December 6, 2021

The Honorable Chuck Schumer
Majority Leader
U.S. Senate
322 Hart Senate Office Building
Washington, DC 20510

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
1236 Longworth House Office Building
Washington, DC 20515

Dear Majority Leader Schumer and Speaker Pelosi:

As organizations supportive of solutions that will address the rising costs of prescription drugs, we write to express our concerns that the recent drug pricing reforms currently under consideration will have unintended consequences that threaten to increase costs to Employer Group Wavier Plan (EGWP) retirees in Part D.

There are currently 7.4 million retirees enrolled in EGWPs, representing 15% of the nearly 49 million Part D beneficiaries. The majority (4.5 million) of EGWPs are stand-alone Prescription Drug Plans (PDP), while 2.8 million are Medicare Advantage Prescription Drug (MA-PD) plans. California, New York, Michigan, Texas, and Pennsylvania are the top five states for employer retiree coverage, representing 40% of total EGWP enrollment.[1]

Many of the 7.4 million EGWP enrollees are retirees from state and local governments, including first responders, teachers, and other public workers. In addition, many labor unions have fought for better retiree health benefits—including EGWP drug coverage—through collective bargaining with employers. For all of these retirees, EGWPs provide health and retirement security that has been well-earned through a lifetime of hard work and service to our communities.

EGWPs are required to meet the same standard for actuarial value as other Part D plans, however, employers have more flexibility to enhance the standard Part D benefit cost sharing in different phases of the benefit. These enhancements, which are self-funded by the employer, retirement system, or union builds upon the standard Part D benefit and provides these beneficiaries with more comprehensive drug coverage. While there is variation across employers, EGWPs typically have lower, or no, deductibles and charge enrollees fixed copayments for their prescriptions. In addition, they typically offer broader formularies and allow enrollees better access to medicines.

Currently, Part D beneficiaries move through the coverage gap and into the catastrophic coverage phase based on their true out-of-pocket (TrOOP) costs. TrOOP costs include both the out-of-pocket costs paid by the enrollee and the discounts paid by drug manufacturers in the coverage gap. Since EGWP enrollees have lower out-of-pocket costs, they move through the Part D benefit phases more slowly than other beneficiaries—even if the cost of the drug is the

[1] Centers for Medicare & Medicaid Services, Medicare Advantage/Part D Contract and Enrollment Data, May 2021, available at: https://www.cms.gov/ Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ MCRAdvPartDEnrolData.

same.[2] Lower out-of-pocket costs for EGWP enrollees prolongs the time they spend in the coverage gap compared to non-EGWP enrollees. For this reason, drug manufacturers pay more coverage gap discounts to EGWPs than other Part D plans, which EGWPs reinvest into the coverage plan to offset the costs of the more generous coverage or higher premiums.

The drug pricing reforms currently under consideration are proposing to limit what can count towards TrOOP costs and limit coverage gap discounts from drug manufacturers. The reforms threaten employers', retiree systems', and unions' ability to maximize their resources through EGWPs and deliver low-cost, high-quality prescription drugs to their retirees. If access to these discounts diminish, EGWPs will need to find other funds to meet the obligations to workers or be forced to reduce benefits.

Given the financial reality, employers, unions, and state and local governments will be forced to make difficult decisions, either shouldering sharp premium hikes, increasing out-of-pocket costs for patients, or not offering drug coverage for their retirees at all and placing them on the individual Part D open market where more costs will shift to the federal government. **If EGWP providers cease offering coverage to retirees, placing these beneficiaries into the individual Part D market is estimated to increase annual federal reinsurance liabilities by $2.5 billion to $3 billion**.[3]

EGWPs in Part D have made prescription drugs affordable for beneficiaries—and coverage affordable for the government, employers, and unions. While drug pricing reform is essential, the proposals currently under consideration would make it harder, not easier, for employers and unions to continue providing comprehensive drug coverage for their retirees.

Please consider technical changes that would enact meaningful reforms and protect employer drug benefits for millions of retirees covered under EGWPs.

Sincerely,

AHIP
Better Medicare Alliance
Public Sector HealthCare Roundtable

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[2] Medicare Payment Advisory Commission, Report to the Congress: Medicare Payment Policy, March 2020, available at: http://medpac.gov/docs/defaultsource/reports/mar20_entirereport_sec.pdf.
[3] "Maintaining High-Quality, Affordable Employer-Based Medicare Coverage," Evernorth, August 2021, available at: https://www.evernorth.com/articles/understanding-employee-group-waiver-plans.