Medicare Modernization Act (MMA)

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WHAT IS AT STAKE:

Projected U.S. Retail Rx Drug Spending

2005 (Total = $223.5 billion)
- Private Health Insurance: 47%
- Out of pocket: 29%
- Other Public: 4%
- Medicaid: 19%
- Medicare: 2%

2006 (Total = $249.3 billion)
- Private Health Insurance: 39%
- Out of pocket: 20%
- Other Public: 4%
- Medicaid: 9%
- Medicare: 28%

Source: CMS
Hannover Life Re®

Agenda

- Status & Time Table
- Competitor Landscape
- Other Plans
- Beneficiary Outreach, Education & Marketing Plan D
- Concluding Thoughts

**MEDICARE MODERNIZATION ACT**

- 12/08/03: MMA Enacted
- 7/26/04: NPRM Released
- 8/17/04: USP draft Model Guidelines (therapeutic classes) released
- 12/06/04: PDP and MA regions announced
- 10/04/04: NPRM comment period ends
- 1/03/05: USP Final Model Guidelines announced
- 2/18/05: CMS publishes 45-day notice*, plans submit intent to apply
- 2/18/05: CMS issues Final Rule for Part D and Final Formulary Guidelines
- 3/23/05: Part D applications due to CMS
- 4/18/05: Part D formularies due to CMS
- 5/15/05: Initial Part D open enrollment begins
- 5/16/05: Approval of formularies
- 5/16/05: Plan bids due to CMS
- 6/06/05: Plan bids due to CMS
- 7/24/05: CMS provides preliminary approval/disapproval of bids
- 8/04/05: CMS publishes national average Part D premium
- 8/02/05: CMS awards contracts to PDP/MA plans
- 9/02/05: CMS publishes national average Part D premium
- 9/02/05: CMS awards contracts to PDP/MA plans
- 10/15/05: Part D plan info sent to beneficiaries
- 11/15/05: Initial Part D open enrollment begins
- 1/01/06: Part D benefit operational, discount card program ends

Notes: MMA = Medicare Modernization Act; NPRM = Notice of Proposed Rule-Making

* CMS notice of 2006 rate methodology and assumptions; public may comment
Dec 2005: USP Draft Model Guidelines Released for Comment

Jan 2006: USP Revised Final Model Guidelines Released

Jan 2006: CMS Issues Revised Formulary Guidelines

March 2006: 2007 Part D applications due to CMS

May 2006: Draft Formularies Due to CMS

June 2006: Bids Due

July 2006: CMS Gives Preliminary Formulary (and Bid?) approvals

Aug 2006: CMS Announces National Average Part D Premium

Oct 2006: 2007 Part D Plan Info Sent to Beneficiaries

Nov 2006: Annual Election Period Begins

Jan 2007: Annual Election Period Ends, 2007 Benefit Year Begins

June 2006: Bids Due

*CMS public notice of 2007 rate methodology

No interest from Administration and Leadership in “opening up” Part D

- Fiscal conservatives: Delay Part D implementation to reduce spending
- Democrats: Give beneficiaries more time to make Part D plan choices

...and The Cycle Continues
### Current Policy Dynamics

#### STATUS & TIME TABLE

- Budget policy at federal and state levels always matters
  - State budgets still under extreme fiscal pressure
  - States will lose Medicaid drug rebate revenue, and incur the controversial “clawback” liabilities for duals
  - FY 2006 federal budget resolution: $10 Billion in Medicare and Medicaid spending cuts.
  - Medicare cuts, other than Part D, may be in play (e.g. $10 Billion rate stabilization fund for regional PPOs)

#### Strong interest at federal level in key allied issues
  - Pay for performance-based medicine
  - Fraud & Abuse
  - Electronic Prescribing
Risk based Rx drug-only products (PDPs)

- Very little regional variation among PDPs; significant regional variation in MA-PD products
- Large MA players marketing stand-alone PDP plans
- PBMs navigating between taking Part D market opportunities and serving existing health plan and employer clients

PDPs will be the dominant delivery mechanism for Part D

- Auto assignment of Duals
- Other low income Beneficiaries
- Individuals with Medigap policies
<table>
<thead>
<tr>
<th>PDP Summary Statistics</th>
<th>Plan Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Regions: 34</td>
<td>Average Monthly Premium (unweighted): $37.38</td>
</tr>
<tr>
<td>PDP Sponsors: 65</td>
<td>Zero-Deductible Plans: 58.5%</td>
</tr>
<tr>
<td>National PDP Sponsors: 10</td>
<td>Plans with Tiered Copay Structures: 1,297 (91%)</td>
</tr>
<tr>
<td>Total Number of PDP Plans: 1,429</td>
<td>Plans Offering Mail-Order: 1,304 (91%)</td>
</tr>
</tbody>
</table>

Source: CMS
COMPETITOR LANDSCAPE  

Majority Eliminated Standard Deductible

- Zero Deductible 58%
- Standard Deductible ($250) 34%
- Reduced Deductible (<$250) 8%

Source: CMS

COMPETITOR LANDSCAPE  
PDPs Not Offering Coverage In “donut Hole”

- No Coverage 85%
- Generics Only 13%
- Generics and Brand 2%

Humana is offering 31 out of the total of 35 of these plans

Source: CMS
A number of companies are developing "Special Needs Plans".

At least one company is looking to develop MSA for 2006.

Employers have been slow to react but are developing interest.

Expect to see more movement in employer market to Plan D in 2007.

A national campaign to reach beneficiaries where they "live, work, play, and pray".

CMS budget is $350 million for Part D outreach and education in Fiscal Years 2005 and 2006 (about $8.15 per Medicare beneficiary).
BENEFICIARY OUTREACH & EDUCATION  Goals & Messages

→ Core messages:
  
  • “Starting in 2006, Medicare will offer drug coverage that helps people with Medicare pay for the prescriptions they need.
  
  • Medicare prescription drug coverage is available to all people with Medicare.
  
  • There is extra help for those who need it most.
  
  • Medicare prescription drug coverage pays for brand name and generic drugs.
  
  • You can choose between at least two Medicare prescription drug plans and pick a plan that’s right for you.”*


BENEFICIARY OUTREACH & EDUCATION  Efforts By Other Groups

→ PhRMA, PCMA (PBM trade association), AHIP (health plan trade assoc.)

→ AARP

→ Community and chain pharmacies

→ Physicians / AMA / Specialty Societies

→ Senior Centers

→ Patient advocates, disease groups, faith-based organizations
**BENEFICIARY OUTREACH & EDUCATION**

A New Degree Of Price Transparency?

Welcome to the Medicare Prescription Drug Plan Finder

Standing January 1, 2006, new Medicare prescription drug coverage will be available to everyone with Medicare, regardless of income, health status, or how you pay for prescription drugs today.

Everyone with Medicare needs to make a decision about prescription drug coverage. Even if you don’t see a lot of prescription drug plans now, you should still consider joining a plan.

Remember, to get the coverage, you must join a plan.

The Medicare Prescription Drug Plan Finder will help you:

- Learn about the new Medicare prescription drug coverage
- Find and compare prescription drug plans that best meet your personal needs
- Enroll in the prescription drug plan that you select

Where would you like to begin?

- Find a Medicare Prescription Drug Plan
- Email in a Medicare Prescription Drug Plan (Starting November 15, 2005)
- Learn more Medicare Prescription Drug Plans Work

Important coverage information for individuals who currently receive prescription drug coverage through Military retiree benefits (TRICARE), Veteran benefits (VA), or Federal employee retiree benefits (FEHP)

Page Last Updated: November 1, 2005

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**CONCLUDING THOUGHTS**

- Impact of risk adjustors: How well will they work?
- Impact of Lock-out provision: How will this affect the Company’s operations?
- Settlement process with CMS
- Overall cost of the program
- What will happen in 2006?