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Adding Our Strength To Yours
Since 1980

OPPORTUNITIES FOR HEALTHCARE SAVINGS

2009

Agenda for Discussion

- Healthcare Costs Spiraling out of Control
- Retiree Rx Drug Coverage Options
- What is Retired Drug Subsidy (RDS) ?
- What are Employer Group Waiver Plans (EGWP) ?
- RDS vs. EGWP
- CMS Certifies and approves EGWP Companies and each state insurance department requires each to be licensed .
- Case Studies



Rx Costs

Medical Costs

Administration

Rx costs are the fastest growing segment of overall Healthcare costs

Rx costs traditionally represent 19% of all Healthcare Spending

Rx costs for the 65 + population is close to 38%

19% of all Seniors are on chronic medications

Rx costs are growing at a double digit rate

We are going to show you



CMS designed the Part D benefit to allow retention of employer or union sponsored benefits and to provide subsidies to employers or unions to offset the expense of offering such benefits. The two popular options are:

1. Retiree Drug Subsidy (RDS)

RDS created an incentive for plan sponsors to maintain existing retiree prescription coverage. In 2009, plan sponsors will be reimbursed 28% of allowable Rx costs between \$295 and \$6,000 per person. The CMS provided subsidy is tax-free to offset the prescription costs. Plan sponsors need to maintain necessary records for auditing purposes and other oversight.

2. Employer/Union-Only Group Waiver Plan (EGWP)

A type of employer group plan where membership is restricted solely to employer or union sponsored group plan members. EGWP approved company contracts with CMS to offer this benefit to the employer or union plan sponsor on CMS's behalf. EGWP approved company receives the direct subsidies, low income subsidies and reinsurance payments for the employer's or union's approved beneficiaries and passes the savings on to the employer or union and their members.

Retiree Rx Drug Coverage Options

Advantages of RDS

- Predictable future cost subsidy from CMS
- Subsidy is typically about 20% of drug spend (roughly \$500 per retiree)
- Subsidy is exempt from federal taxes (some states tax subsidy payments)
- No change in existing benefit design is required as long as the plan is equivalent to or better than standard Medicare Rx coverage

Disadvantages of RDS

- Administrative burdens and costs associated with the application, notifications, and reporting requirements – costs can potentially reach 25% of the subsidy
- Non-profit organizations do not benefit from the subsidy's tax exemption
- Plan sponsors' retiree benefit may not meet actuarial equivalence tests for future retirees
- Employers must wait a minimum of 3 months and generally up to 21 months for subsidy payments
- Required audits of subsidy reconciliation could be burdensome
- No catastrophic coverage above a certain drug spend (\$6,000.00)

RDS (Retiree Drug Subsidy)

Advantages of EGWP

- **Cost Savings** – subsidies represent approximately 15% - 20% of gross CMS approved drug costs under RDS compared to up to 19% - 35% under EGWP (depending on plan design)
- Employer/Union Group can **shift the risk to the Part D Plan Sponsor** with a fully or partially-insured EGWP
- Catastrophic coverage is built in to the Part D benefit (once the beneficiary reaches \$4,350 in out of pocket expenses, he/she pays no more than 5% coinsurance)
- **Minimal disruption to the membership** – current pharmacy plan design can usually be maintained
- Tax-exempts treated equally with taxable entities (not missing out on tax advantages)
- Monthly prospective direct subsidy received from CMS based on number of enrollees
- **CMS approved company handles all administrative functions for EGWP which can lead to cost savings of up to 25%**
- Provides a greater reduction in GASB 43/45 liability
- Multiple advantageous waivers available

CMS Certifies and approves EGWP company (Employer Group Waiver Plan)

RDS vs. EGWP Comparison

RDS

- 28% of allowable drug costs between \$295 and \$6000 (for 2009), tax-free.
- No catastrophic coverage
- No tax advantage for public sector and non-profits
- Estimated about 15% -20% of total drug spend (average about \$500 per retiree)
- High administrative burden
- State and local government - New GASB disclosure requirements allow retiree healthcare liability to be reduced by only one year's worth of RDS payment.
- Required to book future cost for retiree benefits under GASB 45 and FASB 106
- Must pass two actuarial equivalence tests

EGWP

- Employer is only responsible for retiree premium component - estimated savings up to 19% - 35%
- Catastrophic coverage built in to Part D plan
- More attractive for tax-exempts (non-profits and public sector)
- No cash flow issues for employer - savings realized on a monthly basis
- CMS sponsoring company handles all administrative functions
- Provides a greater reduction in GASB 43/45 liability and FASB 106
- Reduced personal exposure
- Multiple advantageous waivers

RDS vs. EGWP GASB Liability Comparison

Very Important To Recognize

- GASB 45 the Governmental Accounting Standards Board (GASB) was established in July 2004 because of the growing concern over the potential magnitude of government employer obligations for post-employment benefits.
- GASB 45 is an accounting and financial reporting provision requiring plan sponsors to measure and report the liabilities associated with other (than pension) post-employment benefits
 - A direct employer subsidy, such as RDS, is accounted for as revenue in the year in which the subsidy is received and not as an upfront reduction in an employer's GASB costs.
 - *An EGWP (PDP) subsidy is reflected as a reduction in an employer's GASB costs. 75% of the Rx liability can be shifted to CMS sponsoring company.*

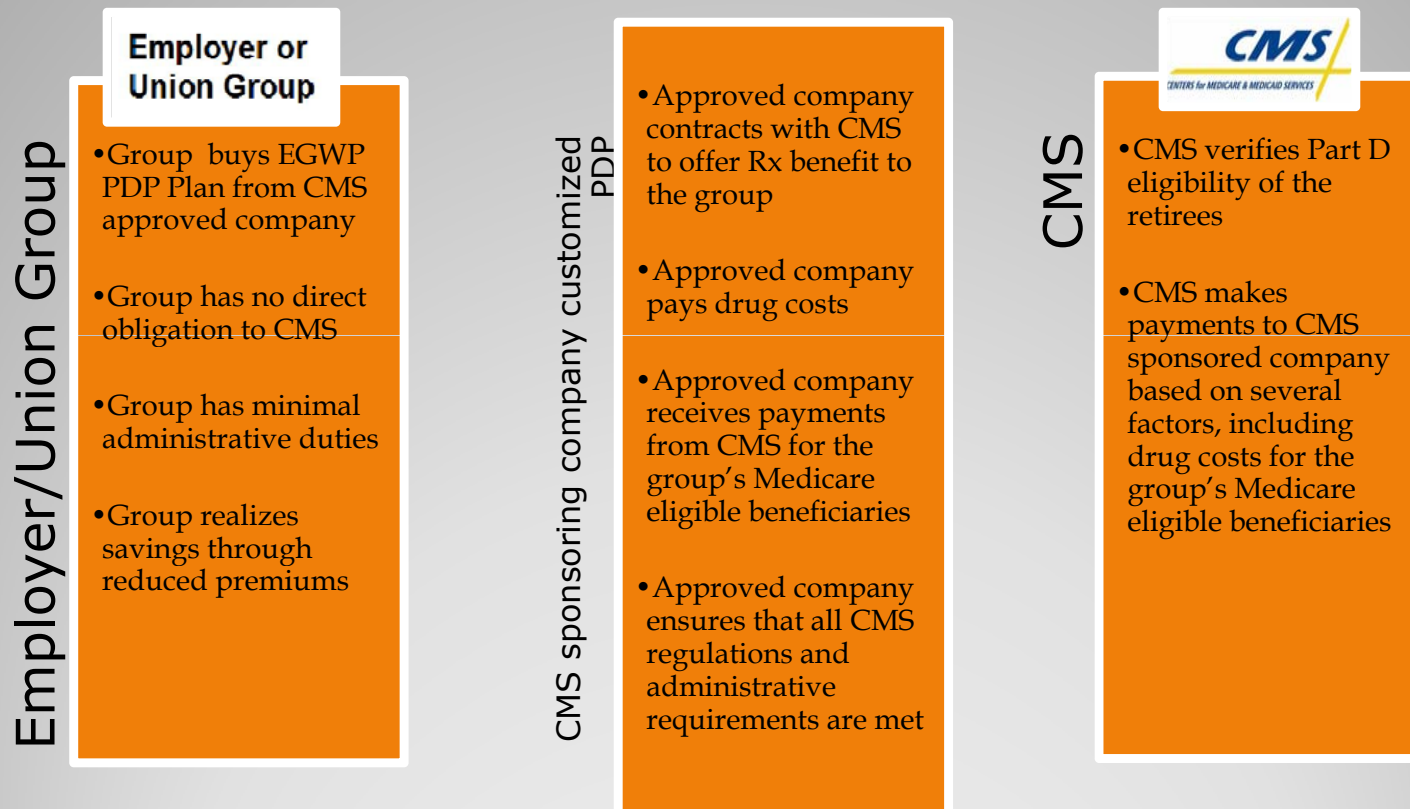
Resulting in higher bond ratings & lower interest rates

RDS vs. EGWP GASB Liability Comparison

- Our CMS approved sponsoring company has a quickly expanding Medicare Part D Drug plan licensed in 40 States to provide Employer Group Waiver Plan services
- As of May 2009, our CMS approved sponsoring company has nearly 80,000 individual Part D enrollees and 3,000 beneficiaries through employer group health plans
- Our CMS approved sponsoring company strives to provide high quality products and top of the line customer service while still maintaining affordability

Who is our CMS sponsoring company?

Contracting with CMS approved sponsoring company for EGWP Benefits



CMS approved company will take on all of the employer group's Medicare retiree drug coverage burdens (financial, regulatory, "high risk," plan administration, formulary, and administrative) and be the group's liaison with CMS.

CMS has to approve sponsoring company for EGWP

EGWP

- Savings rate 32% to 35%
- Net savings on average of 19%-21%
- No Cap on Spending*
- Prospective Payments
- Better Cash Flow
- Better Cash Management

EGWP Recap **With specialty drug this is becoming critical to all retirees and companies*

- Case study was based on 2008 financial data
- No change in plan design benefit
- All subsidies were included in the analysis
- Plan Savings
 - \$17.27 PMPM (15.69%)
- In the case of 25,000 members, this translates into \$4.5 million savings per year or approximately \$382,000 per month

Medicare Program Comparative Financial Analysis Illustration Expressed on a Per Member Per Month (PMPM) Basis

	<u>EGWP</u>	<u>RDS</u>
Gross Drug Cost Net of Rebates	\$229.69	\$229.69
Copayments	\$45.94	\$45.94
Base Subsidy Amount	\$60.87	\$44.79
Interest Income from Prospective Payments	\$1.84	\$0.00
Federal Reinsurance Subsidy	\$0.34	\$0.00
Administration Fees	\$6.89	\$3.90
Total Annual Plan Cost	\$123.60	\$142.87
EGWP PDP \$ Differential Relative to RDS	\$17.27	
EGWP PDP % Differential Relative to RDS	15.69%	

Case Study

RDS vs. EGWP Case Study

Number of Eligible Plan Members: 245

Employer Contribution: 100% Eligible Retirees & Spouse

<u>RDS</u>	<u>EGWP</u>
Plan Benefits using Participating Pharmacies	Group PDP Benefits
> \$200 Deductible	> No Deductible
> \$10/\$50/\$100 Co Pay	> 2X Mail Order
Plan Benefit Using City Pharmacy	Retiree Monthly Cost: \$107.00
> No Deductible	
> \$5/\$25/\$50 Co Pay	
Average PRPM Rx Cost: \$148.06	Savings of \$21.78 per month per retiree
Average Monthly RDS: \$19.28	
Net PRPM Rx Cost: \$128.78	\$128.78 vs. \$107.00
PRPM = Per Retiree Per Month	17% Savings

Case Study

RDS vs. EGWP Case Study

Upstate New York School District

RDS Administrative Issues

A medium size school district in upstate New York has 600 retirees and applied through CMS for RDS subsidy in 2007. The paperwork was accepted but the administrative, actuarial and documentation issues were so cumbersome that they failed to receive one subsidy over the 12 month period

In 2008, they applied for a RDS subsidy again and CMS denied the application because of the problems they had with the 2007 filing

They came to our CMS approved sponsoring company and they filed an appeal on their behalf for 2007 and 2008 to recoup the subsidies

Our sponsoring company is now handling the school district's retirees through their EGWP program. The administrator of the school district was overwhelmed with the response from them, the ease of moving his business to an EGWP and the Account Management support and guidance he is receiving from them.

Case Study.

EGWP vs. EGWP Case Study

Customer Service “Sells”

Service - Responsiveness - Attention to Detail - Customer First

A large TPA with numerous municipalities, unions and small employer groups was using a large Mid-West PBM for their EGWP

The program was installed with a great deal of “pain” on both sides

The savings were realized over RDS but the responsiveness from the PBM was slow and inconsistent

In 2009, the TPA’s executives moved their business to our CMS approved company

The transition was so smooth that the President of the TPA wrote a glowing letter about the ease of transition, the attention to details, the seamless way in which the transition was accomplished, and the superlative customer service from them and their Account Management Team

Would you like to submit a free no obligation quote ?

Case Study

GASB 43/45 Case Study

A Municipality with \$48 Million in Retiree Health Benefits and a corresponding \$19.2 Million in Pharmacy liability was able to shift 75% of the Rx liability to CMS sponsored company.

Reducing their overall Retiree Health Benefit liability from \$48 Million to \$33.6 Million

continued

GASB Calculation:

\$48 Million in Health Benefit Liability
Approximately 40% of the retiree health
dollar is pharmacy costs or \$19.2 Million
75% of \$19.2 Million equals \$14.4 Million
 $\$48 \text{ M} - \$14.4 \text{ M} = \$33.6 \text{ Million!}$

*Another way to calculate this is to take off
30% of your total health benefit liability*

Contact

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