

# **The Countdown To January 1, 2006: The Retiree Medical And Benefits Revolution**

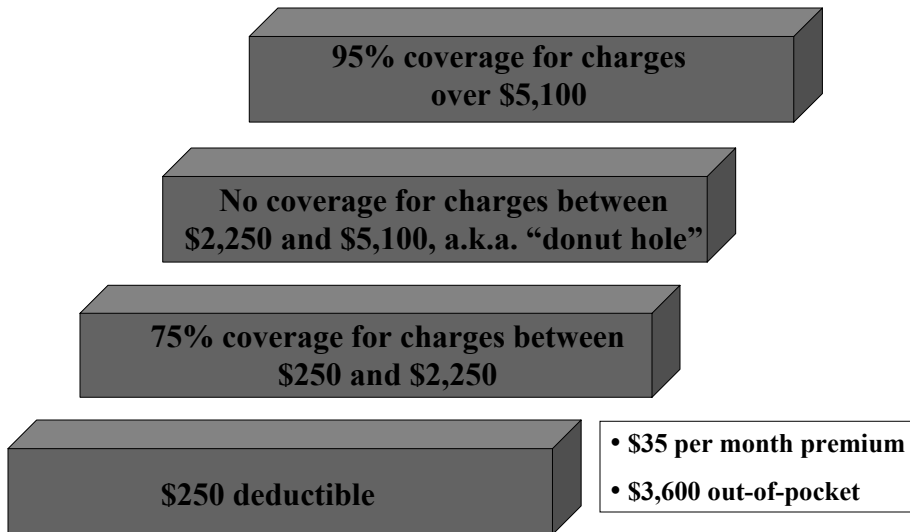
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## **Three Key Issues**

- Design
  - Making the right choice
- Administration
  - Impeccable recordkeeping
    - Employer earns full Part D subsidy
    - Retirees get maximum Rx coverage
- Behavior change
  - Provide early and clear communication
  - Influence desired retiree behavior

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## Standard Part D Plan Design



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## Some Key Definitions

### True Out-of-Pocket (TrOOP)

- Determines when catastrophic benefits begin
  - 95% starts after \$3,600 of TrOOP costs
- Only payments out of the retiree’s pocket count
  - Employer payments do not count toward the \$3,600, except when paid from an HSA

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## **Some Key Definitions**

### **Prescription Drug Plans (PDPs)**

- PDPs, on behalf of the Medicare, will sell Part D to your retirees
- For every policy they sell, they get a fee from Medicare. They are responsible for the claims and the associated risk on each policy.

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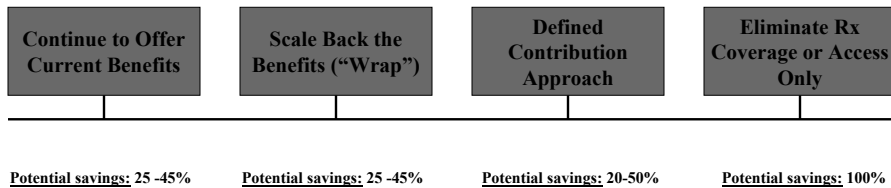
## **Some Key Definitions**

### **Actuarial Equivalency**

- Is the employer's plan worth more or less than the standard Part D design
  - Determines employer subsidy qualification
  - Exact methodology still to be determined

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## Complex Decision For Employers: “Doing Nothing Is Not An Option”



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## Complex Decision For Employers: “Doing Nothing Is Not An Option”



### Option #1: Keep Your Plan & Accept the Subsidy

- Advantages
  - Benefit design stays unchanged
  - Subsidy from Medicare of about \$600/year per retired person covered
- Challenges
  - Actuarial equivalence
  - Data reporting and audit requirements
- Effect on retirees
  - Do not enroll in Part D
  - No change in coverage
- Potential savings: 25-45%

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## Complex Decision For Employers: “Doing Nothing Is Not An Option”

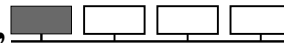


### Option #1a: Sponsor a PDP

- Advantages
  - Benefit design stays unchanged, or is under your control
  - Contract with a PDP & benefit from the subsidy they receive
- Challenges
  - TrOOP likely to reduce reinsurance reimbursements
  - Insured arrangement; PDP will have risk and profit margins
- Effect on retirees
  - Enroll in the enhanced Part D plan of your contracted PDP
  - You determine the coverage—less change likely
- Potential savings: 25-45%

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## Complex Decision For Employers: “Doing Nothing Is Not An Option”



### Option #1b: Become a PDP

- Advantages
  - Benefit design stays unchanged, or is under your control
  - Self-insured; receive PDP subsidy, including reinsurance reimbursement
- Challenges
  - TrOOP likely to reduce reinsurance reimbursements
  - Medicare waiver, reporting, and audit requirements
- Effect on retirees
  - Enroll in your Part D; you are the PDP
  - You determine the coverage—less change likely
- Potential savings: 25-45%

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## Complex Decision For Employers:

### “Doing Nothing Is Not An Option”

#### Option #2: Part D Medicare Supplement Plan

- Advantages
  - Savings from wrapping Part D plan
  - Fewer administrative hurdles than subsidy approach
- Challenges
  - Plan design complexity with non-standard Part D plan designs
- Effect on retirees
  - Enroll in Part D
  - Employer supplements coverage
- Potential savings: 25-45%

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## Complex Decision For Employers:

### “Doing Nothing Is Not An Option”

#### Option #3: Defined Contribution or Capped Benefits

- Advantages
  - Defined or capped costs are more controlled
  - Decision-making tools and plan choices for retirees
- Challenges
  - Retiree acceptance of unique approach
  - Retiree ability to navigate tools and choices
- Effect on Retirees
  - Choice of Medicare Supplement and Part D plans
  - Employer offsets cost
- Potential savings: 20-50%

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## Complex Decision For Employers: “Doing Nothing Is Not An Option”

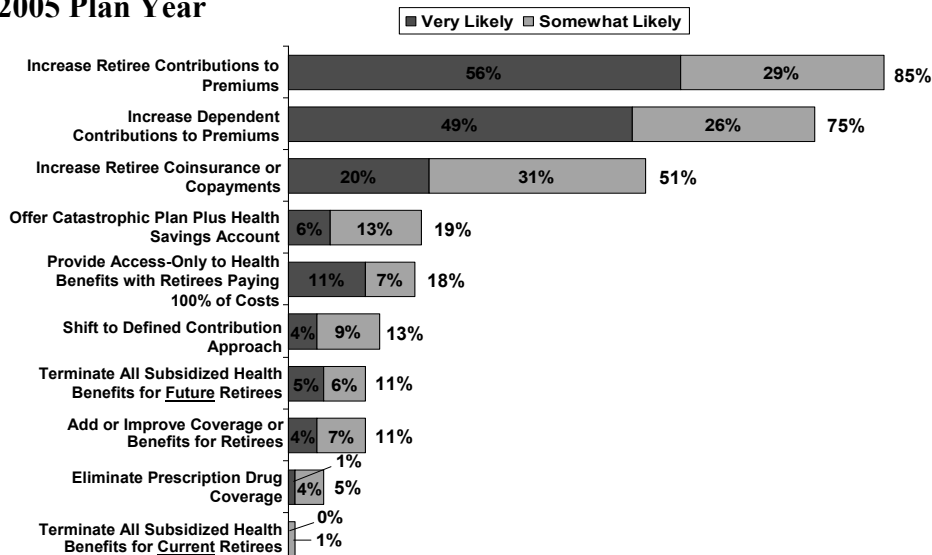
### Option #4: Discontinue Rx Coverage or Provide Access Only

- Advantages
  - Maximum savings
  - Eliminates retiree Rx coverage involvement for employer
- Challenges
  - Take away for retirees who have Rx coverage
- Effect on Retirees
  - No retiree Rx coverage or access only provided
- Potential savings: 100%

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Exhibit 14

### Likelihood of Making Changes to Retiree Health Benefits for the 2005 Plan Year

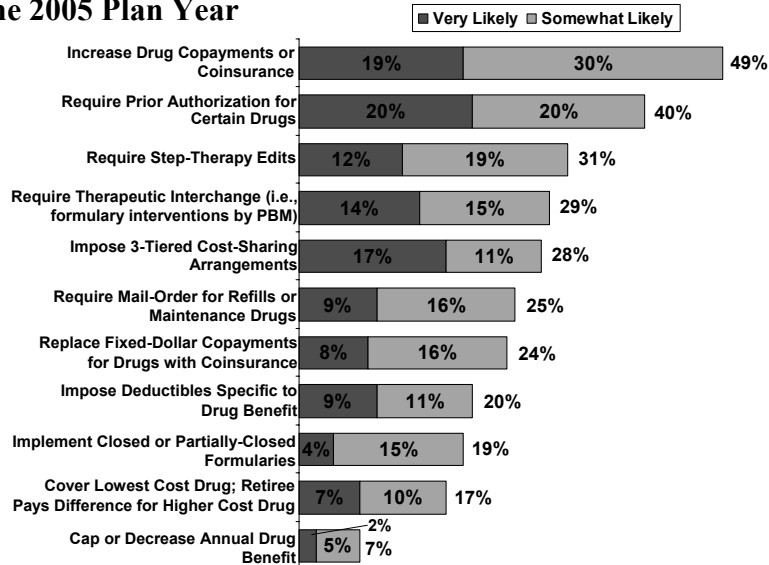


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Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.  
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

Exhibit 15

## Likelihood of Making Changes to Manage Retiree Drug Costs for the 2005 Plan Year



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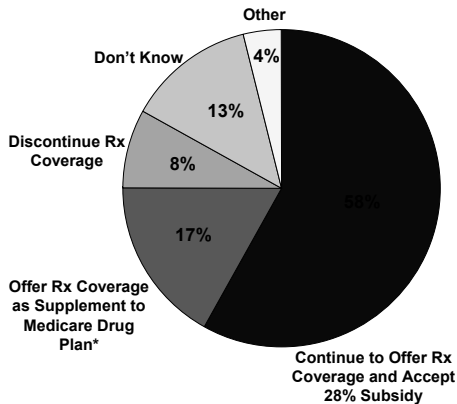
Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.  
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

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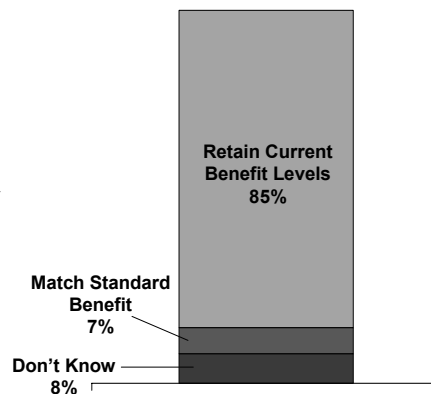
Exhibit 22

## Strategies Employers Are Likely to Choose Under the Medicare Drug Law

Strategies firms are likely to choose under the Medicare drug law:



Among employers who plan to continue coverage and accept 28% subsidy:



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Note: Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits. Applies to plan with the largest number of Medicare-eligible retirees.  
SOURCE: Kaiser/Hewitt 2004 Survey on Retiree Health Benefits, December 2004.

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# **Making It Happen**

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## **Making It Happen**

### **All Employers**

- Research and document retiree plans
- Know Medicare entitled population covered by each plan, including spouses and dependents
- Understand capabilities of health plan carriers to maintain and report individual-level claims data
- Understand capabilities of your retiree health care administration system

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## **Making It Happen**

### **All Employers**

- Understand what's worked well—and not so well—when communicating with your retirees
- Consider the information/misinformation retirees will receive about Part D
- Be specific about what retirees need to do—or not do
- Get ready to answer some tough questions
- Don't forget about your active employees

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## **Making It Happen**

### **Subsidy Option**

- Verify and/or collect data on Medicare entitled retirees, spouses, and dependents
- Confirm health plan carrier/PBM will report claims data in CMS' required format and timeframe
- Consider what you'll do when people enroll in Part D

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## **Making It Happen**

### **Subsidy Option**

- Communicate early to cut through the clutter
- Say it more than once and use channels that work
- Acknowledge what the company “gets” in return
- Be clear about consequences of enrolling in Part D

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## **Making It Happen**

### **Wrap Option**

- Most current plan designs are copay-based and coordinate poorly with Part D design
- No standard plan design across all 50 states
- Important to consider how to handle “snowbirds” when implementing this design

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## **Making It Happen**

### **Wrap Option**

- Provide step-by-step instructions for enrolling in Part D
- Explain what retirees will need to do differently when they use Part D coverage
- Be clear about consequences of NOT enrolling
- Anticipate questions and be proactive about providing answers

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## **Making It Happen**

### **Elimination Option**

- Expect retiree phone calls with questions, concerns, and requests for alternatives
- Provide tools for active employees to help them understand need to save for retiree health care expenses

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## **Making It Happen**

### **Elimination Option**

- Explain impact to all affected parties—retirees, surviving spouses, and active employees
- Educate retirees about Part D benefits and Medigap policies in the marketplace
- Have media, government relations, and shareholder relations communication plans in place
- Help employees understand what they can do to cover additional costs in the future—total retirement picture

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## **Questions??**

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