


COUNTY OF MILWAUKEE
DEPARTMENT OF HUMAN RESOURCES
INTER-OFFICE COMMUNICATION

DATE : April 25, 2012

To : Chairwoman Marina Dimitrijevic, County Board of Supervisors

FROM : Matthew Hanchek, Benefits Administrator – Department of Human Resources 

SUBJECT: **Report from the Benefits Administrator, Department of Human Resources, requesting authorization to implement an Employer Group Waiver Plan retiree medication strategy for 2013**

Issue/Background

The Employee Benefits staff is continually evaluating methods of making the County's fringe benefits programs more sustainable. To that end, Milwaukee County has participated in the Centers for Medicare and Medicaid Services (CMS) Retiree Drug Subsidy (RDS) program. Historically, this program has typically provided Milwaukee County with approximately \$3,000,000 of federal reimbursement toward the cost of covering prescription medication for our retirees, in lieu of requiring retirees to enroll in Medicare Part D.

Healthcare reform has created an alternative to the RDS strategy. An Employer Group Waiver Plan (EGWP) enrolls retirees in a Medicare Part D plan, and creates a supplemental benefit to make the employee whole for any differences between the Medicare Plan and the County's active plan. The end result creates a plan where the retirees continue to receive the same coverage as their active counterparts.

At the County's request, Medco has provided a proposal for converting the Medicare-eligible retirees to an EGWP plan. The Benefits staff did not seek alternative proposals from other vendors as we are under contract with Medco for administration of prescription benefits through 2014, and it is impractical to administer separate plans/vendors for the pre-Medicare and Medicare-eligible retiree populations.

Due to filing requirements by Medicare for establishing an EGWP plan, 6 months of lead time is required to implement this strategy. Medco would need to be notified of the County's decision regarding this strategy by June 1, 2012.

Fiscal Impact

Under the Medco proposal, Medco estimates a net savings of approximately \$1 million vs. the County's current RDS strategy. The actuary at Willis has independently validated the reasonableness of Medco's assumptions and calculations. If the EGWP strategy is adopted, we will need to scrutinize this further as Milwaukee County prepares the 2013 budget.

While additional details are provided in the fiscal note, the chart in attachment A shows approximately \$1,000,000 of net savings projected by Medco.

In addition to the net impact, it is important to note the significant change in administrative fees associated with the EGWP strategy. The annualized change in administrative fees for this group of employees is an increase of \$672,851. This is due to the underlying administrative structure and process completed by Medco becoming significantly more complex than the current RDS program. Willis has confirmed that the proposed administrative fees for this proposal are consistent with the market for EGWP administration.

Medco has been advised that should the County accept their proposal for the EGWP strategy, the annual Disadvantaged Business Enterprise (DBE) goal would be increased proportional to the increase in administrative fees. Medco has consistently met their DBE obligations to the County, and will work with the Community Business Development Partners to continue meet any revised goals as a result of this change.

Finally, implementing the EGWP strategy for 2013 would create an additional one-time fiscal benefit of approximately \$800,000. This amount is due to the lag time in process the Retiree Drug Subsidy, and is attributable to the run out of the 4th quarter of 2012.

Potential Disruption/Differences

The transition from the RDS strategy to an EGWP is primarily an administrative change that occurs behind the scene; however, there are some differences. Medicare does not allow mandatory mail order for maintenance medications, so Medicare-eligible retirees would need to be exempt from this rule. Some medications (approximately 1.6% of prescriptions currently covered) would fall outside of the Medicare formulary; however, the County would still cover those medications under the secondary wrap plan. Retirees who reach the catastrophic claim threshold defined by Medicare may pay less than the copays required by the County plan. In each of these cases, the difference would be beneficial to the retiree.

The County would transfer current retirees to the EGWP plan; however following up with retirees to confirm Medicare ID numbers may necessary in some instances. Further, the County's benefits enrollment file to Medco will need to be modified to forward that Medicare ID number. This programming change is within the capabilities of the V3 Co-Development Team. It will require staff time, but should not incur any additional programming cost.

Finally, Medicare does not allow participants in a Medicare Part D/EGWP plan to be covered by another Medicare perscription plan. While the County coverage will remain the same under an EGWP model, the loss of the ability to coordinate the County plan with another Medicare prescription plan could be perceived as a takeaway.

Requested Board Action

The Benefits Administrator, Department of Human Resources is requesting approval to adopt an Employer Group Waiver Plan in lieu of the current Retiree Drug Subsidy strategy for Medicare-eligible retirees for the 2013 Plan year. This change in strategy will increase administrative fees

paid to Medco by approximately \$672,000 annually, however, it is estimated to deliver a net reduction in annual Medicare-eligible retiree prescription medication cost of approximately \$1 million. This shift in strategy is also expected to result in a one-time savings of approximately \$800,000 due to the 4th quarter 2012 run out of the Retiree Drug Subsidy program.

Attachment A

Medco's Projected Net Financial Impact:

Per Member Per Month (PMPM) Cost Components	Projected 2013 RDS Strategy	Projected 2013 EGWP with Secondary Wrap
Total Drug Cost	\$269.74	\$272.86
Retiree Cost Share	(\$56.47)	(\$49.01)
Coverage Gap Discount Program	NA	(\$31.81)
Federal Reinsurance	NA	(\$11.06)
Total Plan Liability for Primary Coverage	\$213.28	\$159.19
Primary Plan Admin Fee	\$1.03	\$8.76
PBM Core Admin Fee	\$0.79	\$0.79
Rebates	(\$22.86)	(\$23.99)
Total Cost Before Subsidy	\$192.24	\$144.75
Federal Subsidy	(\$50.23)	(\$41.80)
Tax Advantage on RDS	NA	NA
Primary Plan Liability after Subsidy	\$142.01	\$102.95
Plan Liability for Secondary Coverage	NA	\$21.79
Secondary Plan Admin Fee	NA	\$1.50
Total Secondary Plan Liability	NA	\$23.29
Total Liability for Primary and Secondary Plans	\$142.01	\$126.25
Annual EGWP Savings vs. RDS:	\$142.01-\$126.25 = \$15.76 PMPM	
	\$15.76 PMPM x 5465 members x 12 months = \$1,033,500	

Cc: Chris Abele, County Executive
 Amber Moreen, Chief of Staff, County Executive's Office
 Kelly Bablitch, Chief of Staff, County Board
 Supervisor Willie Johnson, Chair, Finance & Audit Committee
 Supervisor David Cullen, Chair, Personnel Committee
 Patrick Farley, Director, Department of Administrative Services
 Craig Kamholz, Fiscal & Budget Administrator, Department of Administrative Services
 Kerry Mitchell, Director, Department of Human Resources
 Steve Cady, County Board Fiscal & Budget Analyst

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(ITEM) From the Benefits Administrator, Department of Human Resources, requesting authorization to implement an Employer Group Waiver Plan retiree medication coverage strategy for 2013.

A RESOLUTION

WHEREAS, Milwaukee County has a long-standing commitment to providing employees, retirees, and eligible dependents with high quality coverage through its employee benefits programs, and

WHEREAS, delivering benefits in an efficient and cost effective manner is critical to the sustainability of Milwaukee County's benefits programs; and

WHEREAS, Milwaukee County currently participates in the Retiree Drug Subsidy program for Medicare-eligible retirees to decrease the overall cost of coverage; and

WHEREAS, Medco has proposed an Employer Group Waiver Plan that exceeds the savings achieved by the current Retiree Drug Subsidy strategy; and

WHEREAS, Milwaukee County's Actuaries of validated the reasonableness of the savings projected by Medco; and

WHEREAS, an Employer Group Waiver Plan can be implemented for the 2013 plan year without diminishing benefits to Medicare-eligible retirees; now, therefore

BE IT RESOLVED, that the Benefits Administrator, Department of Human Resources, is hereby authorized to implement an Employer Group Waiver Plan for Medicare-eligible retiree prescription coverage effective January 1, 2013.

MILWAUKEE COUNTY FISCAL NOTE FORM

DATE: April 26, 2012

Original Fiscal Note

Substitute Fiscal Note

SUBJECT: Request for authorization to implement an employer group waiver plan for Medicare-eligible retirees for 2013

FISCAL EFFECT:

- | | |
|--|--|
| <input type="checkbox"/> No Direct County Fiscal Impact | <input type="checkbox"/> Increase Capital Expenditures |
| <input checked="" type="checkbox"/> Existing Staff Time Required | <input type="checkbox"/> Decrease Capital Expenditures |
| <input type="checkbox"/> Increase Operating Expenditures
(If checked, check one of two boxes below) | <input type="checkbox"/> Increase Capital Revenues |
| <input type="checkbox"/> Absorbed Within Agency's Budget | <input type="checkbox"/> Decrease Capital Revenues |
| <input type="checkbox"/> Not Absorbed Within Agency's Budget | |
| <input checked="" type="checkbox"/> Decrease Operating Expenditures | <input type="checkbox"/> Use of contingent funds |
| <input type="checkbox"/> Increase Operating Revenues | |
| <input checked="" type="checkbox"/> Decrease Operating Revenues | |

Indicate below the dollar change from budget for any submission that is projected to result in increased/decreased expenditures or revenues in the current year.

	Expenditure or Revenue Category	Current Year	Subsequent Year
Operating Budget	Expenditure	0	
	Revenue		
	Net Cost		-1,033,540
Capital Improvement Budget	Expenditure		
	Revenue		
	Net Cost		

DESCRIPTION OF FISCAL EFFECT

In the space below, you must provide the following information. Attach additional pages if necessary.

- A. Briefly describe the nature of the action that is being requested or proposed, and the new or changed conditions that would occur if the request or proposal were adopted.
- B. State the direct costs, savings or anticipated revenues associated with the requested or proposed action in the current budget year and how those were calculated.¹ If annualized or subsequent year fiscal impacts are substantially different from current year impacts, then those shall be stated as well. In addition, cite any one-time costs associated with the action, the source of any new or additional revenues (e.g. State, Federal, user fee or private donation), the use of contingent funds, and/or the use of budgeted appropriations due to surpluses or change in purpose required to fund the requested action.
- C. Discuss the budgetary impacts associated with the proposed action in the current year. A statement that sufficient funds are budgeted should be justified with information regarding the amount of budgeted appropriations in the relevant account and whether that amount is sufficient to offset the cost of the requested action. If relevant, discussion of budgetary impacts in subsequent years also shall be discussed. Subsequent year fiscal impacts shall be noted for the entire period in which the requested or proposed action would be implemented when it is reasonable to do so (i.e. a five-year lease agreement shall specify the costs/savings for each of the five years in question). Otherwise, impacts associated with the existing and subsequent budget years should be cited.
- D. Describe any assumptions or interpretations that were utilized to provide the information on this form.

A.) Approval of this request would enable the Benefits Administrator to end the County's current practice of applying for the Federal 28% Retiree Drug Subsidy (RDS), and transition the County to an Employer Group Waiver Plan (EGWP) for 2013.


B.) There is no impact to the current year, other than the time of existing staff. The transition to an EGWP strategy is projected to cause a net annual reduction in expenditures of \$1,033,000 beginning in 2013. In addition to this amount, the County would receive a one-time revenue of approximately \$800,000 attributable to the unbudgeted RDS subsidy from the final quarter of 2012. See attachment for details of the savings.

C.) There is no impact to the current year. All cost reductions realized in future years would be reflected in the overall org. 1950 budget. Org. Unit 1969 (Medicare D Revenue) would be decreased to reflect the runout from Q4 - 2012. Beginning in 2014, org unit 1969 would be eliminated.

D.) Medco assumed the current plan design with 5465 medicare-eligible retirees and dependents based on current enrollment. Significant changes to the number of Medicare-eligible retirees will impact this projection. Also, the projected savings are based on the current prescription drug coverage levels. Any changes to the plan design for 2013 will impact this projection. Further analysis will be required for the 2013 budget process. Changes to the federal regional ratings for premium subsidy, or other legislation may also impact the performance of an EGWP plan.

¹ If it is assumed that there is no fiscal impact associated with the requested action, then an explanatory statement that justifies that conclusion shall be provided. If precise impacts cannot be calculated, then an estimate or range should be provided.

Department/Prepared By Matthew Hanchek, Benefits Administrator

Authorized Signature 

Did DAS-Fiscal Staff Review? Yes No

Medco Projection – Validated by Willis.

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