



Retiree Medical

Observations and Considerations

April 2023



Retiree Medical

Introductory questions



Do your participants value your retiree medical plan?



How did your retiree medical get where it is today?



Is your retiree medical plan optimizing value for your participants?

Inflation is squeezing retirees on fixed incomes

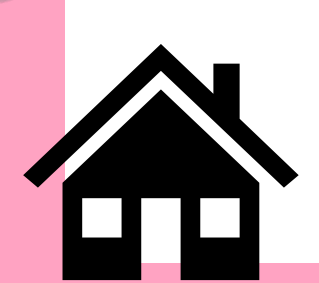
Retiree budgets have less room for health care spending



Overall consumer prices
increased 6.4%* in 2022



The price of groceries
has **increased 11.3%***
in the last year

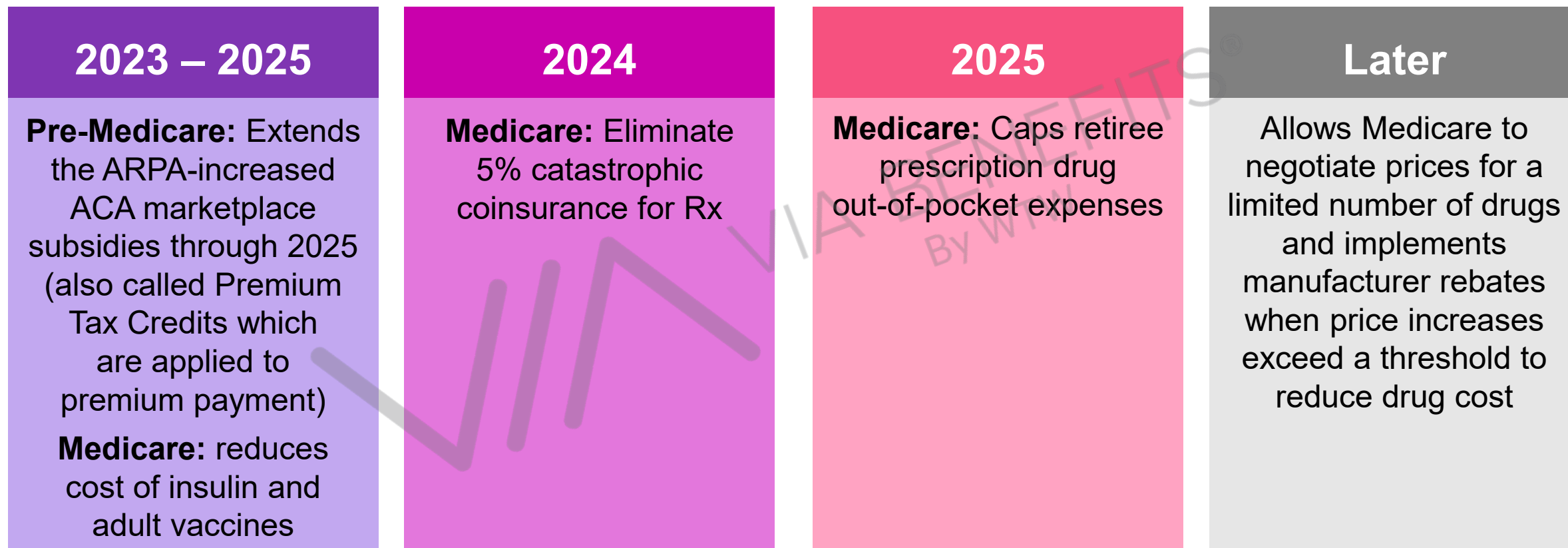


The cost of housing, by far
the largest component
of CPI, is **up 8.2%***
compared to last year

* Source: Federal Bureau of Labor Statistics: <https://www.bls.gov/news.release/pdf/cpi.pdf>

Inflation Reduction Act (IRA)

Key retiree medical and prescription drug provisions help retirees save

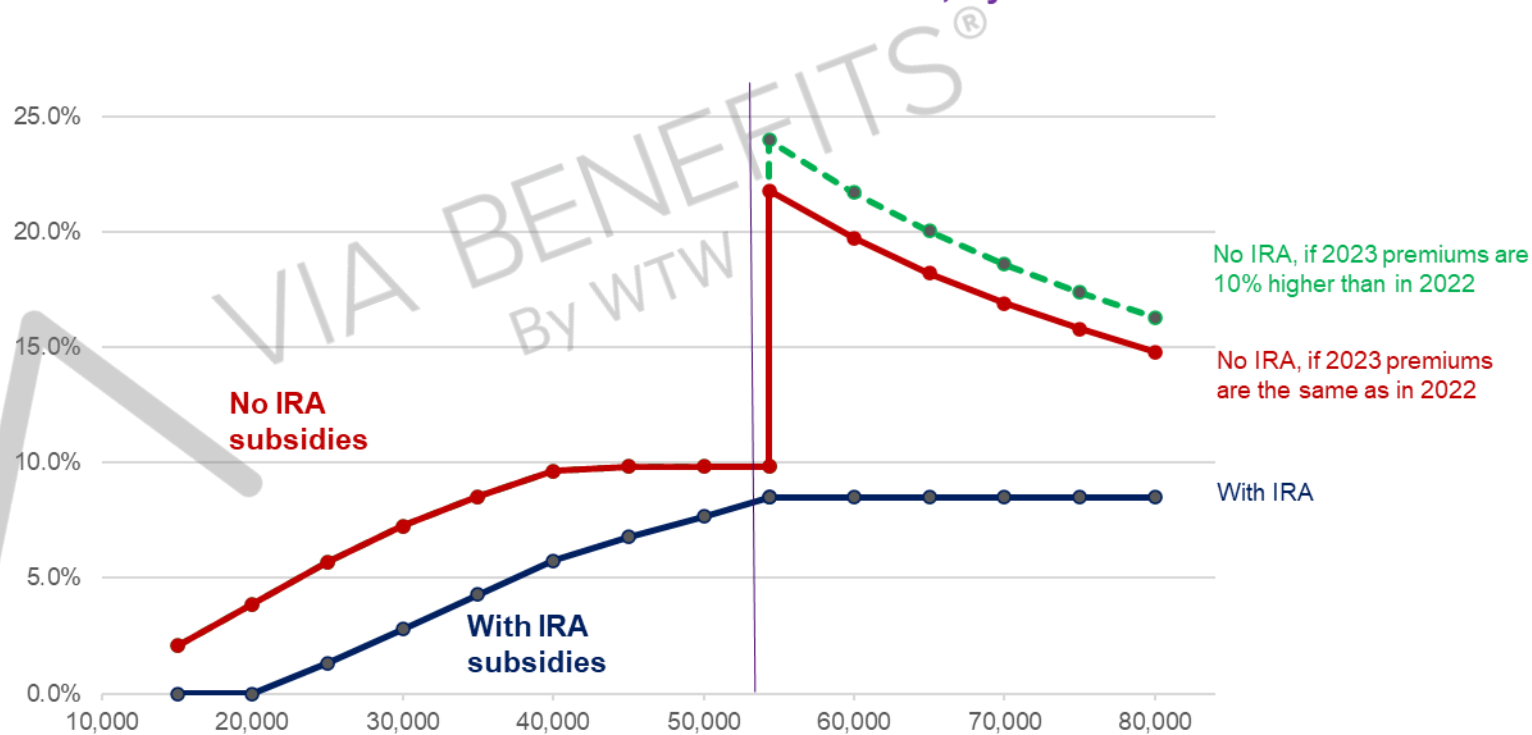


ARPA = American Rescue Plan Act
ACA = Affordable Care Act

Reduced premium costs for pre-Medicare retirees

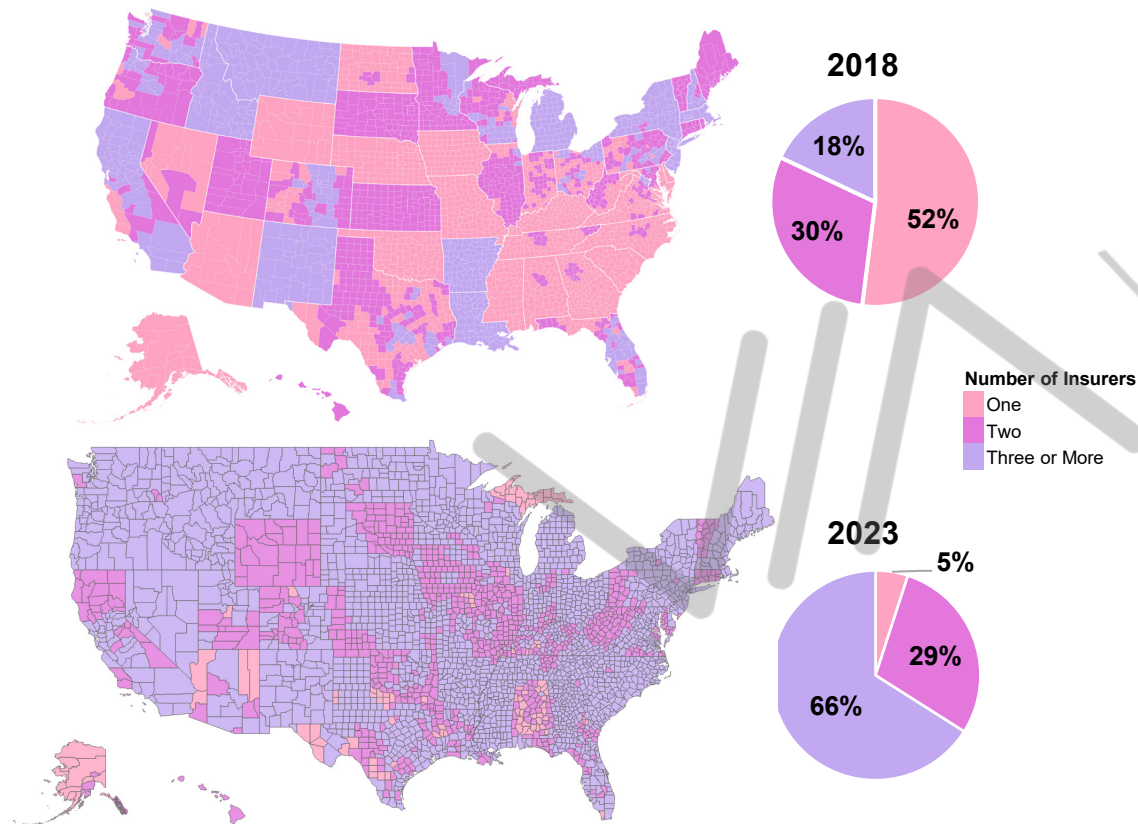
- Renews the ACA subsidies provided by the American Rescue Plan Act (ARPA) for three more years (2023-2025)
- Enhances and extends eligibility for subsidies to all households, regardless of income
- **Some retirees leave employer plans due to defined dollar caps**
- **The IRA expands premium tax credits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

Share of income spent on ACA Marketplace silver benchmark plan with and without IRA subsidies, by income



Pre-Medicare markets have grown and matured

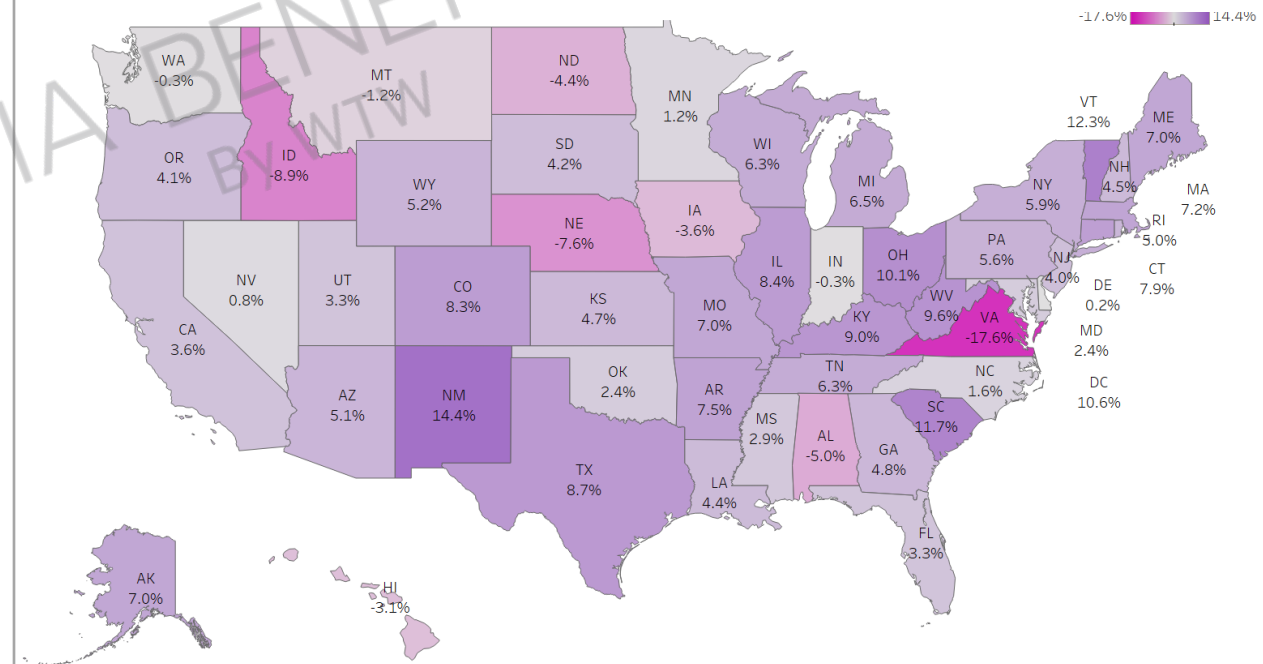
From 2018 to 2023, the percentage of counties with three or more carriers increased from 18% to 70%.



Sources: Kaiser Family Foundation, 2018; Vericred, 2023

Enrollment is at an all-time high (16.3M signups for 2023), a 13% increase (1.9M members) over 2022

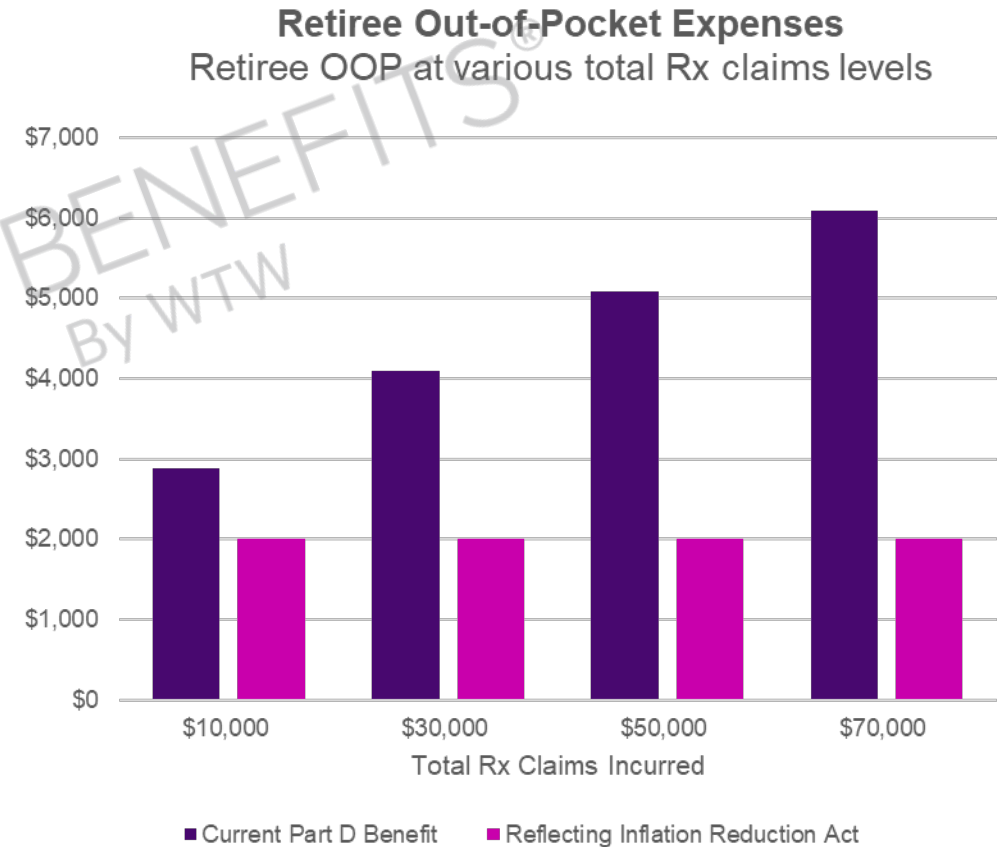
Further, the nationwide national weighted average rate increase in 2023 compared to 2022 was ~4%.



Source: ACASignups.net, Benchmark premium (second lowest cost silver plan), years 2022 to 2023.

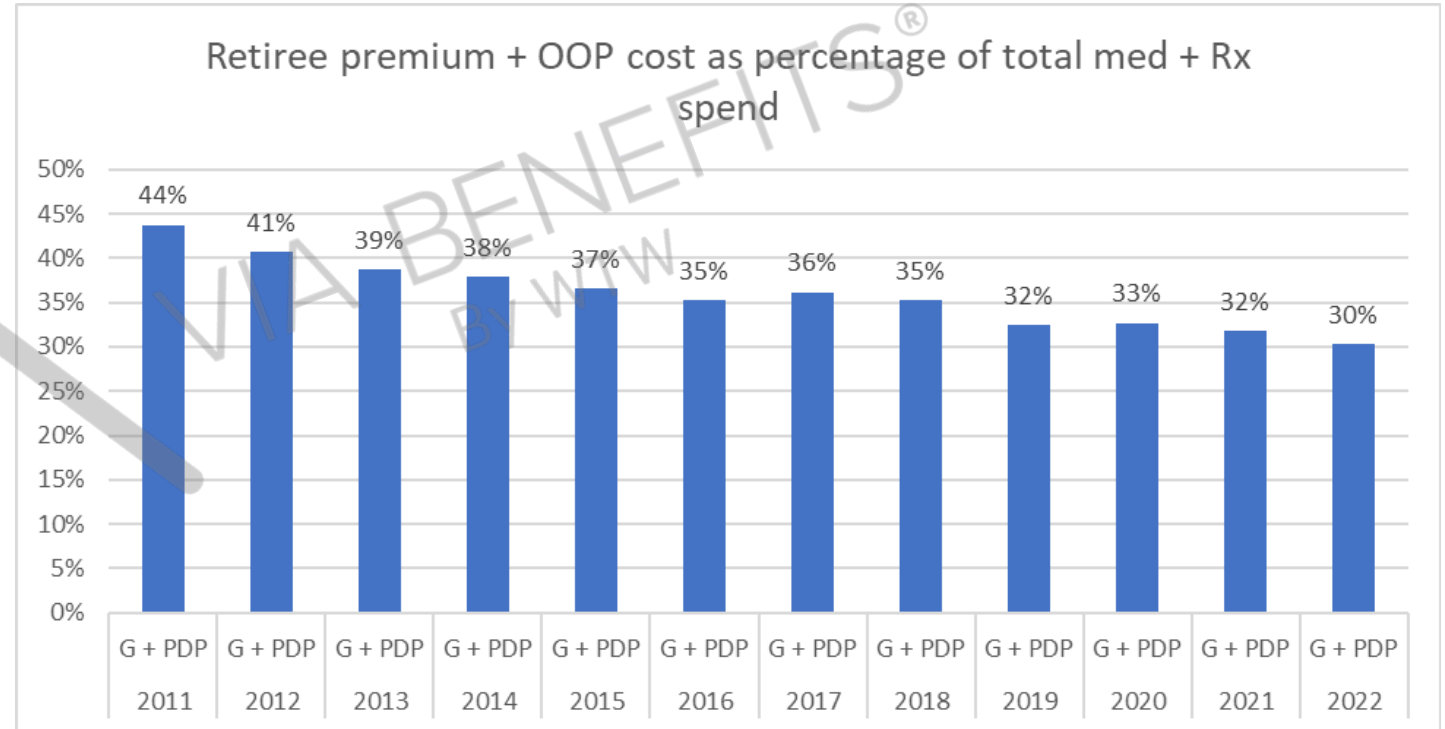
Rx costs for Medicare retirees are falling

- 2024: Eliminates 5% retiree cost-sharing after reaching the True Out-of-Pocket expense level
 - Would limit retiree spend to approximately \$3,200 – \$3,500
- 2025+: Caps retiree out-of-pocket cost at \$2,000
- 2024 to 2030: Limits future Part D plan premium increases to 6%
- **Medicare Part D is now as rich or richer than many employee plans**



The IRA continues a pattern of improving Medicare benefits

- Medicare Modernization Act established Medicare Part D
- Affordable Care Act closed the donut hole
- Inflation Reduction Act caps annual out-of-pocket costs and limits premium increases
- This chart shows how a retiree with a common Medicare Supplement Plan and a common Part D plan has paid a smaller and smaller portion of total health care cost over time



Sources: WTW analysis

So, where are we today...

Pre-Medicare
Likely group arrangement
Expensive and likely seeing reduced participation
Possibly subsidized by actives and probably follows active design

Medicare
Likely group Medicare Advantage or individual market arrangement
More affordable given presence of Medicare
Probably rich benefit and fully insured, if group Medicare Advantage

Overview: Medicare-eligible plan sponsorship options

Group Medicare Advantage



Insured group Medicare Advantage plan with cost partially paid by CMS

Employer sets and controls plan design

Typically combined with an EGWP although can be structured with medical and Rx from same carrier

Administration remains with the plan sponsor

Future rates reflect employer claim experience and CMS funding levels

Individual Market



Broad choice of plan types, insurers and coverage levels

Employer ceases group plan sponsorship, reducing administration

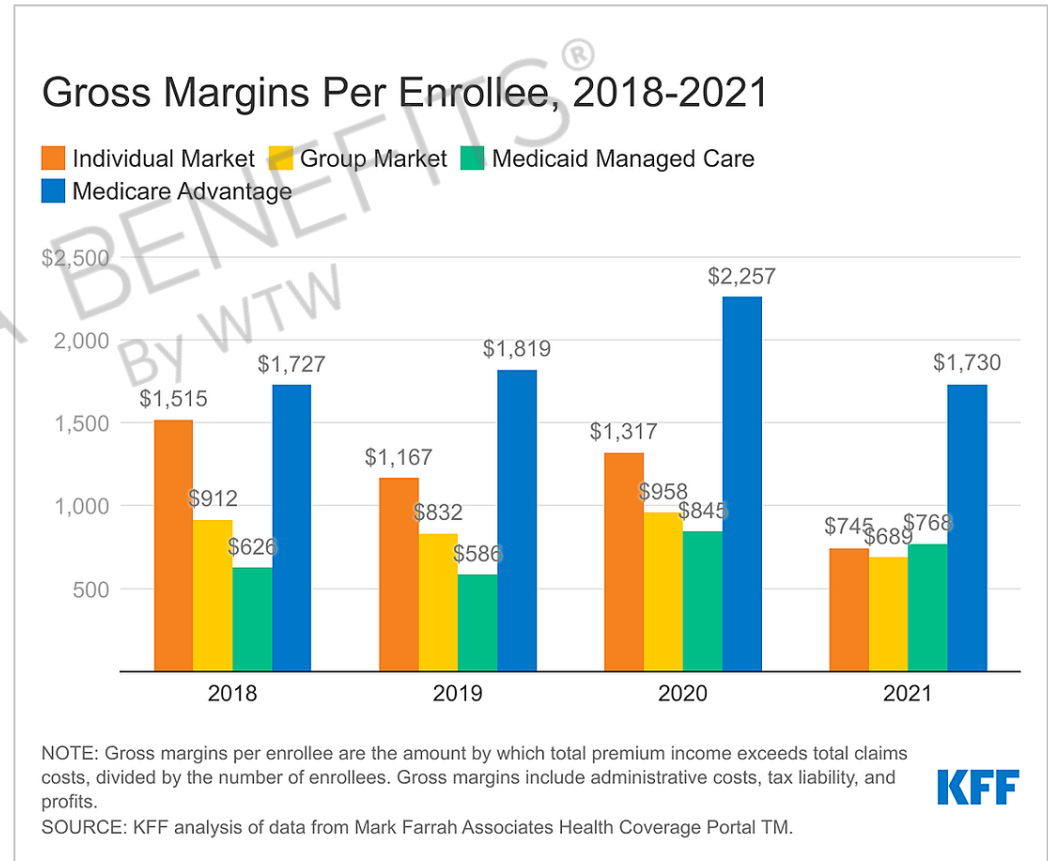
Employer can continue subsidy via a tax-free HRA to help retirees pay for coverage

Marketplace provides communications, enrollment and HRA administration

Stable rates due to large risk pool and carrier competition

Medicare Advantage

- Lots of “buzz” these days (KFF)
- Significant enrollment growth
 - Almost half (48%) of all Medicare beneficiaries are in Medicare Advantage
 - 23M individual
 - 5M group
 - CMS spends over \$300 per person per year more on Medicare Advantage
- Insurer margins for Medicare Advantage far outweigh those in other markets
- Recent CMS advance notice is pressuring carriers on future MA funding



Group Medicare Advantage Plan A – Relatively rich

Total group plan premium \$1,282

Medical benefits (\$ or % paid by the retiree)	
Deductible	\$0
Out-of-pocket maximum (medical only)	\$100
Out-of-pocket maximum (medical/Rx combined)	N/A
Inpatient hospital	20%
Skilled nursing facility	20%
Outpatient surgery	20%
Outpatient non-surgery	20%
Physician office visit (primary)	20%
Physician office visit (specialist)	20%
Emergency room	20%
X-ray/Labs	20%
Outpatient rehab/physical medicine	20%
Durable medical equipment	20%
Ambulance	20%
Vision	20%

Rx Benefits

Deductible \$0 Out-of-Pocket Maximum \$2,000

Retail

Before Coverage Gap

Generic 100% retiree coinsurance (\$9 min; \$9 max)
 Brand Formulary 100% retiree coinsurance (\$20 min; \$20 max)
 Brand Non-Formulary 100% retiree coinsurance (\$35 min; \$35 max)

During Coverage Gap

Generic 100% retiree coinsurance (\$9 min; \$9 max)
 Brand Formulary 100% retiree coinsurance (\$20 min; \$20 max)
 Brand Non-Formulary 100% retiree coinsurance (\$35 min; \$35 max)

Mail Order

Before Coverage Gap

Generic 100% retiree coinsurance (\$27 min; \$27 max)
 Brand Formulary 100% retiree coinsurance (\$60 min; \$60 max)
 Brand Non-Formulary 100% retiree coinsurance (\$105 min; \$105 max)

During Coverage Gap

Generic 100% retiree coinsurance (\$27 min; \$27 max)
 Brand Formulary 100% retiree coinsurance (\$60 min; \$60 max)
 Brand Non-Formulary 100% retiree coinsurance (\$105 min; \$105 max)

Group Medicare Advantage Plan B – more middle of the road

Total group plan premium

\$2,760

Medical benefits (\$ or % paid by the retiree)

Deductible		\$250
Out-of-pocket maximum (medical only)		\$1,000
Out-of-pocket maximum (medical/Rx combined)		N/A
Inpatient hospital	copay per admit	250
Skilled nursing facility		20%
Outpatient surgery		20%
Outpatient non-surgery		20%
Physician office visit (primary)	retiree copay	\$05
Physician office visit (specialist)	retiree copay	\$10
Emergency room		20%
X-ray/Labs		20%
Outpatient rehab/physical medicine		20%
Durable medical equipment		20%
Ambulance		20%
Vision		20%

Rx Benefits

Deductible	\$0	Out-of-Pocket Maximum	\$2,000
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Retail

Before Coverage Gap

Generic	100% retiree coinsurance (\$10 min; \$10 max)
Brand Formulary	100% retiree coinsurance (\$35 min; \$35 max)
Brand Non-Formulary	35% retiree coinsurance (\$60 min; \$125 max)

During Coverage Gap

Generic	100% retiree coinsurance (\$10 min; \$10 max)
Brand Formulary	100% retiree coinsurance (\$35 min; \$35 max)
Brand Non-Formulary	35% retiree coinsurance (\$60 min; \$125 max)

Mail Order

Before Coverage Gap

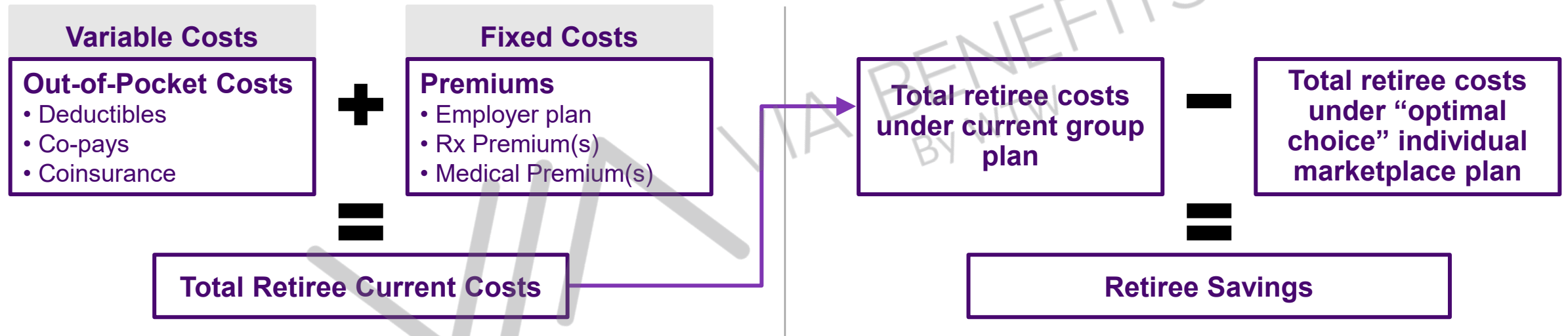
Generic	100% retiree coinsurance (\$20 min; \$20 max)
Brand Formulary	100% retiree coinsurance (\$70 min; \$70 max)
Brand Non-Formulary	35% retiree coinsurance (\$120 min; \$250 max)

During Coverage Gap

Generic	100% retiree coinsurance (\$20 min; \$20 max)
Brand Formulary	100% retiree coinsurance (\$70 min; \$70 max)
Brand Non-Formulary	35% retiree coinsurance (\$120 min; \$250 max)

Overview of modeling process

Calculate the financial impact of moving from the current group plan to a new plan that subsidizes the purchase of individual insurance.

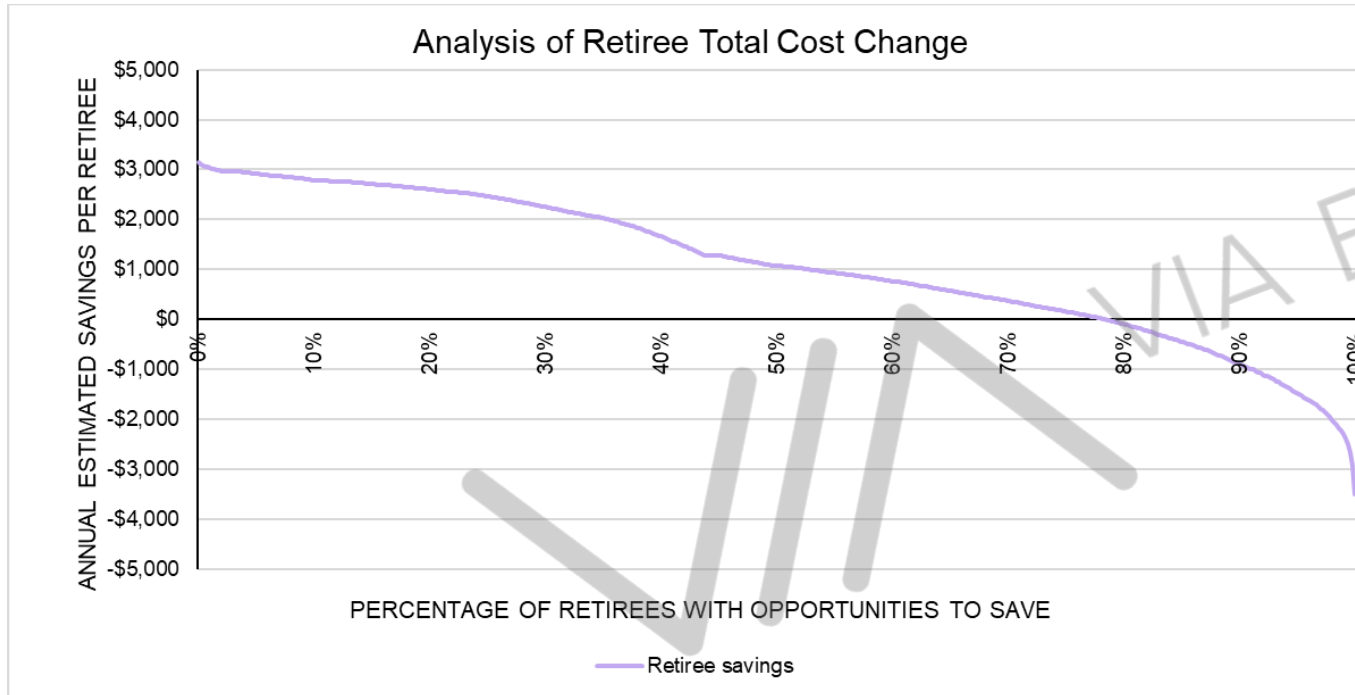


Variables that determine costs:



Comparison of Group Medicare Advantage and Individual Market

Assumes equivalent employer subsidy



KEY STATS

Annual Retiree Savings

Average Loss	(\$957)
Average Win	1,666
% Loss	21.8%
% Win	78.2%

Which is best?

The right approach for your retirees depends on your objectives

Key Takeaway:

About 8 in 10 retirees would be better off financially choosing among individual health insurance options than in the typical group Medicare Advantage plan

Retiree Medical

Considerations for optimizing your plan



- Premium tax credits may be greater than your current subsidy
- Consider supporting individual market for pre-Medicare



- Insuring large group of Medicare retirees isn't financially efficient
- Consider individual market or self-funding/bidding your Medicare Advantage plan



- Don't let the inertia of the status quo drive your go-forward strategy
- There are likely ways for you to drive more value for your participants



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