



Department of Human Resources
Employee Benefits Division

INTER-OFFICE COMMUNICATION

Date: 7/2/12
To: Milwaukee County Board of Supervisors
FROM: Matthew Hanchek, Benefits Administrator – Department of Human Resources
SUBJECT: Informational report regarding the policy impact of the transition to an Employer Group Waiver Plan (EGWP)

Issue/Background

In the May cycle, the County Board approved my recommendation to change our strategy for pursuing federal funding for Medicare-eligible retiree prescription drug coverage from the Retiree Drug Subsidy (RDS) program to an Employer Group Waiver Plan. The impact of this transition was an annual estimated savings of \$1 million, and additional one-time savings of \$800,000 associated with the run-out of the current RDS application.

During the discovery phase of the EGWP project, we identified a requirement by the Centers for Medicare and Medicaid Services (CMS) that was not disclosed prior to seeking board approval for this project. CMS requires EGWP providers to lock in their pharmacy plan design for the entire plan year once the design has been communicated. The final pharmacy plan design must be submitted by September 1st, and communicated in writing to eligible retirees by November 1st of each year. For example, if by 9/1/2012 the County commits to a \$10 generic medication copay for the 2013 plan year, this benefit cannot be changed until 1/1/2014.

This requirement is in conflict with the County's current practice in two ways: First, under our current budget process the County Board will not adopt a final budget until well after November first. Effectively, I would be required by federal regulations to commit the County to a pharmacy plan design for all of 2013 before I have policy authority/direction to do so.

Second, the County has always retained the ability to make significant mid-year changes to the County's medical and pharmacy benefits (prior collective bargaining constraints notwithstanding), if necessary, to address a financial shortfall.

Benefits Analysis/Next Steps

Pharmacy benefit design is typically more stable than medical benefit design and, following the coverage updates in 2010 and 2011, our current copay structure is consistent with the private sector market. It is unlikely that a mid-year pharmacy plan change would be among the County's most effective options to address a hypothetical financial short fall. Nonetheless, the CMS requirements for the EGWP model would restrict the County's ability to apply a mid-year change

in pharmacy benefits to the Medicare-eligible retirees. Given the relative stability of pharmacy benefit design, and that our current design is already consistent with private sector benchmarks, the lost flexibility on this element of the overall pharmacy plan design will likely be a moot point. Consistent with board action taken in May, the Benefits Staff will proceed with the EGWP project. No action is being requested at this time.

Proceeding with the policy approved in May will commit Milwaukee County to providing Medicare-eligible retirees with the current pharmacy coverage through 12/31/2013. In the event the County budget process modifies the pharmacy benefit plan, the application of those changes to the Medicare eligible retirees would be delayed until after 12/31/2013. However, the requirement by CMS would not preclude the County from immediately applying changes to active employee or pre-65 retiree coverage at the start of the plan year, or on a mid-year basis.

Deadline For Alternative Policy Direction

While the Benefits staff recommendation is to proceed with the policy set in May, please note the County has the option until September 1 to abandon the EGWP project and continue with the prior RDS strategy. Taking this action would be a lost opportunity for reducing pharmacy costs, but the decision would preserve the County's ability to change the pharmacy benefit at any time for all coverage groups. Effectively, we would continue to pursue federal funding in the same manner as the County has since 2006. No action is recommended/requested, however, if it is the desire of Milwaukee County's policy makers to revert back to RDS for 2013, Benefits would need final formal direction prior to September.