



# Medicare Part D Changes and EGWPs

Anusha Rasalingam, Friedman & Anspach

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# Agenda

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- Introduction
- What are EGWPs?
- Recent Changes to Medicare Part D
- Next Steps for Plan Sponsors
- Final tips & takeaways



# Introduction

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- Under the Medicare Prescription Drug Improvement and Modernization Act, Medicare Part D benefits started in 2006 to provide optional prescription drug coverage to seniors
- The Inflation Reduction Act of 2022 (“IRA”) enacted significant reforms to reduce costs for seniors.
- Employer Group Waiver Plans have been permitted to provide Medicare Part D coverage through third-party Medicare Advantage or Part D providers.
- Changes to the Part D program under the IRA are significant and will require attention to plan design in 2024 and 2025

# What are EGWPs?

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- Employer Group Waiver Plans were established in the Medicare Modernization Act (which established Medicare Part D) to allow employer and union groups to offer Medicare Advantage type coverage to their Medicare-eligible retirees. (42 U.S.C. § 1395w-102)
- EGWP have been granted waivers relating to certain enrollment, coverage and marketing requirements otherwise applicable to Medicare Advantage (MA) coverage.
- EGWPs can either contract with a Medicare Advantage provider (“800 series coverage”) or directly contract with CMS to provide Part D benefits
- EGWP coverage must be related to employment

# Reasons for Choosing EGWPs

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- EGWPs have reduced cost of providing retiree prescription drug coverage
- Continued relationship with retirees for unions and multiemployer plan sponsors
- Many defined benefit pensions have included early retirement pensions that leave early retirees with a health care coverage gap that union sponsored plans may choose to supplement with retiree coverage through an EGWP
- **Reminder: retiree benefits are not a mandatory subject of bargaining**

# Inflation Reduction Act Changes to Medicare Part D

## Changes to Medicare Part D phased in during 2023 and will be fully implemented by 2026

- Limits the price of insulin products to no more than \$35 per month in all Part D plans and makes adult vaccines covered under Part D available for free, as of 2023.
- Requires drug manufacturers to pay a rebate to the federal government if prices for drugs covered under Part D and Part B increase faster than the rate of inflation, with the initial period for measuring Part D drug price increases running from October 2022-September 2023.
- Expands eligibility for full benefits under the Part D Low-Income Subsidy program in 2024.
- Adds a hard cap on out-of-pocket drug spending under Part D by eliminating the 5% coinsurance requirement for catastrophic coverage in 2024 and capping out-of-pocket spending at \$2,000 in 2025.
- Shifts more of the responsibility for catastrophic coverage costs to Part D plans and drug manufacturers, starting in 2025.
- Authorizes the Secretary of the Department of Health and Human Services to negotiate the price of certain drugs covered by Medicare, with negotiated prices first available for 10 Part D drugs in 2026.

# Medicare Part D before 2024-2025 Changes

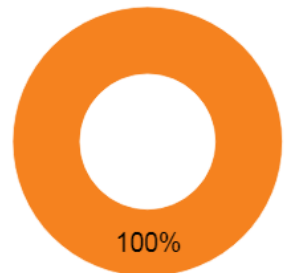
- Cost-sharing in all coverage phases
- The dreaded “doughnut hole” in the coverage gap phase
- Participant responsibility of up to \$3,100 (estimated based on brand drugs only)

Figure 1

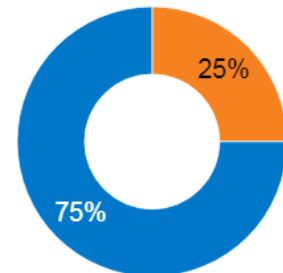
Under the 2023 Medicare Part D Standard Benefit, Part D Enrollees Pay a \$505 Deductible and 25% of Total Drug Costs Up to the Catastrophic Threshold and Then 5% Coinsurance

Share of total drug costs paid by:

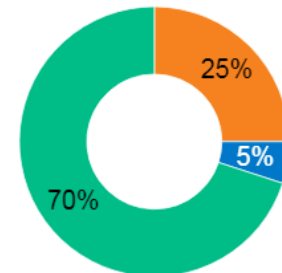
■ Part D enrollee ■ Part D plan ■ Drug manufacturer ■ Medicare



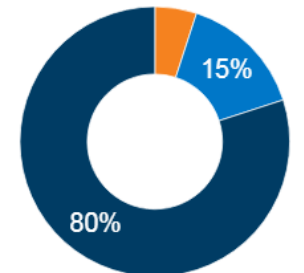
Deductible:  
\$505



Initial coverage:  
From \$505 to \$4,660 in  
total costs



Coverage gap:  
From \$4,660 to \$11,206 in  
total costs



Catastrophic:  
Above \$11,206 in total  
costs (or \$7,400 in out-of-  
pocket costs)

NOTE: Not all Part D plans charge a deductible, but most Part D stand-alone drug plans in 2023 charge the standard deductible amount of \$505.

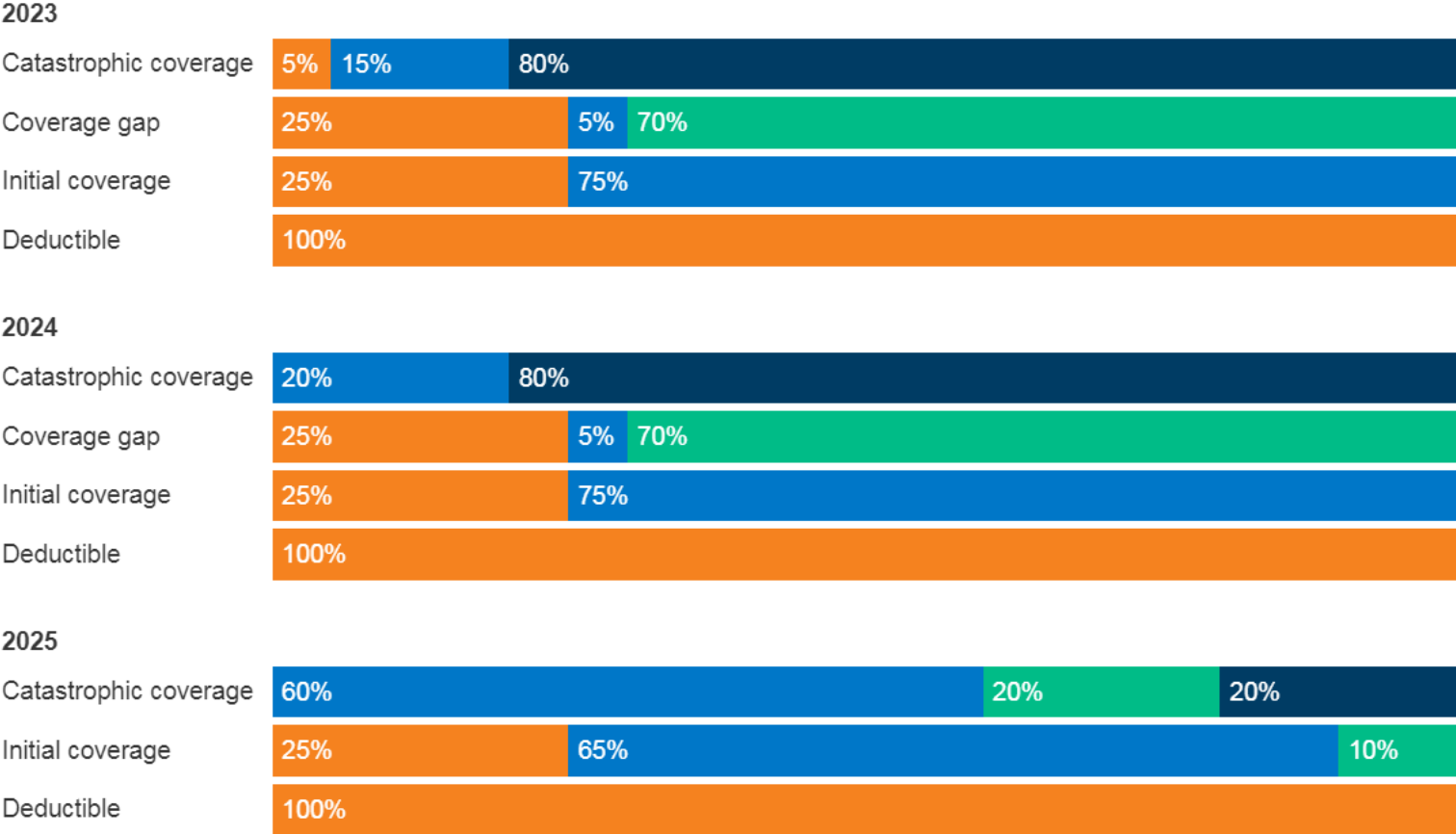
SOURCE: KFF based on 2023 Part D standard benefit parameters. • PNG

# The Share of Medicare Part D Drug Costs Paid by Enrollees, Plans, Drug Manufacturers, and Medicare Will Change in 2024 and 2025

- In 2024, Part D Plans pay an increased share of the catastrophic coverage phase and the participant share is eliminated
- Coverage gap phase eliminated in 2025
- Significant increase in catastrophic coverage costs to Part D plans starting in 2025.

Share of total drug costs paid by:

Part D enrollees   Part D plans   Drug manufacturers   Medicare



NOTE: The manufacturer discount applies to brand-name drug costs only. For generic drug costs, plans pay 75% in the coverage gap phase in 2023 and 2024, and 75% in the initial coverage phase in 2025, and Medicare will pay 40% in the catastrophic coverage phase in 2025.  
 SOURCE: KFF, based on Medicare Part D benefit design changes in the Inflation Reduction Act. • PNG



# Impact on Plan Sponsors

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- Most EGWPs provide coverage using an MA (Medicare Advantage) plan, which will likely take primary responsibility for amending the plan design to comply with the requirements of the IRA
- Plan sponsors should review all coordinating benefits (e.g. payments to HRA type accounts to address coverage gap).
- Plans that contract directly with CMS to provide Medicare Part D coverage will need to ensure compliance of their plan design and coverage

# Creditable coverage

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- EGWPs providing Medicare Part D coverage must provide notice to participants of whether their plan is creditable coverage
- Prescription drug coverage is "creditable" if the actuarial value of the coverage equals or exceeds the actuarial value of standard Medicare Part D prescription drug coverage.
- IRA changes will increase the actuarial value of standard Medicare Part D prescription drug coverage, and plan sponsors need to ensure their plans remain creditable coverage
- Only Medicare-eligible individuals who enroll in their plan sponsor's creditable prescription drug coverage may delay enrollment in Medicare Part D without incurring premium penalties for delayed enrollment.

# Final tips & takeaways

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Retiree coverage under EGWPs is going to change

- More coverage for participants
- More expense for plan sponsors

Plan sponsors should ensure that Medicare Advantage plan providers are meeting compliance requirements

- Review plan design
- Reflect on increase costs and source of funding, especially for collectively-bargained groups
- Determine whether your plan can continue to provide creditable coverage