

# DIVERSIFIED SENIOR ADVISORS, INC.

## RETIRED DRUG SUBSIDY (RDS) VS. EMPLOYER GROUP WAIVER PLANS (EGWP) OVERVIEW

### I. Introduction

The team at Diversified Senior Advisors, Inc. (DSA, Inc.) is dedicated to providing individuals with access to affordable prescription drugs and quality customer service. With this in mind, DSA, Inc. has firmly established itself with a brand name Medicare Prescription Drug Plan (PDP) sponsor with one of the most competitive rates available on the market. Eager to provide its services to large employers, municipalities, school systems, city governments, Third Party Administrators clients (TPA's) and union groups, the PDP sponsor has quickly expanded its product line to include an "800 Series" Employer Group Waiver Plan (EGWP) and is currently licensed and operational in 39 states and the District of Columbia.

The numerous economic and administrative benefits of EGWP make them today's plan of choice for retiree prescription drug coverage. By providing significant cost savings, improving cash flows, and alleviating administrative burdens, EGWP offers the ideal solution for providing affordable prescription drug benefits to qualifying, covered retirees.

Diversified Senior Advisors, Inc.'s EGWP sponsor takes health care coverage seriously and works closely with each individual employer, municipality, school system, city government, Third Party Administrators client and union group to devise a customized plan to ensure minimal disruption to the current benefits. With great care and meticulous attention to detail, our sponsor has enhanced its EGWP development process to yield a benefit plan that offers employers immediate cash flow solutions, while retaining the same formulary, plan design, and pharmacy network for the current retiree membership.

To continue its trend of exponential growth, our EGWP sponsor is actively seeking to expand its EGWP coverage to all 50 states, including the District of Columbia, as of January 1, 2010.

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## II. The Retired Drug Subsidy (RDS)/ Employer Group Waiver Plan (EGWP) Advantage

Although the plan sponsor retiree drug subsidy (RDS) was a popular approach for providing a retiree prescription drug benefit, the better and more cost effective option is to acquire group coverage directly through EGWP. In a

side-by-side comparison between EGWP and a typical RDS program EGWP is the clear winner based on **cost savings estimated between 19%-35%, improved cash flows, and alleviating the administrative burdens associated with health care administration.**

### **Generous Cost Savings & Improved Cash Management**

Instead of waiting for retrospective (future) payments to offset plan sponsor or beneficiary costs under the RDS program, EGWP can provide prospective (monthly immediate) payments where the employer would receive a prospective (immediate) drug subsidy payment in advance every month from the federal government through the Centers for Medicare and Medicaid Services (CMS). These prospective payments would generate a remarkable improvement in monthly cash flows for any large employer, municipality, school system, city government, Third Party Administrators client, or union group.

**Case studies** have also indicated that current RDS plan sponsors may be in danger of losing coverage altogether due to rising premiums and copay amounts. By increasing member premium contributions and copays, an employee or union group risks ineligibility for the RDS program by rising above the requirements as established by CMS. With EGWP, a plan sponsor can continue to receive subsidies to offset plan sponsor or beneficiary costs and still require plan participants to pay as much as 100% of the premium costs. With EGWP, RDS plan sponsors are reassured that future premium contribution increases would not endanger the subsidy. For one employer group, the transition to an EGWP, plan received no negative feedback from participants even though the plans sponsor required higher out-of-pocket premiums and cost sharing.

Another opportunity for cost savings arises by the federal reinsurance that is available by enrolling in our CMS sponsored EGWP plan, which is described in more detail below.

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## **Minimal Disruption to Membership and Enhanced Benefits**

One of the many benefits of electing EGWP includes a custom-made benefit plan design. Before implementing the retiree prescription drug plan, our EGWP team commits to working closely with each employee of the large employers, municipalities, school systems, city governments, Third Party Administrators clients, and union groups to customize the benefit plan to satisfy the needs of any particular retiree population. In this way, EGWP can develop a tailored benefit plan that is designed specifically for the employers group.

With EGWP, **catastrophic coverage** is built into the plan design. EGWP provides the added benefit of covering approximately 95% of drug costs above the \$6,000 threshold. Under the traditional RDS plan, there is no catastrophic coverage; therefore, the employees (or retirees) are forced to pay out-of-pocket when drug costs exceed the catastrophic level. However, with EGWP, the employees (or retirees) can rest assured that even when drug costs exceed the catastrophic level, 95% of the drug costs will be covered.

## **Administrative Functions are managed by our CMS sponsored EGWP**

One of the most difficult aspects of providing retirees with prescription drug coverage involves the burdensome administrative functions that are required to manage this benefit. By designating EGWP as its provider, the large employer, municipality, school system, city government, Third Party Administrators client, and union group can transfer almost all of the administrative duties to our CMS sponsored EGWP.

Typical administrative functions required to provide retirees with prescription drug coverage involve:

1. Financial management
2. Regulatory compliance
3. Risk management
4. General plan administration
5. Formulary management and development
6. Various other administrative functions

EGWP can alleviate almost all of those duties by acting as a liaison with CMS and lending its experienced and established administration team to provide the retiree prescription drug benefit plan.

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## **GASB 45 – Liability/Financial Reporting**

For those subject to GASB 45, employer and union groups can realize an additional advantage by improving management of its other post employment benefits (OPEB) liability just by choosing EGWP. Whereas an RDS program provides no assistance in managing OPEB liability, EGWP yields a reduction in premium costs by the value of the CMS direct subsidy, and the resulting lower premium can then be used to forecast future retiree costs.

Emerging GASB 45 regulations permit plans to report RDS reimbursements for the current year, which requires future years to be projected at the full cost without the RDS subsidy. Because EGWP provides a subsidy that directly reduces a plan sponsor's premium and does not involve an annual attestation or an actuarial equivalence test, as required by the RDS option, the subsidy provided by EGWP is included for all future year projections. By partnering with our EGWP sponsor, employers and union groups can benefit from this reporting advantage.

### III. **Conclusion**

By switching to EGWP, a large employer, municipality, school system, city government, Third Party Administrators client, or union group can secure higher reimbursements from CMS, offset accounting liabilities, reduce administrative burdens, streamline administrative process, lower the costs of providing pharmacy benefits to its Medicare-eligible retirees, and much more. Partnering with EGWP is sure to yield priceless value by offsetting other post employment benefits obligations and alleviating almost all financial, regulatory, "high risk," plan administration, formulary, and administrative burdens from employer and union groups by directly contracting with CMS.

Together with EGWP, any large employer, municipality, school system, city government, Third Party Administrators client, or union group can achieve its goals of preserving or improving retiree drug benefits, limiting plan cost increases and minimize out-of-pocket costs for Medicare beneficiaries, and minimizing reportable liabilities. EGWP opens the necessary channels to enable employers to continue to receive prospective government subsidies while retaining the option of increasing its member premium contributions and cost sharing, if necessary. EGWP also provides effective coordination of benefits by serving as the liaison between the employer or union group and CMS. The value obtained by partnering with our sponsor's EGWP is priceless.