Welcome to

Inflation Reduction Act:

New opportunities for employers to improve the value of healthcare benefits for employees and retirees

We will begin the webcast in just a few minutes.

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The Inflation Reduction Act

Benefits Strategies for a Changing Landscape

Employer Webcast

October 20, 2022

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Today’s meeting objectives

- Understand the effect of inflation on retiree budgets and workforce retirement readiness
- Introduce the new Inflation Reduction Act and its impact on retiree medical benefits

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Today’s speakers

Kristin McKee,
FSA, MAAA

Chief Actuary, Pharmacy

Trevis Parson,
FSA, MAAA, FCA

Chief Actuary, Individual Marketplace

Frank Reagan,
FSA, MAAA, EA

Head, North American Retirement Actuarial Leadership

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Inflationary Environment and Retiree Medical Affordability

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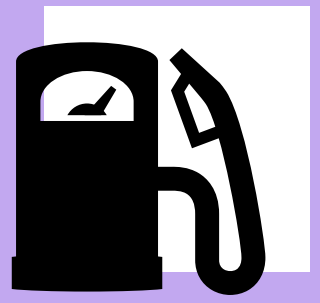
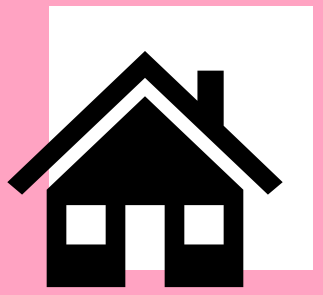
Relief is needed, as inflation is at its highest level in decades

The impact is real and meaningful for all U.S. households, and particularly for retirees



The price of gasoline has **doubled** in **18 months**

The price of groceries has **increased 10%*** in the last year



The cost of housing, by far the largest component of CPI, **is up 6%** compared to last year

* Data as of July 15, 2022.

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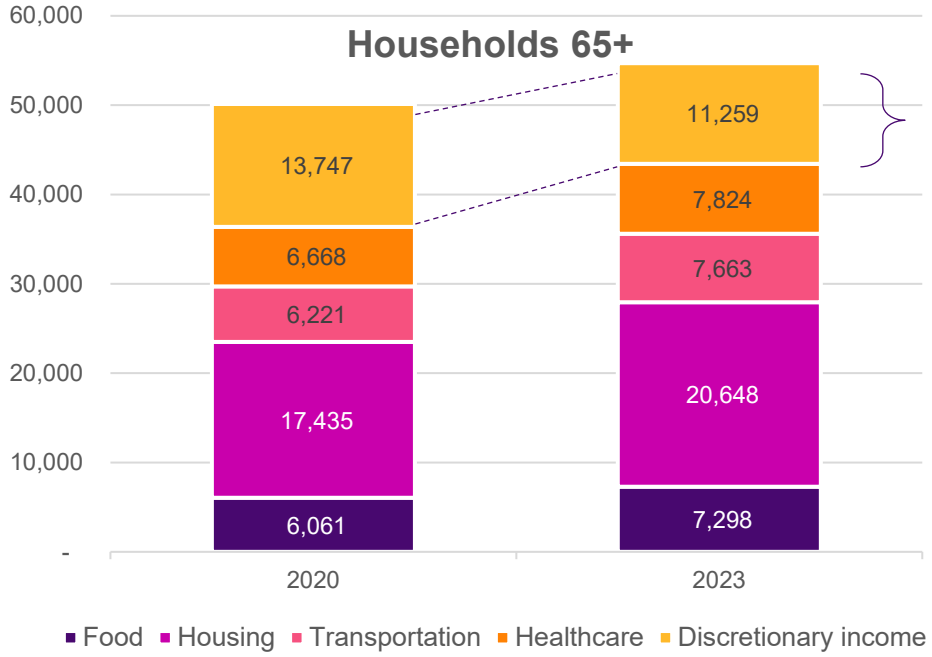
Retiree budgets are being squeezed

Inflation has had a major impact on retiree budgets and employee retirement readiness

- ✓ **65+ spending on healthcare 14% vs. 8% for all ages, making it 2nd largest expenditure for retirees**
- ✓ **Retiree discretionary spending to decrease as healthcare costs increase**



18% reduction in discretionary spending since 2020

Healthcare expenditures continue to accelerate

- Medicare Part B standard premiums **increased by 14.5%** in 2022, from $1,782 to $2,041 per year
- Annual healthcare costs **increase at an average rate of 5.2%**, twice as fast as other costs

Inflation is crowding out retirees' ability to afford health insurance forcing them to find better value

Source: Federal Bureau of Labor Statistics' data on consumer spending, 2013 – 2020 and projected to 2023

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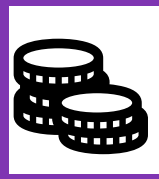
Plan sponsors are also under cost pressures

Current economic conditions are pressuring sponsors to find increased value from their benefit plans

Year-to-Date S&P Returns: ↓15.5% (through 8/31/2022)[1]

Gross Domestic Product (GDP) fell 1.6% in Q1 and 0.6% in Q2 of 2022[2]



Historically low unemployment rate (3.7%)[3] is driving up hiring costs and causing supply/demand issues

Federal Reserve interest rate hikes are increasing the cost of borrowing for investment and expansion

[1] Source: Wall Street Journal
[2] Source: Bureau of Economic Analysis
[3] Source: Federal Bureau of Labor Statistics

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The Inflation Reduction Act (IRA) will have far-reaching impacts for retirees

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Inflation Reduction Act (IRA)

Key retiree medical and prescription drug provisions

2023

2023 – 2025
Extends the ARPA-enhanced ACA marketplace subsidies

2023
Inflation rebates
Insulin copay cap
Adult Vaccines

2024

Eliminate 5% catastrophic coinsurance

2025

Caps retiree prescription drug out-of-pocket expenses

Later

Allows Medicare to negotiate prices for a limited number of drugs

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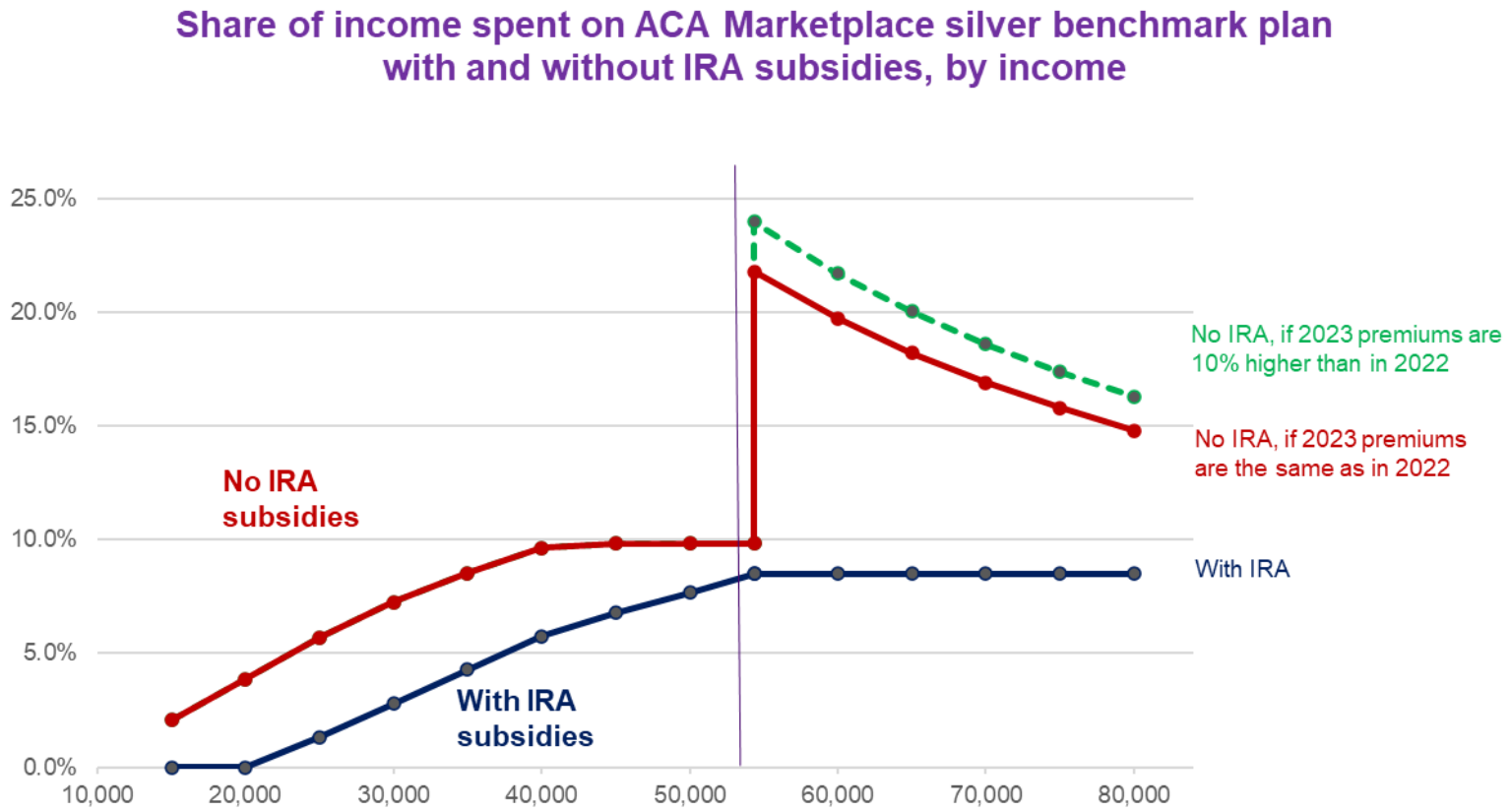
Reduced premium costs for many early retirees

- Renews the ACA subsidies provided by the American Rescue Plan Act (ARPA) for three more years (2023 – 2025)
- Enhances and extends eligibility for subsidies to all households, regardless of income
- **Many retirees leave employer plans due to defined dollar caps**
- **The IRA expands premium tax credits which are NOT CAPPED and inflate MORE than health care trend**



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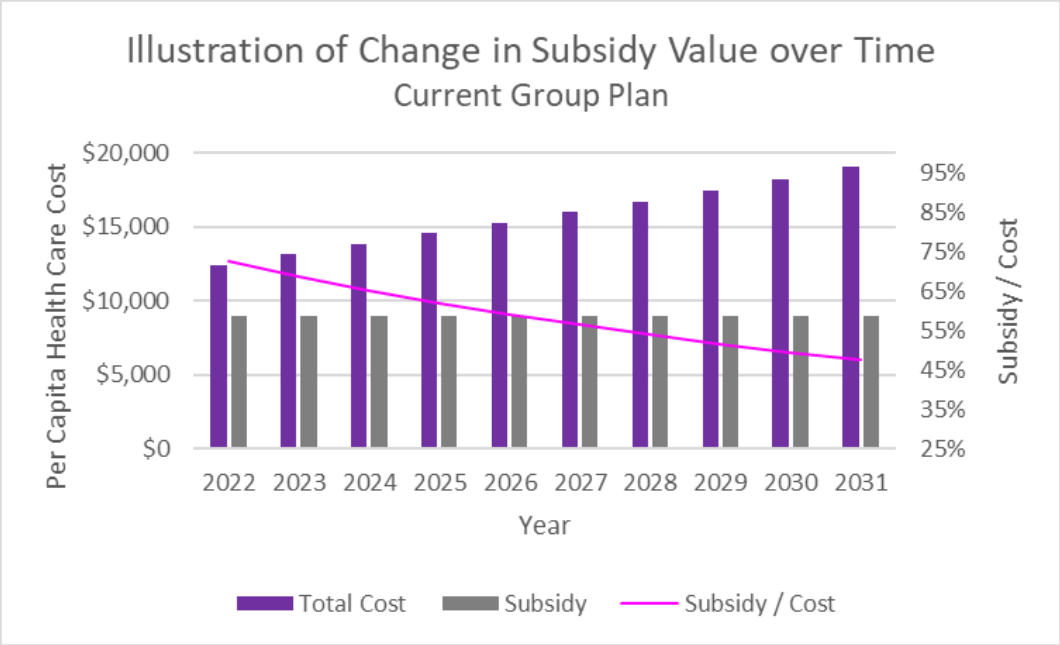
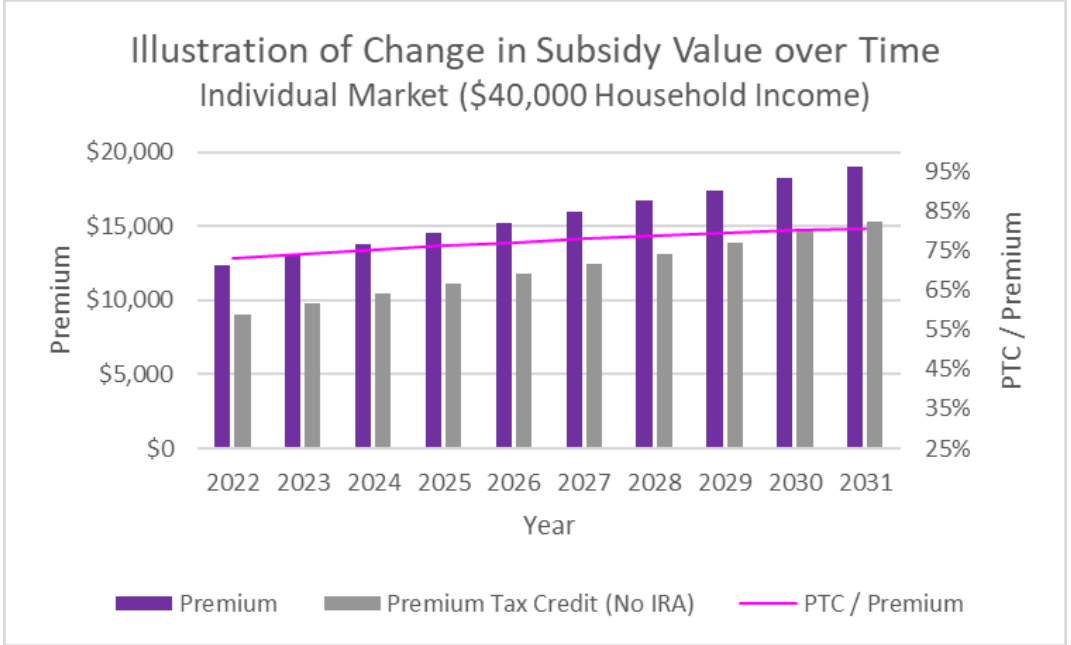
Reduced premium costs for many early retirees

Defined dollar caps quickly deteriorate in value

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



Individual Market Premium Tax Credits (PTCs):
PTCs trend more closely to underlying plan costs, increasing purchasing power



PTCs are likely to inflate relative to premiums…the exact opposite of many employer subsidy structures

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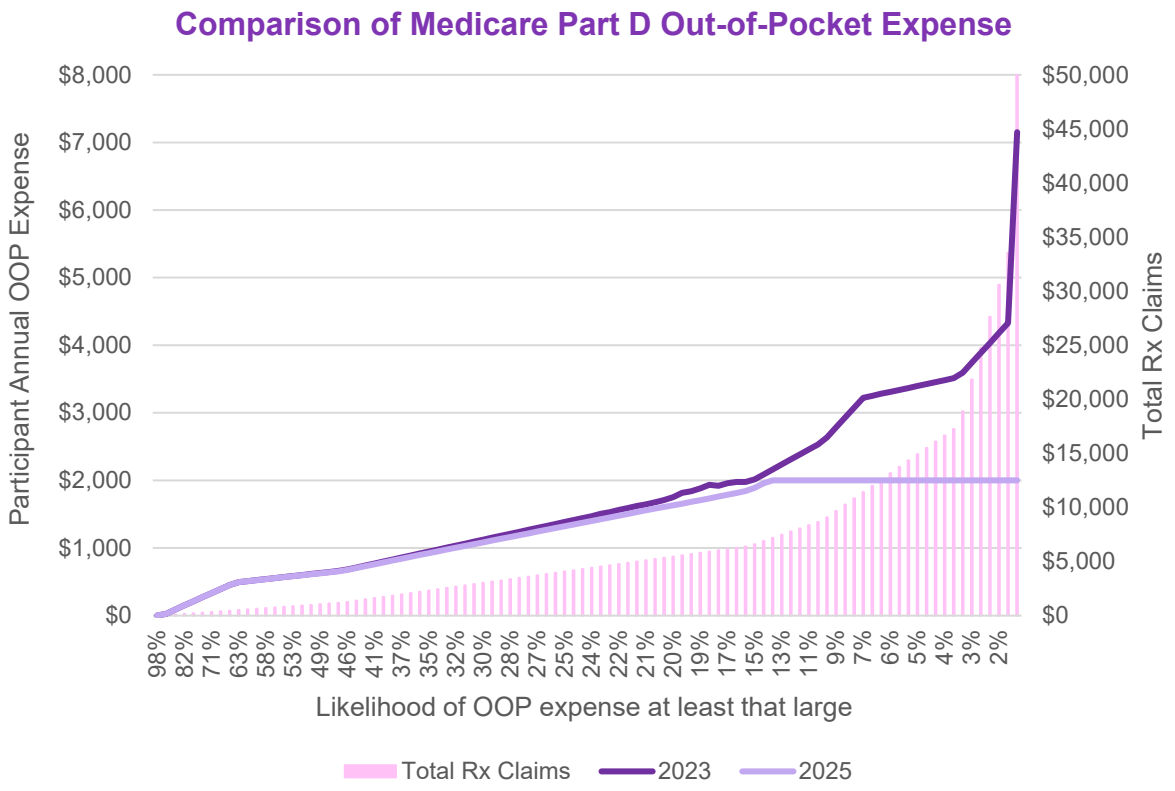
Estimated Part D Retiree OOP Rx costs (current dollars)

IRA significantly reduces costs for the top 20% of prescription drug users



- For top Rx users, retiree out-of-pocket Rx expenses will likely fall $1,500 – $2,000 per year
- Across all users, retiree out-of-pocket Rx expenses will likely fall $250 – $300 per year
- Since part D Plan costs are financed completely by CMS and participant premiums, the benefit improvement must be split between these two
- Currently, Part D Plan costs are split 25.5% (participant premium) and 74.5% (CMS)
- CMS' share likely needs to increase to finance the entire benefit improvement and/or plans need to improve cost management to keep premium increases under mandated level

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Key prescription drug provisions — 2023

- Insulin copay cap
  - **Insulin coverage and cost-sharing for Medicare beneficiaries:** In general, Medicare beneficiaries' cost-sharing for insulin coverage will be limited to the lesser of $35 per month or 25% of the lowest cost.
    - The $35 limitation takes effect in 2023; the 25% limitation will take effect in 2026
- Adult vaccines
  - Eliminates cost sharing for adult vaccines covered under Medicare Part D

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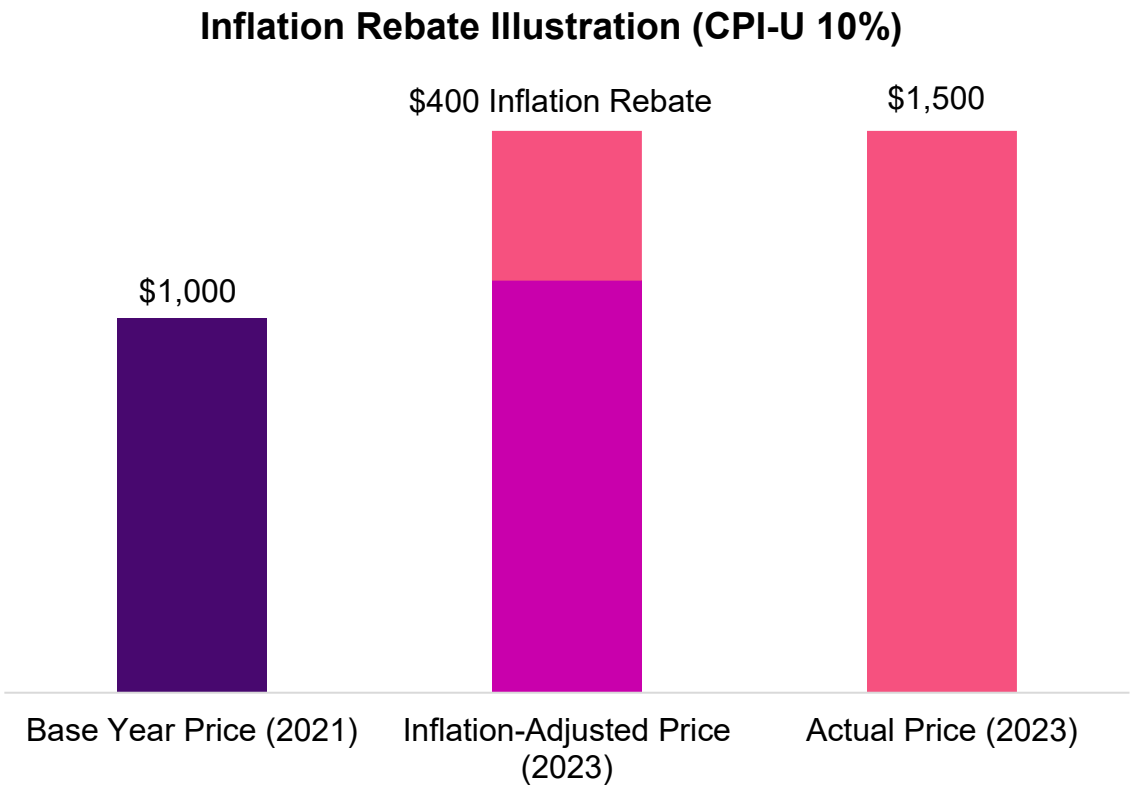
Key prescription drug provisions — 2023 (cont.)

Inflation rebates

- **Required rebates if the drug prices rise faster than inflation:** Manufacturers of drugs with prices that increase more than the rate of inflation will be required to pay rebates to the federal government, beginning in 2023. Applies to:
  - Single-source drugs and biologicals covered under Medicare Part B
  - All covered drugs under Medicare Part D except those where average annual cost is <$100



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Prescription drug price negotiation

Limited Drug Price Negotiation for Medicare

- The Secretary of Health and Human Services (HHS) will establish a Drug Price Negotiation Program to negotiate the price of certain prescription drugs for Medicare beneficiaries. Under the program:
  - High-cost single-source drugs and biologics without generic or biosimilar equivalents that have been approved by the FDA for at least seven years (eleven years for biologics) may be selected for negotiation
  - The Secretary will rank eligible prescription drugs according to the total expenditures for the drugs under Medicare Parts B and D, select drugs for price negotiation and enter into agreements with manufacturers
  - Manufacturers of selected drugs will pay an excise tax of up 95% of the drug's sales if they fail to negotiate
  - When fully implemented, negotiated prices will be available in Medicare plans – PDPs, MedicareAdvantage (MA) plans, MedicareAdvantage prescription drug (MA-PD) plans and Medicare Part B

Implementation

- Initially, ten Medicare Part D drugs will be selected for price negotiation, with negotiated prices applying in 2026.
  - In 2027, 15 Part D drugs will be subject to negotiation.
  - In 2028, 15 Part D or Part B drugs will be eligible
  - 20 Part D or Part B drugs will be eligible in 2029 and later years

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Prescription drug price negotiation timeline

Initial ten Part D drugs

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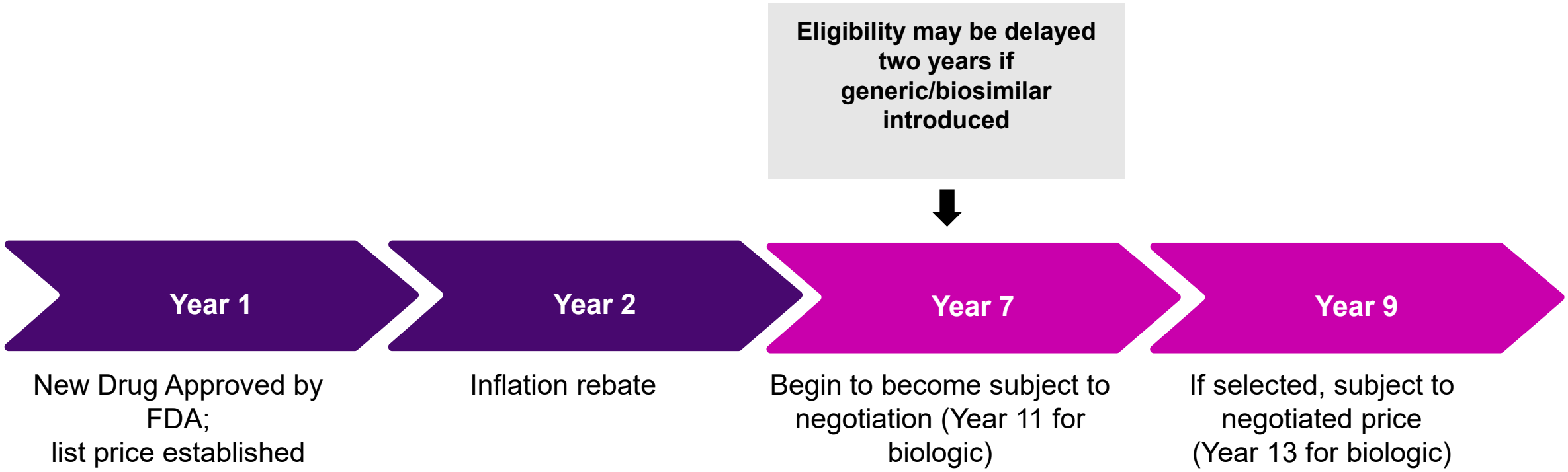
Prescription drug price negotiation timeline

New to market drug



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Accounting for the IRA

- Many key IRA provisions have delayed effective dates and large unknowns, yet sponsors must account for it @ FYE
- Auditors are still absorbing IRA and developing their positions, but like COVID, will want the effect of IRA considered and adjustments documented
- Accounting effect will vary depending on plan type and nature of employer's subsidy commitment
  - e.g., Catastrophic Rx benefits will likely need specific consideration
- Under US GAAP, plan changes due to law changes generally accounted for as a gain/loss rather than a prior service cost
  - Temporary deviations from substantive plan (such as deciding to cushion blow of big retiree contribution increase) gets immediately expensed

Assumption	Post IRA Considerations
Claims Cost	• IRA is not expected to have a direct impact on claims costs for any upcoming measurements

Trend	• Potential increase in costs for EGWP and Group MAPD in 2025:
	  • Change in CMS funding, potential benefit updates to match Part D value, potential cost shifting from Medicare to group plan sponsors
	  • Ability of plans to manage new risk
	• 6% cap on Part D plan premium increases
	• May want to look at a range of potential outcomes for discussion purposes

Participation Rates	• Will more generous Part D plans drive retirees to self-select out of group plans to the individual market?
	  • Pre-65: Premium tax credit extension through 2025
	  • Post-65: Potentially better Rx coverage (e.g., $2,000 OOP limit)

Account Utilization	• Will potentially higher premiums impact HRA utilization? • If plan allows OOP reimbursements will those drop due to $2,000 IRA OOP cap? • Impact of 6% cap on premium growth and utilization

Consider what you would do if costs changed unexpectedly in 2025?
What has been employer's track record of managing costs?

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Next Steps

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Group retiree plan sponsorship has been on the decline for many years

Historically, employers were the only source of certain retiree health insurance

Prior to **Medicare Modernization Act of 2003**, no viable prescription drug coverage existed for post-65 retirees other than an employer's plan

Prior to the **Affordable Care Act of 2010**, few options existed for pre-65 retirees to find affordable coverage without underwriting or preexisting condition exclusions

The IRA continues the historical legislative trend of improving the value of individual marketplace solutions by both improving benefits and lowering cost. The IRA and the current economic environment present the right opportunity to reexamine your retiree health care strategy.

Does your group plan offer material incremental value above the individual market?

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