

## MEDICARE ADVANTAGE RETIREE COVERAGE: UNDERSTANDING “EGWPs”

**This issue brief highlights the consequences of the CMS proposed policy change to over 3 million beneficiaries in MA retiree coverage. This brief shows:**

- **Employers, state and local governments, and unions increasingly rely on MA to enable them to provide coverage to their retirees.**
- **Changes to MA retiree coverage would not only be disruptive to millions of beneficiaries nationwide; it would be especially impactful in regions of the country with a high concentration of MA retiree coverage.**
- **The proposed changes fail to capture the differences between MA retiree coverage and individual MA. Specifically, when MA retiree coverage is compared to individual MA Local PPOs, instead of the proposed comparison to all of individual MA, the bid-to-benchmark ratios are more comparable.**

Over 18 million Medicare beneficiaries are enrolled in Medicare Advantage (MA) — one-third of all Medicare beneficiaries<sup>1</sup>. Over three million of these MA beneficiaries are enrolled in MA retiree coverage — meaning, their employer chose to deliver their retiree health insurance via an employer plan within the MA program. This type of MA retiree coverage, officially known as an Employer Group Waiver Plans (EGWPs), makes up almost one-fifth of MA enrollment. It is an important option for retirees and employers, including state and local governments, industries, and unions.

Like other MA plans, MA retiree coverage health plans cover all Medicare Part A and Part B benefits as well as additional benefits not available in Fee-For-Service Medicare (FFS), such as dental, vision, and cost sharing protections. To meet the needs of employers, the Centers for Medicare & Medicaid Services (CMS) waives certain requirements for MA retiree coverage. Specifically, employers can restrict enrollment to retirees and their family members, have uniform plan designs, provide nationwide access to providers, include varied premium and cost sharing amounts in different geographic areas, as well as other differences. The majority of employers who offer MA retiree coverage contract with a health insurance plan to administer coverage to their retirees.

Due to these differences, bids for MA retiree coverage differ from individual MA bids. However, CMS has raised concerns that some of these differences are unwarranted. In the 2017 Advance Notice and Call Letter, released in February 2016, CMS proposes terminating the MA retiree coverage bid process and replacing it with set county rates based on bid-to-benchmark ratios calculated by using MA individual plan data. This issue brief highlights the prevalence of MA retiree coverage, illustrates the regions of the country with the highest concentration of MA retiree coverage, and outlines the differences between MA retiree (EGWP) and MA individual (non-EGWP) coverage.

### BETTER MEDICARE ALLIANCE (BMA) COMMENTS TO CMS

On behalf of its broad coalition of providers, employer groups, health plans, and other MA stakeholders, BMA asked the agency not to implement the proposed MA retiree coverage policy, stating:

*We strongly encourage CMS not to implement the proposal to change MA retiree coverage that would result in an estimated 2.5%<sup>2</sup> payment reduction to employer, government, and union retiree MA plans. This MA retiree coverage, officially known as Employer Group Waiver Plans (EGWPs), has unique attributes that warrant recognition in the methodology for payments. The proposal would have a disruptive effect on employers who count on this mechanism to provide continuity in benefits for their retirees as well as retirees who live on fixed incomes and depend on MA benefits.*

## GROWTH OF MA RETIREE COVERAGE

Employers, state and local government entities, and unions have increasingly chosen to provide coverage to their retirees using MA retiree coverage.

Between 2009 and 2016, MA retiree coverage enrollment grew 73%, from 1.82 million to 3.16 million. (See Figure 1.) This growth aligned with MA individual (non-EGWP) growth and total MA enrollment growth during the same time period – 64% and 65%, respectively. (See Figure 2.)

## GEOGRAPHIC DISTRIBUTION OF MA RETIREE COVERAGE

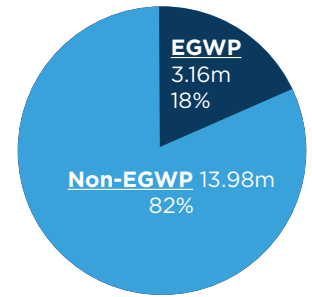
Though there is MA retiree coverage throughout the country, it is especially concentrated in certain states, counties, and metropolitan areas. In certain regions, such as the Midwest and Texas, MA retiree coverage accounts for a large proportion of MA enrollment. From New York to California, Michigan to Texas, millions of retirees receive their care through MA.

In these four states alone, over 1.23 million retirees have MA retiree coverage.

### STATE LEVEL

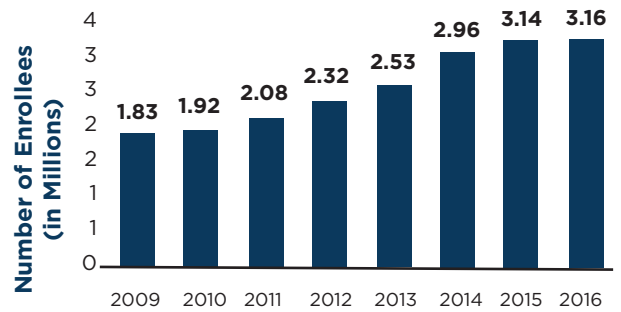
As Figure 3 illustrates, Michigan, Illinois, Kentucky, and West Virginia have the highest percent of MA enrollees in MA retiree coverage. When examining the states with the top 10 MA retiree coverage, one in two Michigan MA beneficiaries are enrolled in MA retiree coverage; two in five Illinois MA enrollees are in MA retiree coverage; and one in four MA enrollees in Ohio, North Carolina, and Georgia are in MA retiree coverage. (See Figure 4.)

Figure 1  
Total MA Enrollment: Retiree Coverage (EGWP) vs. Individual MA (Non-EGWP),



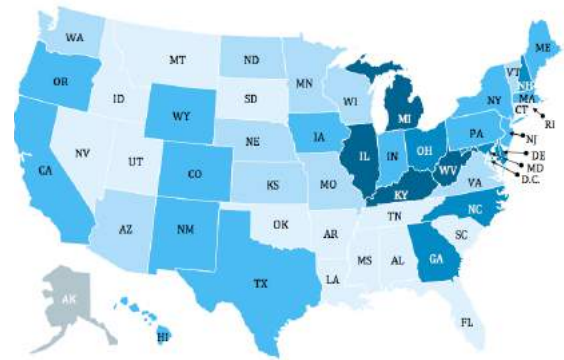
Source: February 2016 CMS data.

Figure 2  
Total MA Enrollment: Retiree Coverage (EGWP) vs. Individual MA (Non-EGWP)



Source: CMS data reflecting February 2009 - February 2016.

Figure 3  
MA Retiree Coverage (EGWP) Enrollment as Percent of All MA Enrollment



Source: February 2016 CMS data.

Figure 4  
Number of MA Retiree Coverage (EGWP) Enrollees in Top 10 States by MA Retiree Coverage Enrollment

State	No. of EGWP Enrollees	EGWP/Total MA Enrollment
California	509,619	22.8%
Michigan	304,928	49.3%
New York	216,599	17.6%
Texas	200,878	17.6%
Pennsylvania	200,569	19.7%
Ohio	187,229	25.4%
Illinois	166,425	41.2%
North Carolina	135,704	24.9%
Georgia	132,988	26.2%
Florida	107,580	6.5%

Source: February 2016 CMS data.

## COUNTY LEVEL

As *Figure 5* illustrates, at the county level, MA retiree coverage concentration is even more pronounced. As expected from the state averages, Michigan, Illinois, Kentucky, and West Virginia have multiple counties with at least 50% of MA enrollment in MA retiree coverage. However, the statewide MA retiree coverage averages in large states such as California and Texas blunt the high prevalence of retiree coverage in those states.

As *Figure 6* illustrates, as of February 2016, 130 counties had at least 5,000 MA enrollees in MA retiree coverage; in California, 21 of its 56 counties had 5,000 or more MA retiree coverage enrollees. In fact, 26 counties had 15,000 or more beneficiaries in MA retiree coverage.

**MA retiree coverage is concentrated in certain regions of the country and continues to see growth in those regions as well as other parts of the country.**

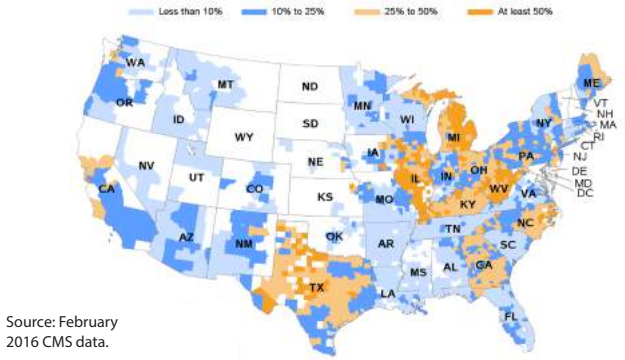
*Figure 7* illustrates counties outside of the highly concentrated counties in the Midwest and Texas that continue to see growth in MA retiree coverage. In 30% of counties nationwide, MA retiree coverage has increased at least 15%. Large portions of the Southwest, Pacific Northwest, and Southeast have seen MA retiree coverage growth of 30% or more in the past two years.

## METROPOLITAN AREA LEVEL

There are also certain metropolitan areas that have especially high MA retiree coverage penetration. For example, more than half of MA beneficiaries in Detroit receive their MA coverage through a retiree plan. (See *Figure 8*.)

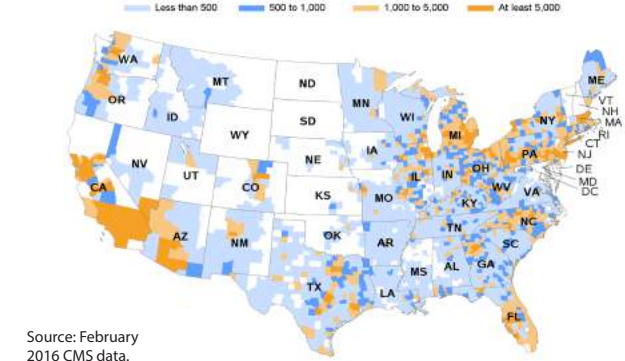
**MA retiree coverage has key distinctions from MA individual coverage. MA retiree coverage must ensure groups of retirees instead of individuals, it must cover larger geographic areas, and it must meet contractual agreements between retirees and employers.**

**Figure 5**  
Percent of Total MA Enrollees in Retiree Coverage (EGWPs) by County



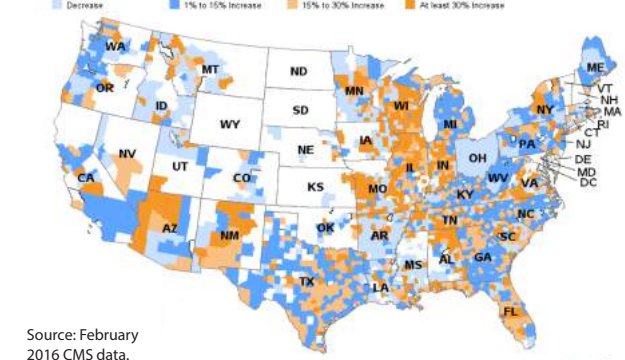
Source: February 2016 CMS data.

**Figure 6**  
Number of MA Retiree Coverage (EGWP) Enrollees by County



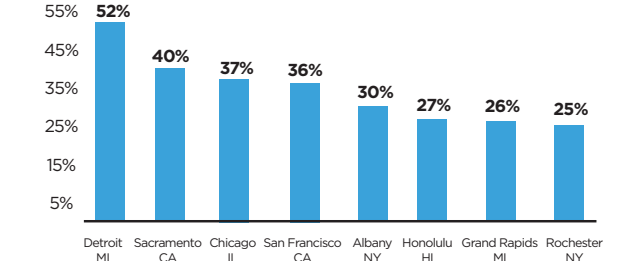
Source: February 2016 CMS data.

**Figure 7**  
Percent Change in MA Retiree Coverage (EGWPs) by County



Source: February 2016 CMS data.

**Figure 8**  
Percent of MA Enrollees in Retiree Coverage (EGWPs) in Eight Largest MA Metropolitan Area



Source: February 2016 CMS data... Metropolitan Areas are defined using OMB's 2013 definitions of metropolitan areas available at: <http://www.census.gov/population/metro/t>

# COMPARING MA RETIREE COVERAGE TO MA INDIVIDUAL COVERAGE

MA retiree coverage (EGWP) shares many similarities with the rest of MA. However, MA plans that provide coverage for employer, state and local government entities, and union retirees have key distinctions from MA individual (non-EGWP) plans. These differences include the fact that retirees are enrolled in groups rather than as individuals, and these groups of retirees have contracts with their employers that require compliance. Additionally, coverage for retirees must include larger geographic areas than MA individual plans, and, therefore, requires access to providers nationwide.

Due to these group characteristics and broad networks, MA retiree plans are more likely to be Preferred Provider Organizations (PPOs) than Health Maintenance Organizations (HMOs). Currently, 74% of MA individual enrollment is in HMOs and 15% is in Local PPOs, whereas in MA retiree coverage, 34% of enrollment is in HMOs and 65% is in Local PPOs. (See Figure 9.) Less than 10% of MA and roughly 1% of MA retiree coverage is comprised of other types of coverage, such as Regional PPOs, Private Fee-For-Service (PFFS), and Medicare Medical Savings Accounts (MSAs).

In MA, CMS sets benchmarks each year in every county based on FFS spending in that county. Other adjustments, related to quality metrics and quartiles based on FFS spending relative to other counties, also impact county benchmark calculations. After benchmarks are released, health plans bid against those benchmarks to determine payment; HMOs and Local PPOs bid using the same benchmarks. A bid-to-benchmark ratio is an enrollment-weighted national average of bids relative to benchmarks that shows general bidding behavior nationally. As Figure 10 illustrates, on average, MA health plans bid below the benchmark and the relative difference varies by plan type. MA retiree coverage bids track more closely to MA individual Local PPOs than HMOs or all MA individual plans (non EGWPs), which are heavily made up of HMOs.

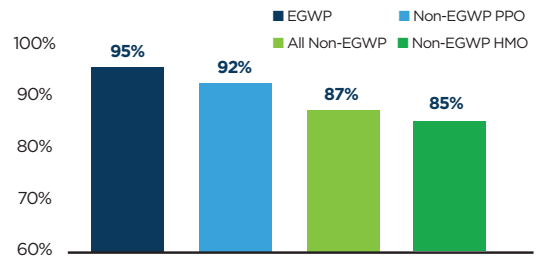
MA retiree bids tracking with individual Local PPO bids is also demonstrated at the state, county, and metropolitan area level. Figure 11 presents bid-to-benchmark data for the top five states by MA retiree coverage enrollment — the MA retiree plan bid-to-benchmark and individual Local PPO bid-to-benchmark ratios track closely and the individual HMO ratios are much lower.

Figure 9  
Percent of MA Enrollees by Plan Type, Individual (Non-EGWP) vs. Retiree Coverage (EGWPs)

Plan Type	MA Non-EGWP	MA EGWP	ALL
(percentage: enrollment in thousands)			
HMO	7.4% (10,317)	3.4% (1,076)	6.6% (11,393)
Local PPO	15% (2,127)	65% (2,068)	24% (4,195)
Regional PPO	9% (1,299)	1% (16)	8% (1,315)
Other (PFFS & MSA)	2% (241)	0% (<1)	1% (241)

Source: 2014 Medicare Advantage plan payment data and 2014 Ratebook from CMS.

Figure 10  
MA Bid-to-Benchmark Ratios: Retiree Coverage (EGWP) vs. Individual (Non-EGWP); PPO and HMO



Source: 2014 Medicare Advantage plan payment data and 2014 Ratebook from CMS.

Figure 11  
MA Bid to Benchmark Ratios: Retiree Coverage (EGWP) vs. Individual (non-EGWP); PPO and HMO – Top Five States by MA Retiree Coverage Enrollment

State	# of EGWP Enrollees	MA Enrollment	HMO Plans	Local PPO Plans	All EGWP
California	509,619	22.8%	83.5%	97.8%	87.9%
Michigan	304,928	49.3%	90.0%	97.8%	99.2%
New York	216,599	17.6%	84.2%	92.3%	95.3%
Texas	200,878	17.6%	79.4%	88.8%	90.4%
Pennsylvania	200,569	19.7%	91.4%	92.4%	98.5%

Source: 2014 Medicare Advantage plan payment data and 2014 Ratebook from CMS.

## DISCUSSION OF PROPOSED CHANGES TO MA RETIREE COVERAGE

MA retiree coverage delivers high-quality, value-based care to over three million retirees. Employers, including state and local government entities, industries, and unions, have turned to MA to provide a seamless transition from employee to retiree health insurance coverage for large groups. Employers report that MA retiree coverage gives them the ability to continue coverage that offers the comprehensive, coordinated care their retirees expect, and in many cases have negotiated in labor contracts. Unlike FFS Medicare, MA provides important additional benefits and services to enrollees, such as vision, dental, hearing, in-home care, case management, and prescription drug management tools. Retirees in employer-sponsored MA plans also have cost protections that are not available in FFS, such as an annual cap on out-of-pocket costs and lower premiums.

### PROPOSED CHANGES

In the 2017 Advance Notice, CMS expressed concerns that on average MA retiree coverage bid ratios are higher than the overall average of MA individual bids. In the regulation, CMS proposes terminating the current bid submission process for MA retiree coverage and replacing it with set payment amounts in each county. These payment rates would be based on an enrollment-weighted county bid-to-benchmark ratio calculated using MA individual data (including both HMO and PPO data). CMS stated that it believes that terminating the MA retiree coverage bid process will avoid cost and administrative burden and, “will facilitate the offering of Part C plans for employers and unions seeking to establish high-quality coverage for their Medicare-eligible retirees.”<sup>3</sup> CMS subsequently released an impact assessment separate from the 2017 Advance Notice and Call Letter, in which it stated that the proposed change would result in a 2.5% reduction to MA retiree payments.<sup>4</sup> This suggests that rather than “facilitate” the use of MA retiree coverage, the payment reduction would likely disrupt current use of MA coverage for retirees.

**CMS stated the proposal would result in a 2.5% payment reduction to MA retiree coverage – this reduction would likely disrupt the current use of MA coverage for retirees.**

### CONSEQUENCES

CMS is proposing to implement an entirely new payment system in a way that would cause disruption. CMS should be cognizant of the timing of any changes to the current methodology. Contractual obligations for retiree coverage can be multi-year rather than annual. The proposal would also mean employers would not know their payment level until later in their planning process. Therefore, changes made in one year are especially difficult to implement. The proposed methodology also fails to capture all of the plan design, geographical, and other differences between MA retiree and MA individual plans. Specifically, the proposed methodology would use an enrollment-weighted average of all MA individual plans as the proxy for MA retiree plans. This is concerning because 74% of MA individual enrollment is in HMOs and 15% is in Local PPOs, whereas in MA retiree coverage, 34% of enrollment is in HMOs and 65% is in Local PPOs. This large proportion of HMOs in MA individual plans skews the bid-to-benchmark ratio towards the HMO bids, which do not accurately represent bids for plans with large provider networks. When MA retiree coverage has a more appropriate comparison applied, to MA individual Local PPOs, the bid to benchmark ratios are comparable.

Due to these issues, there is broad concern about adoption of the proposed changes to MA retiree coverage and the disruption they could cause.

CMS will release the MA 2017 Final Announcement on April 4, 2016.

## METHODOLOGY

All data and figures prepared by Avalere Health for Better Medicare Alliance (February 2016) unless otherwise noted.

Throughout this report, all Medicare Advantage plan data do not include demonstration, Cost, or PACE plans.

## REFERENCES

- 1 Based on February 2016 CMS enrollment data; this includes Medicare-Medicaid dual-demonstration plans, Cost, and PACE plans — enrollment is 17.1 million if these plans are excluded.
- 2 Ibid.
- 3 CY2017 Advance Notice and Call Letter. CMS. (February 19, 2016): 23.
- 4 Q&A Addressing Advance Notice Proposal for Part C Employer Group Waiver Plan Payment. CMS. (March 7, 2016).

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Better Medicare Alliance | The Better Medicare Alliance (BMA) is the leading coalition of nurses, doctors, employers, aging service agencies, advocates, retiree organizations, and beneficiaries who support Medicare Advantage as an option under Medicare. Medicare Advantage offers quality, affordability and simplicity, with enhanced benefits to more than 17 million Medicare beneficiaries across the United States of America. BMA works to ensure the sustainability and stability of Medicare Advantage through information, research, education, and united support among stakeholders to strengthen this important coverage for seniors and people with disabilities.