

# It Pays to ERRP!

## Retiree Health Insurance Savings

by Mike Ehmke, EA, ASA, MAAA

*Employers who provide health insurance coverage to early retirees should be aware of a new federal reinsurance program enacted under the healthcare reform bill signed into law this past March by President Obama.*

The Patient Protection and Affordable Care Act includes a new Early Retiree Reinsurance Program (ERRP), which is available to group health plan sponsors who provide health coverage to early retirees, their spouses, surviving spouses and dependents. ERRP is intended to encourage employers and group health plan sponsors to provide health coverage to early retirees until state health exchanges and federal subsidies for health coverage are implemented by January 1, 2014, or until the \$5 billion set aside for ERRP is exhausted.

### How does this work?

Under the healthcare reform law, the Federal Government is authorized to reimburse certain health costs covered under employer group health plans for retirees age 55 and older who are not eligible for Medicare. The retiree's spouse, surviving spouse and dependents are also eligible, regardless of their age. For each individual's health claims costs, the plan sponsor is eligible to receive reimbursement from the Federal Government equal to 80% of the costs incurred during a plan year that are between \$15,000 and \$90,000 (these amounts are indexed for medical inflation in the future).

Plan sponsors approved for ERRP will be able to submit claims for a plan year for medical costs incurred after June 1, 2010. Claims incurred during 2010 are given a special transition rule. With respect to claims incurred before June 1, 2010, such claims are counted up to the \$15,000 minimum threshold. However, claims incurred before June 1, 2010 that exceed \$15,000 are not eligible for reimbursement. For example, let's say early retiree Steve incurs \$40,000 in claims prior to June 1, 2010 and \$30,000 in claims after June 1, 2010. Under the transition rule, the \$40,000 of pre-June 1 claims count toward

the \$15,000 minimum threshold. Thus, the plan sponsor may receive reimbursement equal to 80% of the \$30,000 incurred after June 1 (e.g., \$24,000).

Claims eligible for reimbursement include those paid by the plan sponsor, the insurer or the early retiree. Claims paid by an early retiree must not be reimbursed through insurance or other third parties to be eligible. When determining claims eligible for reimbursements in the case of a fully insured plan, amounts the insurer pays and the early retiree pays are taken into account, as the plan sponsor's premiums are irrelevant.

### How do I apply?


Eligibility to participate in ERRP is not automatic. A plan sponsor is eligible to participate if the plan sponsor submits a timely application for certification by the Secretary of Health and Human Services (HHS). The application only needs to be submitted once per plan (not annually). Applications can be accessed at <http://www.errp.gov/> and mailing instructions will be provided; online submissions will not be permitted.

A set of FAQs was also made available to clarify that while the applications will be processed in the order they are received, that order will not determine the order in which ERRP funds are distributed. According to HHS, ERRP funds will be disbursed in the sequence under which eligible plans submit claims for reimbursement. HHS reserves the right to stop accepting applications only if the \$5 billion in funds set aside proves to be insufficient as reimbursements are being paid out. The claim submission process has not yet been finalized, but is expected to be similar to the reimbursement process under the Medicare Part D subsidy program. The application requests



# EARLY RETIREMENT





certain information, including:

- Plan sponsor information (EIN, address, contact information)
- Authorized representative information
- Account manager information
- Plan information (plan year, benefit options)
- Projected reimbursements for the first two plan year cycles
- Intended use of reimbursements
- Description of sponsor's programs and procedures for high-cost conditions
- Agreement between plan sponsor and HHS

### What's the catch?

There are certain conditions that plan sponsors must meet when participating in ERRP. First, to be eligible, a plan sponsor must have programs in place that have generated, or have the potential to generate, cost-savings with respect to participants with chronic and high-cost conditions. Secondly, a plan sponsor must ensure policies and procedures are in place to protect against fraud, waste and abuse, and they must timely comply with requests from HHS to produce the policies and procedures. Third, the ERRP reimbursements cannot be used as general revenue by the plan sponsor, but must be used to:

1. Reduce the plan sponsor's health premiums or costs
2. Reduce plan participants' health premiums, copayments, deductibles, coinsurance or other out-of-pocket costs
3. Any combination of 1 and 2

To ensure that ERRP reimbursements are not used as general revenue, a sponsor must maintain its level of financial effort in supporting the applicable plan. To the extent a sponsor decides to use the reimbursement for its own purposes, it can do so only to offset increases in its health premiums or health costs.

### What kind of savings could this mean?

While the ERRP program is not perfectly designed to give relief to those plan sponsors who offer early retiree health insurance, the reimbursements are expected to average between \$2,000 and \$3,000 per early retiree. This could translate into a 20-30% reduction in costs for the early retiree group and may be well worth the effort to apply to receive the reimbursement.