EXPRESS SCRIPTS®

The Changing Face of Employer-Sponsored Retiree Prescription Benefits

Long-term strategies for a rapidly evolving market

FEBRUARY 2015

EXECUTIVE SUMMARY

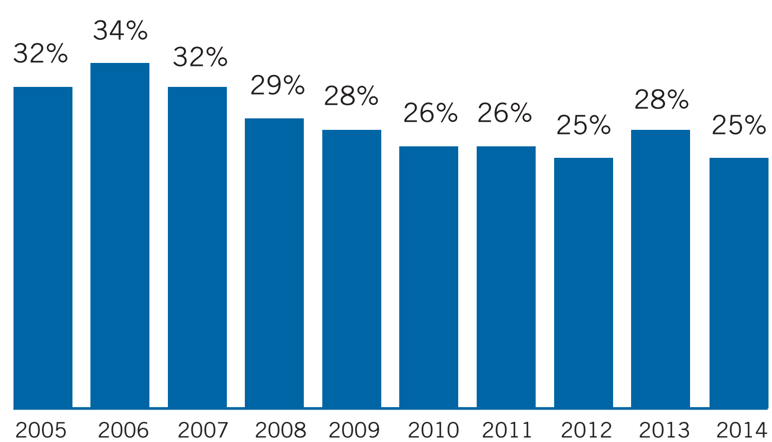
The past decade has seen fundamental changes in prescription drug coverage for American seniors. Beginning with the implementation of Medicare Part D and continuing through the rollout of the Affordable Care Act (ACA), there has been a steady expansion of programs designed to provide affordable access to essential medications for older Americans. As a result, employers that provide prescription benefits for their retirees face an increasingly broad and complex array of coverage options — with serious cost implications attached to the choices they make.

Despite the economic pressures of recent years and the emergence of coverage alternatives, the number of Americans receiving retiree health benefits from their employers, including prescription coverage, has held relatively steady *(Figure 1).* What has changed is the breadth of solutions these employers are using to honor contractual obligations or commitments they have made to their employees and retirees.

In this report, we will discuss the evolution of the 21st-century retiree prescription benefits market and the coverage strategies that have arisen to keep pace with evolving needs and help employers continue supporting their retirees for years to come.

Figure 1

Share of large firms (200+ employees) offering retiree health benefits to active workers, 2005-2014[1]



THE HISTORY OF GROUP RETIREE COVERAGE

The history of retiree prescription drug coverage in America unfolds through three chapters, driven by three seminal pieces of healthcare legislation: Medicare, Medicare Part D and the ACA.

From the creation of Medicare to 2006

Congress established Medicare and Medicaid through the Social Security Amendments of 1965. While Medicaid included prescription benefits, the original Medicare legislation did not pay for any outpatient prescription medications. As a result, Medicare-eligible Americans who did not have supplemental prescription coverage as a part of their retirement benefits typically had to pay the full retail price for their medications.

2006 and the enactment of Medicare Part D

Responding to public pressure for a Medicare prescription benefit, Congress passed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA). This legislation established Medicare Part D, a voluntary outpatient prescription drug benefit that went into effect in 2006. Medicare Part D requires private sponsors to offer a plan with a defined standard benefit or an alternative plan that is equal or greater in value. Those sponsors approved by the federal government can establish their own formularies within set boundaries or provide enhanced benefits. Plan sponsors include stand-alone Medicare prescription drug plans (PDPs) and Medicare Advantage Prescription Drug plans (MA-PDs) that combine medical and prescription drug coverage.

One of the key concerns in designing the legislation was how to handle the millions of Americans who already received prescription drug coverage as a part of their retirement benefits. To discourage employers from dropping benefits now provided by the government under Medicare, the MMA included subsidies for employers who maintained private prescription coverage for retired workers.

Medicare Part D has made an appreciable impact on drug costs for American seniors. In 2005, the average out-of-pocket cost per patient per month was $73.[2] By 2007, this figure dropped to $42, despite the fact that participants were filling an increasing number of prescriptions.[2]

1965
Medicare Begins
Retirees pay full price for their prescriptions

2006
Medicare Part D Takes Effect
Employers receive subsidies for maintaining prescription coverage for retirees

2010
ACA Becomes Law
Employers have financial incentive to create separate plans for active workers and retirees

Post-2010 and the ACA

President Obama signed the Patient Protection and Affordable Care Act into law in March 2010 and since then, the legislation has had a far-reaching impact on coverage rules, availability and cost of providing health benefits.

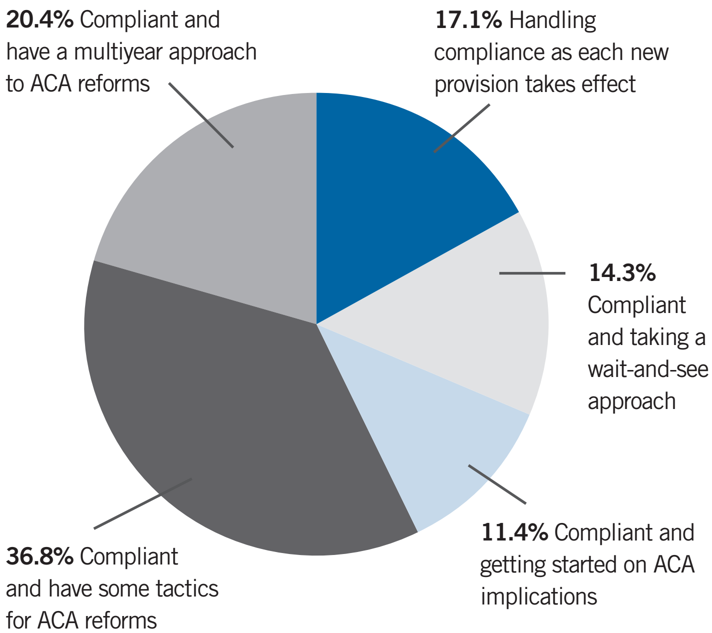
Prior to enactment of the ACA, employers who provided coverage for retirees usually included them in the same plan for active employees. Under the ACA, many of these employers now have a financial incentive to create a separate legal plan to avoid ACA-related cost increases for their retirees. Some have chosen to continue providing the same coverage to retirees as was provided prior to the ACA.[1] Others have chosen stand-alone health reimbursement arrangements (HRAs) for retiree-only plans to help retirees pay the premiums for group or individual health insurance coverage.[1] The ACA also contains provisions that directly impact prescription coverage under Medicare Part D.

THE CURRENT RETIREE BENEFIT LANDSCAPE

Generally considered the most significant piece of healthcare legislation since the formation of Medicare and Medicaid, the ACA is having a broad impact on patients, providers and payors. Among large employers, the prevailing opinions on the ACA skew toward the negative. In a recent survey by the International Foundation of Employee Benefit Plans, 54% of benefit managers believe that the ACA has had an overall negative effect on their organization thus far; 66% predict the ACA will have an overall negative effect on their organization moving forward.[3] The survey also indicates that many large employers are lagging in their preparations to remain compliant with the legislation and in developing strategies to deal with the broader implications of reform.

Figure 2

Preparation for the ACA reforms among large employers (200+ employees)[3,]



There has been a modest downward trend in the number of companies offering retiree health benefits since passage of the ACA, though not as precipitous as many predicted. Of firms with at least 200 employees that offer benefits to active workers, 25% extended benefits to retirees in 2014. That's a modest decrease from 28% in 2013. The largest firms (5,000 or more workers) are the most likely to offer retiree health benefits, with 49% offering coverage in 2014, compared to 23% for those with 200 to 999 employees. State and local government employers are by far the most likely to offer retiree health benefits, with 89% offering coverage.[4]

Employer-Sponsored Retiree Prescription Plans

Since the institution of Medicare Part D, many large employers have extended more generous prescription benefits to retirees (for example, providing full coverage in the Coverage Gap) than the defined standard benefit. For employers willing or obligated to offer prescription benefits, there are four types of plans available that provide more robust coverage than can typically be found in the individual Medicare market:

- **Retiree Drug Subsidy (RDS)**
  Employers provide prescription drug benefits directly to Medicare-eligible retirees through an employer plan which is typically the same plan offered to active employees. As long as the plan meets the Medicare Part D minimum standards, they receive subsidies from the federal government to defray the costs.
- **Employer Group Waiver Plan (EGWP)**
  Employers contract with a Medicare Part D plan that has received a waiver from CMS to provide benefits solely to employers' retirees based on the standard benefit design. The employer offers secondary coverage that supplements the defined standard benefit to provide more generous drug coverage.
- **PDP**
  Employers contract with a stand-alone Medicare PDP on a group basis to provide prescription drug coverage to their Medicare-eligible retirees. These plans are available to all Medicare-eligible beneficiaries in the PDP's service area, and, unlike an EGWP, are not limited to the organization's retirees. To assist with the cost of coverage, the employer can pay a portion of the member's premium.
- **MA-PD**
  The employer contracts with an MAPD (such as an HMO or PPO) on a group basis to provide supplemental benefits to its retirees in conjunction with Medicare-covered medical and pharmacy benefits under that plan.

Benefits for retirees under 65

Of the large plans (500 or more employees) that offer retiree health benefits:[1*]

- 39% ask those under 65 to pay the full amount of the premium
- 12% pay the full premium for them
- 49% share costs (the average contribution is 37% for retirees under 65)

In 2014, retirees in an employer-sponsored plan, have an average annual total premium of $4,986 and their share of that cost is 35.6%.[5]

OUTLOOK FOR EMPLOYER-SPONSORED RETIREE BENEFITS

A 2014 survey of single employer plan managers indicates that the vast majority of employers that currently offer retiree health benefits intend to continue that coverage for at least another year. Over 70% report that they definitely or very likely will continue providing retiree coverage through 2015, and an additional 15% indicate they are somewhat likely to continue coverage.[3]

Relatively few of these employers are looking to private exchanges to provide coverage. Only 12% of employers currently use this option for retirees 65 and older, while only an additional 9% have plans in place for future retirees. There is likely to be some increase in the use of private exchanges over the long term, as 23% of employers are considering private exchanges for future retirees and 19% are considering the exchanges for current retirees 65 and older.[3]

Overall, while eliminating retiree coverage is far from the prevailing strategy expressed by employers, there are indications that the number of employers offering retiree health coverage to new employees may decline in the coming years.[1]

The growing appeal of EGWPs

Several factors have dramatically increased the relative appeal of EGWPs over RDS for private sector employer plans:

- The ACA includes changes in the tax treatment of RDS payments, which reduces the value of RDS for taxable entities. As a result, many private sector employers can now provide a similar benefit at a lower cost by transitioning their employees to an EGWP.
- Since the RDS program does not qualify as a Medicare Part D plan, RDS plan sponsors are not eligible for the Coverage Gap Discount Program (CGDP), in which drug manufacturers agree to discount covered brand-name medications by covering 50% of the cost of discount-eligible drugs in the Coverage Gap.
- The ACA reduces the catastrophic coverage threshold between 2014 and 2019, providing relief to enrollees with high drug costs and creating a substantial reduction in the cost of retiree drug coverage for employers who contract with a PDP or MA-PD plan.

The 2013 Trustees Report estimates that the proportion of Medicare beneficiaries enrolled in an EGWP will increase from about 9% in 2012 to about 20% in 2016.[1] EGWPs are proving to be a preferable strategy for many employers who might otherwise move their Medicare-eligible retirees to the private exchanges.

*The results are similar among employers offering benefits to Medicare-eligible retirees.[1]

WHICH GROUP RETIREE STRATEGY IS BEST FOR YOU?

As the retiree benefit landscape continues to evolve, employers should periodically review their coverage strategy to make sure they are taking advantage of the most efficient and effective solutions. No one solution is right for every employer — or right forever.

RDS

The RDS program is an attractive option for plan sponsors who wish to minimize disruption by providing continuous access to essentially the same coverage retirees enjoyed as active employees. When properly administered, RDS can reduce your administrative burden while allowing you the greatest control over your plan design, including coverage and formulary choices. With RDS, employers can reduce the cost burden of providing retiree prescription benefits, collecting predictable savings of 28% on all eligible claims.* These cost advantages are particularly pronounced for government and non-profit employers, who do not have to book subsidies as taxable income. Some employers are exploring the RDS option for introductory retiree plans that will provide future opportunities for easy transition into EGWPs.

EGWP

An EGWP allows sponsors to capture optimal savings from both Medicare subsidies and the CGDP. As Medicare Part D plans, EGWPs do not have the full flexibility of RDS; however, a well-designed EGWP can be designed to maintain current prescription benefits or be modified for increased savings. In fact, plan designs can be altered to realize significant savings, including having the member pay up to 100% of the premium, as premium contribution is not included in the actuarial equivalence calculation. A properly run EGWP should also place a relatively light administrative burden on the plan sponsor. This option is popular among many public firms that want to reduce retiree health obligations reported on financial statements.

Group enrollment into a PDP

Group enrollment in a stand-alone PDP can be a cost-effective option for those who wish to ease the transition to Medicare Part D for retirees by providing continuous coverage from day one. Sponsors have a choice of plan designs and the flexibility to set premium contribution options to reduce, or even eliminate, plan costs. As such, the PDP group enroll approach is a popular choice for employers who are looking for an alternative solution to offer prescription benefits to retirees.

*In April 2014, CMS announced a 2% mandatory payment reduction that will be applied to all plan months beginning April 2013. More information and examples can be found on the CMS RDS website at rds.cms.hhs.gov.

CONCLUSION

The future of employer-sponsored retiree health coverage is far from certain, particularly relating to pharmacy benefits. Several high-profile corporations have decided to transition their retiree populations to private exchanges or the individual marketplace, but these have so far proven to be the exception rather than the rule. Whether driven by contractual obligation, competition for top talent or a simple sense of loyalty, most employers who offer retiree benefits indicate they will continue to do so.

As the regulatory and marketplace dynamics change, employers must continue to examine and reassess their strategies to ensure they are providing cost-effective coverage with nominal disruption to their employees and minimal administrative burden. To discuss long-term strategies and how they best apply to your circumstances, contact your Express Scripts account or sales representative today.

1. *Retiree Health Benefits at the Crossroads,* The Henry J. Kaiser Family Foundation, April 2014. Available at: http://kaiserfamilyfoundation.files.wordpress.com/2014/04/8576-retiree-health-benefits-at-the-crossroads.pdf Accessed 11/10/14.

2. *Prescription Drug Coverage Before and after Medicare Part D,* The Campaign for Modern Medicines, May 2013. Available at: https://modernmedicines.com/entry.php?id=325 Accessed 11/18/14.

3. *2014 Employer-Sponsored Health Care: ACA's Impact,* International Foundation of Employee Benefit Plans, May 2014. Available at: http://www.ifebp.org/bookstore/aca2014/Pages/default.aspx Accessed 11/6/14.

4. *Employer Health Benefits 2014 Annual Survey,* The Henry J. Kaiser Family Foundation, September 10, 2014. Available at: http://kff.org/health-costs/report/2014-employer-health-benefits-survey/ Accessed 11/18/14.

5. *The New Health Care Imperative: Driving Performance, Connecting to Value,* 19th Annual Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care, National Business Group on Health & Towers Watson, 2014. Available at: http://www.towerswatson.com/en-US/Insights/IC-Types/Survey-Research-Results/2014/03/towers-watson-nbgh-employer-survey-on-purchasing-value-in-health-care Accessed 11/10/14.

RETIREE SOLUTIONS FROM EXPRESS SCRIPTS

Express Scripts has provided retiree group and individual solutions since January 2006 and is uniquely positioned to help clients deliver retiree prescription benefits. With significant investments in technology, infrastructure and personnel for the Medicare market, we ensure compliance, smooth operations and responsive service. Our experts deliver strategic guidance to employer groups and other plan sponsors to help navigate the ever-changing retiree benefits landscape. For more information about our expertise and solutions, please contact your Express Scripts sales representative.

EXPRESS SCRIPTS®

© 2015 Express Scripts Holding Company. All Rights Reserved. 14-EME227586