

Healthcare Reform Changes Lead Employers to Rethink Retiree Prescription Benefit Strategies

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ORLANDO, Fla., May 20 /PRNewswire-FirstCall/ -- As the nation's healthcare system begins to understand and address the impact of the recently enacted healthcare reform legislation, employers must assess their current and future retiree prescription benefit options, according to executives from Medco Health Solutions, Inc. (NYSE: MHS) speaking to more than 700 clients at Medco's annual Drug Trend Symposium. The elimination of the tax advantage related to the Retiree Drug Subsidy (RDS) beginning in 2013 and the gradual closure of the Medicare Part D Coverage Gap by 2020 are two critical components of the healthcare reform legislation that may influence a plan sponsor's approach to providing retiree coverage.

(Photo: <http://www.newscom.com/cgi-bin/prnh/20100520/NY08075>)

As a result of the landmark healthcare legislation, signed into law on March 23, accounting rules caused employers who receive an RDS subsidy to record an accounting charge in their first quarter 2010 financial results to reflect the impact of the change in RDS tax status. External sources estimated these charges cumulatively at more than \$14 billion nationally. This change in law has caused some plan sponsors to make re-evaluating benefit decisions a top priority. Currently, RDS remains the preferred approach for many taxable entities because of its tax advantages. While the RDS subsidy – 28 percent of an organization's eligible retiree prescription costs – itself remains intact, the tax-free status of that subsidy will be eliminated by 2013. Medco estimates the incremental tax liability for an average taxable RDS plan sponsor to be in the range of \$14 to \$21 per member per month (assuming a 35 percent tax rate), which for a typical plan translates from millions to tens of millions of dollars of lost value annually.

"Many of the employers I have spoken to aren't looking to make an immediate change," said Mary Daschner, group president of Retiree Solutions for Medco. "They're assessing the new retiree prescription benefit landscape and weighing their options, both short and long term. Many employers feel an obligation to provide prescription benefits to their retirees. For others, collective bargaining agreements or other contractual obligations require them to provide retiree prescription benefits. Whatever the circumstances, plan sponsors are looking to optimize their approach in the post-reform environment, and to balance financial savings, legal commitments and administrative burdens."

The change in RDS tax status will spur more employers to consider other Medicare Part D solutions, such as the employer group waiver plan (also known as an EGWP or "egg whip"). An employer using an EGWP contracts with a Medicare-contracted prescription drug plan (PDP) to provide group benefits under Medicare Part D. The EGWP product has garnered substantial interest in recent months because it can facilitate customized benefit designs, help an employer retain sponsorship of their retiree benefit plan at a lower cost – in addition to limited member disruption – and provide employers with options for member cost sharing and premium contributions. The government subsidy available under an EGWP is expected to increase over time – eventually outpacing the RDS subsidy – due to the gradual elimination of the coverage gap under Medicare Part D. This increased government subsidy, coupled with the elimination of the tax advantage related to the RDS, has made the EGWP product a

worthwhile solution for employers to consider as they evaluate the future of their employer-based retiree benefits.

Depending on an employer's ability and willingness to modify benefits, they can save up to 50 percent or more of their current retiree prescription drug costs by moving into an EGWP solution, while still offering a richer level of benefits than those available to retirees on the open market. This savings also assists employers in reducing their other post-employment benefit obligations (OPEB) over time, which is of significant interest for both tax-paying and non-tax paying plan sponsors.

By moving to an EGWP, one Medco client, the Kentucky Teachers' Retirement System, realized significant savings. "The reason that KTRS opted to move to an EGWP plan off calendar year was due to the fact that we can collect deeper federal subsidies than Medicare Part D RDS, primarily via lower insured premiums," said Jane Gilbert, Director of Benefits at KTRS. "In addition, we realize a reduction in risk and quantify liability by locking into a set premium. We will also experience a reduction in OPEB liability of almost \$1 billion."

According to Daschner, "EGWPs allow employers to customize the benefit design and retain sponsorship of the retiree benefit at a lower cost and with limited member disruption. Our internal research shows that retirees are overwhelmed by the choice in the individual market, with nine of 10 retirees appreciating endorsement of a plan or guidance from their employer. The EGWP can provide flexibility in plan design and premium contribution levels which can generate savings equal to or better than RDS once the tax exemption is eliminated in 2013, while also providing peace of mind for the retiree. Employer plan sponsors should be working with a partner that can run financial models and discuss the administrative and operational aspects of various retiree prescription benefit options to determine the strategy that is right for them."

"It is likely that many employer plan sponsors will either remain with the RDS or choose an EGWP, with a high percentage of them wanting to stay with a group sponsored benefit," Daschner said. "For employers where funding the benefit is no longer viable, for whatever the reason, there are always other options available, including commercial benefits that wrap around a Part D plan and 'coordinator' models that help make the transition into the open market easier for the retiree."

"Medco's advanced modeling tools coupled with the deep knowledge of its Retiree Solutions staff can help organizations better understand the impact of healthcare reform, develop a retiree prescription drug approach that aligns with their benefit strategy, and, if necessary, help transition members to a new prescription benefit program," said Daschner. "This is another example of how we help clients manage challenging coverage issues."

The diagram below demonstrates the projected relative value of government subsidies under RDS compared with EGWP over time.

Editor's Note: KTRS is a public entity and cannot endorse any vendor. Medco won a competitive public bid for the KTRS drug plan.

About Medco

Medco Health Solutions, Inc. (NYSE: MHS) is pioneering the world's most advanced pharmacy® and its clinical research and innovations are part of Medco making medicine smarter™ for approximately 65 million members.

With more than 20,000 employees dedicated to improving patient health and reducing costs for a wide range of public and private sector clients, and 2009 revenues of nearly \$60 billion, Medco ranks 35th on the Fortune 500 list and is named among the world's most innovative, most admired and most trustworthy companies. For more information, go to <http://www.medcohealth.com>.

The Medco Retiree Solutions group provides Medicare Part D services to members through different types of offerings or solutions such as Retiree Drug Subsidy, Employer Group Waiver Plans, Employer PDPs, and the Medco Medicare Prescription Plan, as well as Medicare Advantage Prescription Drug Plans and Prescription Drug Plans, for which Medco is the PBM.

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