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Pharmaceutical Industry Labor-Management Association

Impact of Medicare Part D Rebates on Multi-employer Plans

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- Medicare Part D has been a successful program with lower than expected costs
- 72% of multi-employer plans rely on the Medicare Part D retiree drug subsidy to offer comprehensive benefits to union employees
- Mandatory rebates are a classic example of cost-shifting from government to retirees
- Multi-employer plans are operating in an already challenging environment; shifting additional costs to unionized workers can jeopardize these plans

Summary

Medicare Part D is a successful program that has brought prescription drug coverage to millions of seniors, while keeping costs lower than expected with high levels of beneficiary satisfaction.[2,3] Medicare Part D has also helped multi-employer plans provide benefits to employees at affordable costs.[5] However, economic slowdown and other external factors and trends have created a challenging environment that threatens to destabilize a highly tuned system that unions have come to rely on in providing benefits to their members. Medicare Part D relies on robust competition to negotiate rebates – savings which are retained within the Medicare program and passed on to beneficiaries; implementing a Medicaid-style rebate for Low Income beneficiaries would redirect savings away from beneficiaries and shift costs from the government onto the backs of unionized workers and other privately insured individuals. A Medicaid-style rebate imposed on Medicare Part D plans is a classic example of cost-shifting, which could have severe consequences for multi-employer plans that are already under stress.

Multi-employer Plan Basics

Multi-employer plans were set up under the Taft-Hartley Act of 1947, and are a way of providing benefit security to a unionized workforce through risk pooling and economies of scale. They are particularly useful in trades or industries where the labor force may work for several employers during their career (e.g., construction, transportation, healthcare, mining, communication industries). As beneficiaries of multi-employer plans reach Medicare eligibility, plan Trustees have several options in coordinating prescription drug coverage and Medicare Part D. An overwhelming majority (72%) of multi-employer prescription drug plans rely on the Retiree Drug Subsidy (RDS) to offset costs associated with prescription drug coverage, while still allowing them to provide generous benefits at a reasonable cost to plan participants.[6]

Multi-employer Plans Under Threat

Multi-employer plans have been faced with a number of challenges in recent years. As the annual rate of healthcare expenditures continues to outpace inflation, many plans find themselves digging deep into their plan reserves. This trend is exacerbated by declining fund contributions as a result of the economic slowdown and number of retirees slowly outnumbering active participants. The recent recession also limited the ability of funds to raise income through investment markets.

Adding to the strain that multi-employer plans already face because of macroeconomic conditions, the federal government achieves cost savings in public health insurance programs at the expense of other payers. A recent report found that commercial health plans were already paying an extra $89 billion in healthcare costs due to federal government underpayments.[7] Thus, there is already a significant amount of cost-shifting being unfairly borne by unionized workers.

With multi-employer plans already under strain, the Affordable Care Act (ACA) of 2010 contained several provisions that create significant uncertainty for multi-employer plans. Starting in 2018, a 40 percent excise tax will be imposed for “excess benefits” beyond a $27,500 family threshold. While multi-employer plans generally provide robust benefits, the continuing trend of cost shifting to private payers puts multi-employer plans at further risk of driving premiums above threshold amounts. Additionally, instead of joining a multi-employer plan, smaller employers may encourage their employees to purchase individual insurance through newly created health insurance exchanges. This has the effect of both reducing employer contributions to multi-employer trusts as well as putting unionized workers at a competitive wage disadvantage as cost structures of employers that do not provide benefits may be lower.

Impact on Multi-employer Plans of Imposing a Mandatory Medicare Rebate

In an environment of deficit reduction, some policy makers have proposed imposing a Medicaid-style rebate on drug utilization of Medicare enrollees who receive Part D’s Low-Income Subsidy (LIS). While previously inconclusive, the existing literature base hints that imposing such a rebate on Part D plans will distort the

prescription drug market and reduce rebates and discounts available to private payers.[8] Further analysis outlined in a new model definitively shows how such proposals are a classic example of cost-shifting; any potential savings recouped by the government will result in cost shifting to private payers, including multi-employer plans.[9] Previous models provided an incomplete picture of the prescription drug market; policy-makers who have proposed imposing a rebate on Part D plans mistakenly believe that the LIS and non-LIS markets function independently. However, more rigorous research shows that these markets are inextricably linked, and can only function independently when demand in the LIS market is perfectly inelastic – a highly unlikely condition. Additionally, economic modeling indicates that as the share of the market subject to a mandatory rebate grows, price distortions become more severe. As manufacturers are already subject to a mandatory rebate in the Medicaid program, dramatically increasing the size of the market that is subject to a rebate – such as imposing a rebate on LIS beneficiaries – will disproportionately squeeze remaining market segments.[9]

Because of their unique structure and generous benefits, multi-employer plans will be left with few choices other than to restrict access to medications, increase cost-sharing, and raise premiums in response to the cost-shift that is expected to occur in the face of a mandatory government rebate. Multi-employer plans are also more likely to respond to cost-shifting by increasing patient cost-sharing; this in turn is likely to result in a cascade of other effects, including reduced medication adherence, and ultimately, higher medical costs.[10] Reduced medication adherence may also result in reduced productivity among active union workers, further disadvantaging this workforce.[11] Alternatively, multi-employer plans may elect to offset benefit plan cost increases by reducing wages. In a time of stagnant wages, even a small decline in pay would be significant, particularly as union members have often accepted lower wages in exchange for more comprehensive benefits. New federal requirements for health plans under ACA combined with significant new funding targets for multiemployer defined benefit pension plans are already affecting employers' ability to remain competitive, thereby reducing income to both the plans and individuals whose wages are already being reduced in response to rising competitive pressures. This proposal will only compound an already untenable situation.

As the biopharmaceutical sector supports numerous unionized manufacturing jobs, a Medicare Part D rebate would potentially increase health insurance costs, drive down wages, and cause an already stressed sector to shed additional jobs. In sum, a more rigorous examination of the prescription drug market indicates that any proposal to impose a mandatory rebate on the Medicare Part D program is a classic example of cost shifting; the government will save money on prescription drug insurance for LIS enrollees, but the private sector will pick up much of the tab. In a challenging environment, additional cost shifting would put multi-employer plans at severe risk.

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High Skill Manufacturing Jobs at Risk

Imposing a mandatory rebate on Medicare Part D plans would have a negative impact on research and development (R&D). In 2009, the biopharmaceutical sector supported 4 million jobs, and is one of the few manufacturing sectors with projected job growth. Studies strongly suggest that price controls – such as mandatory rebates – will reduce R&D investment.[1] Such erosion of investment in this sector puts high skill jobs at risk.[4]