

The Hidden Opportunity in Medicare Part D

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Producers can help employers develop new health benefit strategies that address the varying needs of their active and retired employees.

Looks can be deceiving. Sometimes what appears to be an offering you can't beat, ends up turning into an opportunity to solve problems for customers in a way that builds a long-term sales relationship.

For decades, benefits consultants advised companies to group retirees with their active employees for health care benefits. It made sense; there were more active workers than retirees, and retirees usually didn't live long after leaving the work force — both factors which kept the added cost of covering retirees low. Unfortunately, the strategy also limited the sales opportunity for health producers to target this market.

Then along came Medicare Part D — the federal government's prescription drug plan. In an attempt to keep companies from abandoning their coverage, Medicare Part D provides a 28% subsidy for companies to continue their existing retiree drug plans. In 2006, many companies took the subsidy, believing it was not only their easiest choice but also a potential money maker. The door to opportunity for the health producer appeared to close even more tightly.

But today, companies are waking up to the fact that the subsidy comes with expensive strings attached. Not only are there the annual costs of actuarial studies and federal audits, but companies must also address the headaches of tracking their retirees, some of whom may sign on for Medicare Part D on their own. The complexity of the program, plus the oversight from the federal government, is making the subsidy look less like a good deal and more and more like treacherous quicksand.

At the same time, health care costs are soaring, led by the high-cost prescription drugs that many retirees depend on to keep their blood pressure down, their cholesterol in check, and a myriad of other health problems under control.

The result? Companies are becoming increasingly desperate to find a way out. For every high-profile case like General Motors, where health care costs as much as the steel that is built into each car, there are hundreds of other companies struggling to balance their duty to shareholders and the bottom line with their obligation to employees and retirees.

Lack of Options

Small to mid-sized employers, the prime drivers of job growth in the U.S., are no strangers to these woes, but they may have fewer options when it comes to taking full advantage of Medicare D. The businesses rack up actuarial costs to prove that an employer's prescription drug program is comparable to Medicare D. Those expenses make applying for the federal subsidy far from cost-effective for small businesses in most cases. The administrative burden associated with tracking retiree health benefits is particularly onerous for companies in this group because they may not have a dedicated human resources department.

Those not applying for the federal subsidy may have decided that doing nothing in the face of Medicare D is the best course of action. The employers may have opted to keep their retiree health benefits the same as they have always been and let the chips fall where they may. Having thrown their hands in the air, companies may not have considered contracting with a PDP to avail themselves of both the accounting and risk sharing advantages. Also, many will not have seen that shifting retirees to Medicare D is an effective exit strategy from these long-term commitments. It is a strategy that reduces a company's liabilities while

maintaining quality healthcare for former employees.

In short, the door to opportunity may look closed, but a window has opened, and the aggressive producer can make a compelling case to companies that are hoping to find a different solution.

A Different Approach

The key is for producers to position themselves as problem solvers. By helping employers craft a new health benefit strategy that solves their headaches while meeting their commitment to retirees, producers can position themselves as valued partners, not just product sellers.

What solution can you offer? Urge companies to divide retirees from the active population and address their health care needs with a separate plan. Let them know that by contracting out for this responsibility, they gain several benefits:

- It reduces the costs of administering retiree health care. Their human resources department escapes the time-consuming responsibilities of health care processing and oversight, as well as the day-to-day dealings with retirees.
- It eliminates the crazy-quilt health care contracts that most national companies are forced to put together to provide coverage across the nation.
- It allows companies to budget a certain ongoing expense for retiree benefits as opposed to carrying a future estimated liability on the books.
- It spreads the risk and often lowers the cost of covering current workers. Typically, claims for retirees are much higher than claims for employees, driving up the cost of providing coverage to active workers. By contracting out to put retirees in a nationwide plan, the high-cost risk is shared across a larger pool of people with similar health care status.
- It provides companies with an initial move toward recasting the responsibility for retiree health care, putting on the table the possibility of shifting from a defined benefit commitment to a defined contribution approach.

The Results

The savings aren't just theoretical. One large Midwestern manufacturer gave up the 28% subsidy and contracted out its retiree health benefit obligation. The results were a 55% savings in out-of-pocket costs and a reduction by half for retiree co-pays.

Employers today provide health insurance coverage to 12 million retirees who are 65 or older and another 3.6 million early retirees who have yet to reach Medicare age. Many companies are looking for creative, cost-effective ways to take care of the workers who spent decades in their service. The savvy producers can help these employers adopt a new strategy that makes better sense. Carving out retirees and contracting out for their health care coverage is a winning solution that just may make 2007 the year of opportunity for health producers.

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