

Alternatives to traditional retiree group coverage for Medicare-eligible retirees

By John Barkett

Private Medicare Marketplaces and Employer Group Waiver Plans

With increased transparency into their retiree health spending, public sector employers and plan sponsors will find private Medicare Marketplaces and Employer Group Waiver Plans two alternatives worth exploring as they look for more efficient ways to keep their retiree health commitments.

Alternatives to traditional retiree group coverage for Medicare-eligible retirees

Over the last decade, plan sponsors of traditional retiree group health coverage have increasingly turned to private Medicare Marketplaces and Employer Group Waiver Plans (EGWP) to find better value for their Medicare-eligible retirees.

While the retiree experience in EGWPs more closely resembles that of traditional retiree coverage, private Medicare Marketplaces can offer greater value for both plan sponsors and retirees. Plan sponsors who offer traditional retiree group coverage should consider these alternatives as they seek efficient ways to honor their benefit obligations to Medicare-eligible retirees.

Sponsors of traditional retiree group health coverage¹ are learning that it pays to shop around. As the cost of retiree coverage continues to grow, plan sponsors have adopted more efficient ways of providing coverage to Medicare-eligible retirees: the private Medicare Marketplace, and the Employer Group Waiver Plan (EGWP, sometimes pronounced “Egg whip”). In a private Medicare Marketplace, retirees enroll in individual Medicare Advantage (MA), Part D and Medigap plans², with guidance from licensed benefit advisors and web tools provided through the marketplace. In an EGWP, retirees enroll into group-based Medicare Advantage (group MA) and Part D plans. Both models leverage aspects of Medicare to deliver benefits similar to those of a traditional plan at lower costs.

How they work

Private Medicare Marketplaces

Plan sponsors move to a private Medicare Marketplace to provide access to a wider range of individual Medicare plans to retirees. The individual Medicare market includes Medigap, Medicare Advantage and Part D plans. Compared to traditional retiree group coverage, these plans offer similar benefits at competitive prices.

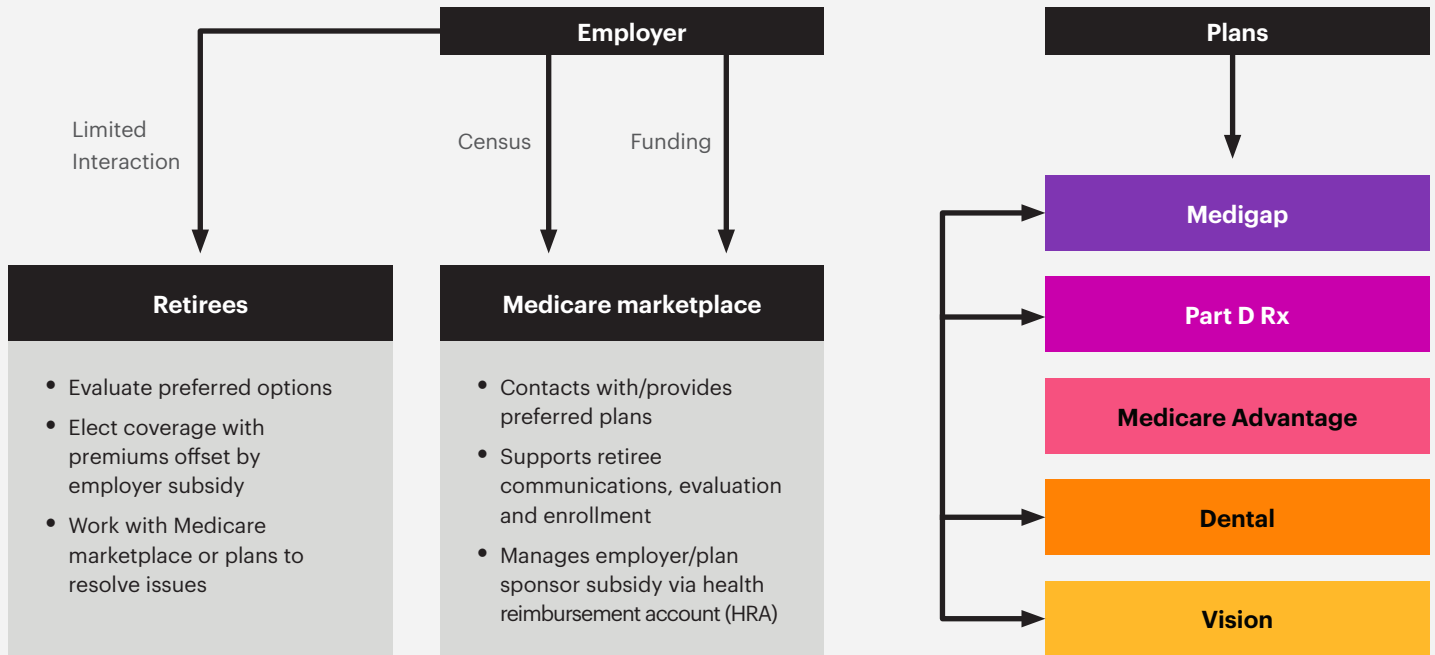
Transitioning from group plans to a private Medicare Marketplace triggers a special enrollment period for retirees, allowing them to purchase a guaranteed-issue individual plan. A retiree shopping on a private Medicare Marketplace will typically have access to dozens of health plan options from an array of MA, Medigap and Part D carriers. The marketplace supports the retirees with communications, online tools, and guidance from licensed, objective benefit advisors who help them understand their options and enroll 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 expenses. Plan sponsors can set the parameters of an HRA to allow retirees to use their funding to defray the cost of Medicare premiums and, if the sponsor chooses, eligible out-of-pocket medical costs.

¹ In a traditional retiree group plan, the plan sponsor — an employer, union, or public entity — contracts with a health insurance company to offer coverage that fills in the gaps left by Original Medicare (e.g. Medicare Parts A and B). These plans typically pair a group medical plan that pays secondary to Medicare with a group prescription drug plan that qualifies for the Retiree Drug Subsidy (a subsidy offered to employers that have continued offering prescription drug coverage in lieu of enrolling their retirees into the Medicare drug benefit).

² Medicare Advantage is a program through which private health insurers offer comprehensive health insurance benefits in place of Original Medicare. Medicare Part D is Medicare’s prescription drug benefit; it is administered by private plans and subsidized by Medicare. Medigap — also known as Medicare Supplemental coverage — is coverage that pays secondary to Medicare, filling in the gaps left by the deductibles and coinsurances that are part of Original Medicare.

How a Medicare Marketplace Works



Employer Group Waiver Plans (group MA plans and Part D EGWPs)

Plan sponsors move to an EGWP to take advantage of efficiencies offered by the MA and Part D programs while continuing to offer retiree benefits on a group basis. EGWPs are MA or Part D plans that have had certain requirements waived so they can be offered to employer groups.

MA EGWPs are commonly referred to as “group MA plans.” They cover medical benefits only and are fully insured. Part D EGWPs cover prescription drug benefits and are typically (but not exclusively) self-insured. Plan sponsors who offer retiree benefits through EGWPs typically offer a group MA plan through a health insurer and a Part D EGWP through a pharmacy benefit manager (PBM).

Group MA plans and Part D EGWPs limit membership to the retiree population of the sponsoring organization, with the sponsor typically working with the health insurance carrier to design benefits tailored to their population. More often than not, these benefits are generous enough to require the group MA or Part D EGWP to charge a premium, which is typically shared between the sponsor and retiree.

In 2017, 3.7 million Medicare beneficiaries were enrolled in a group MA plan, and 6.7 million Medicare beneficiaries were enrolled in a Part D EGWP.³

Comparing traditional retiree group coverage, private Medicare Marketplaces and EGWPs

How they compare

Savings

Private Medicare Marketplaces and EGWPs can both offer savings when compared to traditional retiree group coverage, but greater value can often be realized through a private Medicare Marketplace.

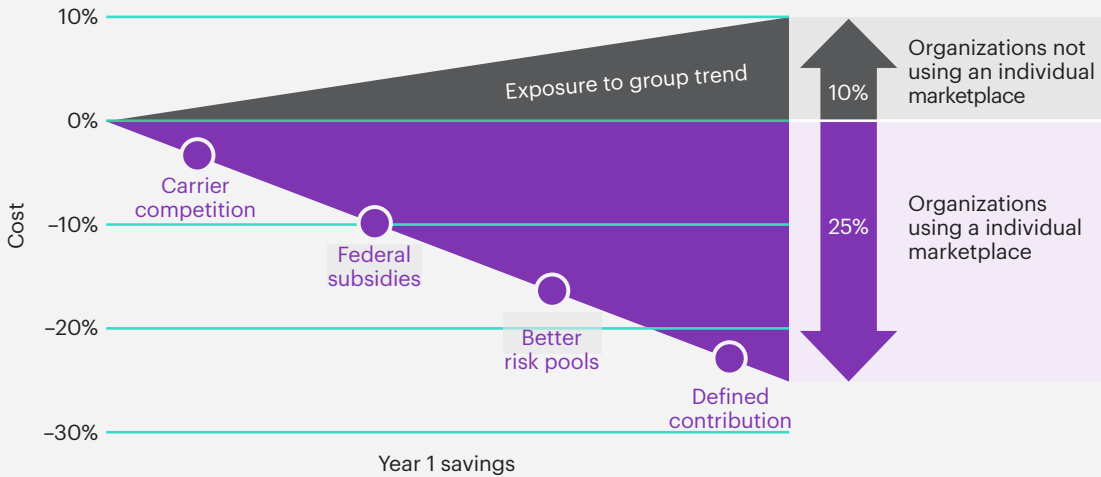
- **Greater federal subsidies for prescription drugs**

Medicare subsidizes traditional retiree group coverage through the Retiree Drug Subsidy (RDS). Medicare also subsidizes Part D plans (available through individual Part D plans offered in private Medicare Marketplaces and Part D EGWPs). The RDS was \$584 per beneficiary in 2017⁴, while the Part D subsidy was \$1,226 per beneficiary in 2017. The gap between the Part D subsidy and the RDS is projected to widen over time as Part D coverage improves between now and 2020 due to changes made in the Affordable Care Act.

³ Kaiser Family Foundation, “Medicare Advantage 2017 Spotlight: Enrollment Market Update”

⁴ U.S. Department of Health and Human Services, 2017 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds

How a Medicare marketplace drives value



- Medicare supplement plans are all standardized, so carriers compete on price.
- Carriers receive federal subsidies to offset the cost of Medicare Advantage and Part D plans.
- Premiums are kept low and stable by the influx of retiring baby boomers, who are relatively young and healthy.

• Carrier efficiencies

Both group and individual MA plans are fully insured products for which carriers collect significant premium revenue in advance of each month a member is covered. The plans price these products competitively to attract the greatest share of this significant and stable revenue opportunity, then work to manage care effectively to bring costs down.

Private Medicare Marketplaces can provide additional savings opportunities by offering plans from the individual Medicare market. The individual market offers larger risk pools, best-in-market rates in more markets and a more competitive marketplace.

• Larger risk pools

Traditional group health plans and EGWPs have risk pools comprised of a single plan sponsor's retiree group. In the individual market, the risk pool includes all Medicare beneficiaries purchasing coverage in a county or state. Even in cases where a sponsor has a large retiree risk pool, another factor comes into play — health status, as reflected by average customer 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.

• Best-in-market rates

Group MA plans and Part D EGWPs are administered by a single carrier. The selected carrier may have market-leading discounts in many, but not all, of the markets where the plan sponsor's retirees live. By offering a choice of carriers and plans in each market, private Medicare Marketplaces give retirees access to the carrier with market-leading discounts in every location.

• Greater competition

Competition in the individual Medicare market is fierce. Individual Medigap and MA plans compete with each to enroll retirees, who can switch from Medigap to MA or between MA plans during open enrollment each year. Competition among plans helps retirees by keeping prices low and offering beneficiaries more choice.

Plan design, administration and enrollment

Private Medicare Marketplaces relieve sponsors of most of the administrative tasks of running a retiree health plan, although each retiree must actively enroll in a plan during the initial enrollment period. EGWPs allow sponsors to mirror plan designs and the enrollment experience of traditional retiree coverage, but require sponsors to continue administering retiree benefits.

When comparing alternatives, consider the following:



Plan design requirements



Administrative time



Retiree enrollment experience

- **Plan design**

Plan sponsors may have contractual reasons to maintain the exact benefit design they currently offer. EGWPs allow plan sponsors to maintain their plan's benefit design, although EGWP rules may require additional benefits to be offered or limit the sponsor's flexibility in certain ways.

Sponsors have less influence on plan design when moving to a private Medicare Marketplace, but retirees have more plans and price points to choose from. Choices range from generous Medigap plans with no network limitations to zero-premium, individual MA HMOs. While relinquishing control of plan design may seem daunting at first, sponsors have found their retirees often prefer being able to choose among a range of plans to find the one that fits their unique needs.

- **Administrative burden**

Sponsors who move to an EGWP must continue holding open enrollment periods, negotiating renewals and ultimately being responsible for the design of benefits offered to retirees. This may be the only option available to sponsors who, for contractual reasons, must continue administering group health coverage.

Sponsors who 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. Relinquishing the responsibility of administering a retiree health plan allows sponsors to redeploy resources to other pressing matters within their organization.

- **Enrollment experience**

Retirees enroll in an EGWP through the same process used in traditional retiree plans, often through a sponsor or health plan portal, and only pay their portion of the premium.

Retirees enroll through a private Medicare Marketplace either by phone or online. Licensed benefit advisors help retirees choose a plan based on their health condition, doctors, prescriptions and lifestyle preferences such as frequency of travel. Retirees pay the full premium up front and then request reimbursement through an HRA, if their former employer provides financial support toward their purchase. Private Medicare Marketplaces simplify the reimbursement process by allowing for automatic reimbursement.

The future of the retiree health care market

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 Americans will turn 65 each day. This influx of baby boomers, who are relatively young and healthy, will help keep individual market premiums low and stable. The same cannot be said for retiree group risk pools, where eligibility changes in the last three decades have led to fewer benefit-eligible employees entering the pools each year. As the number of benefit-eligible retirees dwindles, a move to a private Medicare Marketplace may offer greater value than group health plan solutions like traditional retiree coverage or EGWPs.

Regulatory changes are likely to encourage employers still offering traditional retiree coverage to explore alternatives in the coming years. In 2018, public sector employers must begin complying with new accounting rules that govern how they report their retiree health care liabilities in financial statements.⁵

With increased transparency into their retiree health spending, public sector employers will find private Medicare Marketplaces and EGWPs two alternatives worth exploring as they look for more efficient ways to keep their retiree health commitments.

Conclusion

Plan sponsors in search of innovative ways to sustain their retiree health programs have two alternatives to traditional retiree group coverage: the private Medicare Marketplace and Employer Group Waiver Plans. Private Medicare Marketplaces can offer the greatest value and relieve sponsors of some of the burdens of administering retiree coverage as retirees enroll in individual Medicare plans. Group MA plans and Part D EGWPs offer savings and a retiree experience similar to traditional group coverage. Both options are positioned to become more popular as the market for retiree coverage evolves. Plan sponsors are encouraged to contact us to learn more about private Medicare Marketplaces and EGWPs.

⁵ Statement No. 75 of the Governmental Accounting Standard Series, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," June 2015

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