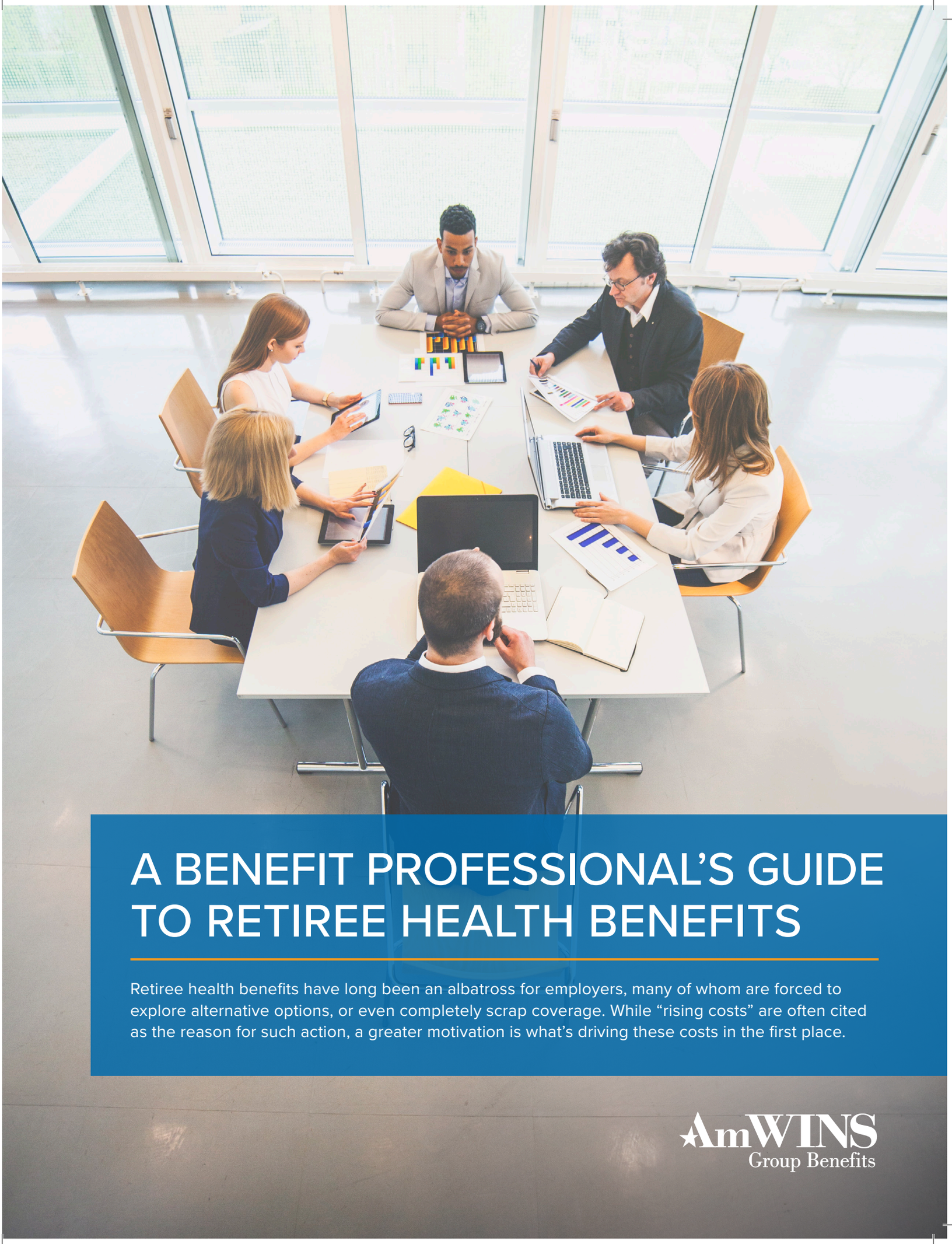

A BENEFIT PROFESSIONAL'S GUIDE TO RETIREE HEALTH BENEFITS

Retiree health benefits have long been an albatross for employers, many of whom are forced to explore alternative options, or even completely scrap coverage. While "rising costs" are often cited as the reason for such action, a greater motivation is what's driving these costs in the first place.

AmWINS Group Benefits

DEMOGRAPHIC FACTORS

BY THE NUMBERS

U.S. mortality rate increasing:

70 → **78**
in 1965 in 2016

A retiree population can span:

50+
years in age

WHAT YOU CAN DO

Determine your retiree population's median age; create senior age bands; identify retiree liaisons.

RETIREES LIVING LONGER

The average U.S. mortality rate increased to 78 in 2016 from 70 years in 1965 when, coincidentally enough, Medicare was introduced. Retirees are living longer and employers are paying the price. This is compounded by the Baby Boomer generation reaching retirement age—to the tune of 10,000 per day for the next 20 years.

While new medical advancements and costlier specialty drugs are helping seniors to live longer, they are also the contributing factors to the escalating health care costs impacting retiree benefit programs today. Combine these factors with the financial responsibility to shareholders and it is no wonder many companies are looking for a viable alternative.

KNOW YOUR RETIREE DEMOGRAPHIC

Analyzing your retiree demographic is an important step in creating a workable retiree benefits program with meaningful cost controls and affordable coverage that all key stakeholders will find acceptable. It's easy to lump all retirees into a single category, yet bear in mind that they can actually span 50 or more years in age. Digging into demographic differences can help an organization obtain significant information that will determine how a new program will be accepted by the retiree population as a whole.

Employers can ease the transition to a defined contribution model as part of a broader approach involving a Medicare Exchange or Retiree Benefit Choice™. The key to success is knowing the retiree population's median age, creating age bands and researching potential retiree liaisons including former C-Suite executives and other public figures—all of which is likely readily accessible in your organization.

PRE-65: MIDDLE CHILD SYNDROME

Pre-Medicare eligible retirees are susceptible to Middle Child Syndrome in that they may feel neglected relative to employees and their older counterparts who have easier or more robust coverage options. Medicare age requirements make them ineligible to be grouped with Medicare retirees and as the most expensive age group to they can be a liability to the active group. Rather than drive up costs for the active population, Pre-65 retirees are often shifted to a defined contribution high deductible health plan or moved to a non-Medicare healthcare exchange for which they may qualify for federal premium subsidies.

For organizations looking to limit their benefits liability under rules governed by the Governmental Accounting Standards Board (GASB) or Financial Accounting Standards Board (FASB), a healthcare exchange for pre-Medicare retirees is often the best choice. Ideally, you will use a partner that can assist with both the Pre- and Post- programs.

"While new medical advancements and costlier specialty drugs are helping seniors to live longer, they are also the contributing factors to the escalating health care costs impacting retiree benefit programs today."

PLAN SPONSOR CONCERNS

THE ERISA REALITY

Eliminating a long-offered and mutually agreed upon subsidy and pushing retirees into a Medicare Exchange market can have a negative ripple effect.

CREATE A WIN-WIN

Offering a reiree health program that mirrors current retiree plans and offers the flexibility to shop the Medicare Exchange can satisfy both employer and retiree needs.

THE OPEB LIABILITY

Many financially strapped organizations across the U.S. are aiming to reduce their other post-employment benefits (OPEB) liability, with retiree medical a primary target. Options include shifting to a Medicare Exchange benefit structure, or even bankruptcy, the most extreme course of action for all involved stakeholders. Both may spark significant legal challenges, depending on the extent to which collectively bargained entities are willing to fight for their members' rights. It's worth noting that the size of an unfunded OPEB liability is a function of its funding strategy, the generosity of the benefit and demographics.

Here's why OPEB is such a concern: The Federal and Governmental Accounting Standards Boards (FASB and GASB) requires that organizations calculate the annual amount an employer is required to contribute to fund benefits accrued in the current year. The calculation also involves an amount to amortize the unfunded liabilities over a specified timeframe that's no more than 30 years.

Ultimately, the liability cannot be reduced through third-party funding vehicles such as Health Reimbursement Accounts and annuities. Regardless of the funding vehicle, OPEB liability is mostly tied to the amount each organization is contributing to benefits.

Sweeping program changes serve only to unnecessarily stew the ire of retirees and their union representatives who are eager to retain existing benefits, while also incurring substantial legal costs.

A Retiree Benefit Choice defined contribution model solves these issues. In a nutshell, fixed costs control OPEB liability. Administration is outsourced. Unions and retirees are satisfied with a program that allows them to maintain a custom plan with comprehensive coverage, while also having the flexibility to access a Medicare Exchange. Everyone wins.

ERISA AND "RESERVATION OF RIGHTS"

Increasing retiree healthcare costs in the government sector are often highlighted in local and national news, but private businesses can be deeply affected as well. Many ERISA governed plans (defined as sponsored by an employer or union, other than a government employer or public employee union) contain a "reservation of rights" provision that allows them to change or terminate all or parts of the plan, as long as ERISA guidelines are followed. (Note: Reservation of Rights does not preclude legal action by affected parties.)

While this clause may appear advantageous to shareholders and investors seeking only a strong balance sheet, eliminating a long-offered and mutually agreed upon subsidy and limiting retirees to individual plan options through a Medicare Exchange can leave retirees under insured. This may have a lasting effect on the organization's reputation in the community and potentially beyond.

New retirees may not oppose a Medicare Exchange option when they retire, as they may have fewer health concerns and are not opposed to the often lengthy research and online buying process.

Conversely, older retirees who are largely unfamiliar or uncomfortable with an online shopping experience may find the Medicare Exchange option overwhelming. Add in the potential for poorer health and these fixed-income retirees may find themselves paying significantly more as part of their monthly premium, or even worse, through unexpected out-of-pocket costs during the plan year. These dissatisfied retirees, which can include past company executives, can create a disturbance for the company and in the community.

OPTIONS AND STRATEGIES

EGWP BENEFITS

Maximizing subsidies, shifting claim risks to the plan, eliminating exposure to large risks through catastrophic claims coverage, improving cash flow, and shifting the administrative and compliance burden away from the employer.

THINK BEFORE YOU LEAP

It is extremely difficult to transition from one Medicare Exchange to another. As a general rule, once an organization steers retirees to a Medicare Exchange, they are no longer accessible to the company.

FLEXIBILITY REDUCES ANXIETY

AmWINS' Retiree Benefit Choice program offers the smoothest transition possible to a Medicare Exchange program by allowing retirees to transition at their own pace.

EMPLOYER GROUP WAIVER PLANS

The Affordable Care Act ended tax advantages associated with the 28% retiree drug subsidy in January 2013, which opened the door to Employer Group Waiver Plans (EGWPs) as a more viable financial alternative. EGWPs provide secondary "wraparound" benefits, covering drugs that are excluded from the Medicare formulary and/or provide additional coverage.

Established in 2006, EGWPs offer many benefits, including maximizing subsidies, shifting claim risks to the plan, eliminating exposure to large risks through catastrophic claims coverage (i.e., stop loss), improving cash flow, and shifting the administrative and compliance burden away from the employer. Despite the financial and administrative advantages, some organizations have yet to make the switch. AmWINS clients are seeing $35 to $45 per member per month savings under an EGWP. Third party prescription drug plan sponsors can interact with the federal government to ensure compliance and eliminate a historically difficult administrative task.

MEDICARE EXCHANGES–IS THERE A WAY OUT?

Not really. As some organizations are learning, it is extremely difficult to transition from one Medicare Exchange to another. Re-enrollment requirements can lead to significant rate increases for retirees who are older or whose health needs have changed. A significant number of Agent of Record letters may need to be obtained. And the new administrator would have to determine if there would be enough enrollment to warrant going through the exercise themselves, since it is an expensive undertaking.

As a general rule, once an organization steers retirees to a Medicare Exchange, they are no longer accessible to the company. This will not stop retirees from voicing their disapproval to an organization, the community or union representation, if applicable. Organizations considering a move to a Medicare Exchange would be well served to understand all potential outcomes and options. In other words, think before you leap.

THE IDEAL SOLUTION: RETIREE BENEFIT CHOICE

Rising health insurance rates, lean human resources departments and financial objectives have made the traditional group model unsustainable for some organizations. AmWINS' Retiree Benefit Choice program offers the smoothest transition possible to a Medicare Exchange program by allowing retirees to transition at their own pace. This flexibility greatly reduces retiree anxiety and retains employer goodwill, as well as meets union and other contractual agreements.

Moreover, partnering with AmWINS removes the administration burden from your organization immediately, freeing up internal resources for more strategic projects. Let us put our 25 years of retiree benefits experience to work for you. We will shop multiple carriers, closely match medical and prescription drug plans to your current offering, connect your retirees with our private Medicare Exchange, assist with any subsidy, establish funding vehicles, and handle retiree communication and service.

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