Did Your Plan Receive 28% in Retiree Drug Subsidies?

benefits
MAGAZINE

Plan sponsors have benefited from the Retiree Drug Subsidy (RDS) program but, because of inaccurate recordkeeping and income cost-reporting processes, they may not be maximizing the subsidies.

by | **Brian N. Anderson**

The Retiree Drug Subsidy (RDS) program offered by the Centers for Medicare and Medicaid Services (CMS) reimburses plan sponsors such as employers, multiemployer plans and municipalities for a portion of qualifying prescription drug expenses for their Medicare-eligible retirees. However, plan sponsors—especially larger ones—could be leaving millions of dollars on the table because of the complexity of the cost-reporting requirements.

According to CMS, subsidy payments should equal 28% of a qualifying retiree's allowable prescription drug costs.[1] But many plans are receiving a reduced subsidy because of incomplete or inaccurate cost reporting for the subsidy. This shortfall can be remedied by conducting an audit of the cost reporting that goes well beyond the standard RDS reconciliation performed after the end of the plan year.

Ideally, plan sponsors should take a proactive approach and conduct these audits a few months prior to completing the RDS reconciliation. In this case, the audit will assist in building confidence when completing the CMS-required reconciliation agreement to receive federal funds. It will also avoid the need to request a reopening of a prior year, as described below.

In cases where the RDS reconciliation already has been completed, an audit may provide evidence to warrant a reopening request to collect additional funds. Plan sponsors may request a reopening for applications going back four years—and even longer for good cause—under federal regulations.[2] Large plans with incomplete reporting potentially could uncover millions of dollars, while smaller ones could also recoup significant sums. In such cases, the cost of an effective audit typically would be far below what plan sponsors could gain in additional subsidies.

How Complexity Yields Inefficiencies

Given the complex administration and arcane rules of the RDS program, there are three main reasons for the shortfalls:

1. Underreporting the number of Medicare-eligible participants enrolled in the plan
2. Underreporting of the eligible prescription drugs under Medicare Part D
3. Miscalculation of RDS amounts in accordance with the CMS guidelines and requirements.

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F. Randy Vogenberg. International Foundation. 2011.

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RDS Program Origins

The RDS program was enacted as part of the Medicare Modernization Act of 2003 and became effective January 1, 2006, concurrent with the inception of Medicare Part D. RDS payments to plan sponsors were seen as a way to avoid the mass elimination of retiree pharmacy coverage by helping offset the rising costs of these plans. Under the RDS program, plan sponsors could keep their existing benefits and collect a subsidy, as long as their benefits were at least as rich as the Part D defined standard benefit. This was the most common approach for plans providing retiree coverage in 2006, but its popularity has somewhat declined in recent years with the benefit enhancements under Medicare Part D and the elimination of the tax-preferred status of the RDS program.

Filing Requirements Challenge Plans

In practice, the RDS program has been an administrative burden for many plan sponsors, requiring the hiring of additional staff or outsourcing the administration of Part D. To receive the subsidy, plan sponsors must comply with federal guidelines and auditing standards. In terms of deadlines, they need to submit an application generally three months before the beginning of a plan year in order to be eligible for the subsidy for that time period. Plan sponsors have 15 months after the end of a plan year to file the reconciliation. Simple enough—until one considers the complexity of the cost reporting that plan sponsors must send to CMS. There is also the added cost of having to hire an actuary to attest to the plan qualifications for the RDS program, as required by law.

TABLE I

Calculating the Potential Additional Subsidy Payment

Milliman and PBM Estimation Comparison

	Gross Retiree Cost (GRC)	Threshold Reduction (THR)	Limit Reduction (LR)	Gross Eligible (GE)=GRC−(THR+LR)	Actual Cost Adjustment (ACA)	Allowable Retiree Cost (ARC) =GE−ACA	Subsidy Amount (SA)=ARC ×0.28
Milliman Estimation	$7,186,361	$986,076	$240,589	$5,959,697	$ 202,662	$5,757,034	$1,611,970
PBM's Initial Cost Reports	$6,084,603	$879,205	$157,671	$5,047,726	$ 403,830	$4,643,896	$1,300,291
Difference in Dollars	$1,101,758	$106,871	$ 82,918	$ 911,971	$ (201,168)	$1,113,138	$ 311,679

TABLE II

Additional Retirees With Claims

Additional Eligible Retirees Not Found on Initial CRI

	Gross Retiree Cost (GRC)	Threshold Reduction (THR)	Limit Reduction (LR)	Gross Eligible (GE)=GRC−(THR+LR)	Actual Cost Adjustment (ACA)	Allowable Retiree Cost (ARC) =GE−ACA	Subsidy Amount (SA)=ARC ×0.28
Milliman Estimation	$7,186,361	$986,076	$240,589	$5,959,697	$ 202,662	$5,757,034	$1,611,970
PBM's Initial Cost Reports	$6,518,719	$889,209	$204,684	$5,424,826	$ 184,474	$5,240,352	$1,467,299
Difference in Dollars	$ 667,642	$ 96,867	$ 35,905	$ 534,871	$ 18,188	$ 516,682	$ 144,671

The plan sponsor must manage retiree information during the entire lifecycle of an RDS application. Plan sponsors must specify to CMS the method used to submit retiree data, what source was used and how the CMS RDS Center should deliver responses and weekly notification files on retirees. Cost reporting on qualifying covered retirees must be done on monthly, quarterly, interim annual or annual bases and must be done for reconciliation. If a payment is not requested, there is no government subsidy.

Remedies

Given the complex rules and data requirements, it is no surprise that many plan sponsors are not receiving the full amounts for which they are eligible. To bridge the gap, plan sponsors can conduct a thorough audit of their and vendor practices. Plan sponsors first need to find an auditor with prescription drug and database management expertise, along with experience with the arcane RDS program rules.

An effective audit should include a review of the following:

- **Data preparation.** The plan sponsor or pharmacy benefit manager (PBM) should provide the auditor with the complete eligibility file, prescription drug claims file and covered retiree lists (CRLs) used for the interim cost reporting for the plan year being audited. It is important for the auditor to receive the eligibility file and prescription drug claims file for all members rather than only members the plan sponsor or PBM believes are eligible.
- **Cooperation of the PBM.** Critical to the audit are items provided by the PBM, such as the method in which rebates are allocated to retirees, the methodology used for separating Part B versus Part D medications, the Part D drug list used to calculate the cost reporting and the cost-reporting information submitted to CMS.
- **Member eligibility.** The audit process needs to identify eligible members. The auditor also should verify that members listed on the CRL have the same Social Security number or health insurance claim number listed in the claims file. As a result of this process, the auditor could identify additional members who the plan sponsor may request be added to the CRL.
- **Prescription drug eligibility.** This ensures that all drugs eligible for Part D are included in the cost re-

porting. The auditor should compile a complete list of eligible drugs as defined by the *Medicare Prescription Drug Benefit Manual* and CMS formulary reference files. Additional eligible drugs verified by the plan sponsor could then be included in the cost reporting and submitted to CMS for payment.

- **Cost-reporting validation.** To check the reasonability of the plan sponsor's reporting, the auditor should produce an independent cost report using the final agreed-upon CRL and eligible drug list to compare with the plan sponsor's interim cost reports. As part of this review, the auditor should also confirm that the plan sponsor's reporting is calculated according to CMS guidelines and requirements.

Case Study

The following case study illustrates the value of an RDS program audit to maximize the payments available in the calculations and through validating the CRL submissions. We estimated that the client was entitled to an additional subsidy of $311,679.

Table I details how the potential additional subsidy payment was calculated. Milliman estimated a payment amount of $1,611,970 compared with the PBM's initial cost reports with a payment amount of $1,300,291.

Table II illustrates the additional retirees with claims that were identified as eligible for an RDS payment but were not on the original CRL. CMS accepted these retirees on the final response file. The RDS payment available from adding members was $144,671.

Deadlines Are Just the Beginning

It is important to meet filing deadlines to keep the process from getting more complicated than it needs to be. However, keep in mind that an effective auditor can also help reopen applications from previous plan years to recover additional subsidies. If the plan sponsor and auditor can show there were problems with a vendor such as a PBM, CMS in some cases will allow the reopening of older years. Overall, working with an auditor to recover additional subsidies generally is money well spent, typically delivering a solid return on investment.

Information about subsidies paid to a specific plan is available at www.cms.gov/Medicare/Medicare-Advantage/Plan-Payment/Plan-Payment-Data.html.

Endnotes

1. Centers for Medicare and Medicaid Services (November 2, 2005). Overview of Retiree Drug Subsidy Option. Retrieved March 26, 2015 from www.cms.gov/Medicare/Prescription-Drug-Coverage/EmployerRetireeDrugSubsid/Downloads/OviewoftheRDSrev1.pdf.
2. 42 C.F.R. §423.890(d)(4).

takeaways >>

- Cost-reporting requirements of the RDS are complex, and many plans fail to take advantage of the subsidy program.
- A few months before completing the RDS reconciliation, plan sponsors should conduct an audit of the cost reporting that goes well beyond the reconciliation process.
- Plan sponsors may request that their application for subsidies be reopened going back four years, or longer for good cause.
- The amount a plan sponsor receives in additional subsidies because of an audit generally is far more than the cost of the audit.
- Underreporting of eligible participants and of eligible prescription drugs and miscalculating RDS amounts are the most common reasons plans don't receive the maximum amount of subsidies.

<< bio

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