PERSPECTIVES

TOWERS PERRIN
HR SERVICES

NEW MEDICARE LEGISLATION: NEW OPPORTUNITIES FOR EMPLOYERS

As employers with large retiree populations well know, continuing to absorb a significant share of retiree health care costs can have a dramatic impact on balance sheets and income statements. In light of the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which includes a government-subsidized prescription drug benefit, increased federal payments to Medicare HMOs and other changes, employers have new opportunities to manage health benefit costs, improve performance and enhance employee satisfaction.

Although the new legislation will take effect in phases, employers who revisit their retiree medical commitments now and decide how they plan to support current and future retirees will have more time for transition, implementation and communication if and when they do make changes.

THE NEW LEGISLATION IN A NUTSHELL

The Medicare Prescription Drug, Improvement and Modernization Act of 2003,* signed into law on December 8, 2003, provides employers with a new set of options. In brief, the new legislation:

- adds optional prescription drug coverage for Medicare-eligible individuals beginning in 2006
- provides a tax-free subsidy to qualifying employers who continue to provide drug coverage to retirees
- makes changes to the Part B premium structure that will significantly increase premiums for retirees with incomes over $80,000
- provides larger government payments to Medicare Advantage plans (formerly known as Medicare+Choice plans) beginning in 2004.

*For more detailed information about the Medicare Prescription Drug, Improvement and Modernization Act of 2003, link to the December 2003 edition of the Towers Perrin *Monitor* or contact your Towers Perrin consultant.

IMPLICATIONS OF NEW MEDICARE REFORM LEGISLATION

Although most employers want to protect their current retirees from mounting medical expenses, they are deeply concerned about their own retiree medical costs and FAS liabilities. In the past five years alone, retiree medical premiums have nearly doubled, according to the *Towers Perrin 2004 Health Care Cost Survey.*

Since the new legislation significantly changes the retiree medical landscape, employers have good reason to revisit their benefit strategies for current and future retirees. Many employers that offer medical benefits to current retirees will continue to provide drug coverage and opt for the federal subsidy; others will redesign their retiree medical programs to supplement the Medicare drug benefit, and yet others will reduce or drop current retiree and/or future retiree drug coverage altogether. Some employers will continue applying the same approach for current and future retirees, while others will choose to follow different strategies for the two groups.

No matter which direction companies take, employers can take advantage of new opportunities to manage health benefit costs, improve performance and enhance satisfaction by taking the following actions:

- **Reduce costs**

Although the Financial Accounting Standards Board (FASB) has not fully defined the accounting for the new legislation, companies that continue to provide prescription drug coverage to retirees and qualify for a tax-free government subsidy will realize FAS 106 cost savings and be able to reduce retirees' costs.

- **Review cost sharing**

Given the changes in Medicare, employers may decide to modify the cost sharing for premiums and/or expenses incurred. Some may opt to place more of an emphasis on accountability by charging employees more if they select inefficient plans or inefficient treatment.

- **Manage vendors**

Since Medicare Advantage plans will receive larger government payments beginning in 2004, Medicare HMOs may become attractive yet again. To enhance vendor performance, which can vary from one market to the next with significant differences in negotiated fees and performance for pre-age 65 and age 65 and over coverage, employers should consider steps to:

  - select lower-cost, efficient vendors in employers' key markets
  - ensure the best contracting, pricing, formulary management, due diligence auditing and program cost monitoring with pharmacy benefit managers
  - measure the financial performance of their health plans
  - consider whether HMO self-insurance is advantageous.

- **Enhance employee and retiree engagement**

Employee and retiree engagement in health care is best accomplished through a combination of plan design, effective communication and decision support tools. The new legislation allows employers to offer a new plan design and funding approach that combines health savings accounts (HSAs) with high-deductible health insurance. Employees and pre-age 65 retirees who participate in these plans can use their HSAs to set aside tax-free money to meet medical expenses not paid for by their insurance. Given these changes, employers have new opportunities to promote employee and retiree engagement by taking steps to:

  - use strategic communications that enhance understanding, acceptance and commitment to change; provide employees and retirees with the information they need to make informed enrollment choices and prudent health care decisions
  - encourage and enable employees/retirees to make informed health care decisions through shared responsibility, accountability and support
  - utilize care management to improve the quality and cost effectiveness of care — focus on the 15% of employees and retirees who account for 75% of annual health care costs.

- **Stem decreased productivity**

For companies that are already in an exit mode from employer-sponsored health care, the new Medicare legislation, which will eliminate the biggest gap in coverage, may accelerate their plans to discontinue retiree medical coverage. However, companies that are thinking about exiting should consider the following risks:

  - Some unproductive employees may decide to defer their retirement.
  - An exit may prompt negative media attention and lower employee morale.

LOOKING AHEAD

Although the Medicare Prescription Drug, Improvement and Modernization Act of 2003 does not take effect immediately, changes to medical benefit programs take time to plan, implement and communicate. That's why employers looking to address retiree medical issues in a timely manner should get started right now.

FOR FURTHER INFORMATION

If you have questions about this subject or other health care issues, please contact your Towers Perrin consultant.

ABOUT TOWERS PERRIN

Towers Perrin is a global professional services firm that helps organizations around the world optimize performance through effective people, risk and financial management. The firm provides innovative solutions to client issues in the areas of human resource consulting and administration services; management and actuarial consulting to the financial services industry; and reinsurance intermediary services.

The HR Services business of Towers Perrin provides global human resource consulting and administration services that help organizations effectively manage their investment in people. We offer our clients services in areas such as employee benefits, compensation, communication, change management, employee research and the delivery of HR services.