

THE EMPLOYER GROUP WAIVER PLAN (EGWP): AN ALTERNATIVE TO THE RETIREE DRUG SUBSIDY

The Problem: Loss of Tax Deduction for Retiree Drug Subsidy

As a result of new health care regulations as part of the Patient Protection and Affordable Care Act, effective January 1, 2013, self-funded employers who receive the 28% federal subsidy for providing retiree prescription drug coverage (Retiree Drug Subsidy, or RDS, under Medicare Part D) will no longer be able to take a deduction for those retiree drug expenses. Because this impacts their post-retirement benefit obligations, employers with Medicare-eligible retirees will see a significant cost increase.

The Background: RDS Saved Companies Millions

Previously, the federal government, through the RDS, subsidized 28% of approved costs from drug prescription coverage. Not only was the subsidy tax free, but companies were able to write off 100% of their pharmaceutical costs as expenses (their 72% share plus the government's 28%). Although the new legislation does not remove the drug subsidy, companies will no longer be able to write off the 28% of the costs covered by the subsidy, and the administrative costs associated with the retiree drug subsidy will no longer be deductible. Under general accounting rules, employers must now include the present value of the future taxes as a current liability charged against earnings. Consequently, companies were obligated to immediately report the change in their future tax liabilities. The amounts were stunning: \$1 billion for AT&T, \$150 million for John Deere and \$90 million for 3M, to name a few. In fact, Towers Watson benefit consultants estimate that as many as 3,500 companies that accept the drug subsidies may write down as much as \$14 billion.

The Solution: Employer Group Waiver Plans (EGWPs)

Although the new tax status for the retiree drug subsidy does not kick in until 2013, many companies are beginning to look for alternatives. Self-funded Employer Group Waiver Plans (EGWPs) are increasingly attracting employers' attention.

A self-funded EGWP is a plan that allows an employer to contract a third party Prescription Drug Plan (PDP) sponsor to provide drug benefits to retirees. The sponsor, on behalf of the employer, in turn interacts with the federal government and retains a fee but passes through the bulk of government payments in the form of lower premiums or direct payments to the employer. The self-funded EGWP offers a number of benefits including:

- **Reducing Costs** – The contracted PDP sponsor shoulders the expenses associated with verifying compliance each year
- **Satisfying Commitments** – The plan can be customized to match an employer's current benefits, allowing the company to meet its obligations, whether due to collective bargaining or to assurances made to employees in a non-union environment.
- **Increasing Efficiency** – Employers are able to maximize the government contribution toward pharmaceutical expenses without imposing administrative burdens on the company.
- **Reducing Administrative Burden** – No more need to handle the day-to-day tasks of administering retiree pharmacy benefits.
- **Improving Cash Flow** – Employers are paid at the beginning of the month rather than waiting to receive their RDS reimbursement.
- **Reducing Exposure** – The federal government covers 80% of the risk in catastrophic coverage.
- **Increasing Member Savings** – Unlike a self-funded EGWP, the Retirement Drug Subsidy is not considered a Medicare Part D approved plan. Effective 2011, companies utilizing the RDS program will not be eligible for the 50% co-pay discount on brand name drugs in the doughnut hole as sponsored by the pharmaceutical manufacturers.

The Opportunity: Discuss EGWPs with Your Employee Benefits Clients

As the 2013 changes loom, now is the time for employers to learn more about EGWPs so they can understand the options that will allow them to transfer risk, improve cash flow, and lower plan costs and administrative burdens.

To learn more about EGWPs and how we can help you offer them to your clients, visit AmWINS Group Benefits at groupbenefits.amwins.com or send email to marketing@amwins.com.



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