Monday, April 21, 2025

<u>Sequestration still has an effect, here is a brief overview!</u>

The Retiree Drug Subsidy is supposed to reimburse up to 28% of the cost of delivering prescription benefits to a plan sponsors retirees.

However, like all government programs, there are a lot of moving parts and subtle aspects that erode the actual benefits of the program. As an example, there are certain limits and cost offsets that actually reduce the amount of the retiree drug subsidy that plan sponsors actually receive from the stated 28% that is promoted by the program. Most often, without careful review of the actual details of the request for reimbursement, the plan sponsor will get something less than the 28% reimbursement amount.

So right out of the gate, the addition of sequestration on the overall retiree drug subsidy you will see the compounding effect of the programs cost limits and thresholds with the added effect of the sequestration.

As noted in a published paper by a consulting firm from May 2016:

“Retiree Drug Subsidy (RDS) Amounts For 2017, plan sponsors claiming the RDS will receive 28 percent of Part D prescription drug expenses between $400 and $8,250. However, CMS will apply a mandatory 2 percent payment reduction of the RDS (a change due to budget sequestration that went into effect beginning in April 2013). CMS will apply the payment reduction when calculating the final subsidy amount during reconciliation.”

Here is a chart of the way the Retiree Drug Subsidy actually works and the imposition of Sequestration on the calculated **allowable retiree costs**.

Calculated Allowable Retiree Costs	Subsidy Percentage	Calculated Subsidy	2% reduction due to sequestration	Subsidy Amount
$3,250	28%	$910	$18.2	$891.80

So the actual effect of sequestration is not that bad considering it is only $18.20. But the total reduction to the gross subsidy payment is only $18.20 of the calculated Retiree Drug subsidy payment of $910. But there is a deeper lesson to be gleaned from these mathematical gymnastics. It is a lesson that we can all learn from in relation to how we need to treat the opportunity presented by the Retiree Drug Subsidy program for all plan sponsors. That lesson is that pennies count, or more appropriately stated, “A penny saved is a penny earned.”

So let us look at the real math and the answers derived from what the reality of the situation is for all plan sponsors. The following chart is what really happened for this plan sponsor.

Total Allowed Drug Costs	Total Subsidy at 28%	Actual Percentage of Subsidy	Sequestration Reduction of 2% on Subsidy	Total Reduced Subsidy	Final Actual Percentage of Subsidy
$3,250	$910	.28%	$18.20	$891.80	27.44%

So as you can clearly see that effects of the combined cost limits, thresholds and sequestration reductions have a chilling effect on the reality of the subsidy payment. In effect, this quick review demonstrates that it is the little things that have the biggest effects on the bottom line results.

So what is .66% on a per thousand basis? That's $6.60 per thousand dollars of subsidy. So if a Retiree Drug Plan received $1,000,000 in subsidy, that's a loss of $6,600 dollars just to sequestration, not including disallowed drug costs and unreported drug costs that are a completely different kind of loss to a plan sponsor.

Keeping an eye on the little things is how you get the most from the Retiree Drug Subsidy program. In that same article I discussed earlier, the author states:

> "Implications for Plan Sponsors Plan sponsors should note the 2017 amounts for planning purposes — both with respect to expected RDS income and to the design of any Medicare Part D prescription drug plan that is offered to retirees. Before deciding on benefit designs for 2017, plan sponsors may wish to analyze the benefits of contracting with an Employer Group Waiver Program ("EGWP") as opposed to retaining the RDS. In many instances, contracting with an EGWP will produce greater cost savings than the RDS because the reimbursement those insurers receive from CMS can be greater than what plan sponsors obtain in RDS subsidies. Plan sponsors that already have an EGWP prescription drug plan should review the plan annually to assure that its terms remain advantageous. Why? Insurance carriers and PBM's have discretion in developing EGWP premium rates and although CMS subsidies within these plans can be healthy, an attractive premium rate is dependent on the insurance carrier's or PBM's competitiveness. Plan sponsors that continue to apply for the RDS should take several actions to make sure RDS income continues and that they are prepared for potential audits by the Department of Health and Human Services Office of Inspector General: • Review RDS income and ensure it meets expectations, • Ensure that the contract with the RDS administrator or pharmacy benefit manager accurately reflects charges for RDS and contains all language required by CMS, and • Review internal policies and controls to ensure that deadlines are met and only appropriate personnel have access to RDS information and the RDS website. Ensure that

the RDS website is accessed at least every 60 days so that access status is maintained. Plan sponsors that contract with MA plans on behalf of their retirees may see larger than expected rate changes from these plans for 2017 due to the change in CMS funding for those plans. Plan design adjustments may be required to moderate the premium increase due to the change in funding by CMS."

If you are a consultant or plan sponsor, you should always have your Retiree Drug Subsidy plan reviewed by RDS Services, LLC to make sure you are getting the most from your participation in the RDS Program. Having a **Retiree Plan 360** report prepared for your group is a great start. As stated in previous articles, the **Retiree Plan 360** report can compare a Retiree Plan Subsidy (RDS) with an Employer Group Waiver Plan (EGWP) to determine which format is best for your group. The **Retiree Plan 360** report is best way to make sure the details of your plans participation are being looked at in detail. More importantly, all plan sponsors should have a reopening conducted for that last four years to make sure their plan has optimized the subsidy to the programs fullest extent.

As the premier Retiree Drug Subsidy recovery firm in the nation that focuses exclusively in the RDS Program through the Centers for Medicare and Medicaid Services, RDS Services, LLC has the exclusive proprietary data aggregation and analytical software systems that deliver the intelligence need for making effective, fact based decisions.

When a plan sponsor conducts a Retiree Drug Subsidy reopening coupled with our exclusive **Retiree Plan 360** program, they receive a vital comparison between existing Retiree Drug Subsidy plans and proposed Employer Group Waiver Plans.

Plan sponsors should be aware that potential recovery forecasts are being mailed to all active Retiree Drug Subsidy plan sponsors for the 2015 plan years.

If you are a retiree drug plan sponsor and did not receive your forecast, please call the RDS document control desk at (248) 878-2161 to order your today.

To find out all the details of how RDS Services, LLC leads the nations in the administration of these program, call the National Sales Director, George Fox at (516) 316 9404 or email gfox@rdsservices.us

Sincerely,

George Fox, LUTCF
National Sales Manager
RDS Services, LLC