



Agenda Item 6a

June 12, 2012

ITEM NAME: Approval of 2013 Proposed Benefit Design Modifications

PROGRAM: Health Benefits

ITEM TYPE: Action

RECOMMENDATION

Staff recommends the Pension & Health Benefits Committee (PHBC) approve the proposed benefit change for 2013.

EXECUTIVE SUMMARY

The proposed benefit change for 2013 is the Conversion of CalPERS HMO and PPO Supplement to Medicare plans from the Medicare Part D Retiree Drug Subsidy (RDS) program to Employer Group Wavier Plans (EGWP)

BACKGROUND

Conversion of RDS plans to EGWP

CalPERS joined the RDS program in 2006 and has periodically evaluated the EGWP program. Until recently, EGWP did not offer a compelling alternative to the RDS program. The higher administrative costs, restrictions on plan design, and inability of CalPERS plans to access certain subsidies has meant EGWP would result in greater administrative burdens without generating additional savings.

The passage of health care reform changed Medicare Part D in ways that allow most employers to generate greater savings through EGWP than RDS. According to the 2012 Towers Watson/National Business Group on Health Employer Survey on Purchasing Value in Health Care, 57 percent of employers plan to or are considering converting their Medicare drug coverage from the RDS program to an EGWP plan over the next three years.

ANALYSIS

Conversion from RDS to EGWP

With the passage of health care reform, changes were made that allow CalPERS to obtain additional subsidies with an EGWP, but no corresponding increase was made available to the RDS program. Foremost among these changes is the ability to establish a traditional Medicare Part D prescription drug plan with high cost sharing in order to maximize federal subsidies, but accompany it with a supplemental "wraparound" plan that shields our members from any resulting out-of-pocket cost increases. From our members' perspective, the resulting plan design is almost identical to the current plan design.

BENEFITS/RISKS

Conversion from RDS to EGWP

EGWP results in significantly greater reimbursement than the current RDS program, but all of it must be used to lower premiums, while RDS funds can be used by the employer for any purpose. For employers (like the State) that cover nearly all of their Medicare retirees' health plan premium, the additional savings will go to the employer. For employers that cover a limited portion of their Medicare retirees' health plan premium, the retiree will receive all of the savings, but the employer will no longer receive its current RDS payments.

Employers may also be eligible for reductions in OPEB liabilities, depending on their Medicare retiree premium contribution levels.

The estimated gross savings from EGWP for CalPERS HMO and PPO plans combined is \$118 million, offset by the loss of \$64 million in RDS payments, for a net savings of \$54 million.

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