

Medicare Part D

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Stephen J. Kaczmarek, FSA, MAAA

Consulting Actuary

(860) 687-0121

A MILLIMAN GLOBAL FIRM



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“With the Medicare Act of 2003, our government is finally bringing prescription drug coverage to the seniors of America.”

-President Bush

Agenda

- Part D – General
- What Have Prescription Drug Plan Sponsors Done So Far?
- What is Happening with Retiree Pharmacy Benefits?



Part D - General



Why Create Medicare Part D?

- Goal of Part D is to provide pharmacy coverage to Medicare eligible seniors and others eligible for Medicare (i.e., disabled individuals and individuals with ESRD)
- Pharmacy has grown as a percentage of medical cost
 - ◆ Less than 2% of total medical cost in 1965*
 - ◆ 15% or more of total medical cost in 2005*
- Part D will become effective January 1, 2006
- Not to be confused with Prescription Drug Discount Cards
 - ◆ Interim stop gap measure that will be used until Part D becomes effective
- For purposes of this discussion all members will be referred to as beneficiaries (as in Medicare)

*Percentages shown are for the combination of active and retired persons; Senior segment percentages may be different



Background

- 2003 Medicare Prescription Drug, Improvement, & Modernization Act (also known as the Medicare Modernization Act or MMA) passed in December 2003.
- Affects 42 million Medicare Beneficiaries (2006 estimate) and all Taxpayers
- \$720 Billion (???) over Next Decade (Forbes 6/05)
- Higher Total Script Volume Expected in the United States
 - Impact on Pharmaceutical Manufacturers
 - Impact on Retail Pharmacies



How Does Part D Affect Eligible Beneficiaries?

<u>Medicare Eligible Beneficiaries</u>	<u>How are They Affected?</u>
Active	Should Receive Creditable Coverage Disclosure
Retired	Should Receive Creditable Coverage Disclosure as well as Other Options/Decisions
General Public	Enroll in new plan



What is Medicare Part D?

- Purchased through private contractors to CMS (Prescription Drug Plan – PDPs)
- Covers Medicare eligible seniors and other Medicare beneficiaries
- Voluntary coverage (like Part B)
- Annual enrollment period
- \$37 monthly premium (estimate); premium will vary by contractor; higher premium for late enrollees
- Formulary and medical management use encouraged
- Enhanced coverage permitted (more than just basic coverage)



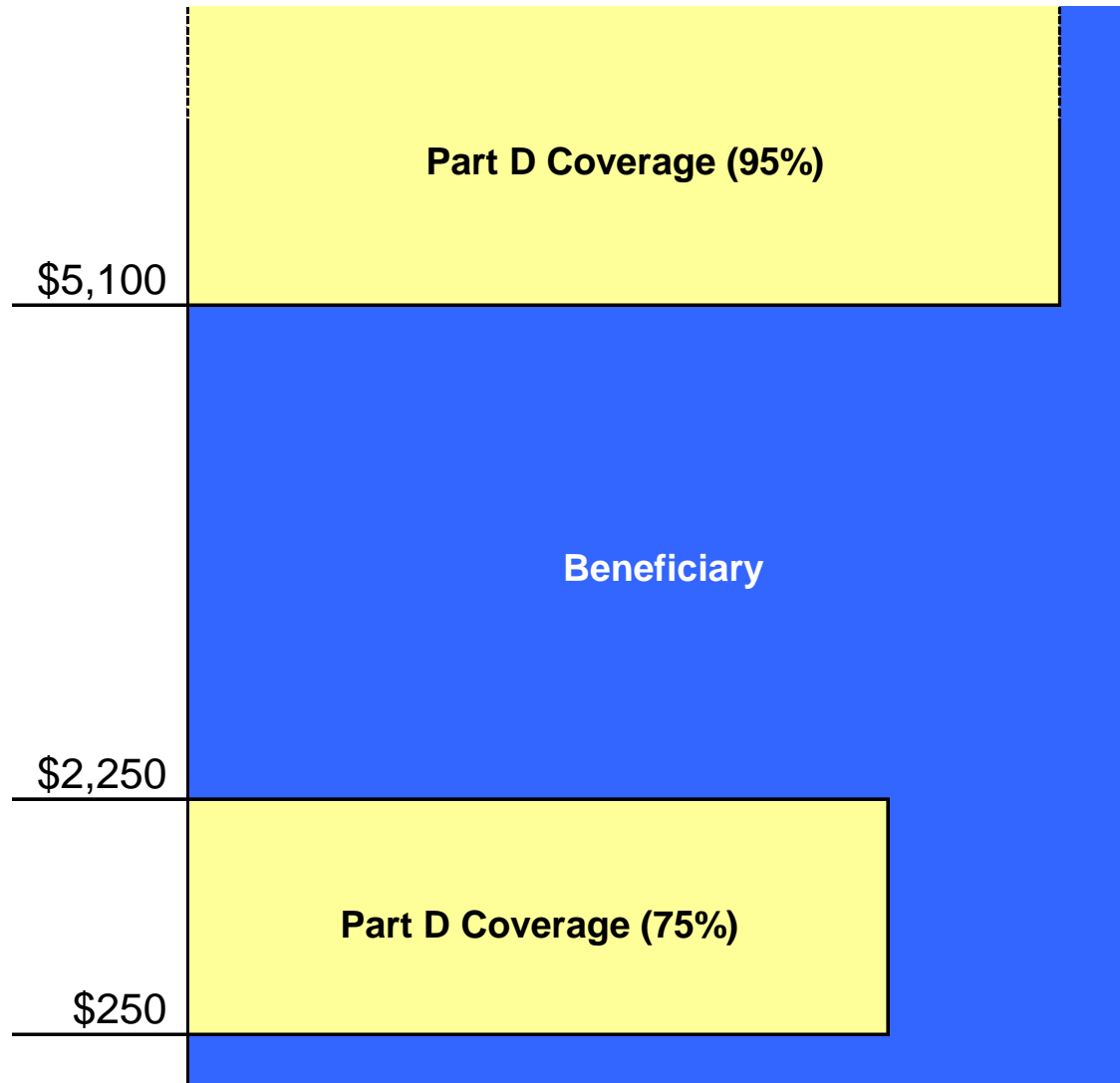
What is the Standard Medicare Part D Benefit Design?

- \$250 deductible
- 75% covered from \$250.01 to \$2,250
- Coverage gap from \$2,250.01 to \$5,100 (“Doughnut Hole”)
- 95% after \$5,100 (equal to \$3,600 true out of pocket (TrOOP) beneficiary cost sharing)

(All Figures Indexed)



What is the Standard Medicare Part D Benefit Design?



What Have Prescription Drug Plan (PDP) Sponsors Done So Far?



Designed Plans

- Formulary
- Medication Therapy Management Programs (MTMP)
 - Prior Authorization
 - Step Therapy Protocols
 - Therapeutic Interchange
- Cost Sharing
 - Deductibles
 - Copays/Coinsurance
- Supplemental Benefits
 - Coverage Gap
 - Drugs Not Covered by Part D



Filed with Centers for Medicare & Medicaid Services (CMS)

- Formulary
- MTMP
- Marketing Plans
- Risk Bearing Entity Waivers
- Bid Proposals



What Will Seniors See in September?

- 10 to 25 PDP Sponsors per Region (34 regions)
- Between 1 and 7 plans per sponsor
- Standard, Actuarially Equivalent, and Enhanced Plans
- Region 2 – MA, CT, RI, VT



Outstanding Issues For PDP Sponsors

- Bid Negotiations
- Clearing House for TrOOP
- Auto-Enrollment
- Adequacy of Risk Adjustors
- Customer Service



What is Happening with Retiree Pharmacy Benefits?



How Will Medicare Part D Impact Plan Sponsors?

- **ALL PLAN SPONSORS WITH MEDICARE ELIGIBLE BENEFICIARIES ARE AFFECTED**

(even if the plan sponsor **does not** provide retiree benefits)

- ◆ Regulations **require** communication to beneficiaries as to whether the benefit qualifies as “**creditable coverage**”
- ◆ There are new options available to plan sponsors with retiree pharmacy plans that cover Medicare eligible beneficiaries



What is Creditable Coverage?

- Coverage is creditable if the actuarial value of the coverage (gross benefit) is as least as high as the actuarial value of the standard Medicare prescription drug coverage.



How does the Creditable Coverage Test Affect Plan Sponsors?

- Plan sponsors are **required** to notify **all** Medicare eligible beneficiaries (active and retired, employee or dependent) of the status of their plan by November 15, 2005.
- Notice must also be given to the CMS on an annual basis, as well as in the event of a change in creditability status (e.g. plan change)



What Does Creditable Coverage Mean for Beneficiaries?

■ Creditable Coverage:

- ◆ Will continue to receive the quality of care they now have
- ◆ Able to sign up for the Medicare drug benefit in the future without incurring a late enrollment fee

■ Non-Creditable Coverage:

- ◆ Will likely face a late fee in the form of higher premiums should they sign up for the Medicare drug benefit at a later date



Retiree Pharmacy Plan Sponsor Options



What Other Options are Available to Plan Sponsors with Retiree Pharmacy Plans that cover Medicare Eligible Beneficiaries?

1. Keep existing benefit (if qualified) and apply for 28% tax free federal subsidy
2. Offer Wrap Around Plan (make Part D primary and provide supplemental coverage)
3. Contract with [or apply to become] a Part D PDP (Prescription Drug Plan) sponsor
4. Drop retiree pharmacy coverage

Doing nothing is **NOT** an option



Plan Sponsor Option 1

28% Tax - Free Subsidy

What is the Plan Sponsor Subsidy Option?

- The subsidy is the Federal Government's incentive to encourage plan sponsors to continue providing retiree pharmacy coverage
- Equal to 28% of the eligible plan costs between \$250 and \$5,000 in 2006 (maximum of \$1,330)
 - ◆ Covers total spending, including plan benefits and member cost sharing
 - ◆ Includes dispensing fees and discounted ingredient costs less any rebates
 - ◆ Excludes drugs not covered by Part D (for example, agents used for hair growth and agents used to promote fertility)
- Tax free
- Estimated to be worth an average of \$668 per beneficiary per year (over \$1,000 pre-tax if in 35% tax bracket)



Basic Subsidy Example:

	Eligible Drug Spend	Subsidy Collected	
Person A	\$100	\$0	*
Person B	2,650	672	= (2,650 - 250) x .28
Person C	10,000	1,330	= (5,000 - 250) x .28 **

Average	\$667
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* \$100 is less than \$250, so no subsidy is collected

**\$10,000 is greater than \$5,000, subsidy is only collected on first \$5,000 (after \$250)



Who is Eligible for the Plan Sponsor Subsidy?

- Plan sponsors providing retiree pharmacy benefits who meet the following criteria:
 - Plan must be at least actuarially equivalent to the standard Part D benefit
 - Beneficiaries **MUST NOT** enroll in PDP - No subsidy will be collected for beneficiaries enrolled in PDP
- Proposed rules have a strict timeline – Plan sponsor must apply by **9/30/2005** for 2006 subsidy
- Annual application required – due 90 days before plan anniversary date



What is Actuarial Equivalence?

- Two-Pronged Test
 1. Gross test: compares a particular plan's benefit to the standard Part D benefit
 2. Net test: compares richness of the plan's benefits coupled with how much the beneficiaries contribute to the plan to the standard Part D benefit
 - May be based on a combination across multiple retiree pharmacy plans offered by plan sponsor
 - May recognize "Medicare Supplemental Adjustment " if required and appropriate
- Example: A plan design of \$10/\$20/\$40 is substantially richer than the standard Part D benefit, and depending on the retiree contribution is likely to qualify as being at least actuarially equivalent
- Plan sponsor needs actuarial attestation of equivalence to submit with application for subsidy



Why Would a Plan Sponsor Choose the Subsidy Option?

- May be the easiest option to implement
- Often lowest cost option for plan sponsors who want to keep existing retiree pharmacy benefit
- No change to the existing plan (if plan is at least actuarially equivalent to the standard Part D benefit)
- Plan sponsor has collective bargaining issues so changing the benefit may be difficult
- Allows plan sponsors to realize savings while evaluating the long term impact of other options
- CMS Actively promoting subsidy option for 2006



What Else Needs to be Considered?

- Requirements for federal paperwork
 - ◆ Actuarial attestation
 - ◆ Actual drug spending by covered persons
- Feds may audit some filings
- Communication to prevent enrollment in PDP to maximize subsidy dollars
 - ◆ Plan sponsors may not tell retirees they cannot enroll in Part D
 - ◆ Plan sponsors may set up plan such that eligibility for retiree plan is contingent upon retiree not enrolling in Part D
- Possible change in coordination language to address “Medicare Supplemental Adjustment” if necessary.



Plan Sponsor Option 2

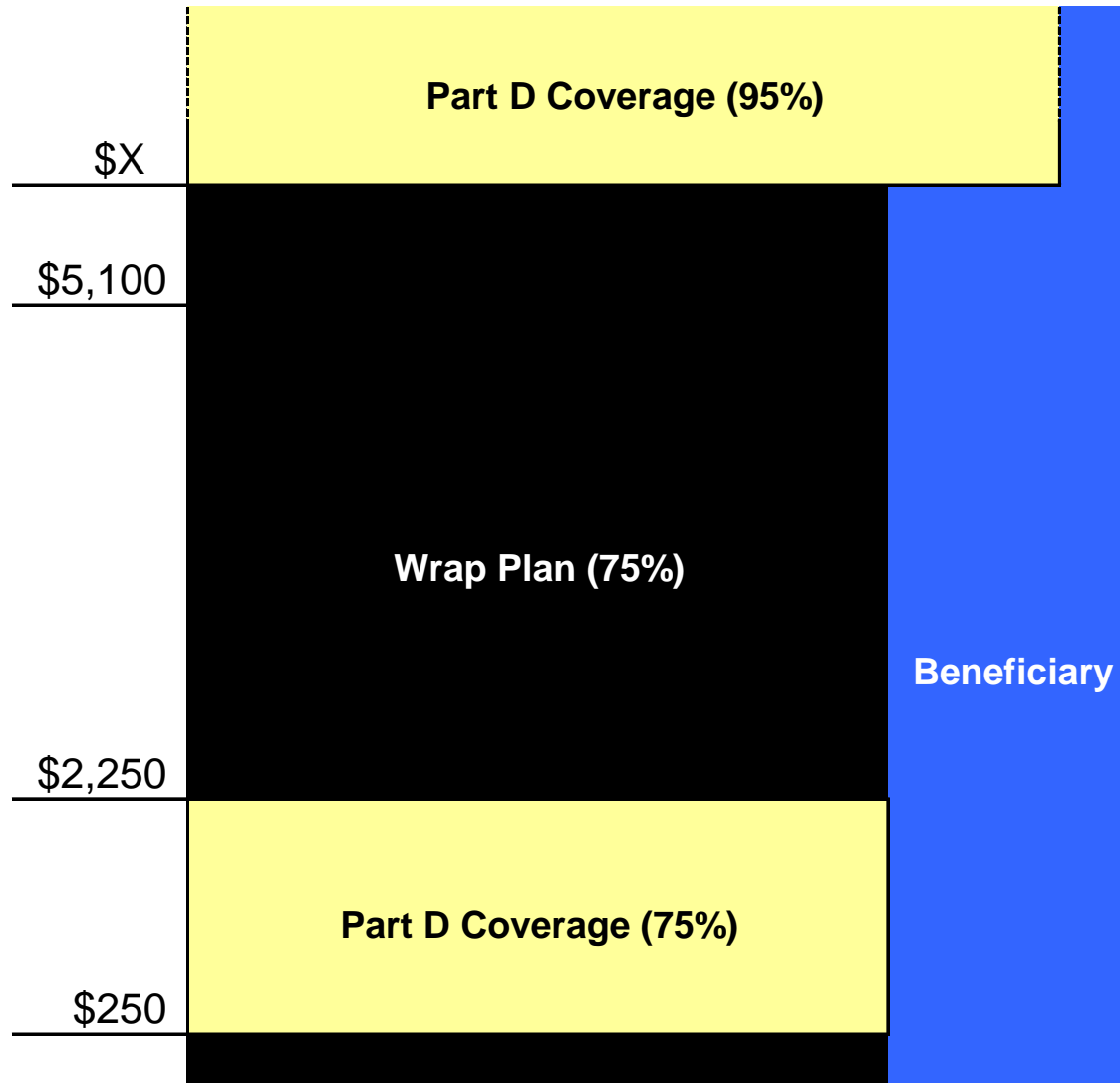
Wrap Around Plan

What is the Wrap Around Option?

- Conceptually similar to a Medicare Supplement Plan
 - ◆ Retirees enroll in a PDP
 - ◆ Plan sponsor offers supplemental coverage that fills in some or all of the gaps in the Part D coverage



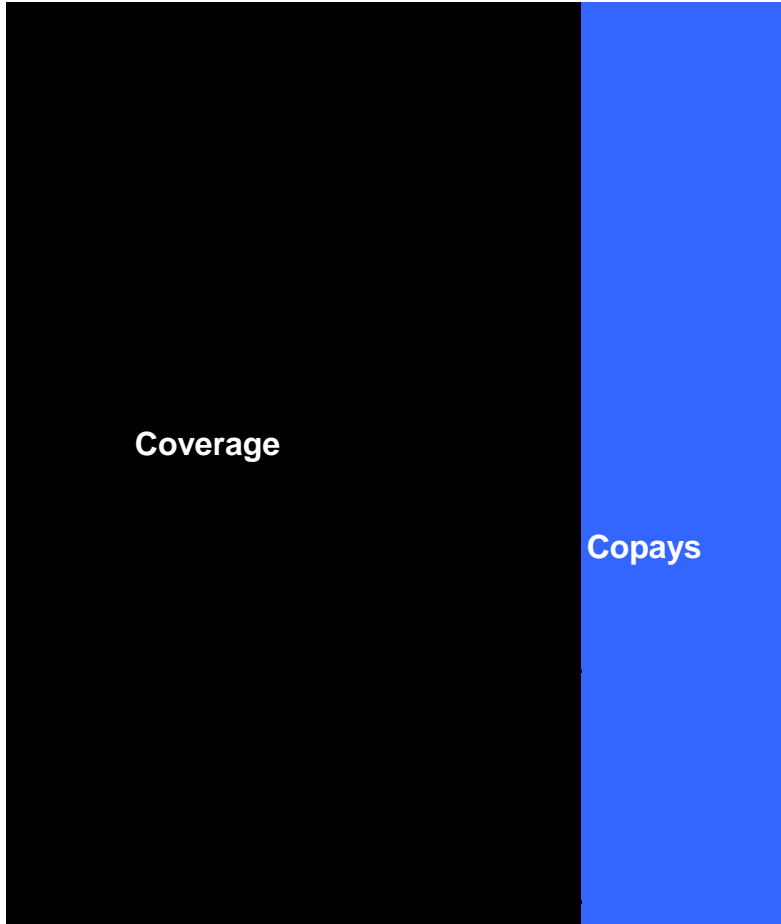
Example of Wrap Around Plan (75% Plan Sponsor Coverage)



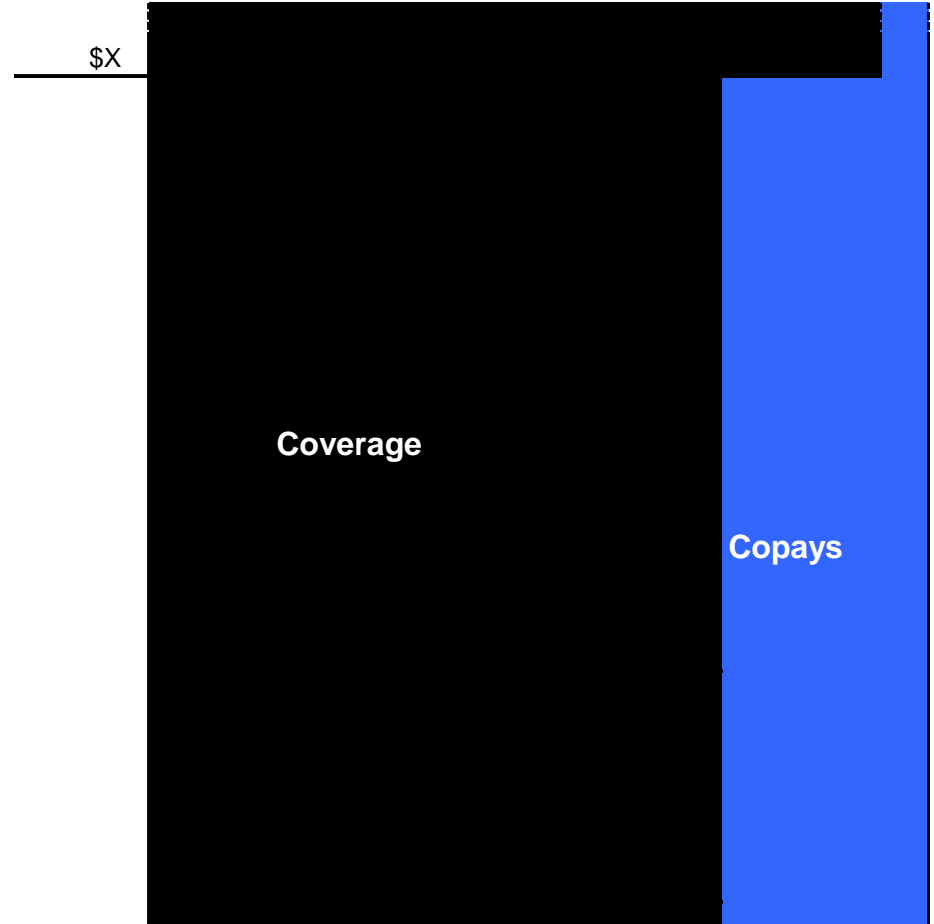
How Does it Look to Retirees?

(75% Plan Sponsor Coverage)

Current Plan



New Wrap Plan with Part D



Why Would a Plan Sponsor Choose the Wrap Around Option?

- ◆ Equivalent benefit for retirees possible at lower cost to the plan sponsor than today
- ◆ May result in less ongoing administrative requirements for benefit managers



What Else Needs to be Considered?

- The plan sponsor must select a suitable wrap around plan
- Retirees must enroll in 2 plans (PDP & wrap around plan)
- Perceived change in benefits since retirees must enroll in PDP and wrap around plan
- Retiree communications:
 - ◆ Must enroll in individual Part D
 - ◆ Understand coordinated coverage
- Risk (especially short term) of benefit coordination mishaps



Plan Sponsor Option 3

**Contract with [or Become] a
Prescription Drug Plan (PDP) Sponsor**

What is the PDP Sponsor Option?

- Plan sponsor would [file with CMS to offer a PDP, or] directly contract with a PDP or MA-PD plan
- Potential Course of Action When:
 - ◆ [ER Sponsored PDP:
 - Plan sponsor is large enough to spread administrative costs over a large number of beneficiaries]
 - ◆ Contract with PDP:
 - Avoid operational challenges for standalone coordination of benefits



Why Would a Plan Sponsor Choose the PDP Option?

- Possible to maintain current benefit level
- Control benefit plan (e.g., formulary and medical management)
- No coordination problems with out of pocket expenses



What Else Needs to be Considered?

- Higher administrative cost
- Must purchase/rent network and administrative infrastructure from a contracted provider

For Employer-Sponsored PDP Option: [no longer available for 2006 unless already filed]

- Requires complex interface with other carriers to support TrOOP tracking
- Must complete federal bid proposal process and be subject to federal audits if plan sponsor files directly (complex, time consuming process with letter of intent due in March)
- Plan Sponsor may need to apply to CMS for a licensure waiver and must meet CMS solvency standards
- Communication with retirees to not enroll in other PDPs



Plan Sponsor Option 4

Drop Retiree Pharmacy Coverage

Why Would Plan Sponsors Now Drop Retiree Pharmacy Coverage?

- Many added the benefit to fill the Medicare void
- Some plan sponsors may pay some or all of the Part D premium in lieu of continuing coverage
- Eliminates all costs (possibly with the exception of Part D premiums)
- Lowest cost option
- However, may cause negative retiree reaction
- Likely plan sponsor course of action when:
 - ◆ Small number of retirees
 - ◆ Plan design is not at least actuarially equivalent to standard individual Part D benefit



What Else Needs to be Considered?

- Negative retiree reaction
- Impacts attraction and retention of active employees



Why is Doing Nothing NOT an Option?

- Regulations **require** communication to beneficiaries as to whether the benefit qualifies as creditable coverage
- Confusing if plan sponsor does not communicate options for retirees
- Plan sponsors need to understand how their current benefit compares to the federal requirements for:
 - ◆ Creditable coverage - If current benefit does not qualify for creditable coverage, retirees may eventually be subject to late enrollment penalties
 - ◆ Actuarial Equivalence – The federal subsidy may be available to them and lower their benefit cost



What Happens Next for Plan Sponsors?

- Plan Sponsors Awaken to the Need to Act (July/August) and Approach their Trusted Advisors for Assistance
- Analysis is Completed, Decision Made, and Subsidy Application is Prepared (if Applicable)
- Communication with Retirees

