

EGWP/wrap: Why now?

Questions and answers about the employer group waiver plan with wraparound benefits



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For health plans that offer their retired employees prescription drug benefits, new rules from the Centers for Medicare and Medicaid Services (CMS) make the option of an Employer Group Waiver Plan with a wraparound supplemental plan (EGWP/wrap) attractive as a way to achieve significant plan savings.

Many employers have heard about this opportunity, but there is some confusion about exactly how advantageous the EGWP/wrap option may be and how to change to it from current plans such as those involving the retiree drug subsidy (RDS). This article aims to clarify some frequently asked questions about EGWP/wrap.

What is EGWP/wrap?

EGWP/wrap is an official Medicare Part D program containing a *wraparound* provision that ensures that retired employees will receive benefits at least equal to those of the plan that the employer currently offers. Employers who are now getting the RDS on behalf of their programs are likely to find that they can save money above and beyond their RDS by switching to an EGWP/wrap. Much of the savings will occur in the *donut hole* of drug expenses not currently covered by Medicare. Other employers who provide prescription drug coverage that does not currently qualify for RDS may also be able to take advantage of an EGWP/wrap.

Does the EGWP/wrap plan require a change in benefits?

In general, you will be providing the same benefit level that your retirees are currently receiving. There are certain CMS requirements that must be met, and you will want to discuss those with your pharmacy benefits manager. For example, Medicare Part D formularies need to be approved by CMS, so if you have modified your prescription drug formulary to exclude certain categories of drugs that CMS requires, you may be required to include them; there are programs required by CMS such as those dealing with fraud and abuse, grievance, and medication therapy; and the benefit plan designs must meet certain CMS requirements.

How much can a plan sponsor save by switching to EGWP/wrap?

Plan sponsors currently filing for the RDS enjoy savings that typically range from \$600 to \$700 per beneficiary per year. The EGWP/wrap option typically increases the financial savings by 40% to 120% (compared with RDS) depending on a variety of factors. Detailed analysis can accurately project the amount of savings likely to be generated by the EGWP/wrap approach.

What makes such savings possible?

Published and confirmed CMS guidance leads us to these projected savings, driven largely by the fact that, under the Patient Protection and Affordable Care Act (PPACA), pharmaceutical companies (pharma) will be covering 50% of the beneficiary's share of the cost of brand-name drugs occurring in the donut hole coverage gap. This is known as the Coverage Gap Discount Program and was a provision introduced in the PPACA. Employer plans that receive RDS cannot access this Discount Program; it is only through the EGWP/wrap program that members and plan sponsors can benefit.

CMS guidance also states that the 50% pharma reimbursement will count as member cost sharing. This will have the effect of accelerating plan members through the coverage gap and into the catastrophic layer of drug expenses, where federal reinsurance payments cover most of the cost.

What is the difference between EGWP/wrap and standard EGWP?

Pharma reimbursement under the Coverage Gap Discount Program is calculated as 50% of the beneficiary cost share. In a standard EGWP there is typically plan coverage for brand-name drugs above the initial coverage limit (ICL), which reduces the pharma payments. In an EGWP/wrap, all of the brand drug coverage is moved to the wraparound plan in order to maximize the payments by pharma.

Will the PBM coordinate the benefits with Medicare?

In general, yes. The idea is for third-party pharmacy benefit managers (PBMs) to coordinate with Medicare so that there will be one card and the transactions regarding the pharma discounts and the Medicare payments take place in the background. The largest PBMs already have plans in place for transitioning to the requirements and procedures of EGWP/wrap. Many of the smaller to mid-size PBMs are also working to make the adjustment. Some, however, are struggling with how to coordinate the benefits with Medicare.

Employers who decide to make the switch should discuss the issue with their PBM to make sure all is in order, and consider putting performance guarantees in place to ensure that participants receive benefits seamlessly.

How will EGWP/wrap work for retirees who are plan members?

Retirees should experience no complications from the switch to EGWP/wrap. Plan sponsors will need to enroll their members in the Medicare Part D plan through the government as a group plan.

The PBM will build a formulary and plan design that mirrors the employer's current plan. To retirees, the new plan should look just like the old plan.

What does it mean to enroll retirees in Medicare Part D?

An employer can build a group plan that duplicates the benefits retirees now have so that they will have no reason to leave the employer plan and join the government plan individually. Retirees will roll into the EGWP/wrap seamlessly. There will be no action required by the retirees and the EGWP/wrap plan administrator will handle all necessary paperwork.

Will retirees need both a Medicare drug card and their third-party PBM card?

In principle, the answer is no. Many third-party PBMs are prepared to coordinate their activities so that plan members will need only one card. But this is a question a plan sponsor should discuss with its PBM.

Will retirees have to pay any costs out of pocket and wait to be reimbursed?

An EGWP/wrap can be set up to mirror an employer's current plan, so if there is a copayment structure, that same structure should serve the new plan. In a consumer-driven health plan, members' payments at the pharmacy should take place just as they do now.

Will the federal Medicare formulary exclude any drugs that are now available to retirees?

There are some drugs that Medicare will not cover, but you should discuss how these drugs may be covered by the wraparound plan.

There are also some protected drug classes that CMS requires as a part of its formulary for an EGWP or any other kind of a Part D plan—drugs for the treatment of particular medical conditions. You should request that your PBM run a formulary match for your review during your discussions about a change to an EGWP/wrap plan. Plans that have narrow formularies need to take the potential expansion of covered drugs into account when analyzing the change to an EGWP/wrap.

Is it possible to modify the Medicare formulary to maintain current benefits?

CMS's formulary is often different from the formulary a given plan has in place. The PBM can customize its formulary to build upon the Medicare list so as to match a plan's benefits. This might involve an increase in PBM charges, but such an increase is not likely to affect plan savings greatly. It is not likely that the EGWP/wrap formulary can exclude Medicare-required drugs.

Suppose that some individual retirees join the EGWP/wrap and then leave that plan. Will they be penalized if, at a future date, they decide to re-enroll in it?

Generally, no—as long as an individual has continuous coverage through his or her employer. The employer's plan will look like a group plan, and employees should be able to move between it and the EGWP/wrap. However, you should review current and proposed plan documents to make sure these limitations are addressed.

Can a plan sponsor switch back to its previous plan if the EGWP/wrap doesn't work out as well as anticipated?

Basically, the answer is yes, but if collective bargaining is in play, this question will probably need to be handled through an employer/employee discussion.

Can a plan sponsor implement an EGWP/wrap now so as to take immediate advantage of the savings?

EGWP/wrap plans became available with CMS rules that went into effect as of the 2011 plan year as a result of federal healthcare reform. An employer can make the change as soon as it designs and creates the new plan, in cooperation with the PBM.

How should an employer communicate the changeover to an EGWP/wrap?

Employers will need to mount a concerted communication campaign. Retirees are always nervous about changes in their benefits, so it is important to make sure they understand the changeover and are comfortable with their benefits and the way they will receive them. The changeover takes place between the employer and the PBM; it's important to reassure retirees that it's primarily an administrative issue and that retirees' benefits are not changing.

Must the employer still submit information to CMS and attest to the richness of the plan?

No. If an employer has been receiving an RDS payment, the actuarial work for the RDS will no longer be required. Gone also will be the employer's administrative burden of submitting eligibility and tracking plan designs. The PBM contracts directly with CMS. The PBM is responsible for completing the applications, reconciliation, and actuarial certification regarding the adequacy of the plan.

How long will the savings accruing from an EGWP/wrap be available?

That's impossible to say, because CMS rules are always subject to change. The current rules and pricing structure, including the discounts from pharmaceutical companies, are as we have described them for the time being. All we can say with certainty is that there is an opportunity now to realize very significant savings by switching to EGWP/wrap, and plan sponsors are well advised to consider doing so.

Conclusion

The availability of EGWP/wrap plans presents an opportunity for many employers to realize substantial savings by switching their current Medicare Plan D drug benefits from the RDS scenario. The current rules are clear, and the time to take advantage of this opportunity is now.

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