



**Material for:  
Commission on Government Forecasting and  
Accountability Hearing**

**May 20, 2013  
Room C-1, Stratton Office Bldg.  
10:30 a.m.**

# **A Primer on Medicare, Medicare Advantage and Medigap plans**

## **Medicare**

Medicare is a federal health insurance program specifically for individuals who are 65 years of age or older, certain younger people with disabilities, and people with End-Stage Renal Disease (ESRD). Medicare is broken out into four specific parts: A, B, C, and D.

Part A of Medicare refers to hospital insurance. By this, Medicare Part A covers inpatient hospital care, skilled nursing facility care, hospice care and some home health care.

Part B of Medicare refers to general medical insurance. By this, Medicare Part B covers certain doctors' services, outpatient care, medical supplies, and preventative services.

Part C (explained later)

Part D of Medicare refers to Prescription Drug Coverage. This part adds prescription drug coverage to original Medicare, some Medicare Cost Plans, some Medicare private FFS plans, and MSAs.

Individuals may be automatically enrolled in Medicare depending on certain conditions:

1. If they are getting Social Security (SS) or Railroad Retirement Board (RRB) benefits
2. If they are under 65 years of age and disabled
3. If they have Amyotrophic Lateral Sclerosis (ALS)
4. If they live in Puerto Rico and receive SS or RRB benefits

If these conditions do not apply, individuals must apply for Parts A and B of Medicare online, in person or via a toll-free telephone number. Medicare premiums are automatically deducted from an individual's Social Security, Railroad Retirement, or Civil Service Retirement check. If an individual does not receive the aforementioned payments, Medicare will send a bill for the insurance premium quarterly.

## **Medicare Advantage**

Medicare Advantage plans are typically classified under Part C of the traditional Medicare sections. In comparison to traditional Medicare coverage for types A and B (and also D, in some cases), Medicare Advantage is primarily a type of plan that is offered by private companies that contract with Medicare to provide Parts A and B benefits. In addition, Medicare Advantage plans may also contain prescription drug coverage.

Generally, Medicare Advantage plans include HMO, PPO, FFS, Special Needs and Medical Savings Account plans.

## **Medigap Plans**

Medigap plans refer to a supplemental insurance policy sold by private companies to help pay for certain health care costs that original Medicare does not cover, such as co-payments, co-insurance and deductibles. In addition, certain Medigap policies also offer coverage for services that original Medicare does not cover, including foreign health care while traveling outside the United States. A Medigap plan differs from a Medicare Advantage plan as Medigap coverage only supplements original Medicare benefits. Medigap plans cannot be used to pay Medicare Advantage plan co-payments, deductibles or premiums.

## Medicare Option Comparison

<b>Component Comparison</b>	<b>Traditional Medicare</b>	<b>Medicare Advantage</b>	<b>Medigap Plans (Medigap)</b>
<u>What does it cover?</u>	Medicare covers various hospital and general medical expenses. Part D of Medicare covers prescription drugs.	Medicare Advantage covers traditional Medicare Part A and B benefits, along with Part D coverage in some cases.	Medigap covers remaining expenses from traditional Medicare Part A and B coverage. If Medicare covers 80% of an individual's health care costs, Medigap would cover the remaining portion.
<u>Premiums</u>	Part A = up to \$441/month if you do not already receive it for free  Part B = \$104.90/month	Approximately \$300/month	Approximately \$147/month (\$182/month if combined with a Part D drug plan)
<u>Deductibles</u>	PART A Hospital - \$1,184/benefit period, \$0 for the first 60 days of the benefit period, \$296/day or higher after that point  Skilled Nursing Facility - \$0 for the first 20 days of the benefit period, \$148/day or higher after that point  Part B \$147/year	Varies by plan – may range from \$500 to several thousand dollars (Medicare.com)	None, depending on the optional Part D plan.
<u>Co-payments</u>	Participants pay the annual deductibles and 20% coinsurance. Part D participants pay a co-pay for their prescriptions.	Vary by plan	None, depending on the optional part D plan.
<u>Network Options</u>	96-98% of all providers accept Medicare	Limited to the provider choosing to accept the HMO/PPO/etc. that is offering coverage under Medicare Advantage	Works in conjunction with Medicare and is accepted by all providers who accept Medicare
<u>Estimated savings to the State</u>	This option keeps the status quo (includes retiree options to participate in state-sponsored health insurance plans as a supplement to Medicare).	CMS estimates savings of \$100 million/year to the State of Illinois.	Various Medigap providers estimate savings to the State of Illinois of approximately \$200 million/year or greater.

**Responses to CMS RFI for Retiree Health Insurance Options  
Issued November 7, 2012**

<b>Company Responding</b>	<b>Response to Question 4 of RFI “What option/strategy would you suggest the State pursue and why?”</b>	<b>Recommendation:</b> MA = Medicare Advantage ME = Medigap O = Other/Combination of Both N/A = Not Applicable
Aetna	Enroll retirees and dependents in a Medicare Advantage PPO with a Prescription Drug Plan	MA
AON Hewitt	Information Not Provided by CMS	N/A
Buck Consultants	Use a Medicare Advantage PPO and/or EGWP* Rx program to save money	O
CIGNA	In a 2-part plan, move from the current plan administered by CIGNA to a Medicare Supplement plan (Medigap) along with a Prescription Drug Plan. The next step would be to move towards a Medicare Advantage HMO plan including an integrated Medicare Part-D (Prescription Drug) plan.	O, ME, MA
Conexis	Use a Medicare Exchange for retirees and dependents combined with a Health Reimbursement Arrangement** to convert retirees and dependents to individual Medicare plans	O
Coventry	Use an EGWP* Medicare Advantage Prescription Drug Plan for Illinois service area residents and a defined contribution Medicare Supplement wrap*** with a Part D plan for residents out of the Illinois service area	O
Extend Health, Inc.	Use a private Medicare Exchange for retirees.	O, ME, MA
Gallagher Public Entity & Scholastic Group	Implement a Group Medicare Supplement and prescription drug plan	ME
Health Alliance	Use a Medicare Advantage/Part-D plan in conjunction with multiple carriers for Illinois and nationwide	MA
HealthLink	Use a Health Insurance Exchange, allowing retirees to pick and choose from Medicare Advantage, Medigap and other plans	O

## Responses to CMS RFI for Retiree Health Insurance Options Issued November 7, 2012 (Continued)

<b>Company Responding</b>	<b>Response to Question 4 of RFI</b>  <b>“What option/strategy would you suggest the State pursue and why?”</b>	<b>Recommendation:</b> MA = Medicare Advantage ME = Medigap O = Other/Combination of Both N/A = Not Applicable
Humana	Use a Medicare Advantage PPO/HMO plan. Also, the State should explore a “passive” (same benefits for in and out-of-network services) EGWP* Medicare Advantage PPO/HMO with medical only and integrated medical/prescription drug	MA
Insuraprise	Use a Medicare Supplement (Medigap ) F plan with an independent Medicare Part-D Drug Plan	ME
My CustomHealth	Use Individual Medicare Plan options for Retirees (possibly through a Medicare Exchange)	O
SilverScript	Use an EGWP* or an EGWP* with an Optional Health Insurance wrap-around coverage plan for Medicare Part-D Prescription Drug benefits	O
Transamerica	Allow multiple plan options for retirees, including Medicare Supplement Plans, Medicare Advantage Plans, and No Coverage. Also, the state should use an EGWP* for prescription drug benefits	O
United Healthcare	Choose one of three options: 1) Integrate retirees into a Medicare Advantage PPO with a Part-D plan; 2) Set up a defined contribution model with a health insurance exchange; 3) Offer a fully insured EGWP*	O, MA, ME

\* An Employee Group Waiver Plan, or EGWP, is a usually self-insured product that is designed to allow employers to save money on prescription drug costs, similar to the traditional Retiree Drug Subsidy. An EGWP Rx is the same thing, at least in this context.

\*\* A Health Reimbursement Arrangement is an employer health benefit plan that reimburses employees for out-of-pocket medical expenses.

\*\*\* A Medicare Supplement Wrap is Medigap insurance, insurance meant to supplement and pay for expenses not covered under Medicare, along with an additional wrap-around insurance option (the wrap) to cover any expenses such as the “Donut Hole” coverage gap in Medicare Part D prescription drug insurance.

## AFSCME Contract Retiree Health Section

### **Retiree Health**

The Bargaining Committee fought to minimize the impact of the newly-enacted Public Act 97-695 (Originally SB 1313) by limiting the premium costs that could be imposed on retirees. Under the CMS implementation plan, many retirees would have paid more than 20% of their pension income for health care premiums. Now retirees will pay only a fraction of that.

### **Plan Design**

All changes to co-pays, deductibles and co-insurance made to the MCHP and QCHP plans for active employees will also apply to retirees.

### **Premiums -- Medicare Eligible Retirees**

Effective 7-1-13, Medicare Eligible retirees will have 1% of their pension annuity deducted to pay for their share of the health care premium. Effective 7-1-14, an additional 1% will be deducted. Effective 1-1-14, all Medicare Eligible Retirees will be enrolled in a Medicare Advantage plan that provides a comparable level of services and a comparable range of providers as the current health plans. According to the U.S. Medicare website:

***A Medicare Advantage Plan is a type of Medicare health plan offered by a private company that contracts with Medicare to provide you with all your Part A and Part B benefits. Medicare Advantage Plans include Health Maintenance Organizations, Preferred Provider Organizations, Private Fee-for-Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans.***

Medicare Eligible dependents enrolled in a MCHP plan will pay no more than \$89.91/month and dependents in a QCHP plan will pay no more than \$142/month through 6-30-15—the same rates they are currently paying.

### **Premiums—Pre-65 Non-Medicare Eligible Retirees**

Effective 7-1-13, Pre-65 Non-Medicare Eligible retirees will be offered a \$500/month subsidy if they opt out of the state's group health insurance plan to be covered in another health insurance plan.

Effective 7-1-13, Pre-65 Non-Medicare Eligible retirees will have 2% of their pension annuity deducted to pay for their share of the health care premium. Effective 7-1-14, an additional 2% will be deducted.

#### **QCHP:**

Effective 7-1-13, premium monthly rates for dependents in the Retiree +1 Dependent plan option will increase \$53, from \$196 to \$249.

Effective 7-1-13, premium monthly rates for dependents in the Retiree +2 or More Dependent plan option will increase \$61, from \$226 to \$287.

#### **MCHP:**

Effective 7-1-13, premium monthly rates for dependents in the Retiree +1 Dependent plan option will increase \$19. The current monthly rate of \$94 will increase to \$113.

Effective 7-1-13, premium monthly rates for dependents in the Retiree +2 or More Dependent plan option will increase \$26.50. The current monthly rate of \$132.50 will increase to \$159.

### **Labor-Management Health Care Committee**

The tentative agreement includes a provision for the Union and Management to work together to implement a Wellness Program by 1-1-14. The goal of the Wellness Program is to control health costs and improve the health and wellness of employees. The Wellness Program will be guided by a Joint Labor/Management Advisory Committee on Health. The Committee will also explore other innovations in health care coverage that can contain costs for employees, retirees and the employer, while maintaining or improving the quality of services provided.

## AFSCME 2012-2015 Contract Summary

FY13:	COLA 0%	
	Step Increases:	\$22
	Sub Steps:	(\$2)
	<b>FY13 Total:</b>	<b>\$20</b>
FY14:	Pay Parity	\$74
	COLA 2%	\$49
	Step Increases:	\$22
	Sub Steps:	(\$10)
	Longevity pay \$25 increase	\$5
	Wages Total	\$140
	Plan Design Changes	(\$52)
	Employee Contributions	(\$111)
	Retiree Contributions	(\$64)
	Max. Rem. Charge	(\$10)
	Medicare Coordination	(\$34)
	Medicare Advantage	(\$58)
	SERS Opt Out	(\$25)
	Health Care Savings	(\$354)
	<b>FY14 Total</b>	<b>(\$214)</b>
FY15:	COLA 2%	\$50
	Step Increases:	\$22
	Sub Steps:	(\$10)
	Wages Total	\$62
	Plan Design Changes	(\$86)
	Employee Contributions	(\$124)
	Retiree Contributions	(\$64)
	Medicare Advantage	(\$116) + FY16 rollover (\$58)
	SERS Opt Out	(\$13)
	Wellness	(\$53)
	Insurance Comm. Initiatives	(\$35)
	Health Care Savings	(\$491)
	<b>FY15 Total</b>	<b>(\$429)</b>
<b>Total Savings By Agreement</b>		<b>\$681 million</b>

- All Figures in Millions