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# The Value of Medicare Advantage Employer Group Waiver Plans (MA-EGWPs) for Employers and Retirees

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## Executive Summary

More than 2.7 million retirees receive health insurance coverage from their employer through a Medicare Advantage Employer Group Waiver Plan (MA-EGWP). Like other MA plans, MA-EGWPs cover all Medicare Part A and Part B benefits, plus supplemental benefits such as reduced cost sharing and non-Medicare covered health services. CMS waives certain requirements for MA-EGWPs so that they may limit enrollment to only eligible retirees and family members of a retiree and modify rules to meet an employer's specific needs such as a uniform plan design and broad national access to providers.

MA-EGWPs are increasingly used by employers and unions to offer comprehensive health coverage for their Medicare-eligible retirees at lower cost than traditional employer retiree coverage. However, recently, policymakers have raised concerns that federal payments to MA-EGWPs exceed those paid to non-EGWP MA plans and have proposed policies that would reduce MA-EGWP payments.

To assess the impact that these proposed payment cuts would have on employers and the value of MA-EGWPs as a coverage option, Avalere Health interviewed 10 employers currently offering MA-EGWPs to their retirees. Avalere interviewed a mix of both public and private employers as well as union groups, with combined retiree plan enrollment representing approximately 19 percent of the total MA-EGWP market. Interviewed employers offer coverage from one of three Medicare Advantage Organizations.

Avalere found that MA-EGWPs are valued by employers because they:

- Lower employers' costs and reduce long-term liabilities
- Offer robust coverage that matches or exceeds previous employer coverage
- Include care coordination and disease management programs, providing opportunities to lower costs that are not available in traditional retiree coverage
- Offer plan options that maximize flexibilities in coverage for employers and retirees
- Rate high in terms of retiree satisfaction

Employers indicated that they are following the discussion on payment changes for these plans and are beginning to factor this into their decisions about long term use of MA-EGWPs. If MA-EGWPs were no longer a cost effective option, employers would likely discontinue offering them to retirees leading to increased costs for employers and significant disruption for their retirees. As a result, retirees would likely lose access to care coordination programs, possibly reversing gains in health status and outcomes.

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## Background

### Medicare-Eligible Retiree Health Coverage

Most Medicare beneficiaries have some form of supplemental health coverage. For non-institutionalized beneficiaries, former employers are the predominant source of this supplemental coverage.<sup>1</sup> Employers will often “wrap around” the traditional Medicare benefits by lowering retiree out-of-pocket costs, including reducing deductibles and cost sharing. Additionally, employers may offer additional benefits to retirees such as vision or dental coverage or supplement drug coverage so that the benefits more closely resemble pre-retirement coverage.

However, rising healthcare costs have put significant pressure on employers, leading many to discontinue or reduce retiree health benefits.<sup>2</sup> In addition, financial accounting and reporting requirements that went into effect in the 1990s require employers to report retiree liabilities on their financial statements, compounding cost pressures, and causing many private employers to stop offering coverage.<sup>3</sup> Though facing similar pressures, some public employers and labor unions are required by legislation or collective bargaining agreements to cover retiree benefits. Still other employers may be expected to provide health benefits to their retirees. These employers may reduce benefits or shift more costs to retirees in order to limit their current costs and projected liabilities.

Indeed, private employer coverage of Medicare-eligible retiree health benefits is declining. In 2010, only 15.9 percent of employees worked at private companies that offered Medicare-eligible retiree coverage, down from 25.4 percent in 1997.<sup>4</sup> Additionally, only 6.1 percent of private employers offered Medicare-eligible retiree benefits in 2011.<sup>5</sup> Some private employers that continue to offer retiree coverage cap their contributions to control costs and liabilities, which in turn may increase costs for retirees.<sup>6</sup>

Although coverage of Medicare-eligible retiree benefits for public sector workers has also declined, public employers are more likely to offer this coverage than private employers. In 2010, 63.2 percent of state governments and 67.3 percent of local governments offered Medicare-eligible retiree coverage.<sup>7</sup> However, both of these offer this coverage at rates lower than in previous years.<sup>8</sup>

### Overview of MA-EGWPs

MA-EGWPs are a type of MA plan established by the Medicare Modernization Act (MMA) of 2003 for which the Centers for Medicare & Medicaid Services (CMS) waives certain MA program requirements to facilitate employer group coverage. Waivers allow plans to restrict enrollment to an employer’s retirees, vary premiums for beneficiaries living in different areas, provide a uniform plan design on a national basis and relax some of the network adequacy requirements (see Table 1).

The MMA also granted employers flexibility with regard to the Part D prescription drug benefit. As a result, employers may receive a retiree drug subsidy to provide drug coverage, offer only a Part D EGWP, offer separate MA and Part D EGWPs, or offer a combined product including both medical and Part D coverage known as an MA-PD EGWP. Currently 57 percent of MA-EGWP enrollees are in MA-PD plans; in contrast, 94 percent of non-EGWP MA enrollees are in MA-PD plans.<sup>9</sup>

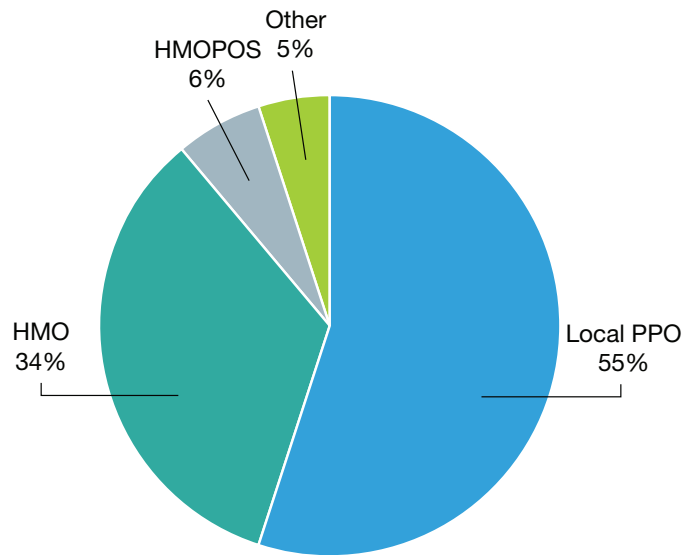
**TABLE 1. Waivers Available for MA-EGWPs**

MA Requirements	EGWP Waivers
Enrollment Requirements	<ul style="list-style-type: none"> <li>EGWPs may restrict enrollment solely to their retirees</li> <li>EGWPs may enroll Part B-only members</li> <li>EGWPs do not have to comply with the Medicare annual coordinated election period</li> <li>Modifies some of the enrollment notification requirements for EGWPs</li> <li>CMS will waive minimum enrollment standards</li> </ul>
Service Area Rules	<ul style="list-style-type: none"> <li>In certain circumstances, CMS will waive the requirement that plans can cover only beneficiaries in the service areas in which they operate EGWPs can offer plans even if they do not offer individual plans in the same areas</li> <li>Coverage can extend to all retirees, regardless of whether they reside in one or more other PDP or MA regions in the nation</li> </ul>
Premium Requirements	<ul style="list-style-type: none"> <li>CMS will waive the uniform premium requirement meaning EGWPs can vary premium and cost sharing amounts for enrollees in different geographic areas</li> <li>CMS will allow EGWPs to determine how much of the Part C and Part D premiums they will subsidize</li> <li>EGWPs are not required to have beneficiaries use premium withholds</li> </ul>
Marketing Rules	<ul style="list-style-type: none"> <li>CMS will waive prior review and approval requirements for MA marketing materials and specific Part D marketing/ beneficiary communications</li> </ul>
Bidding	<ul style="list-style-type: none"> <li>EGWPs do not submit Part D bids and MA EGWPs submit “placeholder” bids with customization of benefits not subject to CMS approval</li> <li>Plan offerings do not have to meet CMS’ meaningful difference requirements</li> </ul>

Like individual MA plans, MA-EGWPs can be health maintenance organizations (HMOs) and local or regional preferred provider organizations (PPOs).<sup>11</sup> Currently, 55 percent of MA-EGWP enrollment is in local PPO plans.<sup>11</sup>

While a small number of employers contract directly with CMS to provide these benefits, nearly all (95 percent) MA-EGWP enrollment is in plans offered by employers under contract with a private health plan. Using a private plan allows employers to shift key administrative responsibilities and insurance risk to the plans.

**Figure 1. MA-EGWP Enrollment by Plan Type, 2014**



Source: Avalere analysis Analysis of CMS' Monthly Enrollment by Plan File, January 2014. Available at <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/MCRAdvPartDEnrolData/Monthly-Enrollment-by-Plan.html>. "Other" plan types include 1876 Cost (2.3%) and Regional PPO (2.6%) plans. Note: Percentages for "Other" plan type do not sum due to rounding.

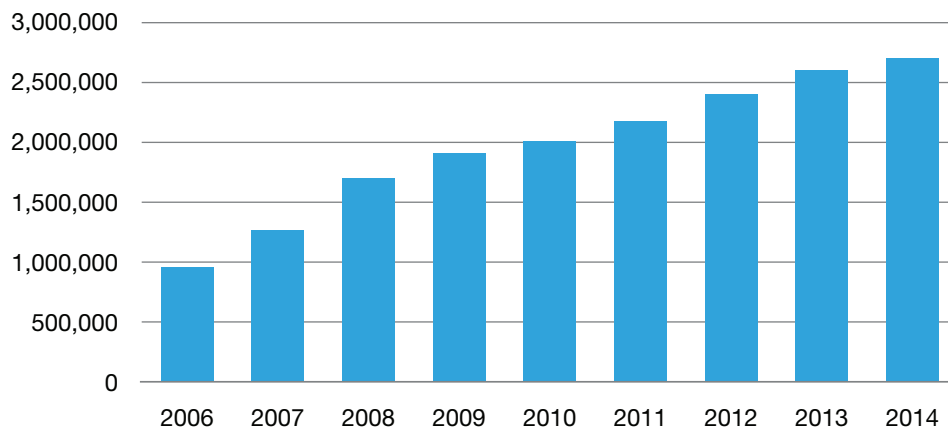
### MA-EGWP Enrollment Trends

Currently, there are more than 2.7 million Medicare beneficiaries in MA-EGWPs. These enrollees comprise 18 percent of total MA enrollment. MA-EGWP enrollment has grown rapidly since 2006, nearly tripling since that time, and increasing by nearly 700,000 enrollees since 2010.<sup>12</sup> Public employers' enrollees comprise more of the total MA-EGWP enrollment than private employers' enrollees.

### MA-EGWP Bidding and Payment

All MA plans, including MA-EGWPs, submit bids to CMS that detail expected costs for providing the Medicare Parts A and B required benefits. Plan payments are determined by comparing these bids to administratively determined benchmarks set at the county level. If a plan's bid falls below the benchmark, it receives a portion of the difference to enhance beneficiary offerings. However, if its bid is above the benchmark, the plan must charge enrollees a premium equal to the difference. Under this structure, individual MA plans have an incentive to bid below their benchmarks in order to enrich their offerings.

**Figure 2. MA-EGWP Enrollment by Year**



Source: Avalere analysis of Medicare Advantage/Part D Contract and Enrollment Data: Monthly Enrollment by Plan 2006–2014. Available at: <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/MCRAdvPartDENrolData/Monthly-Enrollment-by-Plan.html>.

MA-EGWPs bid differently than individual MA plans in that their bids are considered placeholder bids because plan benefit packages are negotiated after the fact with employer groups. The bids are composite and are not customer-specific, but rather reflect experience with various products over a broad geography. While individual MA bids reflect the expected costs for the exact benefit design that the plan intends to sell, MA-EGWP bids reflect what the plan expects its costs to be for providing the Medicare Parts A and B benefits with the out-of-pocket maximum required by CMS. Therefore, this bid may not reflect the exact benefit package that the plan sponsor sets for an employer group.

A variety of factors may contribute to higher average MA-EGWP bids compared to average individual MA plan bids.<sup>13</sup> Individual MA plans have a stronger incentive to bid below benchmarks compared to MA-EGWPs. Additionally, MA-EGWPs, in order to be attractive to employers, may offer products that lead to higher bids. Specifically, MA-EGWPs cover larger geographies in order to accommodate employers with retirees living in various locations. As a result MA-EGWPs tend to be PPOs, which have higher bids on average than HMOs.<sup>14</sup> In addition, in order to offer national coverage, MA-EGWPs may operate in geographies where it is more difficult to establish networks.

## Policy Context

Recently, policymakers have raised concerns that MA-EGWP bids are higher than individual MA plan bids and much closer to their benchmarks, suggesting that these differences lead to excess payments to MA-EGWPs that subsidize employer offerings. In response to its own findings, the Medicare Payment Advisory Commission (MedPAC) supported recommendations that, if adopted by Congress, would effectively reduce payments to MA-EGWPs.<sup>15</sup> Additionally, CMS has noted that it is investigating differences in bid levels between MA-EGWPs and individual MA plans.<sup>16</sup> A proposal to reduce MA-EGWP payments was also included in the FY 2014 President's Budget.<sup>17</sup>

## Methodology

Avalere conducted interviews with 10 employers offering MA-EGWPs to retirees, including government (public) and private employers, as well as unions. These employers offered coverage across various geographies with some covering retirees nationally. The interviewees included six public employers, two private employers, and two union groups representing a mix of local, state, and national groups. Interviewees also used various carriers for their coverage, with coverage from three different private plans represented. The employers collectively represent approximately 510,800 MA-EGWP enrollees or 19 percent of total MA-EGWP enrollment.

The individuals interviewed all played a key role in making recommendations or decisions concerning retiree health benefits. The majority of interviewees were directly responsible for retiree health benefit decision-making.

Avalere used a questionnaire to guide the interviews, which was shared with interviewees in advance. All interviews were conducted via telephone, at which time all information was collected from interviewees. Interview questions solicited background information on the interviewee and the organization, as well as information about MA-EGWP offerings, decision-making, and the perceived value of MA-EGWPs.

## Study Findings

Avalere analyzed the information collected from the ten employer interviews to determine consensus among interviewees on benefits and incentives for using MA-EGWPs. The findings also reveal key characteristics and trends in MA-EGWP use.

### MA-EGWPs Lower Employer and Retiree Costs While Reducing Long-Term Liabilities

All employers interviewed identified cost savings as the primary reason for deciding to offer MA-EGWPs. This was particularly important for public employers or unions for whom the provision of benefits was either legislated, required under a collective bargaining agreement,

or mandated as a matter of precedent. Some of these entities noted that while the provision of benefits was not formally required, discontinuation of retiree health coverage would be unprecedented and would meet with significant backlash. Employers emphasized that containing the costs of providing retiree health coverage is their most important goal.

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### Employer Perspectives

*“From the company’s perspective, it’s all about price, saving money. Being able to provide the same level of benefit at a more affordable price is the sole reason we did it.”*

*“Cost containment is number one.”*

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At least three employers realized immediate and significant financial returns from deciding to offer MA-EGWPs, with one employer saving \$50 million in the first year of implementation alone. A second employer had been borrowing from pension funds to pay for retiree health coverage and needed a way to contain premium contributions for its Medicare plan. Offering an MA-EGWP has allowed them to achieve this goal, even into the seventh year of using the MA-EGWP. Similarly, another employer was in danger of exhausting allocated reserves for retiree coverage by 2015. Once reserves were exhausted, it would lose the ability to pay for premiums over what was collected each year specifically for health care costs. The MA-EGWP reduced costs and contributed significantly to replenishing reserves. In fact, the employer is now projected to maintain reserves through 2060.

Offering MA-EGWPs afforded some employers not only greater visibility into their long-term liability for retiree coverage, but also led to a reduction in that liability. One employer reduced its 30-year liability by \$1.3 billion, and feels strongly that the MA-EGWP allows it to contain costs. Another employer stated that the MA-EGWP offering is especially significant to reporting liabilities given the new Governmental Accounting Standards Board (GASB) public entity reporting requirements.

A few employers found that MA-EGWPs also provide cost savings for special retiree populations. One employer is able to absorb the costs of a large group of Medicare Part B only beneficiaries and charge all members a standard, competitive premium. Another employer noted that the plan offered affordable health care benefits to a retiree population that skews older and sicker.

Most employers acknowledged that they continue to evaluate whether it is less expensive to use MA-EGWPs compared to offering separate Medicare supplemental coverage. The majority of employers expressed that they would return to their previous coverage offering(s) if MA-EGWPs did not continue to be more cost effective than Medicare supplemental coverage. However, at least one alluded to possibly discontinuing the benefit altogether given cost pressures.

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## Employer Perspectives

*“Whether we continue with MA-EGWPs in future years depends, but the plan is to continue to the extent that it remains economically prudent.”*

*“We evaluate offering retiree coverage every year, but haven’t stopped yet—probably the reason why is because of MA-EGWPs.”*

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Some employers also noted that the switch to an MA-EGWP results in cost savings for retirees. One employer that caps its contributions toward coverage said that the decision to switch to an MA-EGWP was based mostly on the cost savings generated for enrollees, since employer contribution amounts would not change under a new plan. In some cases, retirees realize cost savings from MA-EGWPs in the form of lower monthly premiums and/or cost sharing than under previous retiree coverage. One employer noted that its retirees have each saved “a few hundred dollars” per year compared to costs they would have incurred under the previous Medicare supplemental coverage option. In some instances, employers do not contribute fully toward premiums for dependents, and so retirees also realize cost savings from lower premiums for dependents under MA-EGWP coverage.

Although most employers interviewed still offer retirees a choice of coverage between an MA-EGWP and traditional Medicare plus a supplemental plan, employers are encouraging enrollment in MA-EGWPs to maximize savings. Some employers assign retirees to the MA-EGWP and require them to opt out, while other employers rely on the lower costs associated with the MA-EGWPs to attract enrollees. However, two interviewees offered only the MA-EGWP to retirees.

## MA-EGWPs Offer Robust Coverage that Matches or Exceeds Previous Employer Coverage

All employers noted that their MA-EGWP retiree coverage options largely mirror or are actuarially equivalent to what they had offered retirees previously. As part of their selection process for MA-EGWP coverage, most employers required carriers to match their previous benefits. In many instances, carriers were able to replicate the coverage that the employers had offered, especially with respect to cost-sharing, deductibles, and premiums. In other instances carriers offered a benefit package that, while not an exact match, was actuarially equivalent to the previous benefits.

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## Employer Perspectives

*“We put out bids that are prescriptive. While we tell plans what we want, we will consider their recommendations. Ultimately our... Board... makes final decisions on benefit design.”*

*“The value of our additional benefit coverage is actuarially equivalent; it doesn’t exactly mirror [previous coverage]. The additions were the medical management programs we put in place. The carrier was able to match benefits well overall. Individual benefits may have had comparatively better or worse cost-sharing, but in the aggregate everything matched.”*

*“We have been able to offer very consistent coverage each year. In fact, it mirrored the existing coverage we had prior to the MA plan.”*

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In addition, all employers noted that plans offered extra benefits and “bells and whistles” beyond what the employer covered previously. For instance, plans provided discounts for vision and dental services not previously offered and “Silver Sneakers” gym memberships. Additional benefits mentioned include: transportation services, meal services, diabetes management, home audits to ensure safety, and on-site social programs that help retirees understand how to optimally access health care services to improve care, outcomes, and quality of life. Additionally, a number of employers felt that MA-EGWPs provided better coverage for members overall.

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### **Employer Perspectives**

*“We look at the MA offering as our benefit to shape as we want. We have three requirements for benefit design: (1) must cover everything covered under traditional Medicare, (2) must cover specified services additional to those covered under traditional Medicare, and (3) must offer enhanced benefits (e.g., transportation, gym membership, zero cost-sharing, etc.) Our intention is to design a richer benefit than traditional Medicare.”*

*“Members enjoy a higher level of benefits in the MA plan.”*

*“Members receive reduced cost-sharing and enhanced benefits through the MA-EGWP.”*

*“MA-EGWPs cater to retirees. Some of the plans offer access to retiree gyms and exercise programs that are included in the premium.”*

*“MA-EGWPs allow us to offer programs that we couldn’t afford to fund as a [Medicare] secondary payer. They offer a much better quality of care situation and give retirees more perks.”*

*“Over the last 6–7 years [since the transition], we have found costs much less and benefits much richer for retirees. For this reason, we’ve continued to push MA-EGWPs and their programs.”*

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All employers interviewed noted that, for the most part, they have been able to keep the additional benefit offered through the MA-EGWP consistent year-to-year. One employer noted that it has had stable benefits for the seven years it has used an MA-EGWP. Another employer noted that it has been able to offer mostly consistent benefits, with the value of its additional benefit coverage decreasing slightly because of an increased maximum out-of-pocket.

### Employers Value MA-EGWP Care Coordination and Disease Management Programs and their Potential to Lower Costs

All employers described the benefits of MA-EGWP care coordination and disease management programs as an important consideration for deciding to offer and continue with MA-EGWPs. Many employers see care coordination programs as providing retirees better quality care while managing costs over the long term.

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#### Employer Perspective

*“Care coordination strategies are very important to us when choosing our retiree benefit options. We are committed to MA because we believe in care management and that it is the big distinction between MA and Fee-for-Service (FFS) to help manage future costs. Having care management and high quality is essential to making the retiree coverage work over the long term.”*

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Some employers noted that under traditional retiree coverage (i.e., FFS Medicare plus supplemental coverage) they do not have the ability to coordinate care or offer disease management for members with certain conditions. One employer asserted that its decision to offer MA-EGWPs was due to the opportunity to provide its retirees with access to quality care and assure health and wellness in a way that is not possible under Medicare supplemental coverage. Another employer stated that its Medicare supplemental coverage “does nothing to keep retirees healthy” so the care coordination available through MA-EGWPs is important to them for improved health and lower costs.

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#### Employer Perspectives

*“We care about the health and well-being of our retirees. We believe they receive a lot better care and a lot more touch points from the MA-EGWP.”*

*“MA-EGWPs offer additional benefits to members around care management and better coordinated care.”*

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However, one employer remarked that the care coordination programs that have yielded such benefits to date are plentiful, but may be relatively easy for the plans. For example, its MA-EGWP delivers disease management services and information over the phone or through distribution of educational pamphlets. The employer is working with the plan to deliver more hands-on care management services. The employer stressed that more targeted or face-to-face services could even further improve member health outcomes.

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### Employer Perspective

*“We have had conversations with [our carrier] about a more robust, aggressive face-to-face care management program that we would like them to have (as opposed to pamphlets/ phone calls). They have been receptive to the idea. A lot of their programs in place already are those they believe sufficiently comply with Medicare requirements. We are hoping for more robust, face-to-face care management moving forward.”*

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### Employers Report High Retiree Satisfaction with MA-EGWPs

A number of employers reported that their retirees are satisfied with or “liked” their MA-EGWP coverage. Member satisfaction was reported to be high even in cases where there was initial resistance to the MA-EGWP offering. One employer described that it took about two years for retirees to transition to the plans but now they are very popular among the employees and the employer would have a difficult time taking the option away. Employers noted that if MA-EGWPs were no longer offered, retirees would be “unhappy.” Additionally, employers reported that losing the MA-EGWP option would cause significant coverage disruption for their members.

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### Employer Perspective

*“We’ve had high satisfaction (99% retention), and if these plans were no longer offered there would be disruption.”*

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### Employers Mostly Offer PPOs Because of Network Flexibility Across Geographies

All employers interviewed offer an extended service area PPO option and almost all offer this as their primary MA-EGWP offering. Extended service area PPOs are PPOs that offer coverage in areas where they do not have a full network of providers, but if enrollees see out-of-network providers in these areas the benefits are paid at in-network levels. These products offer employers the ability to cover wide geographies since retirees may live in

different areas across the country. This type of PPO also allows employers the flexibility to offer an option that mimics traditional Medicare in terms of networks. This is because plans can create a “silent PPO” where retirees do not experience any differences in cost sharing for in-network or out-of-network services.

Employers described their need for broad geographic coverage, particularly national coverage, for their retirees. One employer noted that while 97 percent of the organization’s retirees are in one state, the remaining enrollees are spread across many different areas. A second employer stressed that its carrier decision was made based on the national coverage offered by the plan.

Most employers described the importance of the “silent PPO” as a component of the successful transition to MA-EGWP coverage. These PPOs allow enrollees to see any provider, whether in-network or out-of-network, without any variation in cost sharing. This is similar to what retirees experienced under traditional employer retiree coverage (i.e., FFS and supplemental coverage). From the member’s perspective, there are no noticeable differences in terms of which providers they can visit.

However, at least two employers are already beginning to transform their silent PPOs into true preferred networks in order to introduce cost sharing differences for their retirees. Their goal is to eventually begin making in-network versus out-of-network distinctions as member satisfaction builds for the MA-EGWP offering(s). Instituting a PPO has allowed employers to implement a cost-sharing mechanism that was previously unavailable under Medicare supplemental offerings.

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### Employer Perspective

*“The MA-EGWP PPO structure introduces a new cost-sharing mechanism as we transition from a “silent PPO” to making an in-network versus out-of-network distinction beginning in the last year.”*

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All employers’ retiree coverage offerings include either a single option MA-EGWP PPO or a combination of MA-EGWP PPO and Medicare supplemental options. While 50 percent of employers interviewed also offer HMO choices, these tend to be more localized offerings in specific communities where there are preferred provider groups for retirees. Additionally, some employers offer a choice of MA-EGWP PPO plans, such as plans with different deductibles or with a basic and enhanced Part D benefit.

## Most Employers Have Separate Part D EGWPs But May Move to Combined MA-PD Product in the Future if More Cost-Effective

Most employers interviewed (6 of 10) chose to offer separate Part D EGWPs with their MA-EGWPs providing only medical benefit coverage. Most noted that this decision was due to the fact that costs were lower to offer these as separate benefits. One employer mentioned that part of the decision to keep the benefits separate when introducing the MA-EGWP offering was to provide some consistency for enrollees and not change too many elements of their coverage at the same time. At least one employer opted to offer a combined MA-PD product because of the administrative ease of dealing with a single carrier.

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### Employer Perspective

*“So far we have been able to secure better discounts through our independent PBM than through a combined MA-PD EGWP offering. The decision to keep the benefits separate is strictly from a cost standpoint.”*

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Many of those employers currently managing the Part D benefit separately noted their openness to considering a combined product, if less expensive, in the future. One employer anticipated that the cost containment benefits of a combined MA-PD EGWP would come with the tighter benefit integration and care coordination that this product would make possible. A few employers even mentioned that they are considering pursuing a combined offering as soon as the next year or two and are planning to release requests for proposals from carriers.

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### Employer Perspective

*“We have considered a combined option previously. Medicare is clear through its actions/regulation that it prefers participants be in a combined MA-PD. From an administrative standpoint, an MA-PD is preferential. Also, a combined option is likely in the best interest of our membership (average age of 76). We are therefore open to evaluating a combined option down the road.”*

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## Employer Views Varied on MA-EGWP Administrative Simplification

Employers expressed a range of opinions regarding whether MA-EGWPs simplify administration of retiree benefits. Some appreciated having the MA-EGWP manage necessary administrative and payment functions. One employer that considered offering a self-insured EGWP by directly contracting with CMS believed that using a carrier was easier since a self-insured option would have been time-consuming and created liabilities for the organization.

One employer also acknowledged that members benefited from the ease of communicating directly with the MA-EGWP rather than coordinating with the supplemental coverage.

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### Employer Perspectives

*“Members just go to their doctors’ offices, get services/treatment, and then go home.”*

*“This simplifies enrollees’ lives. Simplification for the enrollee is one of the things that we used to promote the initial transition to the MA offering.”*

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Other employers found coordinating with both the MA-EGWP and CMS challenging. This was emphasized by at least one large employer that contracts with multiple carriers to administer its MA-EGWPs. For this employer, transitioning to MA-EGWPs did not simplify administration, but made it more challenging given the level of coordination involved. One employer actually expressed that the MA-EGWP offering introduced new administrative burden now that three parties (carrier, employer and CMS) were involved.

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### Employer Perspective

*“We didn’t achieve administrative efficiencies. It could be because we’re bigger, use more vendors – it’s more complicated for us. We have some families split between an MA plan and other offerings, which complicates administration of benefits. MA-EGWPs are a good model, but we need a lot of people to manage all of this.”*

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## Conclusion

Employers overwhelmingly view MA-EGWPs as a means to offer consistent, high value retiree coverage at lower costs than other retiree coverage options. For at least one of the private employers interviewed, the savings realized by the employer from offering MA-EGWPs allowed it to continue offering retiree coverage that it might have otherwise had to discontinue. In particular, these plans are especially important to public employers and union groups that may be required or under pressure to continue offering retiree benefits even as costs escalate. The reduction in costs has allowed public employers to achieve financial stability while continuing these benefits, often without needing to make significant cuts to benefits. If MA-EGWPs were no longer an affordable option, public employers and union groups would likely again be struggling with covering the costs of these benefits.

The benefit flexibilities afforded MA-EGWPs are meaningful to employers and important to their success with retirees, but may drive up MA-EGWP bids. For instance, retirees’

comfort with silent PPOs helps encourage migration to MA-EGWPs, however, these PPO products are less managed than HMO offerings and therefore may lead to increased costs that are reflected in plans' bids. Further, employers need the extensive geographic coverage afforded by PPOs to provide benefits to their entire retiree population; and while PPOs make this possible, having to offer this coverage in areas where the networks are less developed may increase plans' costs.

The care coordination and disease management programs available under MA-EGWPs are particularly important to employers as a strategy to improve the quality of coverage offered and reduce long-term costs. A number of employers interviewed stressed the importance of these programs in their value of MA-EGWPs. Perhaps more importantly, some employers also are actively monitoring and working with MA-EGWPs to improve these programs. Since these programs are difficult, if not impossible, to implement under Medicare FFS with supplemental coverage, employers would be limited in their ability to offer these programs in the absence of MA-EGWPs.

Administrative simplification is not guaranteed for employers using an MA-EGWP. Employers with multiple plan offerings or separate Part D benefits may face more administrative complexity. And a number of employers desired more flexibility from CMS around these plans. However, as employers gain experience with these products (some employers are newly offering MA-EGWPs in 2014) and move toward combined products, they may achieve greater administrative efficiencies.

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### Employer Perspectives

*“MA-EGWPs have been an incredibly valuable tool to help a company that’s cash poor continue to provide coverage for 80,000 Medicare retirees and their dependents. These people would otherwise lose their supplemental coverage and be out there on their own.”*

*“These programs are good. They work and they save money.”*

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Employers base their decisions about retiree coverage in general, and offering MA-EGWPs in particular, on their costs. Employers reported following the federal policy discussion on MA-EGWPs, but none have decided to discontinue offering these plans as a result. Although employers did say that these issues could factor into their decisions about long term use of MA-EGWPs. If MA-EGWPs were no longer cost effective due to policy or market changes, it is likely that employers would eliminate the MA-EGWP option, creating disruption for employers and retirees. Members could face benefit changes and increased cost-sharing in alternative plans (i.e., Medicare supplemental coverage). In addition, they would likely lose access to care coordination programs, possibly reversing gains in health status and outcomes.

## Notes

- <sup>1</sup> Medicare Payment Advisory Commission (MedPAC), A Data Book: Healthcare Spending and the Medicare Program, June 2012, Chart 5-1, available at: <http://www.medpac.gov/documents/Jun12DataBookEntireReport.pdf>.
- <sup>2</sup> Towers Watson, "2013 Healthcare Changes Ahead Survey: Employers' Actions Today and Plans for the Future", September 2013, available at: [www.towerswatson.com](http://www.towerswatson.com). See also "GE, IBM Ending Retiree Health Plans in Historic Shift," by Alex Nussbaum in Bloomberg Personal Finance, September 9, 2013, available at <http://www.bloomberg.com/news/2013-09-09/ge-to-ibm-ending-retiree-health-plans-in-historic-shift.html>.
- <sup>3</sup> Employee Benefit Research Institute (EBRI) Issue Brief, Employment-Based Retiree Health Benefits: Trends in Access and Coverage, 1997-2010, No. 377, October 2012.
- <sup>4</sup> *Ibid.*
- <sup>5</sup> *Ibid.*
- <sup>6</sup> *Ibid.*
- <sup>7</sup> *Ibid.*
- <sup>8</sup> *Ibid.*
- <sup>9</sup> Analysis of CMS' Monthly Enrollment by Plan File, January 2014, available at: <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/MCRAdvPartDEnrolData/Monthly-Enrollment-by-Plan.html>.
- <sup>10</sup> Private-fee-for-service (PFFS) plans were widely used for employer coverage until new requirements for networks were established for these plans. Employer sponsored PFFS plans are required to establish contracts with a sufficient number of providers across service categories in their services areas. Most PFFS plans have converted to PPOs.
- <sup>11</sup> Analysis of CMS' Monthly Enrollment by Plan File, January 2014, available at: <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/MCRAdvPartDEnrolData/Monthly-Enrollment-by-Plan.html>. "Other" plan types include 1876 Cost (2.3%) and Regional PPO (2.6%) plans. Note: Percentages for "Other" plan type do not sum due to rounding.
- <sup>12</sup> Medicare Advantage/Part D Contract and Enrollment Data: Monthly Enrollment by Plan 2006-2014, available at: <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/MCRAdvPartDEnrolData/Monthly-Enrollment-by-Plan.html>.
- <sup>13</sup> MedPAC, Medicare Advantage Program: Status update, and employer bid and hospice policies, January 16, 2014, available at: [http://www.medpac.gov/transcripts/MA\\_1014\\_Final.pdf](http://www.medpac.gov/transcripts/MA_1014_Final.pdf). See CMS, Advance Notice of Methodological Changes for Calendar Year (CY) 2012 for Medicare Advantage (MA) Capitation Rates, Part C and Part D Payment Policies and 2012 Call Letter, released February 18, 2011, available at <http://cms.hhs.gov/Medicare/Health-Plans/MedicareAdvSpecRateStats/Announcements-and-Documents.html>.
- <sup>14</sup> MedPAC, Medicare Advantage Program: Status update, and employer bid and hospice policies, January 16, 2014, available at: [http://www.medpac.gov/transcripts/MA\\_1014\\_Final.pdf](http://www.medpac.gov/transcripts/MA_1014_Final.pdf).
- <sup>15</sup> *Ibid.*
- <sup>16</sup> CMS, Advance Notice of Methodological Changes for Calendar Year (CY) 2012 for Medicare Advantage (MA) Capitation Rates, Part C and Part D Payment Policies and 2012 Call Letter, released February 18, 2011, available at: <http://cms.hhs.gov/Medicare/Health-Plans/MedicareAdvSpecRateStats/Announcements-and-Documents.html>.
- <sup>17</sup> The President's Budget for Fiscal Year 2014, available at: <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/budget.pdf>.



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## About Us

Avalere is a vibrant community of innovative thinkers dedicated to solving the challenges of the healthcare system. We deliver a comprehensive perspective, compelling substance, and creative solutions to help you make better business decisions. We partner with stakeholders from across healthcare to help improve care delivery through better data, insights, and strategies. For more information, please contact Jennifer Rak at [JRak@avalere.com](mailto:JRak@avalere.com). You can also visit us at [www.avalere.com](http://www.avalere.com). We look forward to working with you.

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