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Employer Group Waiver Program (EGWP)

Presentation to the FELRA and UFCW VEBA Fund

December 12, 2018

Background Information

- On behalf of the FELRA and UFCW VEBA Fund (the 'Fund'), Confidio initiated a study in November 2018 on the feasibility of the Fund implementing an Employer Group Waiver Program ('EGWP') for its Medicare eligible retirees.
- The study examined pharmacy cost and plan administrative differences between the Fund's current Retiree Drug Subsidy (RDS) program and an EGWP.
  - Both programs are sponsored by CMS.
  - EGWPs became an attractive option for Retiree Plan Sponsors when the RDS Tax Advantage was eliminated in 1/1/2013.
- The study did not examine the tax implications of the Fund moving to an EGWP.

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Background Information

- The feasibility study was completed in collaboration with Express Scripts, the Fund's current PBM and a Medicare Part D approved plan.
- Plan Year 2018 data was used to model the 2019 cost differences between the RDS and an EGWP.
- Pages 4-7 summarize the findings from the study; page 8 contains a more detailed comparison (financial) of the two retiree programs.
- Modeling assumptions and limitations of this study are noted on page 15.

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EGWP Overview

- An Employer Group Waiver Program, or “egg whip”, is a group sponsored Medicare Part D Plan.
  - An “Enhanced” EGWP (‘EGWP + Wrap’) is a Medicare Part D Plan with additional wrap-around benefits, designed to close gaps between the current retiree drug benefit and the CMS approved Med D Plan.
  - In comparison to RDS, EGWPs present an opportunity for plan sponsors to reduce retiree drug costs through additional federal subsidies and tax advantages.
- EGWP Objectives:
  - Improve financial efficiency of retiree program
  - Preserve/enhance overall benefit value
  - Minimize member impact

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Summary Comparison of RDS vs EGWP

	RDS	EGWP
Annual Application	Yes	No
Benefit Plan Design	No requirements with Actuarial Attestation	CMS Requirements; can replicate current benefits with Wrap
Clinical Programs (DUR, MTM)	No requirements	CMS Mandates[1]
Formulary	Commercial	Minimum CMS Requirements; Wrap covers differences
Network	Commercial	Any Willing Provider
Subsidies	Claims dependent; capped for catastrophic coverage	Base subsidy for all members; subsidy amount increases with Rx costs
IRMAA[2]	No	Yes
Low Income Subsidies	No	Yes

[1] Non-negotiable safety edits/programs [PA, ST, QLL]
[2] Income Related Monthly Adjustment Amount

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Executive Summary: EGWP Study Findings

- Retiree Program Savings
  - For CY 2019, the estimated savings to the Fund using Express Scripts' EGWP + Wrap program is $843,425.00 compared to the RDS*.
- Cost-Advantages of EGWP vs RDS
  - EGWP value accrues to both the Fund and Retirees e.g. LICS; Catastrophic Coverage; Federal Subsidies.
- The EGWP + Wrap Requires No Changes to Retirees' Current Plan Design.
  - The WRAP closes gaps w/CMS Formulary; the addition of a mail pharmacy benefit is not required.

* See page 15 for assumptions

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Executive Summary: EGWP Study Findings

- EGWP will require modest changes to clinical programs and benefits administration
  - CMS Mandated Clinical Programs (Prior Auth, Step Therapies) cannot be suppressed
    - Medication Therapy Management is a value-add to Retirees
  - Prescription Drug Program Administration for EGWP Retirees must be separate from Actives:
    - Eligibility file feeds in CMS required formats
    - Tracking and Reporting (PBM)
    - New Implementation of Retirees
    - New ID cards issued
    - 6-month ramp up time

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2019 Financial Analysis – Detail

Projected Cost Components PMPM	2019 RDS	2019 EGWP
Total Rx Drug Cost PMPM	$341.83	$339.50
Member Cost Share	($61.53)	($47.33)
Coverage Gap Discount Program	n/a	($38.76)
Federal Reinsurance	n/a	($54.32)
Plan Liability for Coverage	$280.30	$199.09
Admin Fees	$0.00	$10.35
Rebates	($56.48)	($51.87)
Total Estimated Cost prior to Subsidy	$223.83	$157.57
Federal Subsidy	($42.33)	($9.13)
Estimated Plan Liability after Subsidy	$181.50	$148.44
Estimated Retirees	2,126	2,126
Est. 2019 Annualized EGWP Savings		**$843,425**

Additional Subsidies

Source: ESI EGWP Savings Analysis, December 2018

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EGWP

Additional Detail - Retiree Impact

- Majority of retirees will experience no change
- However, EGWP is subject to CMS Regulations and Requirements pertaining to:
  - Communications (Pre- and Post- Implementation)
  - Clinical Programs (UM, DUR, ST, PA, QLL)
  - Mandatory Appeals (5 Levels)
  - Days' supply (transition supply; 90-day retail)
  - Part D Network (any willing provider; no exclusive specialty)
  - IRMAA (in 2019, applies to retirees earning >$85,000 or couples earning > $170,000 annually)

Current FELRA Retiree Program

- FELRA Fund RDS Payments 2015-2017

	CY 2015	CY 2016	CY 2017
Gross Retiree Cost	$7,122,699.56	$7,742,648.37	$8,099,447.70
Total Gross Cost[1]	$34,049,009.00	$34,275,554.00	$35,640,843.00
Total Enrolled Retirees	2185	2162	2179
No. of Retirees with Rx Utilization	2050	2047	2036
Average Subsidy p/Unique Retiree	$503.27	$516.44	$446.67
Calculated Subsidy Amount	$1,099,640.74	$1,116,537.06	$973,297.18

RDS Subsidies:
- Are limited on low or $0.00 claimants
- Capped for higher cost/ utilization thresholds

[1] Active & Retiree combined annual drug spend, net of member contribution/before rebates.

Sources: ESI RDS Billing Reconciliation Reports 2015 – 2017
ESI CPG Reports – FELRA Fund CY 2015, 2016, 2017

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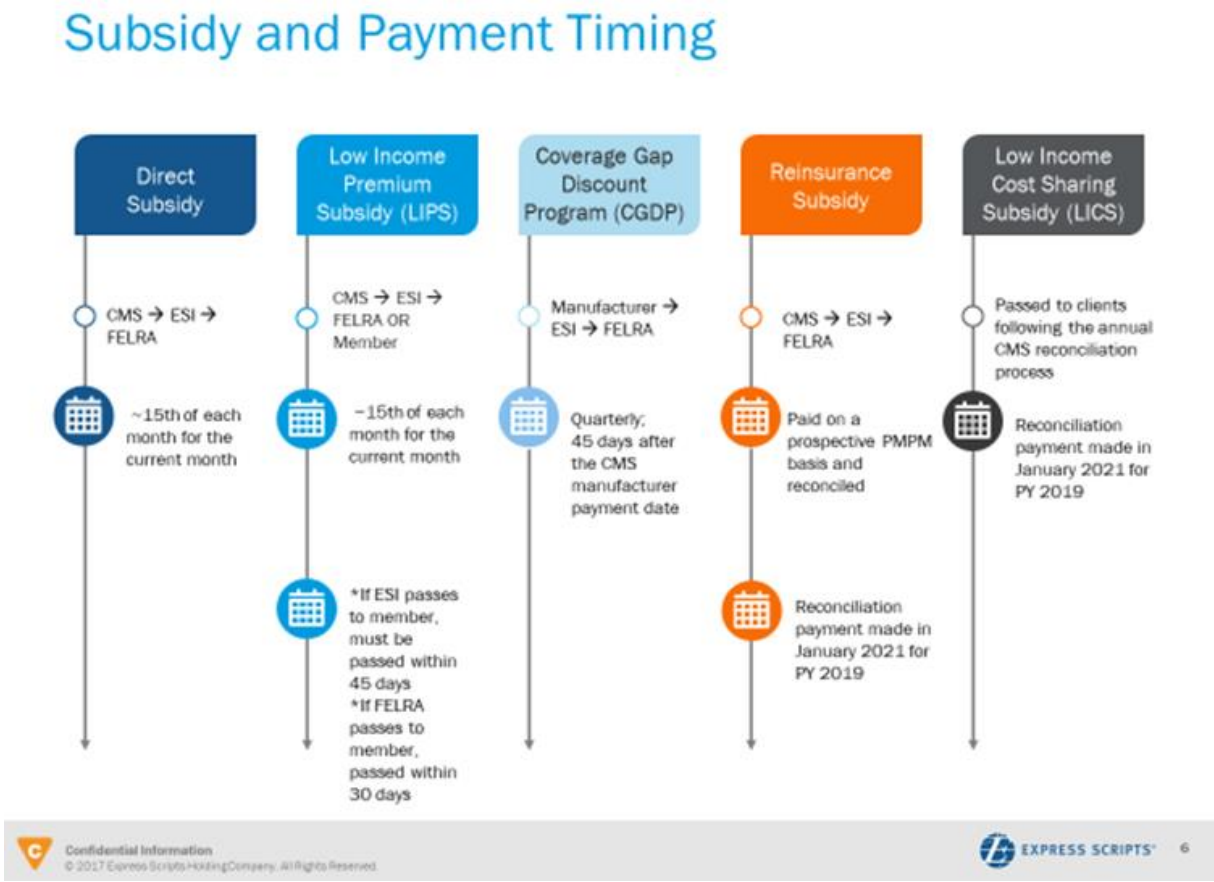
Financial Advantage: Cash Flow



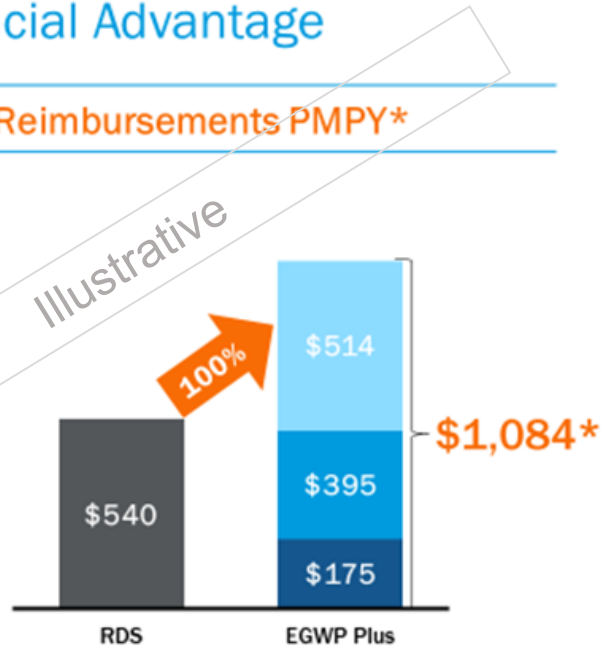
Source: Express Scripts Employer Group Waiver Report, Nov 2018

Financial Advantage: Increased access to subsidies

2018 EGWP *Plus* Financial Advantage

Cash Flow – Subsidy Reimbursements PMPY*

RDS Reimbursement	Reimbursement based on total gross drug spend within spend thresholds	Reimbursement options on a monthly, quarterly, annual basis
Federal Reinsurance	80% after TrOOP is met	Paid on a prospective PMPM basis and reconciled annually
50% Pharmaceutical Mfg Discount	50% on all applicable drugs (mostly Brands) in the Gap	Reimbursed quarterly
Direct Subsidy	Reimbursement per eligible member	Received monthly



* EGWP subsidies are based on 2017 experience using our average client's plan designs within our EGWP with 2.2M lives, RDS subsidies estimated at 15% of drug cost; EGWP subsidy figures are on a PMPY basis, net of administrative fees. Estimates not inclusive of Bi-Partisan Budget Act shifts.

EXPRESS SCRIPTS 5

Source: Express Scripts Employer Group Waiver Report, Nov 2018

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Recommendations

- Consider implementing an EGWP + WRAP after May 1, 2019 with an effective date of January 1, 2020
- Rationale for timeline:
  - Implementation takes a minimum of 120 days
  - ESI contract expires December 31, 2019
    - If the Fund proceeds with an RFP, annualized EGWP cost savings[1] are expected to increase (compared to ESI current contract terms).
    - Confidio's RFP Project Plan, submitted under separate cover, assumes the RFP analysis, e.g. vendor rankings, financial results, will be completed by April 8, 2019.
  - EGWP plans operate on a calendar year basis[2]

[1] Assumes lower EGWP admin fees, improved discounts for Medicare Part D Network as a result of competitive bidding

[2] EGWPs are only eligible for the federal reinsurance subsidy if they operate on a calendar year basis

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APPENDIX

EGPW Study December 2018

EGWP Study Assumptions and Limitations

- All savings estimates were provided by ESI, reported in November – December 2018.
- Estimates are based on the most recent CMS guidance, subject to change if regulations are amended.
- Estimates are based on a specific set of actuarial assumptions for the annual increase in the Standard Part D Benefit parameters.
  - Estimates are sensitive to these assumptions; a change in assumptions will create different estimates. Actual values will not be known until released by CMS.
- All modeling is based on (unaudited) 2018 plan year data.
- Financial models assume continuation of pharma rebates at current levels, in addition to proposed 75% discount of brands in the donut hole.
- The financial model does not take into account Part B coverage decisions (discretionary to the Fund), or offsets to the Fund's tax liabilities.

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Plan Comparison

Benefit Designs	Current Plan with RDS	EGWP
Deductible	$0.00	$0.00
Member Cost Share[1]	18%	13.9%[2]
Catastrophic Copay Option Member Cost Share	n/a	Yes - $5,100 5%
Network	No Requirements Fund uses Preferred Network	Any Willing Provider
Clinical Management/DUR	**Current Plan RDS**	**EGWP**
Formulary	Commercial Fund Uses National Preferred	CMS Approved Formulary[3]
Clinical Rules	No Requirements	High risk medications, e.g. Benzodiazepines, Opioids, Narcotic Analgesics, are assertively managed using Prior Auth, Step Therapy and/or Quantity Level Limits
Medication Therapy Management for high utilizers	n/a	Included (Opt-Out Feature)

[1] As a percentage of gross cost
[2] Decrease attributable to ~6% of members with expected to hit TrOOP costs [$5,100] in 2019
[3] Differences masked by 'wrap' plan; cost integrated into financial pro forma

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Member Experience

Positives to Consider

- Giant, Safeway, Superfresh included in MedD network
- Cost share reduction to 5% after TrOOP[1]
- Enhanced UM programs improve safety, efficacy, compliance
- Low Income subsidies, expected to impact less than 2% of retirees
- Medicare Service Center at ESI, staffed with Medicare specialists

[1]Estimated 6% of Fund retirees expected to meet TrOOP in CY 2019

Potential Downside

- CMS required programs must be in place (Payer determinations; Part D Late Enrollment Penalty; Claims Adjustments)
- Minor disruption[1] with network:
  - 7 members
  - 5 pharmacies / 28 prescriptions
  - 100% of disrupted members have a Med D pharmacy within 4 miles
- CMS communications cannot be suppressed
- Members will receive a new ESI Medicare ID card

[1] VA Hospitals only; retirees have option to continue using VA.

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The Fund Experience

Positives to Consider

- Additional Medicare expertise included with account team
  - Ensure compliance, consistency in meeting CMS requirements
  - Dedicated Medicare Service Center
- Reduce annualized expenses attributable to retiree prescription drug benefits
- Increase in cash flow
- Following implementation, PBM bears more administrative burden
  - Reporting, reconciliation, and other CMS requirements handled by PBM

Potential Downside

- EGWP retirees managed separately from Actives
  - Separate eligibility file, layout
  - Separate reporting
- Potentially steep learning curve for Fund administrators
- Lengthy implementation period (no less than 120 days)

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Mandatory Communications

Pre-Enrollment	Post-Enrollment
Pre-Notification Package with opt-out feature and Benefit Overview	Transition Supply Letter (affects <1% of retirees)
Welcome Kit Package, incl. new ID Card, geo access, Quick Reference Guide, HIPAA notice	Monthly EOB (non-ERISA plans only)
Disenrollment/Enrollment Letters (as needed)	Operational Letters as needed, e.g. MTM notification; coverage determinations, COB mailer
Low Income Subsidy (LIS) Rider (affects ~2% of retirees)	LIS Premium Refund Checks
	Renewal Packets

'Mandatory Communications' costs are included in the $10.35 PMPM administrative fee; formulary change notifications, customized letters would be charged to the Fund.

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