

Navigate Medicare Drug Subsidies

Inadequate coordination of benefits cost employers millions in drug claims that Medicare should pay or subsidize. **By Jerry Hercenberg**



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In 2006, Medicare began paying 28 percent of specific drugs used by retirees enrolled in Retiree Group Health Plans as part of the Retiree Drug Subsidy (RDS). The Centers for Medicare and Medicaid Services (CMS) accepted more than 4,500 employers and others representing more than 82 percent (approximately 7 million) of the retirees eligible for the subsidy under Medicare. Most employers applied for the RDS thinking they would avoid the “challenges” of coordinating with Medicare’s coverage, keep the same plan design, and continue operating their existing drug benefits with minimum federal red tape.

Many of these employers, insurance companies, and pharmacy benefits managers (PBMs) underestimated the complexities and significant issues associated with taking the subsidy. Indeed, employers and plan sponsors that elected the subsidy are just beginning to find that the PBMs and insurance companies that handle payment of claims are not fully equipped to cope with the associated financial accounting, reconciliation, and even data storage responsibilities. Assessments of employers’ RDS experience revealed two issues.

■ First, the claims eligible for the subsidy are not necessarily the same as the claims covered under a retiree group health plan. Medicare excludes thousands of claims from any subsidy and many more that overlap coverage with Part B of Medicare. Failure to remove these claims from an employer’s subsidy request can have real consequences to employers under the Federal False Claims Act and other Medicare authorities. Moreover, CMS and HHS have vowed to audit the claims histories of parties accepting the drug subsidy and obligate employers to keep records for up to seven years.

■ Second, Buck/ACS has found that generally among larger plans, approximately 10 percent of all drug spending overlapped coverage between Medicare Part B (which pays 80 percent of the allowed fee) versus RDS (which pays 28 percent of the allowed cost). PBMs and other claim administrators are advising employers to exclude these overlapping claims from their subsidy request. Yet, the subsidy and recovery of payments for these excluded claims can amount to several million dollars annually for a large employer and many more millions on their balance sheets under FASB and GASB.

Buck/ACS Heritage has developed an automated technology and consulting program to help employers assess their RDS experience. Known as CARDS (compliance, audit, reconciliation and data storage), it has been pilot tested with several large retiree groups.

In one case, a major national bank discovered that approximately 12.5 percent of claims from its 5,000-member plan overlapped coverage between Parts B and RDS. Its PBM excluded all of these claims (an estimated \$1 million per year) from its RDS subsidy request and, worse, failed to catch nearly \$1 million in claims ineligible for subsidy payments. The submission of these claims could have cost the bank millions of dollars in penalties under the Federal False Claims Act.

Of the overlapping claims, 85 percent of the mix involved claims eligible for RDS subsidies while 15 percent involved claims eligible under Part B. The bank’s recovery using CARDS from Medicare of both RDS and Part B claims could be worth an estimated \$500,000 annually. The program also provides the bank with a fully documented compliance program and 100-percent automated audit of claims prior to submission.

In another case, a major government contractor had more than 30,000 members in the RDS Program. In 2006, drug benefit administration was split between two major national PBMs and two national total benefits outsourcing companies to handle its enrollment and eligibility processes as well as several insurance companies and HMOs to handle its medical claims. When Medicare rejected more than 7,000 of its members from enrolling in the RDS program, the company realized problems with tracking all claims information. No system of controls or organization of data existed to support its RDS subsidy claim and meet CMS requirements.

The CARDS system alerts employers to issues they need to pay attention to. It does so by downloading raw data from all of the company vendors and providing an entire automated turnkey solution for the company performing audit, reconciliation, reporting, record-keeping, and compliance functions for the company’s subsidy request. It even reconciles the retiree enrollment with Medicare records and identifies errors in coverage and Medicare eligibility. Its automation features provide powerful tools for management of drug costs and coordination of benefits, a solution that large employers are mostly missing today. **HRO**