Employer Group Waiver Plan with a Wrap (EGWP + Wrap)

What is it?

The Employer Group Waiver Plan (EGWP), which is often called "Eggwhip" , is a federal subsidy program for Medicare primary retirees that ensures that retirees receive benefits at least equal to those offered by the plan the employer currently offers. Medicare Part D plans are based on a Medicare Part D formulary. A formulary is a list of drugs available to the retiree. The "wrap" portion of the EGWP allows the State benefit plan to supplement the Medicare Part D Formulary so that the total set of drugs available to these retirees mirrors the benefit plan for active employees in the types of drugs available.

What is the impact to Medicare eligible retirees?

1. The same drugs are available under EGWP + wrap that are available under the benefit plan for active employees.

2. The current plan deductible, coinsurance, and maximum out of pocket limits of the benefit plan can be mirrored in the EGWP + wrap and will be the same as under the plan for active state employees.

3. Formulary changes can include changes in the amount of out of pocket money (called "co-insurance") a retiree must spend on a particular drug, and this happens from time to time under the current plan. Likewise there may be changes in the Medicare formulary. A recent comparison to the current benefit plan formulary by Express Scripts (ESI), the State's pharmacy benefit manager, indicates approximately 1.5% of the scripts that are currently 20% coinsurance drugs would become 40% coinsurance drugs under the Medicare Part D formulary. Conversely, approximately 1.7% of the scripts that are currently 40% coinsurance drugs would become 20% coinsurance drugs.

4. A recent analysis by ESI indicates a pharmacy match of 98.1%. That means that out of roughly 1,000 pharmacies utilized by eligible retirees, 19 would not participate. However, 17 of those pharmacies are VA pharmacies, where members could use their VA benefits instead.

5. Retirees can still work with the Department of Human Resources benefits group for assistance with their benefits.

Why implement it?

EGWP increases savings to the medical plan that will reduce premiums for retirees and the State. It does so without eliminating any drugs or changing what a retiree experiences now. More importantly, it enhances the State's ability to keep its promise to retirees to provide health benefits in the future by reducing the total costs that the State will have to pay in the future for those benefits.

The federal government provides savings which are considerably greater for EGWP plans than the Retiree Drug Subsidy (RDS), from which the State is currently receiving a subsidy of $1.4 million annually. With EGWP, the State could save an additional $700,000 to $1.2 million annually, for a total savings of somewhere between $2.1 million to $2.6 million.

Even more importantly, federal and state law (3 VSA Section 479a) do not allow the RDS subsidy to directly reduce the State's Other Post Employment Benefit (OPEB) future liabilities using standards set by the Governmental Accounting Standards Board (GASB). Rather, the RDS subsidy goes into an OPEB "Reserve" fund. While this helps the State meet is future OPEB liabilities, it does not reduce those future liabilities.

Under EGWP, federal law now allows the savings to reduce the OPEB future liabilities. Actuaries, who do financial analyses of retirement and health plans, indicate that this reduction in liability is orders of magnitude greater than the amount that would be deposited in the OPEB Reserve fund. For this reason, other states have already implemented EGWP plans.

With a minor change to State statute, the State can take advantage of this change in federal law as well. The medical plan could credit the $2.1 to $2.6 million in EGWP savings to premiums, thereby saving premium payers approximately 1.5% in overall premium, and at the same time reducing future OPEB liabilities by orders of magnitude due to the compounding of the initial savings over many years.

For example, when the Teacher's Retirement Plan implemented EGWP, it projected overall savings of $3.5 million, which is estimated to result in a reduction of the OPEB liability of over $203 million.

What if the law changes and negatively impacts retirees?

The State can opt out of the EGWP + Wrap if changes are made that negatively impact retirees.