



GASB75

OPEB Plans - How Do We Reduce Costs? RDS vs EGWP?

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New accounting rules for public other postemployment benefit plans to replace GASB 45 will take effect in 2018 for most plan sponsors. To ensure a successful transition to the new standards, you will need to understand various new concepts (largely mirroring those found in GASB 67/68) and new terms. Odyssey will be providing a series of white papers on this subject which will review these topics in some detail. We continue with "OPEB Plans - How Do We Reduce Costs? RDS vs EGWP?".

The Retiree Drug Subsidy Program And The Employer Group Waiver Plan

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With the issuance of the Governmental Accounting Standards Board (GASB) Statement 75 ("GASB 75) - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" – in 2015, sponsors of public Other Post Employment Benefit (OPEB) plans are searching for answers on how to mitigate these liabilities. As you've seen in our prior white papers on GASB 75, this new standard is required for fiscal years beginning after June 15, 2017.

Odyssey's working group has reviewed the new Statements and have issued guidance on how to best transition to the new Statements based on determining the impact on our client's liabilities and expenses and evaluating strategies for pre-funding and financial statement recognition.

Past Working Group Updates

- GASB 75 – Introduction & Notable Changes
- GASB 75 - Crossover Date & Why It Matters
- GASB 75 - Investment Return & Money-Weighted Rate of Return
- GASB 75 - OPEB Expense And Deferred Inflow & Outflow Of Resources
- GASB 75 - Valuation, Measurement & Reporting Dates & their interaction

While the prior working group updates have dealt with the accounting standard, it is equally if not more important to deal with the actual benefits themselves and how we can reduce employer cash costs while preserving benefits for the retirees & their beneficiaries. This white paper "OPEB Plans – how do we reduce costs? RDS vs EGWP?" is meant to address the Medicare eligible part of your retiree population (usually 80%-90% of total OPEB Plan liabilities).

Visit **GASB75.com** for the latest information on the new GASB OPEB statements.



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Two Avenues to Reduce Medicare Prescription Drug Costs

1. Retiree Drug Subsidy Program
2. Employee Group Waiver Plan

What is the Retiree Drug Subsidy (“RDS”) Program?

It is a federal subsidy for maintaining your retiree prescription drug program. The RDS program reimburses 28% of qualified pharmaceutical expenditures between an applicable cost threshold and a cost limit (for 2017, these figures will be \$400 and \$8,250 respectively).

How do you qualify for the RDS Program?

To qualify, an employer must pass an actuarial equivalence test to prove that its prescription drug coverage is at least actuarially equivalent to the coverage provided via Medicare Part D. To maintain such qualification, employers must recertify annually. Additionally, they are required to send monthly membership information to the Centers for Medicare and Medicaid Services (“CMS”) along with performing other administrative duties. Employers will want to weigh the benefit of this subsidy against the required administrative tasks and the costs of annual actuarial testing.

What is an Employer Group Waiver Plan?

An Employer Group Waiver Plan (“EGWP”) is a Medicare Part D prescription drug plan (“PDP”) where the employer or plan sponsor contracts with a vendor (usually a Pharmacy Benefit Manager (“PBM”)) who receives a federal subsidy via CMS. This subsidy is determined by a risk formula rather than by a retiree’s level of spending. This EGWP subsidy is directly credited to the employer in the form of reduced rates. An EGWP also offers catastrophic reinsurance which pays 80% of costs once an individual’s costs exceed a threshold (\$7,062.50 as of 2016) on a reimbursement basis.

What Is A Wrap And Should You Implement It?

As with a standard Medicare Part D plan an EGWP has a coverage gap (aka “donut hole”). Once the plan reaches a threshold (\$3,310 for 2016) for an individual, they enter this coverage gap and Medicare Part D coverage will not reimburse any prescription drug expenses until such costs exceed the catastrophic reinsurance threshold noted above. In order to minimize costs without reducing benefits, plan sponsors may want to consider adding a wraparound provision. Such a provision can take advantage of the coverage gap discount program—in which drug manufacturers provide a 50% discount on brand name drugs, while a participant is in the gap. The chart below depicts the potential savings in the gap resulting from using an EGWP with a wrap. Note in both cases the retiree pays \$40, but in the case of the EGWP + wrap, the employer is able to offset its costs using the \$100 (50%) coverage gap discount program (therefore paying \$60 rather than \$160). Notably, coverage gap payments are considered an out-of-pocket expense thus pushing participants through the coverage gap towards catastrophic coverage.

	RDS Plan	EGWP + wrap
Drug Cost	\$200	\$200
Base Medicare plan payment	\$160	\$5
Manufacturer Discount	N/A	\$100
Wrap plan payment	N/A	\$55
Retiree payment	\$40	\$40
Plan Sponsor Total Payment	\$160	\$60

Source: Health Strategies Group



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What Qualities Make A Good Candidate For An EGWP?

Ideal candidates are those employers who are looking to offer Medicare prescription drug coverage at a reduced cost and have at least 100 eligible retirees/dependents (this isn't a strict line and can still work for smaller groups). Candidates who could not pass the RDS actuarial equivalence test may be eligible for an EGWP. Employers should ensure that they have the internal resources necessary for implementation. Candidates must also consider the administrative fees associated with a PBM.

How Do An RDS Program And An EGWP Compare?

In the recent past RDS programs were the choice of the majority of employers looking for a Medicare prescription drug subsidy. However, the Affordable Care Act ("ACA") revoked the tax exempt status of the RDS which greatly reduced the benefit provided to taxable plans. As a result, there has been a heightened awareness of EGWPs which have the potential to offer an even greater benefit than an RDS. EGWPs typically offer a higher base subsidy than an RDS as well as catastrophic reinsurance (not offered by the RDS). An EGWP with a wrap offers even greater savings by taking advantage of manufacturer discounts. Notably, an RDS program is subject to actuarial testing, while an EGWP is not. Furthermore, the RDS program requires extensive administrative duties while these are minimal for an EGWP (the PBM handles many of these duties as part of their contract). With that said, each program does require employer resources and the employers will need to weigh those resource needs prior to implementing either option.

Does This Impact Retirees?

With both an RDS program and an EGWP + wrap program, retirees should essentially receive the same benefits they had prior to the conversion. For an EGWP, there are certain CMS requirements that need to be met, so you will want to discuss this with your PBM prior to conversion.

Impact on OPEB Liability

In GASB accounting, future subsidies cannot be used to offset liabilities for future benefits. As such an RDS program will not impact liability. Conversely, an EGWP utilizes a direct subsidy which lowers premiums. Consequently, savings are implicitly reflected in the form of reduced premiums thus reducing OPEB liability under both GASB & FASB accounting schemes.

Considering Transitioning?

Many states, businesses, and government entities have already begun the transition. According to estimates from Buck Consulting, an EGWP can offer an additional savings of \$500-\$700 each year per Medicare-eligible retiree as compared with an RDS program. In 2014 the state of Vermont transitioned into an EGWP which is estimated to save the state between \$2.1 million and \$2.6 million per year and reduce OPEB liability by over \$100 million.

Key Takeaways?

The Retiree Drug Subsidy Program (RDS) has traditionally been the popular choice for employers who are seeking to reduce retiree prescription drug costs without cutting benefits. While the RDS program can significantly reduce expenses, many plan sponsors are finding that an Employer Group Waiver Plan can lead to even greater savings and ultimately reduce postemployment liabilities.

If you have any questions about what an RDS or EGWP program may mean for your OPEB Plan and the impact on your OPEB accounting, please contact your Odyssey Advisors representative.

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