Eye on 65 – Episode 3 Transcript

John Wondering what a transition to the individual marketplace looks like for a public sector employer-sponsored health care plan? John Barkett here with my co-host Marianne Steger to talk about the move from the employer and employee perspective.

From Willis Towers Watson, welcome to Eye On 65, a podcast for public sector employers concerned about retiree health care.

Today, we are going to talk in detail about how plan sponsors and retirees can save money with a move to the individual Medicare marketplace, also called a Medicare exchange. My co-host Marianne Steger likes to use this model to help preserve retiree health care, and she led the largest transition of this kind in the nation. So first, let's review how this model can save plan sponsors and retirees money. Marianne, take it away.

Marianne Sure, John. Simply put, the move to the individual Medicare marketplace saves money for plan sponsors because the premiums are typically one-half to one-third less than what we see in-group Medicare plans. The second big way is that they shift the risk of large claims away from the plan sponsor. So, every year if you have a group plan you might have somebody who has had a lung transplant or has had really bad cancer and really drove up your claims, drove up your cost. Well, you lose all that risk because your retirees are now individually enrolled and fully insured Medigap or Medicare Advantage Plans and so that's huge. Now, that becomes important because your liability for future medical claims or something called your OPEB liability could go down, and you have more fiscal predictability, I like to say.

John OPEB, that's other post-employment benefits. That has to be reported on balance sheets showing what, basically your retiree, long-term retiree health care costs are. Is that right?

Marianne That's right. And as we've talked about in other podcasts, this can hurt a government's bond rating and in the long run make borrowing money for them more costly. So, it's a pretty important deal to lower that OPEB if you can.

John You know, Marianne, many plan sponsors find it hard to believe that the individual Medicare market offers a better deal than administering a group plan. We're all used to thinking that getting group coverage from our employer is the best deal we can get. We've been conditioned to think that way in the U.S. But it's not the truth in Medicare. In Medicare, there's almost 60 million people in the program. That's massive purchasing power. Massive economies of scale. And every day, 10,000 people turn 65. Many of these folks go right into Medicare, and that provides, basically, new business that carriers can go out and compete for all the time, and that keeps competition robust, and it keeps rates low. It's a mature and stable marketplace. Annual premiums don't increase very much. It's usually around two or three percent, if that. And there's typically much less medical inflation than you'll see in group plans. How do retirees save money when a plan sponsor decides to move their retiree plan to a Medicare exchange?

Marianne Well, there are really two key ways that retirees save money. First, they're going to find that their premiums are lower than what the premiums typically are for a group plan. In my experience, I often see plans in the individual marketplace to be one-half to one-third less expensive. In fact, the coverage is more comprehensive. This is the second way that we see the individual Medicare plan saving money. Most group Medicare plans are not that comprehensive. So, the two ways are less premiums and less out of pocket costs, and that's really important for retirees.

John So, Marianne, can retirees be denied enrollment into a plan due to health status?

Marianne That's something no retiree should ever have to worry about or plan sponsor when they move to the individual Medicare marketplace. First of all, when an employer ends their group plan, all the retirees in that group Medicare plan have something called guaranteed issue. That means no medical underwriting. That means they cannot be denied enrollment into a plan.

John But what about in subsequent years after the initial transition?

Marianne Well, all Americans have guaranteed issue when they turn 65. Okay? And if they're still working at age 65 and they retire later, when they retire, they also have guaranteed issue. So, this is not something that anyone should ever have to worry about.

John Great. So, no one can be denied coverage. So, if it's no longer a group plan, how can an employer or a pension system still help the retiree pay for the plan?

Marianne Most employers when they're working with their Medicare exchange or Medicare marketplace, they work with that company to have them establish a Health Reimbursement Arrangement, an HRA. And this is a mechanism that allows the plan sponsor to provide tax refunding for the retiree and if they want, for the retiree's spouse. It's a way in which retirees can get reimbursed for the cost of their premium and any other IRS allowed medical expenses on a tax-free basis. And the other thing that's so nice about this, John, is the Medicare marketplace company does all the claim verification, all the processing, issuing of checks or deposits into bank accounts to reimburse that retiree for their medical costs. And all the plan sponsor has to do is to submit eligibility— here are the people and here's what their allowance is that they're entitled to. And then every day they make a payment to cover the claims that are going to be reimbursed that day. So that's a whole lot of administrative work that comes off that plan sponsor's plate.

John Right. As I understand it, Marianne, these accounts are like flexible spending accounts, but they have different rules governing them, so there's no requirement to use it or lose it, for example. And really, these accounts can only be funded by the employer pension system. You can't put money into them as a retiree. Is that right?

Marianne That's right John. And they also don't accrue interest. And they're what we call notional accounts, and this is important because that means the plan sponsor keeps the money back with them until a reimbursement claim is filed, and that's the daily sending of money to pay all the reimbursement claims that came in for that day, and that's important because if this plan sponsor has a fund to help pay for the future retiree medical costs, keeping it in the fund as long as they can allows them to have investment returns, and that could be a big part of what's funding their retiree health care benefit if they have this money invested. So, it's really important that the account be notional. That the money stays back with a system where they can earn the money and not the Medicare marketplace vendor.

John And Marianne, you're a big proponent of this model because it helps you achieve your mission of preserving retiree health care, is that right?

Marianne That's right, John. It simply makes it more affordable for plan sponsors and retirees, meaning they could very likely preserve retiring long into the future. And it also takes the administrative burden away from plan sponsors. As the company running the Medicare marketplace, contracts with various carriers educate the retirees, they enroll the retirees and handle the reimbursement to retirees for premium and medical costs.

John Marianne, can you drill down a little deeper into how the actual enrollment process works?

Marianne Absolutely. So, generally over a six to nine month period, there's an education and a communication process—one that's been jointly developed by the Medicare marketplace company and the plan sponsor. The enrollment happens generally over the phone or for those who prefer they can certainly do it online on the internet.

John So, what is that enrollment call like? Let's say you're a retiree who chooses to call up the Medicare exchange and say, "I want to enroll in a plan." What should the retirees' expectations be about that call?

Marianne During the call they're paired with a benefit advisor who has had training in senior sensitivity and certainly knows all about the plan options available. They'll start out by asking some basic questions to help the retiree determine what type of plan is right for them. They'll also make sure that their doctors and preferred hospitals or outpatient centers are available to them in that plan. The actual enrollment, John, happens on the phone with a voice signature being recorded. All of this is in compliance with very strict Medicare requirements.

John Well, Marianne, it's been a pleasure doing this deep dive on Medicare exchanges, their mechanics, and the ways in which retirees and plan sponsors can save by moving to them. Thanks for talking with me.

Marianne And for me John, being able to share this model is so important because you know I'm on this mission to save retiree health care and I think this is a key component of a way plan sponsors can preserve the retiree health care, live up to that promise, at least for their Medicare population. So, thanks for spending some time with me today.

John My pleasure. For those listening, thanks for spending some time with us.

Thank you for listening to Eye On 65 by Willis Towers Watson, a leading global advisory, broking, and solutions company serving thousands of employers worldwide. For more information on Willis Towers Watson's solutions to manage employee risk, optimize benefits, cultivate talent, and expand the power of capital, visit us at willistowerswatson.com. You can find more episodes of Eye On 65 on iTunes. Share with your colleagues with #EyeOn65. That's E-Y-E-O-N-6-5. Join us next time.