

Managing Retiree Healthcare Costs

An Allsup Medicare Advisor® White Paper

In today's tough economic environment, employers are challenged with being able to provide competitive employee benefits without affecting business profitability. With the costs of healthcare coverage continuing to rise, it's becoming increasingly difficult to keep costs down while providing for employees' needs.

Adding to the confusion about managing costs is healthcare reform and what it could mean to the way employers provide retiree benefits. Many organizations are seeking assistance to understand what provisions in the recently-enacted healthcare reform legislation will affect them and how.

Despite all the confusion and potential roadblocks to cutting the rising cost of providing healthcare coverage to retirees, employers have many options to choose from when handling their retiree benefits.

What Your Company Can Do

According to a recent Kaiser Family Foundation study, households with Medicare recipients spent 14.1 percent of household income on healthcare, compared with 4.3 percent in non-Medicare households¹. Because people with Medicare tend to use their coverage so much more than those without, your population of Medicare-eligible retirees may offer the most immediate and largest cost savings for employers covering these individuals.

Additionally, a 2007 EEOC ruling² opened the door for employers to create two separate classes of retirees: one eligible for Medicare and one not eligible for Medicare. Since those eligible for Medicare have access to comprehensive coverage through a combination of Medicare programs, many employers are considering the option of eliminating retiree healthcare benefits, reducing their costs and lessening financial liability at the same time.

How Does Healthcare Reform Affect Employer Options?

Although healthcare reform is expected to significantly change the individual and employer healthcare insurance landscape long term, the choices for funding your organization's Medicare-eligible retiree population will remain largely the same for the foreseeable future. Healthcare reform will affect some aspects of Medicare – including free preventive services under Medicare Part B, reduced reimbursements to providers in Medicare Advantage networks and phasing out the donut hole in prescription drug coverage – but changes to Medicare don't mean changes to an organization's options with respect to Medicare-eligible individuals.

¹ *Cubanski, Juliette, Anthony Damico and Tricia Neuman, Health Care on a Budget: An Analysis of Spending in Medicare Households, 2009.*

² *EEOC Ruling on Retiree Benefits and Medicare, Findlaw.com, 2007*

Deciding Which Path to Choose

There are many factors to weigh when choosing a course to recommend to your organization. Depending upon your organization's culture, financial health and contractual commitments made to retirees and other employees, you may find that cost reductions are paramount. Or, the biggest concern could be simply cost containment – keeping costs stable, while at the same time guiding retirees through a very confusing and frustrating decision making process. So, when thinking about which route to take, consider the following:

- **How much does your company need to save?**

For employers who decide to phase out or eliminate retiree coverage, consider easing the transition with a Medicare plan selection service like *Allsup Medicare Advisor*[®]. At minimal or no cost, your company will see immediate savings from reducing healthcare coverage and be better able to manage retirees' confusion by easing their transition into the open Medicare market instead of dropping them in abruptly without assistance.

- **Is your organization concerned about retiree confusion and disruption?**

Employers who need to reduce or eliminate coverage often are concerned about managing retiree confusion and dissatisfaction. One good way to do this could be using a Medicare plan selection service such as *Allsup Medicare Advisor*.

- **What type of administrative infrastructure does your company have?**

Employers who need or want to keep providing coverage to Medicare-eligible retirees, should consider what their administrative infrastructure is like and what type of administrative burden they can handle. Most employers find it easier and more financially beneficial to contract with a company that can offer an employer group waiver plan (EGWP), or a Medicare plan restricted only to an employer's retirees. In this case, the employer does not have to create a relationship with the federal government to offer a Medicare plan, but can contract with someone else who already has such a relationship. And in addition to providing the employer with a certain amount of distance from the federal government, creating an EGWP allows employers to take advantage of the contracting insurance company's expertise in Medicare and other matters, such as health and wellness, drug utilization management and more.

- **Does your company have contractual obligations to retirees?**

Employers who deal regularly with unions or other contract employees are familiar with the challenges such relationships can bring, particularly when dealing with retiree healthcare coverage. If your company employs many union workers or contractors, there may be no choice in providing coverage to retirees. If you are required to provide comprehensive coverage to your retirees, your organization may use Medicare and alternative funding combinations to reduce the cost of providing it.

- **Does your organization have Governmental Accounting Standards Board/Federal Accounting Standards Board (GASB/FASB) reporting requirements?**

Many employers now have to report to the federal government how their healthcare is funded – or not funded. In other words, employers who have to report to GASB or FASB must indicate what type of healthcare coverage they've promised their retirees and if they will be able to meet these obligations. Unfunded healthcare coverage (the promise of coverage not backed by actual dollars) is reported as a liability and could affect an organization's credit rating, making it more difficult for them to secure loans if necessary. Certain funding vehicles can reduce healthcare coverage liability, which could make it easier to secure a line of credit if one is needed.

What Are Your Options?

Depending upon the situation, your organization's objectives and retirees' needs, there are many options when it comes to reducing healthcare costs. Below is a description of primary options:

1. **Reduce or eliminate coverage for Medicare-eligible retirees.** This is the most drastic option and, while it comes with immediate savings, it also comes with significant retiree disruption and a higher short-term administrative burden. To manage dissatisfaction and foster goodwill, employers should consider encouraging retirees to use a Medicare plan selection service, like that offered by *Allsup Medicare Advisor*, which helps Medicare-eligible individuals find the right plan based on their needs.
2. **Take advantage of government dollars.** If your organization is required to provide retiree healthcare coverage or would prefer to do so, federal dollars can be used to take advantage of reimbursements available through Medicare:
 - a. **Apply for the Retiree Drug Subsidy (RDS).** When the Medicare Modernization Act of 2003 was implemented in 2006, many employers were strongly encouraged by the federal government to take advantage of the RDS. Companies who use this option continue to offer Medicare-eligible beneficiaries coverage, but can apply to the federal government to receive a 28 percent subsidy on each Part D-eligible claim when offering coverage as good as or better than that offered under Medicare's prescription drug benefit. The upside of the RDS is that generally retirees won't notice a change in how their coverage works and budget dollars can be saved on prescription drug coverage. The downside is that it will require some amount of ongoing administrative burden and, because only drug claims are reimbursed, the savings aren't as much as offering a Medicare plan.
 - b. **Offer a Medicare Plan.** An EGWP can include medical and prescription drug coverage, or just medical or just prescription drug coverage. This option is gaining popularity because, although it does

require some amount of administrative burden, employers have the flexibility of offering such a plan by either contracting directly with the federal government or by contracting with a plan that already has a contract with the federal government. Regardless of which option is chosen, reimbursements are made on a per-person basis for participating Medicare-eligible individuals. So, employers are guaranteed at least a certain amount of subsidy per person (usually higher than the average subsidy through the RDS) and could receive even more for individuals eligible for low-income subsidy (LIS) or who reach catastrophic coverage. But this path does require significant administrative infrastructure. Also, depending upon the coverage being offered now, retirees could experience some confusion because the way their benefits work could change significantly.

3. **Use alternative funding vehicles.** Employers also can consider using other, privately-funded vehicles to provide healthcare coverage. These funding vehicles can be used independently to purchase non-Medicare group coverage for Medicare-eligible individuals or as umbrella accounts to provide retirees with an employer-run Medicare plan, or EGWP. The following is a description of each.
 - a. **Form a Voluntary Employee Benefit Association (VEBA).** Many employers, particularly those with certain contractual obligations prefer to form a VEBA. VEBAs are trusts that allow employers to contribute a one-time monetary distribution or periodic distributions of capital, which then are managed by an administrator. One benefit of a VEBA is that they're flexible and can work well with other funding options, such as a Medicare plan. Employers also can hand off the administration of a VEBA to an expert vendor, allowing the employer to focus on their active employees. But there is a significant downside, especially for retirees: there is no requirement that a VEBA remain financially solvent. Choosing the wrong organization to manage a VEBA can mean the VEBA may quickly run out of funds, leaving retirees who expected to have healthcare coverage without it and responsible for finding their own plan. VEBAs are considered a separate entity from the employer, which many employers find attractive.
 - b. **Create a 115 trust.** These trusts, also known as Other than Pension Employee Benefits (OPEB) accounts, work very similarly to VEBAs. Like VEBAs, 115 trusts can be used to purchase Medicare or other coverage for retirees and can be managed by a third-party administrator. They also can become insolvent if not managed properly. Unlike a VEBA, a 115 trust is not considered separate from the employer and may eventually revert back to the founding organization.

Making the Right Choice Is Crucial

As more and more employees approach retirement and the demand increases for benefits-related resources, many Human Resources or Benefits departments are not fully prepared to meet this growing need. *Allsup Medicare Advisor* can provide the expert knowledge and guidance to help your organization and your employees clearly understand all the options that are available.

Why Allsup?

Allsup is a nationwide provider of Social Security disability, Medicare and Medicare Secondary Payer Compliance services for individuals, employers and insurance carriers. Founded in 1984, Allsup employs nearly 700 professionals who deliver specialized services supporting people with disabilities and seniors so they may lead lives that are as financially secure and healthy as possible.

As trusted experts who specialize in this area, we know first-hand that choosing the right path for your Medicare-eligible retirees can be complicated and frustrating. With *Allsup Medicare Advisor's* in-depth approach, both employers and employees will benefit from our specialized program. To learn more about how *Allsup Medicare Advisor* can assist you and your employees with the challenges associated by switching to Medicare, please visit **ama.allsupinc.com** or call Allsup at **(888) 660-2779**.

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