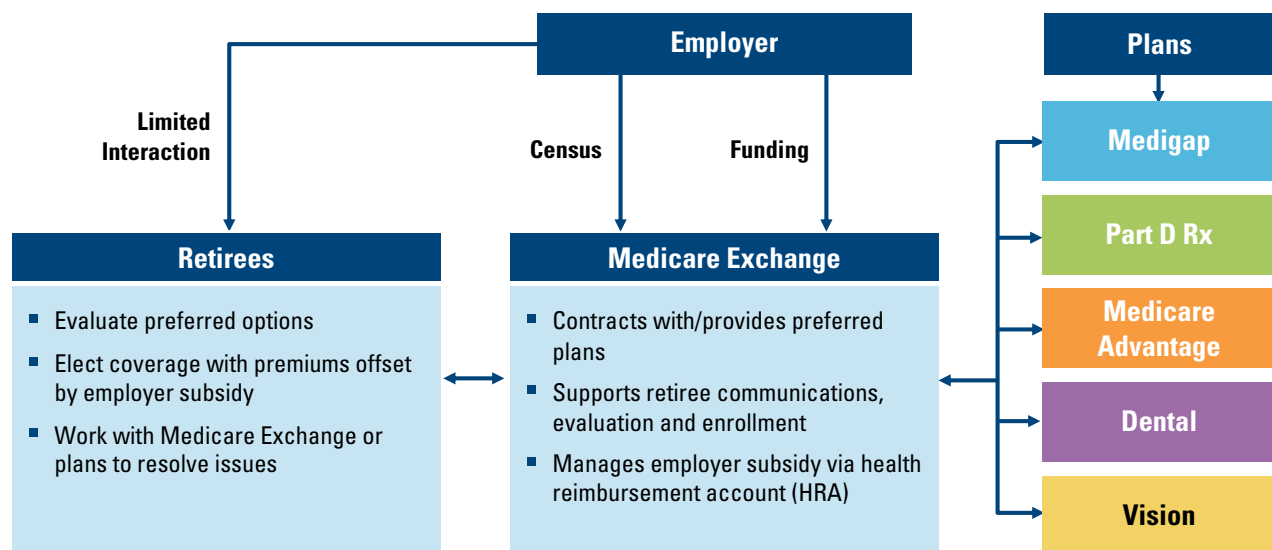
While they were nervous about the change at first, in the end they loved the solution. Not long before the COVID-19 pandemic hit, I was in a grocery store where a woman came up to me and said, “Hi, Marianne, you were our health care director, and I just want to thank you for letting us enroll in individual Medicare plans. I have better coverage, and it is so much cheaper.” This kind of encounter has repeated itself several times. Of all the work I have done in my career, I am most proud of leading the transition to the Medicare marketplace for Ohio’s retirees.

Retirees appreciate that their medigap plan design will never change. Their doctors will always be on the plan. When they were part of the group plan, every year the network could get narrower and the richness of their plan kept declining. Narrowing networks, raising premiums and decreasing benefits were the only tools we had to keep costs down, and I often wondered where it would end.

A good Medicare marketplace provides white-glove service to retirees. Licensed and credentialed, agnostic benefit advisors (BAs) are trained in senior sensitivity. Retirees can use online tools to enroll but most choose the

FIGURE 3

Medicare Exchange Mechanics



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personal support of a BA. The BA helps determine what type of plan is best for the retiree based on their budget, travel plans, doctors, prescriptions and health status. The BA enrolls the retiree (and spouse) over the phone and helps with any future carrier, provider or Medicare issues for the rest of the retiree's life.

As retirees' needs change, for example, if they start a new prescription, their BA will help them find and enroll in a new plan that meets their needs during the next enrollment period. In surveys among retirees enrolled in Willis Towers Watson exchanges, 98% felt they chose the plan that was best for them.

Is There a Downside to Moving to a Medicare Marketplace?

While savings and choice are very compelling reasons to move to a Medicare exchange, there are a few challenges worth mentioning. Retirees can be resistant to change. They are used to having their health care plans chosen for them, so it does take some effort on their part to learn about their options. Fortunately, they are given personal support every step of the way with Medicare exchanges. As mentioned above, once enrolled, most retirees find they made the best choice, and they like their plan. But this is big change, and retirees at first may be a bit resistant. Good communications and working closely with retiree associations and unions before the change will go a long way in preparing retirees.

The other significant change can be the reimbursement process. In the past, premiums for retiree health care coverage were typically deducted from pension checks. Under an exchange model, nothing is deducted from the pension check. Instead, retirees use an HRA to get reimbursed (tax-free) for their premium and out-of-pocket medical expenses. On the premium side, if the retiree uses the auto reimbursement method, it is a fairly smooth process. With this method, retirees pay their premiums to their insurance carrier, and once it is reported as paid (by the carrier to the exchange), the money is direct-deposited into their bank accounts, generally within a week of having made the payment. Getting used to this new way of paying for health care is a challenge to some. Providing ample education to retirees about the process along with telephonic support will help them adjust faster.

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Affordable Retiree Health Care Is Needed Now, More Than Ever

The current pandemic has the economy reeling. State and local governments have already seen significant tax revenue reductions, multiemployer funds are experiencing severe declines in their health and welfare dollars, and many private businesses have experienced sharp revenue declines. With the financial implications of the pandemic, public and private organizations are looking for opportunities to save money like they never have before. Reducing OPEB liability will be even more important.

The market for retiree health coverage will evolve as sponsors continue to seek value in alternatives to traditional group coverage. Over the next 15 years, an average of 10,000 people in the United States will turn 65 each day. This influx of Baby Boomers, who are relatively young and healthy, should help keep individual Medicare plan premiums low and stable. The same cannot be said for private retiree group risk pools, where eligibility changes in the last three decades have led to fewer benefit-eligible employees entering the pools each year. While the presence of younger and healthier retirees might help a group plan, they are also the most likely to leave group plans for more affordable Individual Medicare plans. This could lead to a death spiral for a group plan.

Before the number of Americans with retiree health care coverage declines even more, employers and plan sponsors would do well to explore the Medicare marketplace. It is likely their retirees already have. 



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