

Medicare Part D – Lessons Learned

Actuaries Club of Hartford & Springfield

May 21, 2008

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Agenda

§ Part D Basics

§ Individual Options

- Prescription Drug Plans (PDP)
- Medicare Advantage

§ Employer Options

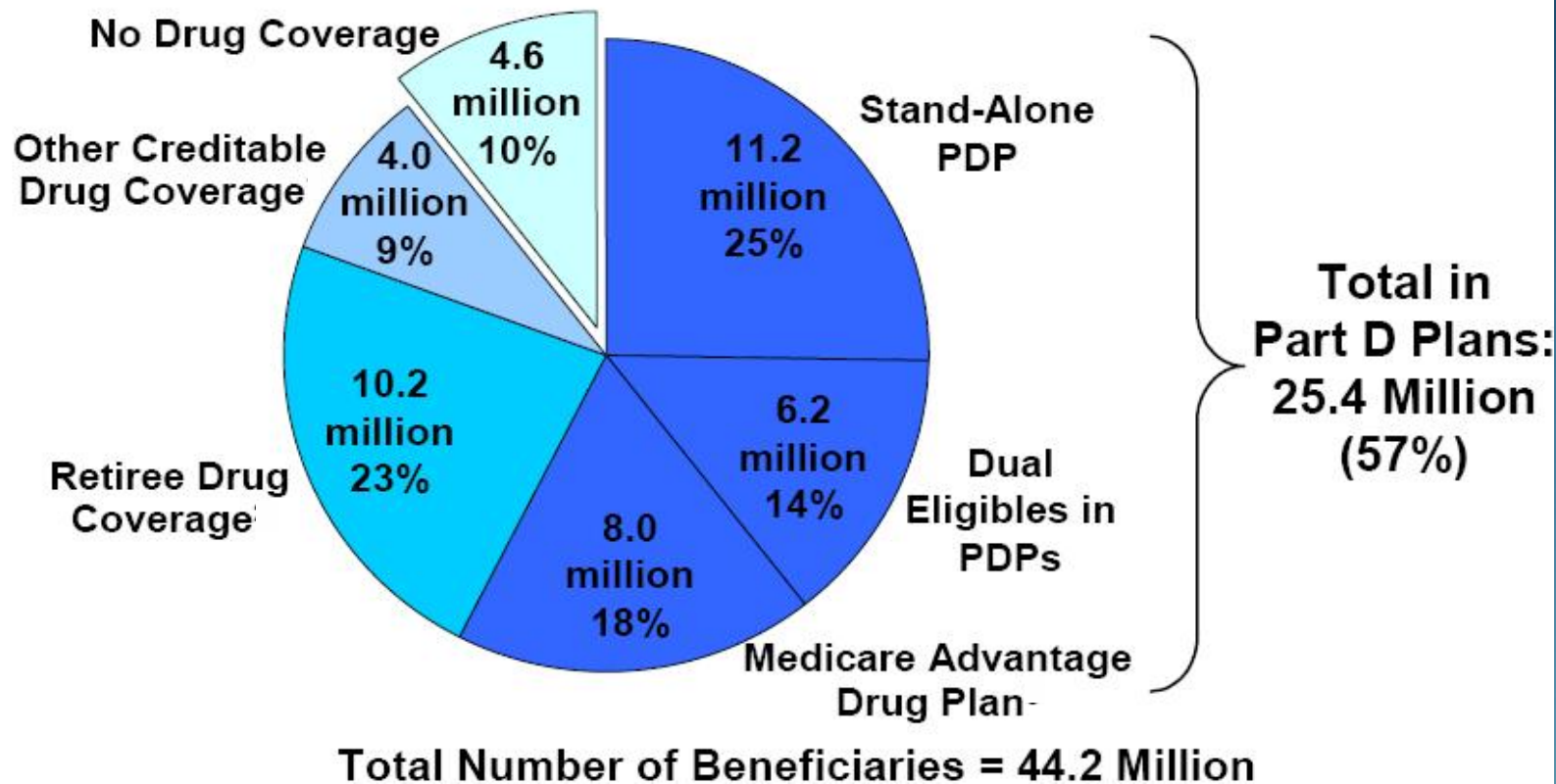
- Retiree Drug Subsidy
- Employer Group Waiver Plans
- Medicare Advantage

§ Issues and Opportunities

§ Discussion

What are Beneficiaries Doing

HHS Estimates of Prescription Drug Coverage Among Medicare Beneficiaries, 2008



SOURCE: HHS, January 31, 2008 (Date of January 2008).

Part D Overview – Really Basic

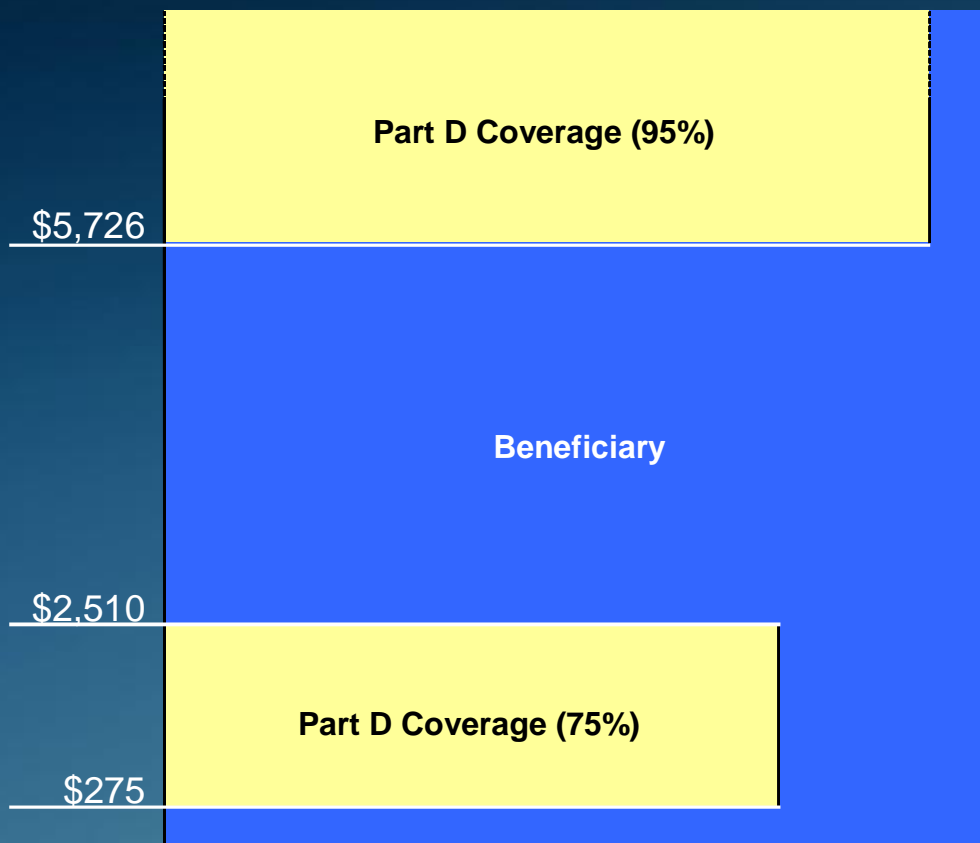
- § Medicare Part D pharmacy plans cover over 25 million Medicare-eligible persons
- § Part D coverage is contracted to private sector Prescription Drug Plans on a competitive bid basis
- § Annual bids (due first Monday in June)
- § Strong competition among PDP sponsors for 6 million dual eligible (Medicare/Medicaid) beneficiaries
 - Bid must be below average *regional* bid to qualify to be allocated a share of these members
- § Bid is funded by a federal subsidy and member premium

More Basics on Part D

§ Standard Benefit structure

- Deductible (\$275 in 2008)
- 75% coverage up to Initial Coverage Limit (\$2,510)
- No coverage (coverage gap or “donut hole”) until
- “True Out of Pocket” expense limit (\$4,050)
- 95% Catastrophic coverage beyond TrOOP max

Part D Benefits



More Basics on Part D

- § “Federal Reinsurance” covers 80% of the gross drug costs above threshold (specific stop loss)
- § “Low Income Subsidy” – richer benefits for those who qualify; PDP plans not at risk for:
 - Cost sharing subsidy
 - Premium subsidy
- § “Dual Eligibles” – subset of Low Income Subsidies

Individual PDPs -- Issues

- § Mix of Risks
- § Mismatch of Revenue & Plan Liability
- § Cash Flow Timing (Fed Reins & LICS)
- § Risk Corridors
- § Regional Low Income Benchmarks

Mix of Risks

§ Averages Don't Work – Even Aggregate Risk Scores

§ 2 Beneficiaries, Both with \$2,250 in drug spend

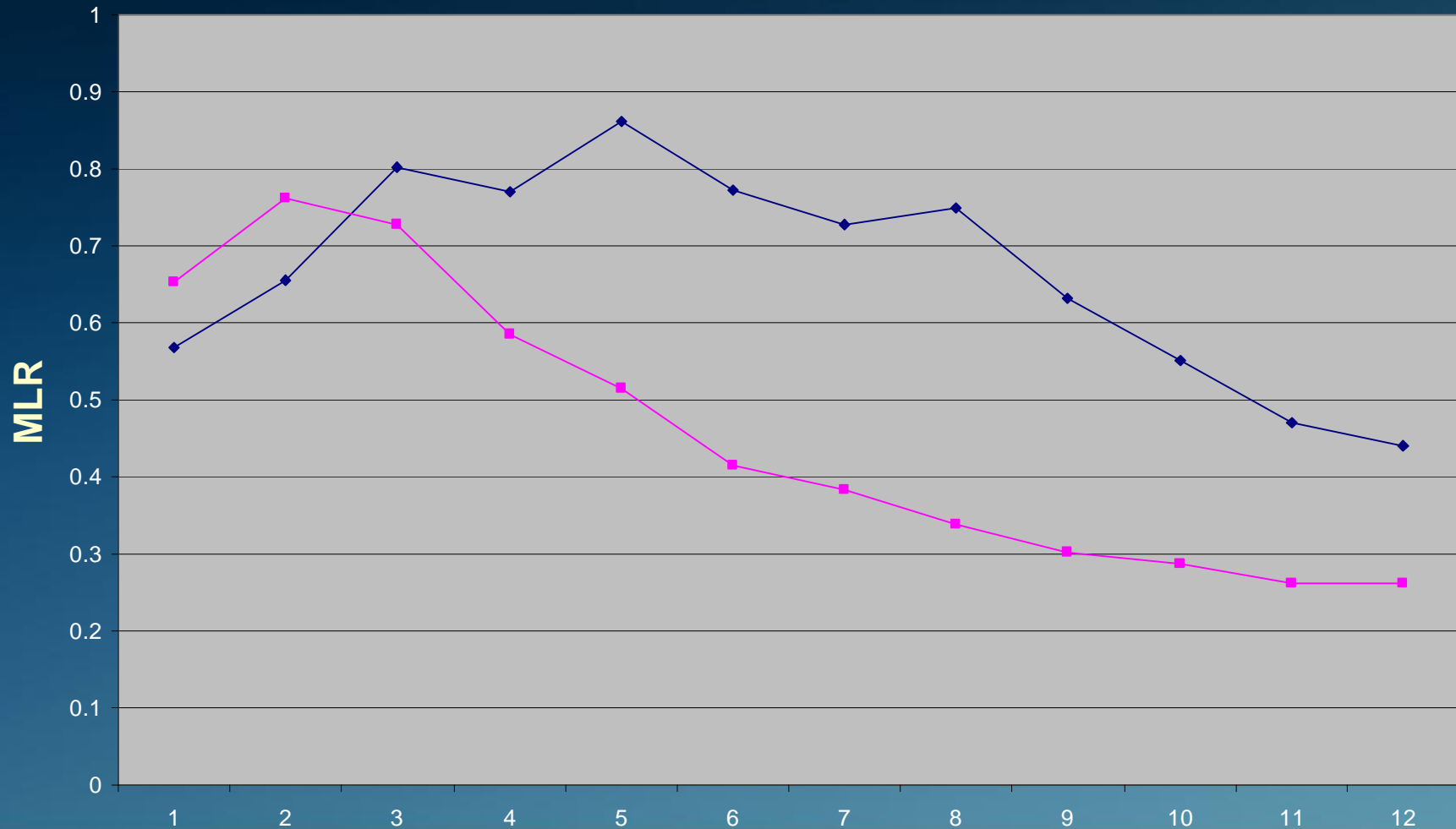
- (Average Gross Rx Spend = \$2,250
- Average PDP Claim Liability = \$1500)

§ 2 Beneficiaries, One with \$250 in drug spend, One with \$4,250 in drug spend

- (Average Gross Rx Spend = \$2,250
- Average PDP Claim Liability = \$750)

§ Same Average Gross Rx Spend (\$2,250), Very Different Claim Liability

Monthly MLR for Two Cohorts w/Risk Score of 1.15



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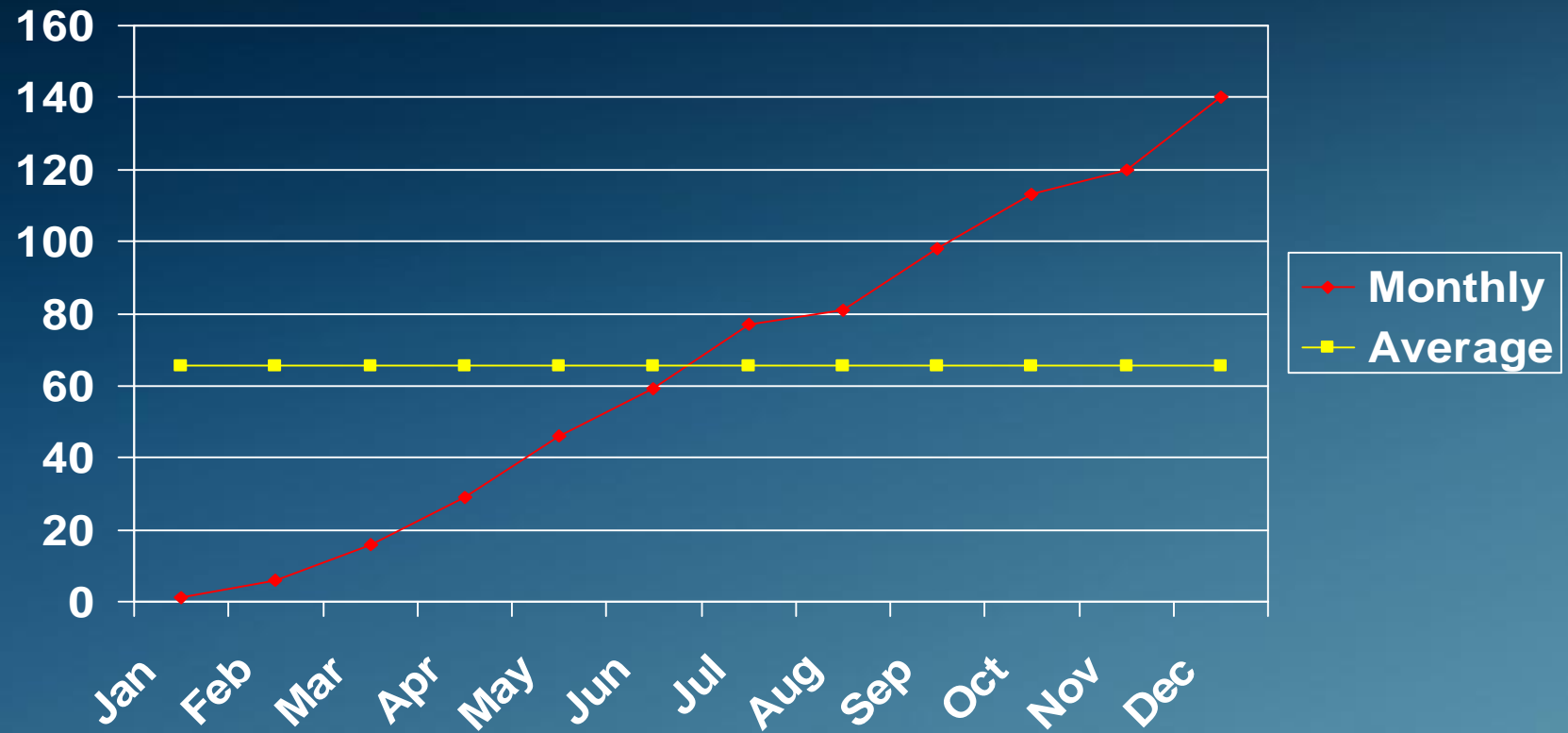
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Mismatch of Revenue & Claim Liability

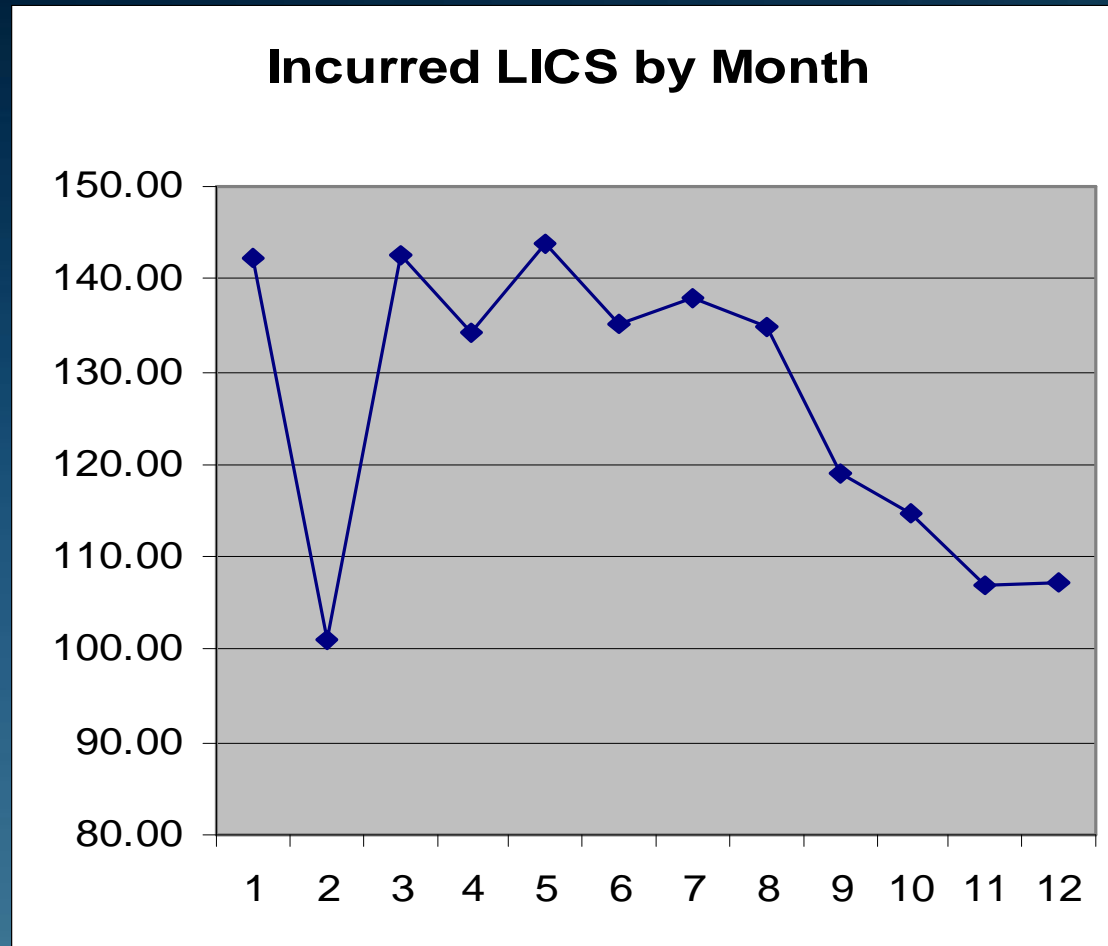
	<u>Mo 1</u>	<u>Mo 2</u>	<u>Mo 3</u>	<u>Mo 4</u>	<u>Mo 5</u>	<u>Mo 6</u>	<u>Mo 7</u>
Total Projected Revenue	247.28	246.17	245.34	244.92	245.04	245.14	246.09
Total Claims (PMPM)	324.29	285.09	311.05	293.98	310.93	297.32	313.19
PDP Liability (net of Federal reinsurance)	175.09	172.83	147.11	125.94	115.97	98.74	93.64
PDP Liability as % Revenue	71%	70%	60%	51%	47%	40%	38%
Federal Reinsurance	1.33	6.40	15.91	28.98	46.10	58.91	77.05

Cash Flow & Timing

Federal Reinsurance Subsidy by Month



Cash Flow & Timing



Risk Corridors & Reconciliation

§ Risk Corridors

§ Point in Time vs. Full Year Allocated

§ One for each PDP (102 for Nat'l Sponsor)

§ Reconciliation

§ Risk Score

§ LICS

§ Federal Reinsurance Subsidy

§ Risk Corridor

Risk Corridors & Reconciliation

All Numbers PMPM

		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>FY</u>
PDP A	Gross Profit (Pre Risk Corridor)	\$ (8.29)	\$ 3.25	\$ 42.32	\$ 60.49	\$ 17.94
	Risk Corridor Adj	\$ 25.74	\$ 16.40	\$ (14.85)	\$ (27.57)	\$ 5.29
	Gross Profit (Post Risk Corridor)	\$ 17.45	\$ 19.65	\$ 27.46	\$ 32.92	\$ 23.23
PDP B	Gross Profit (Pre Risk Corridor)	\$ 33.41	\$ 18.44	\$ 25.06	\$ 38.82	\$ 28.92
	Risk Corridor Adj	\$ (9.97)	\$ 1.57	\$ (3.92)	\$ (14.92)	\$ (6.74)
	Gross Profit (Post Risk Corridor)	\$ 23.44	\$ 20.01	\$ 21.14	\$ 23.89	\$ 22.18
Sum	Gross Profit (Pre Risk Corridor)	\$ 12.56	\$ 10.85	\$ 33.69	\$ 49.65	\$ 23.43
	Risk Corridor Adj	\$ 7.88	\$ 8.99	\$ (9.39)	\$ (21.25)	\$ (0.73)
	Gross Profit (Post Risk Corridor)	\$ 20.44	\$ 19.83	\$ 24.30	\$ 28.41	\$ 22.70

Risk Corridors

- § Aggregate Stop Loss Reinsurance
 - Done at Prescription Benefit Plan Level
- § Steers Results to Strike Zone / Sweet Spot
- § Not Applicable to Employer Group Waiver Plans
- § Not Applicable to Enhanced Portion of Benefit

Risk Corridors

§ Risk corridors – like aggregate stop loss

- CMS shares in risk for 2006 and 07:
 - +/- 2.5%: 100% PDP plan
 - +/- 2.5 to 5.0%: 75% CMS, 25% plan
 - +/- >5.0%: 80% CMS, 20% plan
- For 2008, the risk corridors widen:
 - +/- 5.0%: 100% plan
 - +/- 5.0 to 10%: 50% CMS, 50% plan
 - +/- >10.0%: 80% CMS, 20% plan

Risk Corridor

Simple Example CY 2006

§ Symmetrical Risk Corridors:

- CMS participates in gain/loss above the benefit target premium, via symmetrical risk corridors at 2.5% and 5.0% levels

§ Target premium:

- PDP net risk on the 75% cost share between the front-end deductible and the initial coverage limit plus the 15% cost share above TrOOP (ie, catastrophic coverage limit)

§ CMS mitigates a 5.4% excess of target amount profit margin to a 3.2% excess gain as follows:

$$100\% \times 2.5\% + 25\% \times (5.0\% - 2.5\%) \\ + 20\% \times (5.4\% - 5\%) = 3.205\%$$

LICS & Reinsurance

§ Pass-Through Accounting

§ Settled at CMS Reconciliation

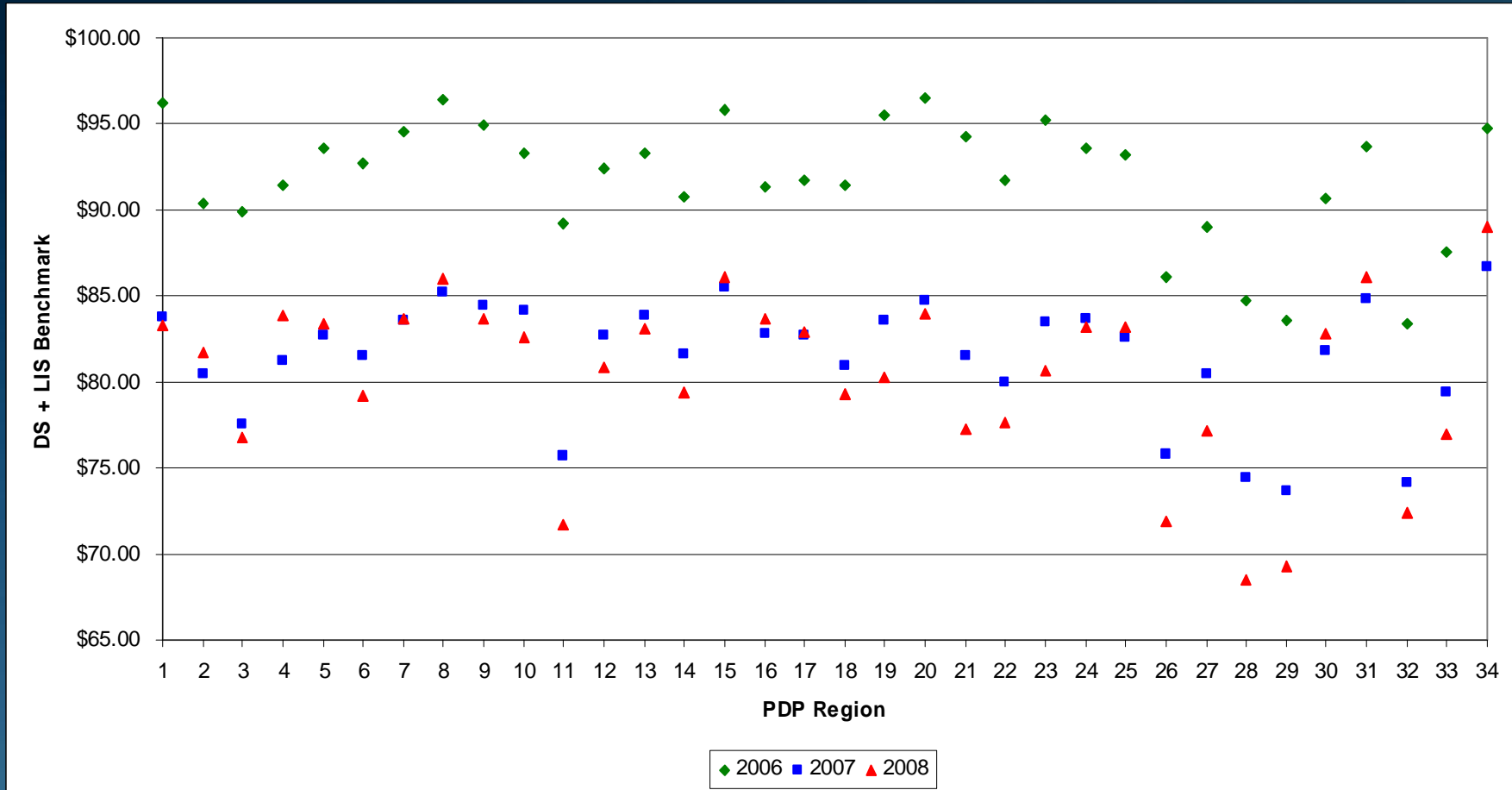
§ LICS = Low Income Cost Share

- Negative Cash Flow During Deductible and Gap

§ Reinsurance

- Specific Stop Loss Reinsurance
- Positive Cash Flow at the Beginning of Year
- Negative Cash Flow on Employer Group Waiver Plans since CMS funds at Reconciliation

Regional Benchmarks Can Impact Enrollment



Additional Issues for PDP Sponsors

§ Early Deadline – First Monday in June (June 2, 2008)

- Projecting Claims from 3 or 4 months of current year emerging experience
- Projecting Emerging Claims when plans have coverage gap
- Adjusting experience for prior and current years to reflect expected experience during bid period
 - Formulary changes
 - Contracting changes (discounts, rebates)
 - Plan design changes
 - Therapeutic management program changes

Additional Issues for PDP Sponsors (continued)

§ Bidding Strategies

- Low Income Benchmarks
- Cash Flow Issues
- Pass Through vs. Lock In

§ Risk Scores

- Coding Intensity Trend
- Risk Score Normalization
- Are risk scores adequate for low income beneficiaries

What are Employers Doing?

- § Retiree Drug Subsidy (RDS)
- § Employer Group Waiver Plans (EGWP)
- § Medicare Advantage/PDP Plans (MAPD)
- § Do Nothing
- § Lessons Learned
 - Delayed Payments
 - Rebates (direct vs. indirect)

Retiree Drug Subsidy (RDS)

§ Most Common Arrangement

- 6.7 million beneficiaries in employer plans taking the RDS as of January 2008 (source: Kaiser State Health Facts)

§ Payments from CMS generally range from \$500-\$650 PMPY

§ Issues:

- CMS getting tough on deadlines
 - Applications being denied if one day later
 - Enrollee files the big stumbling block
- Annual reconciliation of actual drug spending vs. RDS payments
 - Rebate Accounting
 - Full pass through (transparency) requirement for 2010, regardless of ER's arrangement with PBM
- ERs need to communicate to retirees NOT to buy an individual PDP

§ Prognosis: Smaller ERS dropping out due to effort involved

Employer Group Waiver Plans (EGWP)

- § Ability to match (closely) current benefit plans
- § Receive direct subsidy payment from CMS (members are part of a PDP plan)
- § Priced to employer's experience
- § More attractive for public sector than private sector (RDS payments are tax-free)
- § Collective bargaining issues may impede implementation (big issue for public sector in Northeast in particular)
- § Lower cost alternative for retirees when they pay all (or most) of cost
- § Prognosis: continued interest in the plans but slow growth in acceptance
 - May become more attractive if RDS becomes too much of a hassle

Medicare Advantage (MA-PD)

- § 8 million Medicare beneficiaries (individual and group) covered by MA-PD plans in 2008
- § Combine medical and pharmacy into one package
- § CMS defines payment rate each year
- § Participants become members of health plan, “turn in” their regular Medicare card for a plan membership card
- § Private Fee for Service (PFFS) growing in popularity as an option
 - No provider network (can see any willing provider)
- § Prognosis: MA plans will continue to grow in interest and popularity by carriers so long as CMS payment rates aren't reduced (remember Medicare +Choice?)

Questions

