Retiree Healthcare – Coverage Options to Consider

Eric Stanger, Retiree Healthcare Advocate
International Foundation of Employee Benefit Plans (IFEBP) Healthcare Management Conference

April 24 – 25, 2023

VIA BENEFITS® By WTW

Topics

- What's new – Inflation Reduction Act
- Early Retirees – Options for pre-Medicare retirees
- Medicare Retirees – Choices to Consider
  - Medicare Basics

Retiree healthcare is challenging

Experts say the average couple will need over $300,000 to cover health care costs in retirement*

Retirees need help managing this costly item

Today's employees will need help when they retire

* Fidelity https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs.

Inflation Reduction Act will save retirees $$

2023 – 2025

Pre-Medicare: Extends the ARPA-increased ACA marketplace subsidies (also called Premium Tax Credit applied at point of premium payment)

Medicare: reduces cost of insulin and adult vaccines

2024

Medicare: Eliminate 5% catastrophic coinsurance for Rx

2025

Medicare: Caps retiree prescription drug out-of-pocket expenses

Later

Allows Medicare to negotiate prices for a limited number of drugs and implements manufacturer rebates when price increases exceed a threshold to reduce drug cost

The Inflation Reduction Act will have significant positive impacts on early retirees

Extends enhanced ACA subsidies

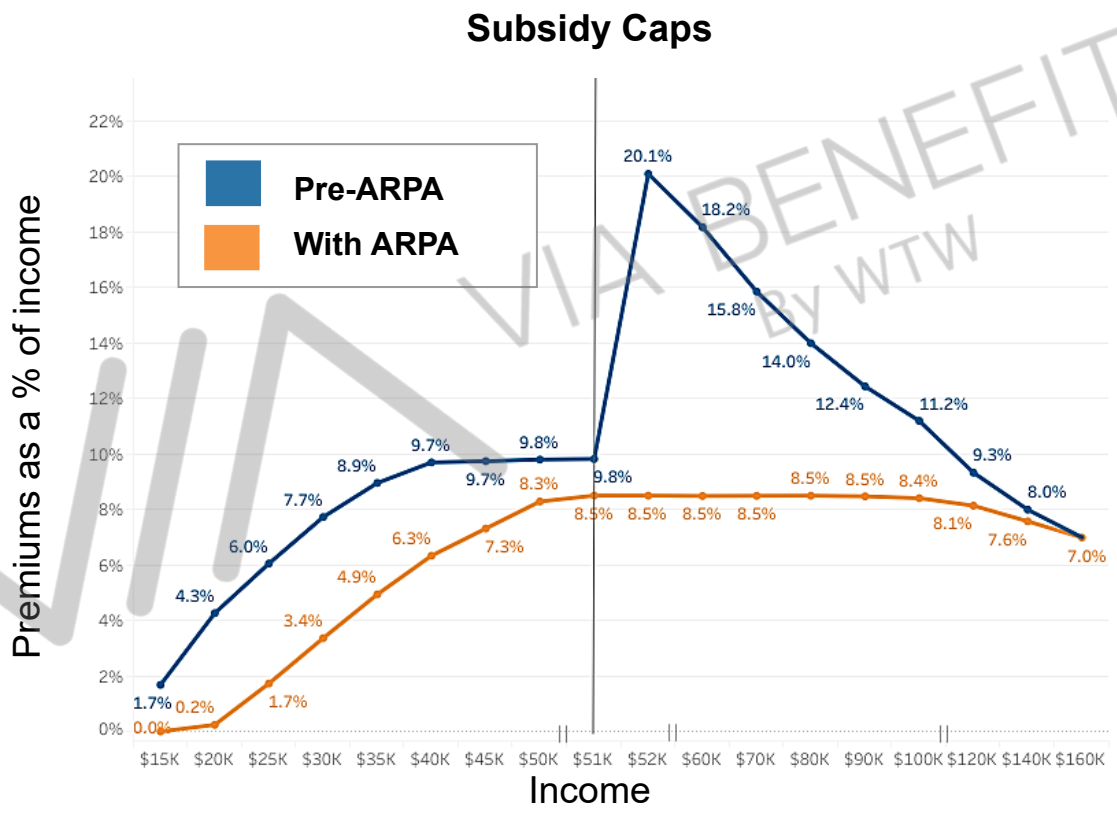
- Renews increased ACA subsidies from American Rescue Plan Act (ARPA) for three more years to 2025
- Enhances and extends eligibility for subsidies to all households, regardless of income
- Maintains a significant reduction in medical premium cost for early retirees in the individual pre-Medicare exchanges

The Inflation Reduction Act is opening up options

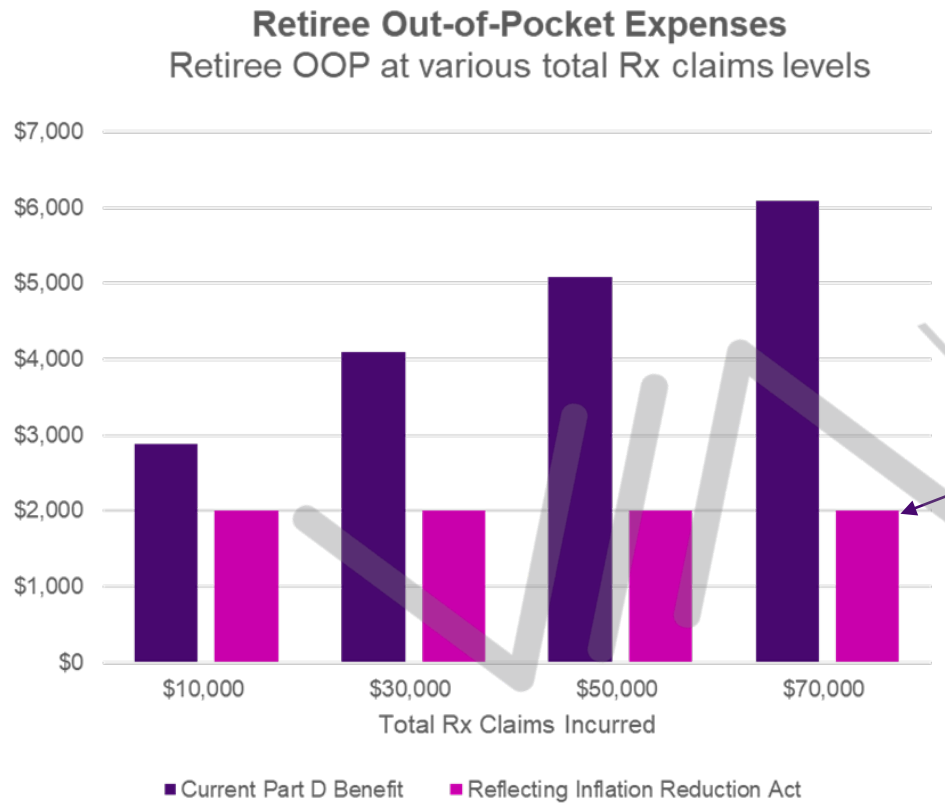
- The options of individual pre-Medicare plans is more attractive than ever with increased premium assistance
- Pre-Medicare retirees are the most expensive group to insure.
- Could retirees and the plan save money with an individual plan model?

The Inflation Reduction Act will preserve ARPA savings for early retirees who select individual plans

Expanded subsides for early retirees



The inflation Reduction Act will reduce out-of-pocket cost for Medicare retirees with significant prescription costs



$2,000 cap on retiree prescription drug out-of-pocket expenses (in effect 2025)

What do retirees want?

Goal	Current State
Choice of affordable and sustainable plans	Under the employer group plan model, retirees typically have access to very few, if any, differentiated plan choices
An opportunity to **save** money	Increasingly, retirees bear the financial burden of cost-shifting measures (e.g., subsidy caps, plan design) as plan sponsors attempt to limit their growing liabilities
Control over how their healthcare dollars are spent	Under the group plan model, employer subsidies are typically only for premium offset with no retiree flexibility over how dollars are spent
Trusted guidance choosing a plan	Group plans generally do not provide personalized education and support on plan choice, claims issues

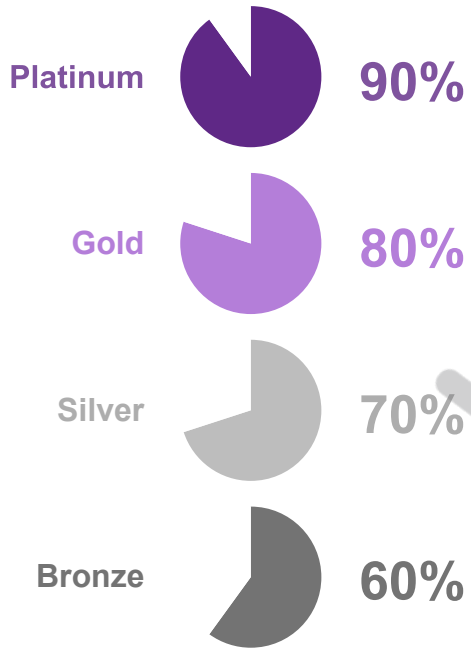
What do plan sponsors want?

Goal	Current State
Sustainable, competitive benefits	Generally, group plans are exposed to medical inflation, aging demographics and adverse selection
Reduced liability and cost while keeping promises	Reducing liabilities and costs in group plans typically means shifting cost to retirees who often can't afford the additional financial burden
De-risking retiree health spending	Group plans have large claim fluctuations, even when fully insured. Premium increases are hard on retirees
Simplified administration	Group plans are administratively complex and require a significant amount of oversight to administer

Is a Pre-Medicare exchange a viable option for your early retirees?

Characteristics of ACA individual exchange plans

Plan Values



Protection and Benefits

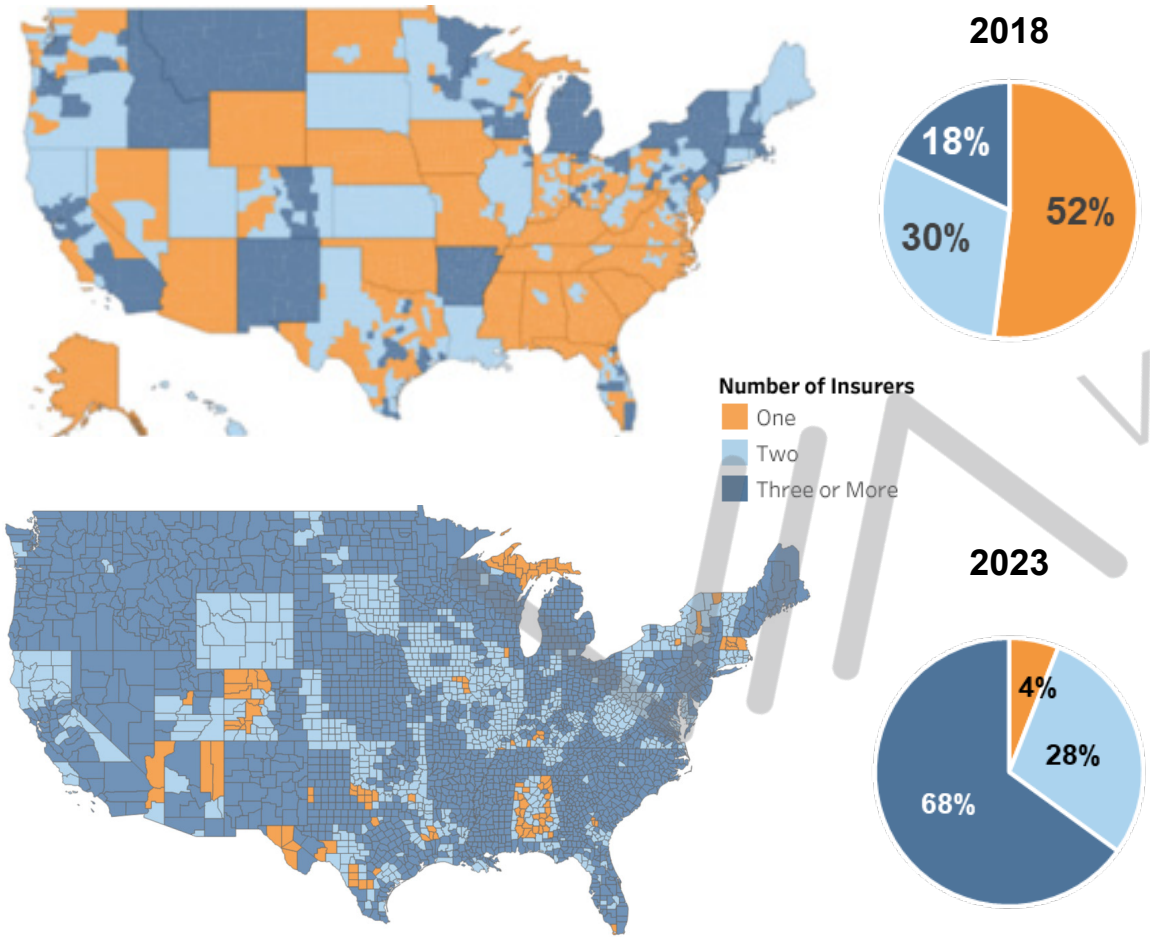
- Guaranteed issue, renewable
- No preexisting condition exclusions
- Cover all essential health benefits
- No lifetime or annual limits
- Preventive care covered at 100%
- HRA compatible
- Federal premium tax credits (direct subsidy towards premium) are an option

Rating Requirements

- Single risk pool rating*
- Rates vary by four factors
  1. Age (3:1 rating band for ages 64:21)**
  2. Geography
  3. Family size
  4. Tobacco use

*ACA plan rates are set based on claim experience within a single risk pool including both on-exchange and off-exchange plans within a region.
**States may accept the federal 3:1 curve or adopt an alternative (e.g., community rating); most states use the standard federal age curve.

The ACA now offers meaningful choice and premium stability



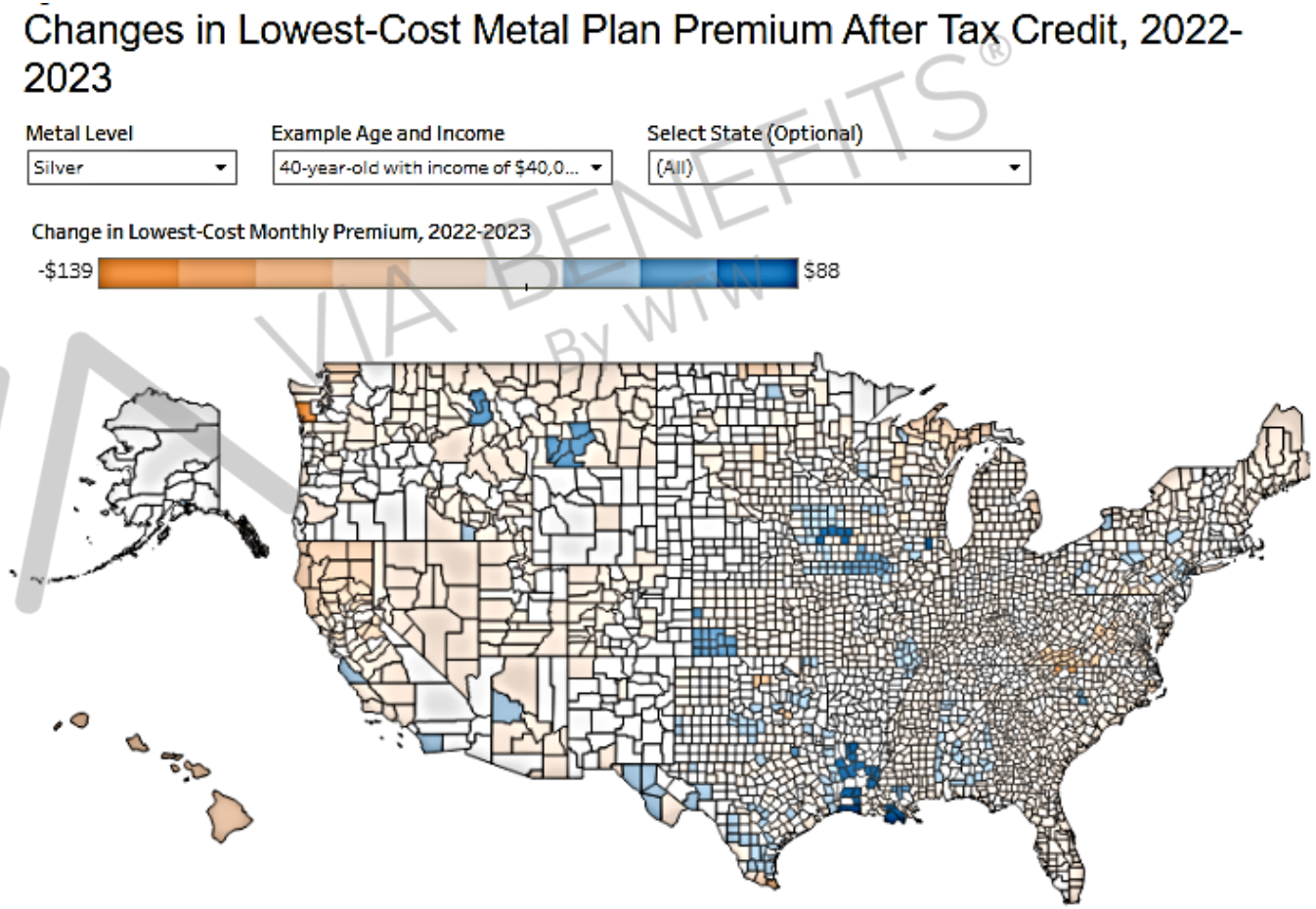
From 2018 to 2023, the percentage of counties with three or more carriers increased from 18% to 65%

In 2023, the average premium increased 4% across all individual plans nationally.

Sources: Kaiser Family Foundation, 2018; Vericred, 2023.

The ACA now offers premium stability in many states

Rate changes from 2022 to 2023



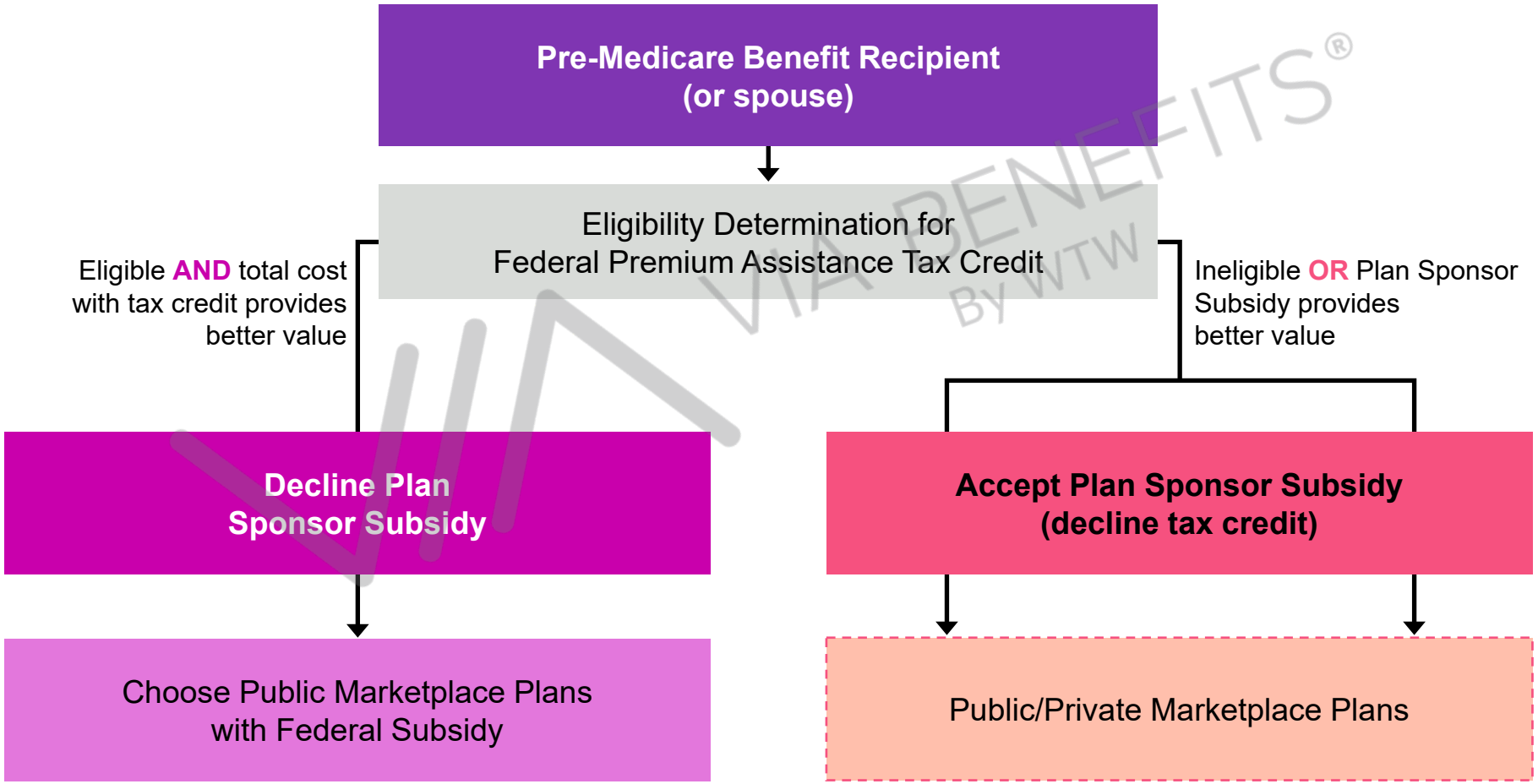
Source: Kaiser Family Foundation

Many supplement their coverage with ancillary plans

Product Type	Plan Design
Accident Companion	• Reimbursement for doctor visits, hospital confinement, emergency room and more
Balance Plan	• Reimbursement for accidents, critical illnesses, hospitalization, income replacement
Fixed Indemnity	• Reimbursement for accidents, critical illness, hospitalization, doctor visits, surgery, and more . . .

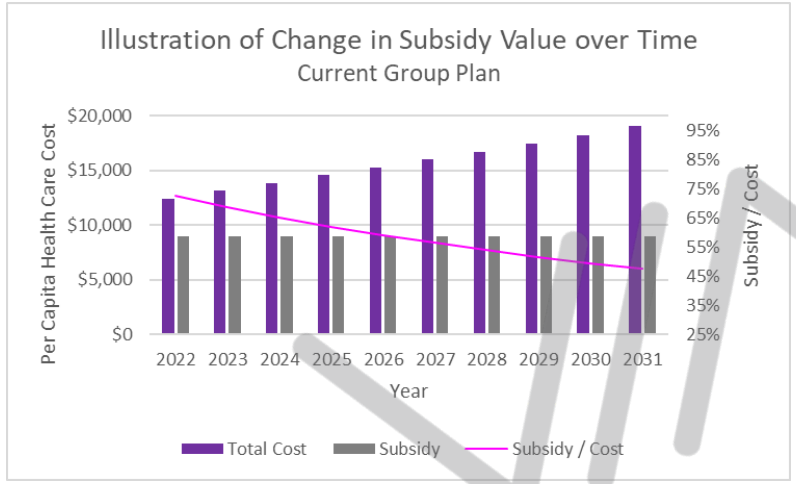
Ancillary plans can be a lump sum or fixed benefit amounts

HRA vs. premium tax credit

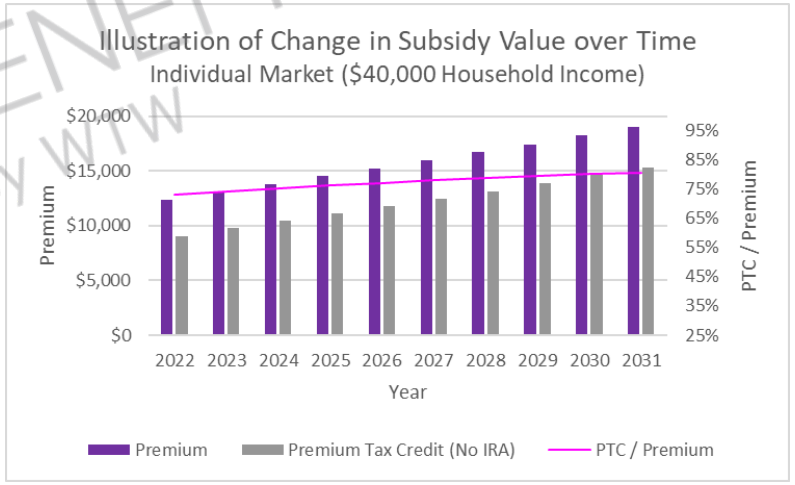


Premium tax credits help Pre-Medicare retirees effectively manage their budgets

Capped plan:
Decreasing purchasing power of employer subsidy relative to total cost



Marketplace:
Premium Tax Credits trend more closely to underlying plan costs, increasing purchasing power



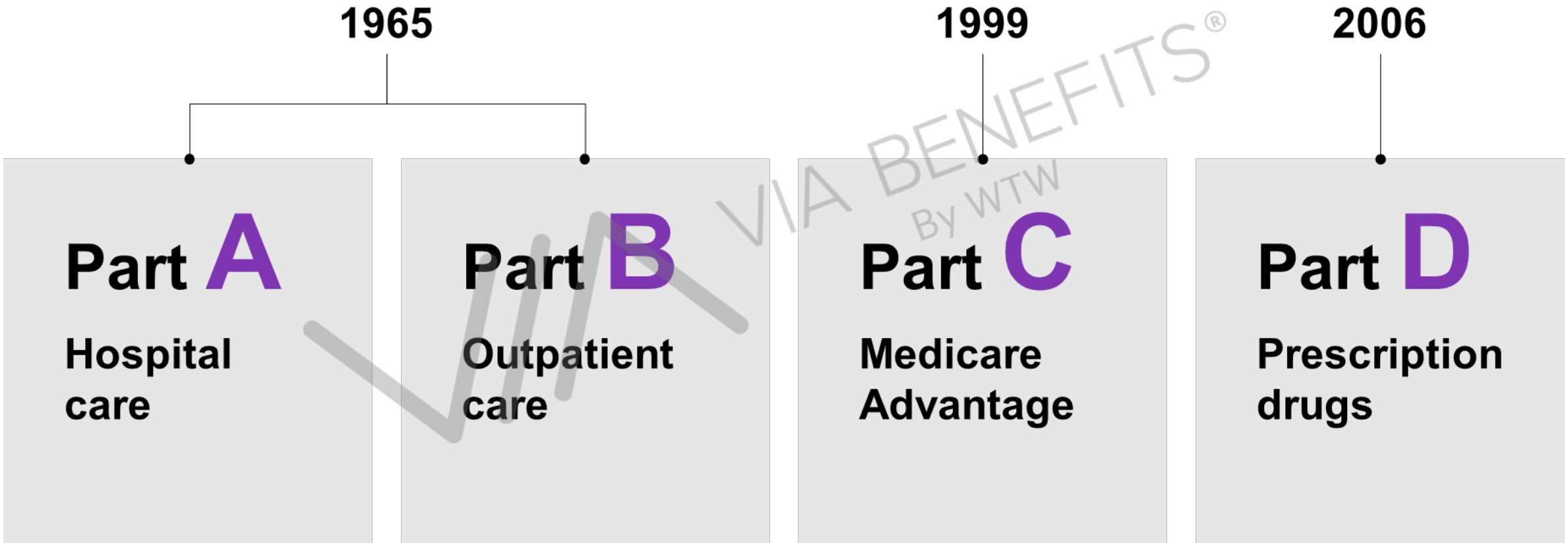
ACA subsidies reduce the cost gap over time for qualifying retirees

The experience at retirement: Pre-Medicare

	Employer Group Pre-65 Retiree Plan	Individual ACA Plans
Options	• Limited options designed by former employer	• A variety of options designed by competing insurers • Varies by state
Risk Pool	• Possibly blended with actives • Often pre-65 retirees only with deteriorating risk	• Blended across large carrier books of business 14 million
Premium Subsidies	• Often capped at a fixed dollar per year, if provided at all	• Federal subsidies implicit based on age and explicit based on income • Or can use employer subsidy
Attributes	• Capped subsidy deteriorates as costs rise leading to increased waivers, anti-selection, and retiree demand for choice	• Universal guarantee issue • Choice in all geographies • Millions of enrollees

Medicare retirees – choices to consider

Basics of Medicare



“Original” Medicare

Part A

Hospital inpatient

- Inpatient hospital care, short-term skilled nursing facility care, some hospice care, some home health
- Premium-free, if worked at least 10 years (40 quarters); otherwise pay premium
- Typically covers 80% of hospital costs
- Has daily hospital deductibles

Part B

Medical Outpatient

- Doctor visits, outpatient care, home healthcare, durable medical equipment, medical services, some preventive care
- Enroll when you turn age 65 if you are no longer covered by employer healthcare
- Pay monthly premium based on income.
- Typically pays 80% of costs has an annual deductible

Medicare Supplement Plans (Medigap)

- Fill the “gaps” in Medicare Parts A and B
- Sold by private insurers
- Standardized plan designs (A – N)
- Plans C & F not available to new Medicare entrants as of January 2020

Medigap Benefits Chart	Plan A	Plan B	Plan C	Plan D	Plan F	Plan G	Plan K	Plan L	Plan M	Plan N
Medicare Part A Coinsurance & Hospital Costs	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Medicare Part B Coinsurance or Copayment	100%	100%	100%	100%	100%	100%	50%	75%	100%	100%
Blood (First 3 Pints)	100%	100%	100%	100%	100%	100%	50%	75%	100%	100%
Part A Hospice Care Coinsurance or Copayment	100%	100%	100%	100%	100%	100%	50%	75%	100%	100%
Skilled Nursing Facility Coninsurance	X	X	100%	100%	100%	100%	50%	75%	100%	100%
Medicare Part A Deductible	X	100%	100%	100%	100%	100%	50%	75%	50%	100%
Medicare Part B Deductible	X	X	100%	X	100%	X	X	X	X	X
Medicare Part B Excess Charges	X	X	X	X	100%	100%	X	X	X	X
Foreign Travel Emergency	X	X	80%	80%	80%	80%	X	X	80%	80%

Medicare Part C – Medicare Advantage

Part C

Medicare Advantage

Stands in place of original Medicare

- Medicare health plans offered by private companies
- Must provide coverage that meets or exceeds Part A and Part B services to members
- Most individual plans include Part D prescription drug services in individual plans

Added benefits with many Medicare Advantage plans

- Routine chiropractic
- Free gym memberships (Silver Sneakers)
- Coverage of OTCs
- Transportation
- Hearing care coverage
- Personal Emergency Response System
- Fall prevention kits
- Enhanced telemedicine
- Dental
- Vision
- Part B premium give back

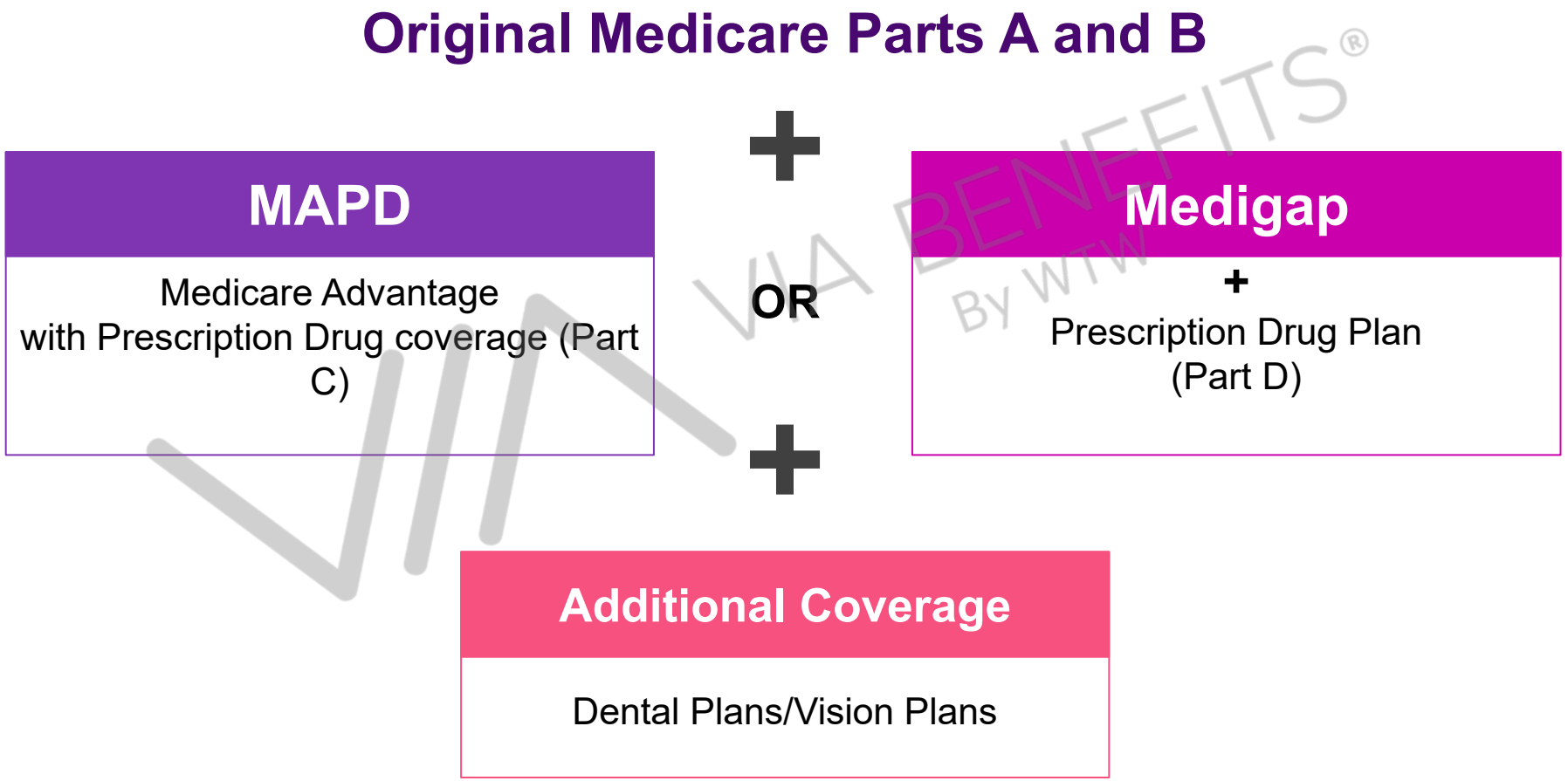
Medicare Part D – prescription drugs

Part D

Prescription drugs

- Offered by private companies
- Formularies vary by carrier — important to choose wisely to save money
- Drugs at retail and mail order pharmacies
- Pay monthly premium
- May delay enrollment if active employee or covered by active employee (spouse) on employer plan with prescription drug coverage

Most Medicare beneficiaries supplement Original Medicare



Retiree group plan sponsors have choices

Group Medicare Supplement

- Just wraps around original Medicare
  - Provides the least amount of savings

Group Medicare Advantage Plan

- Draws down federal dollars and reduces costs
- More highly managed which also reduces costs

Individual Medicare Marketplace (a.k.a. exchange)

- Medicare exchange company enrolls retirees into individual plans, providing choice, affordability, and reduces administrative burden

Group Medicare Supplement plans

Oldest method sometimes called Medifil plans

- Medicare pays primary; group plan fills in what Medicare doesn't cover

These plans typically are not very well managed and tend to be the costliest for an employer to provide

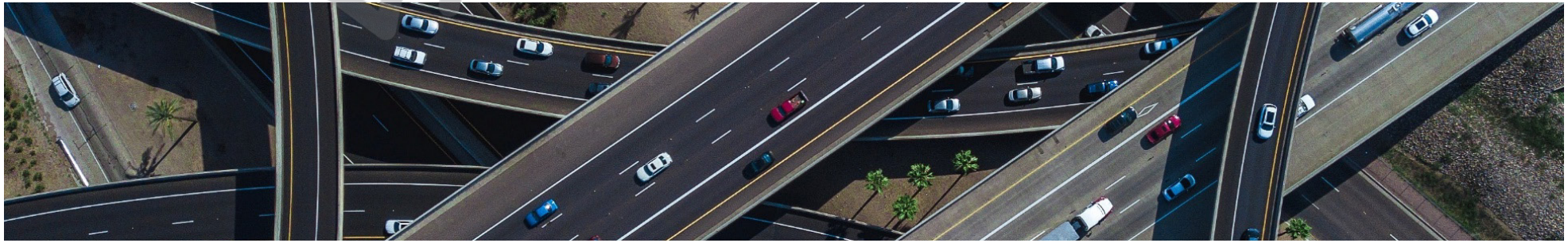
They also do not draw down federal subsidies that are available

For that reason, many employers have moved away from this model because they are costly

Group Medicare Advantage plans

Medicare Modernization Act created MA plans

- Produce greater savings as they draw down federal subsidies
- Can be fully-insured or self-insured
- Care is more tightly managed
- Networks but can be passive PPO
- Drug can be separate or a part of the MA plan
- Often more expensive than individual group MA plans



Retiree drug plan options RDS

Retiree Drug Subsidy

- Created 2003

Under the RDS program, the CMS reimburses plan sponsors the equivalent of 28% of all allowable retiree drug expenses that fall between the federally designated cost threshold amount and the cost limit after actual cost adjustments are removed

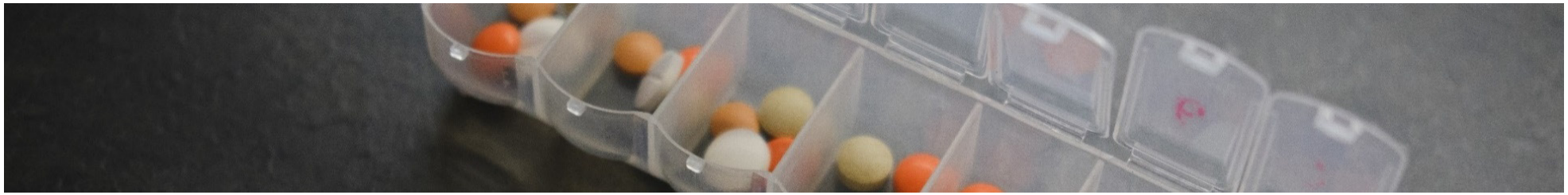
Does not reduce drug costs as much as an EGWP does

Retiree drug plan options EGWP

Employer Group Waiver Plan with a Wrap

- Created 2003
- EGWPs can either be self-insured or be fully-insured

GASB/FASB standards allow employers to include EGWP savings in OPEB valuation	Catastrophic subsidy is available	Pharma manufacturer brand drug discount in donut hole	If you're fully insured, you are guaranteed fixed annual rates	May provide twice as much savings as Retiree Drug Subsidy (RDS)

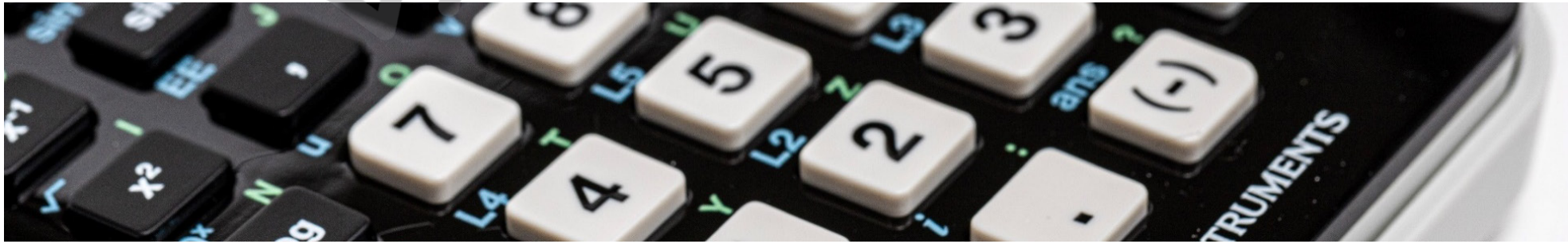


The Inflation Reduction Act will impact retiree Rx costs

Impact

- 30% reduction in Retiree OOP costs
- Eliminates 5% retiree cost-sharing during catastrophic phase in **2024**
  - Would limit annual retiree spend to approximately $3,200 to $3,500
- Caps retiree out-of-pocket cost at $2,000 beginning in **2025**
- **Limits** future Part D plan premium **increases to 6%**
- **Caps insulin** at $35 an Rx and makes **vaccines free**.

Significant reduction in Medicare retiree prescription drug cost



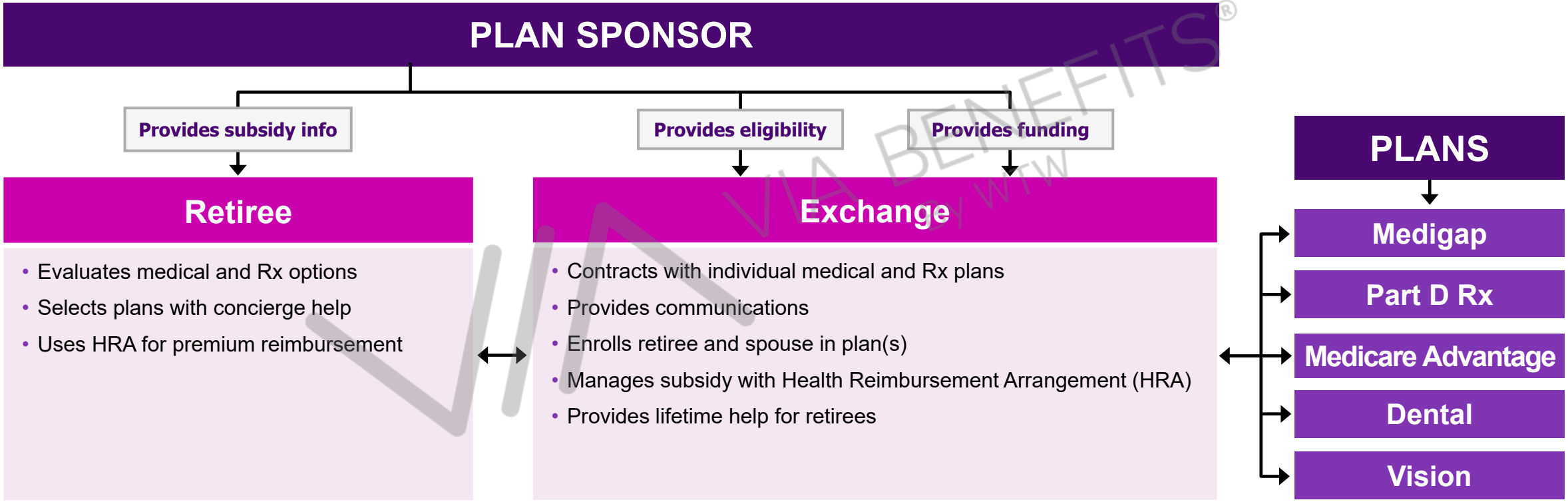
Individual Medicare marketplace (Exchange)

Exchange company enrolls retirees in individual plans (medical, drug, vision, dental, hearing)

- Unbiased licensed benefit advisors
- White glove service to seniors

Employer provides a tax-free subsidy to retiree	Exchange company manages reimbursement to retiree for premiums and out-of-pocket medical/Rx expenses	Reduces OPEB liability significantly	Typically saves plan sponsor 10 to 25% in first year

Medicare Exchange mechanics



Continuum of savings

Traditional Medicare Supplement Group Plan

- Medical plan covers costs not covered by Medicare
- Most costly and highest risk

Group Medicare Advantage

- Saves over Medicare supplement
- Leverages government subsidies
- Care is tightly managed
- Premium is experience-rated—Impacted by claims
- Still high trend

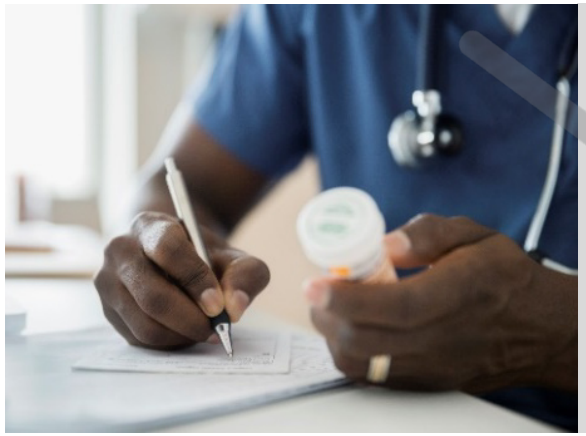
Individual Medicare Exchange

- Typically has significant cost savings for plan sponsor and retirees
- Choice of carriers and coverage levels
- Large claim risk gone
- Administration greatly reduced

Individual Medicare plans are very affordable

Average **Medigap Plan G in Columbus OH is $182/month**
(w/100% Medical coverage after $226 deductible, male age 73)

Average Rx plan is $43/month

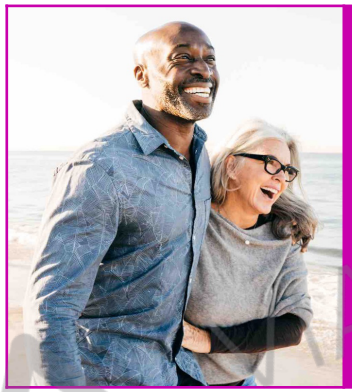


Average **MAPD** individual plan premium is **$18 a month**

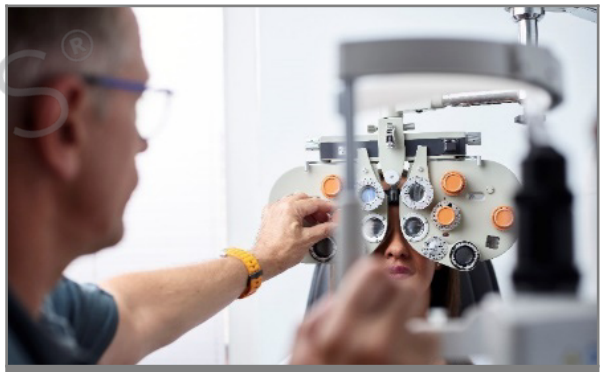
Nationally two-thirds of the MAPD plans have a **$0 a month** (21 in Columbus OH)

Why the Individual Medicare exchange is more affordable

Huge risk pools — ~45 million retirees are enrolled in individual Medicare plans

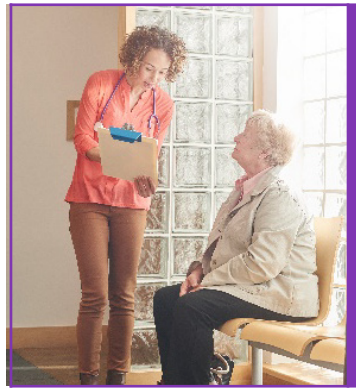


Guaranteed issue . . . No adverse selection issue

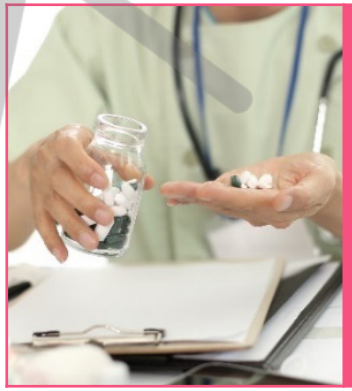


Carriers compete on value

- Standardized plans
- Low premiums rates



Best-in-market plans and providers



CMS/Pharmaceutical industry subsidies for ALL, not just plan sponsor

Impact on plan sponsors and retirees with a move from group to individual plans

Plan sponsor experience and responsibilities

Function	Group Plan	Marketplace
Carrier Management		
Carrier relationship	Plan Sponsor	Task goes away
Negotiations, RFPs	Plan Sponsor	Task goes away
Audits	Plan Sponsor	Task goes away
Plan design/coverage decisions	Plan Sponsor	Task goes away
Communications		
Manage annual open enrollment	Plan Sponsor	Task goes away
Develop/distribute annual communications	Plan Sponsor	Task goes away
New retirement packets	Plan Sponsor	**Joint task**

Retiree experience – group MAPD vs. exchange

Function	Group Health Care Plan	Exchange
Rates/Pricing		
Share in Savings	No	Yes
Rate Sustainability	Rate fluctuations and increases	Singe digit rate increases
Subsidy Flexibility	No—Premium subsidy only	Yes premiums, Med B premium or other
Carriers/Networks		
Carrier	One or two carrier options	Multiple options
Network	Single provider network	Multiple network options – or no network
Products		
Product	Medicare Advantage only	Multiple options
Enhanced Benefits	Yes—One set	Yes. A variety from different carriers
Can Change Plans	No	Yes
Pharmacy Benefits	One formulary	Multiple. Optional subsidy to cap costs

Key takeaways

- Health care options to plan sponsors are changing
- Plan sponsors should do their work and assess which option saves the most money for them and retirees
- New legislation is making individual Medicare Rx plans much more affordable; Unclear how this will impact group Medicare drug plans
- With new legislation extending richer subsidies and enrollment growth, the pre-Medicare marketplace continues to improve (competition and rate stability)