



Educating Your Employees about their MEDICARE OPTIONS



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As most employers know, insurance carriers evaluate a number of important factors when calculating a company's health insurance premiums. In the large group market, for instance, the company's location and the industry in which it operates, employee demographics such as age and gender, risk factors such as claims experience and ongoing medical conditions, and even overall plan participation are all considered when determining the monthly rates.

For small employers, though, the Affordable Care Act (ACA) eliminated many of the factors that insurance companies can use, including group size, industry, gender, and medical conditions. Now, for companies with 50 or fewer employees, the primary rating factors are location and the age of the employees. This means that, for small employers in particular, a single employee could significantly impact the cost of a company's health insurance plan.

Small Group Rating Factors in Texas

BEFORE the ACA

- Location
- Group Size
- Industry
- Gender
- Age
- Health Conditions

AFTER the ACA

- Location
- Age (but only on a 3 to 1 basis)

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Composite Rates

In practice, most employers pay composite premiums for their employees, which means that the rate is the same for each employee regardless of their ages, but behind the scenes the insurance company calculates a separate premium for each worker and then averages them together to determine the composite rates. To do this, the insurer uses a standard age table in which each employee is assigned a different rating factor based on his or her age at enrollment or renewal time. A 21-year-old is set at a factor of 1.0 while a 64-year-old is set at a factor of 3.0, and every age in-between has a different factor.

For instance, imagine that Bob's Bait Shop has 6 employees ranging in age from 20 to 64. Below are the rating factors and monthly premiums for each worker in 2015 (rounded to the nearest dollar):

Age	20	21	31	42	53	64
Rating Factor	0.635	1.000	1.159	1.325	2.040	3.000
Monthly Premium	\$159	\$250	\$290	\$331	\$510	\$750

In this example, the average or composite premium for the employees would be the sum of each of their individual premiums divided by 6:

- **Total Monthly Premium** = \$159 + \$250 + \$290 + \$331 + \$510 + 750 = **\$2,290 per month**
- **Average (Composite) Premium** = \$2,290 / 6 employees = **\$382 per month per employee**

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As Employees Get Older, the Rates Go Up

As is customary in the insurance industry, at renewal time each year the rates go up. Part of this is explained by medical inflation: technology is improving and new drugs are being discovered, which causes health care costs to go up.

Part of the increase, though, is a result of the employees getting older. If Bob's Bait Shop has no turnover, then the renewal rates will be higher because each employee is a year older than they were at the last renewal and now has a new rating factor.

Assuming no medical inflation at all, here's what the group's renewal rates would look like in 2016:

Age	21	22	32	43	54	65
Rating Factor	1.000	1.000	1.183	1.357	2.135	3.000
Monthly Premium	\$250	\$250	\$295.75	\$339.25	\$533.75	\$750

- **Total Monthly Premium** = \$250 + \$250 + \$296 + \$339 + \$534 + 750 = **\$2,419 per month**
- **Average (Composite) Premium** = \$2,419 / 6 employees = **\$403 per month per employee**

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Older Employees Have Other Options

Once an employee reaches age 65, though, he or she has another option: Medicare. Medicare is a government program for people age 65 and older, people who are disabled, and people with End Stage Renal Disease (kidney failure requiring dialysis). The program provides both hospital and doctor coverage, and some private insurance programs can help round out the benefits for the Medicare beneficiary.

Medicare Supplements

A Medicare supplement, also known as a Medigap plan, fills in some of the gaps in an individual's Medicare coverage. A supplement pays secondary to Medicare, so after the government has paid its share of the medical bill, the supplement pays its share. Some supplements are very comprehensive and fill almost all of the gaps in Medicare, which means that a Medicare beneficiary can go to a doctor or hospital that accepts Medicare and pay nothing out of pocket. For the first six months after an individual starts receiving Medicare Part B benefits, he or she cannot be turned down for a Medicare supplement, though only certain supplements are available to people under age 65.

Medicare Part D Prescription Drug Plans

Originally, Medicare did not provide coverage for prescription drugs; this benefit was added in 2006 and is offered by private insurance companies, not through the government. Medicare Part D plans can be purchased alongside Medicare and a supplement or incorporated into a Medicare Advantage plan, explained next.

Medicare Advantage Plans

Some people choose to receive their Medicare benefits through a Medicare Advantage plan, which is a health plan offered by a private insurance company that administers the Medicare benefits. Advantage plans offer the same benefits as Medicare but also provide some additional benefits, such as an out-of-pocket limit for outpatient benefits and, usually, affordable copayments for doctor visits. Advantage plans usually, but not always, have a contracted provider network and may require a referral to see a specialist. While Medicare Advantage plans do have more out-of-pocket exposure than most Medicare supplements, the monthly premium is usually significantly lower; in fact, some have no monthly premium beyond what the member pays for Medicare Part B. There is an annual enrollment period for Medicare Advantage, and seniors signing up during this time period cannot be declined as long as they live in the plan service area, have Medicare Parts A and B, and do not have End Stage Renal Disease (ESRD).

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What Happens When Older Employees Sign Up for Medicare?

We'll discuss the employee's decision more in a bit, but first let's take a look at the impact on the group's premiums if Bob's oldest employee chooses to sign up for Medicare and drop off the group health plan:

Age	21	22	32	43	54	65
Rating Factor	1.000	1.000	1.183	1.357	2.135	N/A
Monthly Premium	\$250	\$250	\$296	\$339	\$534	N/A

- **Total Monthly Premium** = \$250 + \$250 + \$296 + \$339 + \$534 = **\$1,669 per month**
- **Average (Composite) Premium** = \$1,669 / 5 employees = **\$334 per month per employee**

What a difference! By removing the Medicare-eligible employee from the group health coverage, the composite premium drops by \$69 per employee per month. Let's take a look at what that means over the course of the year:

- **Previous Annual Premium** = \$403 per employee x 6 employees x 12 months = **\$29,016**
- **New Annual Premium** = \$334 per employee x 5 employees x 12 months = **\$20,040**
- **Annual Savings** = **\$8,976**

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Should Older Employees Sign Up for Medicare?

A savings of nearly \$9,000 per year would make a big difference to Bob and his employees, but why would the 65-year-old employee drop off of the group plan? There are several reasons.

1

Reason #1: Medicare is required if the employee is receiving Social Security

This is a pretty big reason. For employees age 65 or older who elect to start receiving their Social Security retirement benefits, Medicare Part A is required. This does not mean that the employee has to drop off the group plan – it's ok to have Medicare and group health coverage at the same time – but it does mean that the employee would be unable to make contributions to a Health Savings Account or accept any employer contributions to his or her HSA. Depending on the benefits being offered, this could be a big deal for the employee.

2

Reason #2: For small group employees, the health plan is secondary to Medicare

This is an even bigger reason. For groups with fewer than 20 employees, Medicare is primary and the group plan is secondary, which means that Medicare generally pays first and the group plan acts as a supplement, filling in some of the holes in the Medicare coverage. For instance, since Medicare Part B pays 80% of the bill for covered expenses after the calendar-year deductible, a group plan would pay the remaining 20% when an employee has both.

What happens, though, when a Medicare-eligible employee has not actually signed up for Medicare Part B? The answer varies by

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insurance company, but most carriers will pay *as if* the employee has Medicare whether he actually does or not.

For example, if a Medicare-eligible employee of a group with fewer than 20 employees has a \$10,000 claim for outpatient surgery, Medicare would normally pay \$8,000 and the group plan would pay the remaining \$2,000. If the employee does not actually have Medicare, the group plan can still pay \$2,000 for the claim, leaving the employee with \$8,000 in out-of-pocket costs.

Since there's not much advantage to having the group insurance in situations like this, it usually makes sense for the employee to go ahead and sign up for Medicare Parts A and B, and when he does it may behoove him to explore his options outside of the employer coverage.

3

Reason #3: Medicare may be a better option

This is probably the biggest reason of all. Depending on their situation, some employees would do better with Medicare (plus a supplement or an Advantage plan) than they would on the group health plan. For instance, if the group health plan has a very high deductible, the employee would likely have more comprehensive coverage by dropping off the group plan and going with Medicare and a supplement. Similarly, if the employee's share of the monthly premium for the employer-sponsored plan is pretty high, he or she might actually pay less by signing up for Medicare and an Advantage plan.

When people understand their options, often they'll decide that the group plan isn't their best option, and if they do it'll save both the employees and the employer some money.

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No

Employers CAN'T Force Employees Off of the Company Health Plan

However, employers cannot force or pressure an active employee to drop off of the group plan and sign up for Medicare, even if it's in his or her best interest; ultimately, it's the employee's decision. This is against the law, and it is something that CMS, the Centers for Medicare and Medicaid Services, does monitor and enforce.

It is worth mentioning that it's not always in an employee's best interest to abandon the group plan in favor of Medicare. For instance, if the employee is a high income earner, he may have to pay more for Medicare Part B and Part D, sometimes significantly more. If the employee already has Medicare Part B, he may no longer qualify for a supplement on a guaranteed issue basis. If the employee has a spouse under the age of 65, he may be keeping his group coverage because her monthly premium is lower on the group plan than on an individual plan. Or if the employee has an expensive monthly medication and would hit the "coverage gap" under Medicare Part D, he may do better on the group.

The point is this: everyone's situation is different, and employees have more information about their family, finances, and medical conditions than the employer does, so they get to decide what they want to do. It's not the employer's call.

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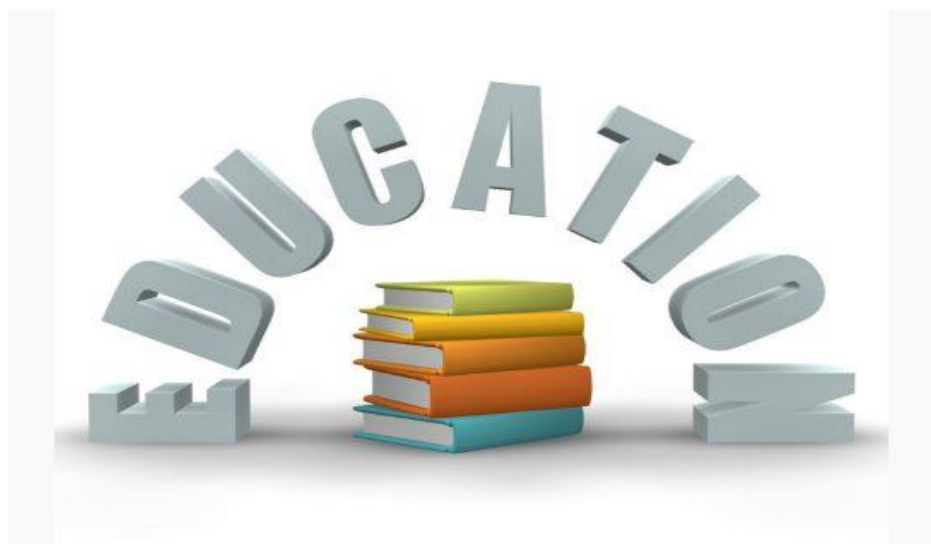


Yes

Employers CAN Educate Employee's About Their Options

While a company cannot force or pressure an active employee off the group health plan, it can educate its employees about their options. The best way to do this is to invite a licensed agent who sells Medicare-related products to talk to the employees, either individually or as a group. An agent who understands both group insurance and Medicare can help employees understand which option is best for them and their families. Many times, the best decision will be for the employee to cancel the group coverage and go ahead and sign up for Medicare, and that can also help lower the group premiums.

For employers, there's no downside and plenty of upside to bringing in a Medicare expert to talk to the company's Medicare-eligible employees.



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Maybe

Employers MAY Be Able to Help Their Employees Pay for Medicare Coverage

Here's the really fun part. If a group has fewer than 20 employees and Medicare Part B and Medicare supplement or Medicare Advantage plan premiums for the company's older employees. Again, it's still the employee's decision, but a little financial incentive from the employer may be all it takes to make the deal attractive to the employees.

Let's take one last look at our Bob's Bait Shop example. We already know that the employer could save nearly \$9,000 per year if the 65-year-old employee were to drop off the group plan and sign up for Medicare instead, but there would be a cost to the employee to do so. If the employee is signing up for Medicare Part B for the first time and is not a high income earner, he might be looking at the following monthly expenses:

Medicare Part B	\$122
Medicare Supplement Plan F	\$150
Medicare Part D Prescription Drug Plan	\$35
Total Monthly Premium	\$307
Total Annual Premium	\$3,684

With a potential savings of \$8,976, the employer could pay for all of the employee's Medicare premiums and still save \$5,292! However, because the employee likely has a copay and an annual deductible on his current plan, he would likely jump at the opportunity to get better

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coverage with no network restrictions even if the employer paid a lower amount toward the cost of his Medicare coverage.

When we consider the fact that an employee on a group of less than 20 really needs to sign up for Medicare Part B even if he's on the group health plan, then the Part B premiums would not be an extra expense for the employee and probably shouldn't be factored into the equation. If the employer instead pays for the Medicare supplement and Medicare Part D premiums for the employee, we end up with a bigger savings for the employer and a great deal for the employee:

Medicare Supplement Plan F	\$150
Medicare Part D Prescription Drug Plan	\$35
Total Monthly Premium	\$185
Total Annual Premium	\$2,220

- Annual Reduction in Group Premium: \$8,976
- Payment for Employees Medigap and Part D Premiums: \$2,220
- **Total Annual Employer Savings: \$6,756**

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Next Steps

After looking at the math, most employers will conclude that they can't afford not to educate their employees about their options, so if your company has Medicare-eligible employees who are currently covered on the group plan, the next step is to contact an agent that is well-versed in both group health insurance and Medicare-related products. The agent will talk with your employees about their options, and this is often enough to convince them to drop off the group health plan and sign up for Medicare plus a supplement or an Advantage plan.

JME can help!

At JME Insurance Agency, we market all lines of health insurance products: group, individual, and Medicare. We'll be happy to talk either one-on-one or as a group to your Medicare-age employees and help them determine the best option for them. If your company has fewer than 20 employees, we can also help you determine if it make sense to help the employees with their Medicare premiums. This is often a win-win, so it's certainly an option worth exploring.

For more information, contact a JME agent today at **972.245.0266** or jme@jmeinsurance.com.

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