

Medicare 2008 MA-PD / PDP Bid Update

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A MILLIMAN GLOBAL FIRM
Milliman
Consultants and Actuaries

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Questions To Be Answered

- What are MA-PD / PDP Products?
- What Types of Products Are Available?
- How Does the Bid Process Work?
- What Has Changed in the Bid Process from Prior Years?
- What Are The Pros and Cons of This Year's Bid Process?
- What is Working Well / No-So-Well After Three Years?
- What Can We Expect in the Future?



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What Are MA-PD / PDP Products?

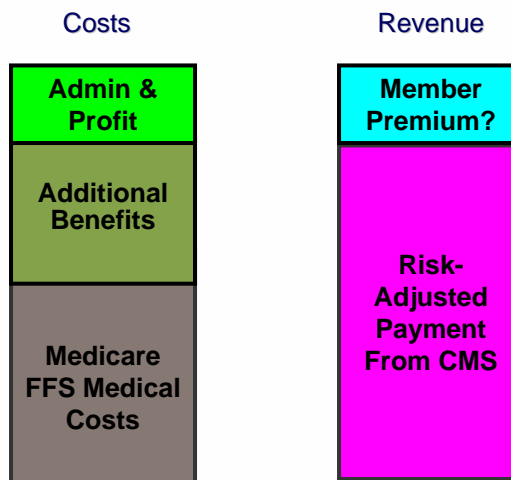
Overview

- Medicare Advantage – Prescription Drug Plan (MA-PD)
 - Provides, at a minimum, coverage of traditional Medicare Part A and Part B services for Medicare eligible individuals
 - Usually provides additional benefits not covered by traditional Medicare and cost sharing that is lower than traditional Medicare
 - Provides prescription drug coverage
- Prescription Drug Plan (PDP)
 - Provides prescription drug coverage only



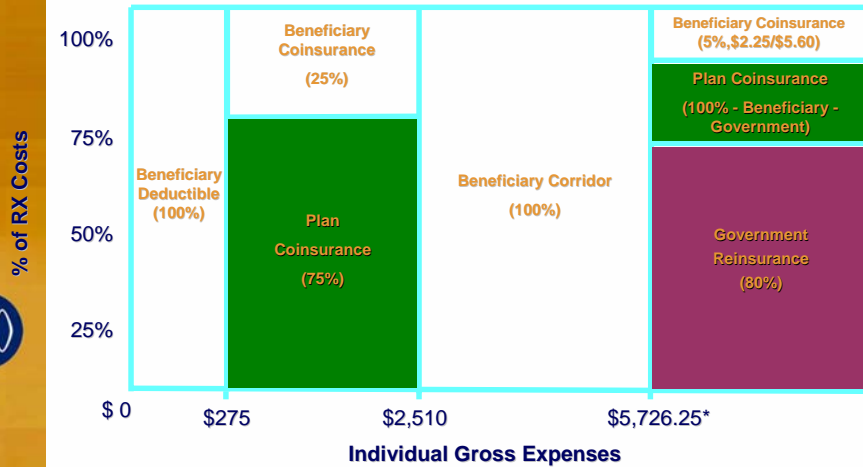
What Are MA-PD / PDP Products?

Medicare Advantage (Part C) General Structure



What Are MA-PD / PDP Products?

Medicare Part D General Structure - Defined Standard Plan (2008)



*The annual OOP threshold of \$5,726.25 is based on beneficiary payment of \$4,010 in cost sharing expense. Payments made by other benefit programs do not count toward the annual OOP expense.

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What Types of Products Are Available?

Overview

- "Regular" plans
 - HMO
 - POS
 - PSO
 - Local PPO
 - Regional PPO
 - Private Fee-For-Service
- Special Needs Plans (SNPs)
 - Dual eligible
 - Institutional
 - Chronic illness
- MSAs / MSA-like demonstration

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What Types of Products Are Available?

Emerging Medicare Advantage Product Types

- 470 Special Needs Plans
- 2 Medical Savings Accounts (MSAs)
- 1 MSA demo in NY and PA
- Private Fee-For-Service (PFFS) growing fast
 - Many targeting employer groups



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What Types of Products Are Available?

Special Needs Plans

- Must be Coordinated Care Plan (HMO, PPO, or PSO)
- Marketing advantage
 - Eligibles always have special election periods (i.e., can market year round)
 - In regulations for duals / institutionalized
 - CMS interpretation for disease (could reverse)
 - Spouses can be included in disease SNP
 - CMS interpretation (could reverse)
- 470 in 2007 (272 in 2006)
- Technically, sunset in law but nearly everyone expects extension



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What Types of Products Are Available?

Who Chooses Special Needs Plans?



- Dual Eligible
 - Medicaid plans
 - MA plans expand to cover dual eligibles
 - PACE plans
- Institutionalized
 - Plans affiliated with nursing home providers / owners
 - PACE plans
- Disease-specific
 - Growing market
 - Defensive or offensive strategy?

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What Types of Products Are Available?

MSAs / MSA-like Demonstration



- A high-deductible plan combined with a Medical Savings Account (MSA)
- Government puts tax-free cash into beneficiaries MSAs to use towards deductible
- Three organizations with MSAs for 2007
- Milliman studying financial feasibility

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What Types of Products Are Available?

PFFS Plans

- Similar to traditional Medicare in that eligibles can go to any provider accepting patients
- Attractive to potential enrollees since:
 - Many seniors like the “no network” concept
 - The additional non-Medicare benefits provided under these plans (e.g., routine vision exams, dental, etc) are popular benefits
- Drawback: Provider do NOT have to accept PFFS patients even if they accept traditional Medicare patients



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What Types of Products Are Available?

Part D Offerings

- MA-PD plans or PDPs
- Must offer at least one plan with standard coverage or equivalent
- May offer richer (alternative) plan(s)
 - Actuarial Equivalent
 - Basic Alternative
 - Enhanced Alternative
- Cannot offer any plans with drug coverage less than Medicare levels



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How Does the Bid Process Work?

Overview

- Part C premiums determined based on differences between risk-adjusted benchmarks and bids
- CMS keeps 25% of Part C “savings”
- Part D premiums based on comparison of plan’s 1.0 bid to nationwide average 1.0 bid
- Process includes cost projections based on plan’s expected risk profile
- Actuarial certification required



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How Does the Bid Process Work?

Part C premiums determined based on differences between risk-adjusted benchmarks and bids

- Risk-adjusted benchmark
 - Unadjusted benchmark \$680
(MA ratebook; 1.0 risk score)
 - Risk-factor x 0.90
 - Risk-adjusted benchmark \$612



- MA ratebook developed from CMS projected FFS costs
- Urban and rural floor rates provide minimum payment amounts

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How Does the Bid Process Work?

Part C premiums determined based on differences between risk-adjusted benchmarks and bids

■ Risk-adjusted bid:

➢ Gross medical cost	\$590
➢ Less Traditional Medicare Cost-Sharing	-100
➢ Plus non-medical expense (i.e., administration)	40
➢ Plus gain/loss	<u>10</u>
➢ Risk-adjusted A/B bid	\$540

■ Gross Medical Cost Developed from Base Period Experience Adjusted for:

- Trend (Utilization and Charge)
- Benefit Changes
- Population Changes
- Other Adjustments (e.g., selection adjustments when using combined experience to project costs for multiple plans)



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How Does the Bid Process Work?

CMS keeps 25% of savings

- Risk-adjusted savings: $\$612 - 540 = \72
- Rebate: $0.75 \times \$72 = \54
- CMS keeps other 25%
- Total CMS revenue: $\$540 + \$54 = \$594$
- Note: if bid > benchmark, no savings



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How Does the Bid Process Work?

Use of CMS Rebates

- Fund Supplemental (Enticement) Benefits
 - Examples include Physical Exams, Vision, Hearing Aids, non-emergent transportation, and many, many more
- Reduce Part C Member Cost Sharing
 - Lower members cost sharing than with traditional Medicare
- Reduce Part D Premiums
 - Supplemental
 - Basic
- Reduce Part B Premiums
- If these actions require more dollars than available from CMS rebates, member premium is required



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How Does the Bid Process Work?

Risk Adjustment

- CMS-HCC Model
 - Prospective
 - Medicare Advantage
 - Part D
- Impacts revenue
- Costs should change with real risk mix change (similar magnitude)
- Appropriate diagnosis coding and data capture for hospital and physician claims has become increasingly important
- MA risk recruitment strategies may change
- Key to maximizing profit with this product!!
 - CMS assumes organizations will be improving risk scores annually
 - Plans that do not will fall behind relative to other organizations



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How Does the Bid Process Work?

Keys to Maximizing Risk Adjustment

- Prospective provider education
- Identify providers with greatest potential
- Identify other conditions from claims
- Collaborate with and incentivize providers
- Coding audit for targeted members
- Track resolution



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How Does the Bid Process Work?

Part D Bid Development

- Gross Prescription Drug Cost Developed from Base Period Experience Adjusted for:
 - Trend (Utilization and Cost per Script)
 - Formulary Changes
 - Contracting Changes
 - Population / Risk Changes
 - Induced Utilization
 - Other Adjustments (e.g., selection adjustments when using combined experience to project costs for multiple plans)
- Member premium based on how plan's bid at 1.0 risk score compares to nationwide average bid at 1.0 risk score



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How Does the Bid Process Work?

Part D Government Subsidies

■ “At-Risk”

➤ Direct Subsidy

- Equals Risk-Adjusted Bid Amount less Member Premium

➤ Low Income Premium Subsidy

■ “Not-At-Risk”

➤ Reinsurance Subsidy

- 80% of cost in Catastrophic Coverage

➤ Low Income Cost Sharing Subsidy



How Does the Bid Process Work?

Part D Risk Sharing

Variation in Actual vs. Target	Plan Risk	
	2006-2007 ⁽¹⁾	2008-2011
± 2.5%	100%	100%
± 2.5%-5%	25%	100%
± 5%-10%	20%	50%
± 10%+	20%	20%

(1) Percentages are reduced if >60% of plans are above 2.5%.



How Does the Bid Process Work?

How may a plan's Part D bid/premium get more competitive?

- Change / renegotiate with PBM
- Tighten formulary / increase generic usage and mail usage
- Improve Medication Therapy Management
- Improve ICD-9 disease coding
- Use of e-prescribing



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What Has Changed in the Bid Process from Prior Years?

- Many minor changes
- Major ones include:
 - Additional supporting documentation required upon initial bid submission
 - Full year of Part D experience used for the first time



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What Are the Pros and Cons of This Year's Bid Process?

- Pros
 - No major last-minute CMS changes
 - Milliman models
 - Actuarial certification process more organized
- Cons
 - Part C
 - Increased documentation
 - Administration Build-up
 - Profit Margin Justification
 - Part D
 - PDE data problems presented challenges



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What is Working Well / Not-So-Well After Three Years?

- SNPs
 - Numbers have skyrocketed
 - Still too early to judge long-term viability
- Risk Adjustment
 - Many plans dedicating resources (internal and external) to maximizing risk scores
 - Plans that are not will have trouble competing unless other lines of business can subsidize Medicare line
- Budget Neutrality Adjustments
 - Gap in revenue trends versus cost trends severely tightening margins
 - Many plans were forced to decrease benefits and/or raise member premiums in 2007 and 2008



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What Can We Expect in the Future?

- Consolidation
 - Perhaps more so within PDP market
- SNPs
 - Next few years will give indication if risk-adjustment sufficient to allow these products to be maintained in the long-term
- Increased Scrutiny
 - Desk review and audits have become more intensive and that is likely to continue



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What Can We Expect in the Future?

- Continued Growth in MA-PD Enrollment
 - Medicare eligibles are representing an increasing percentage of the population
 - Seniors aging into Medicare are more and more comfortable with managed care
 - For those not comfortable with managed care, PFFS options becoming more available
- Medicare Products in More Portfolios
 - Expect we will see a Medicare line of business, in one form or another, in most organization's product portfolios



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Questions?



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Thank You!



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