Part D Employer Options and Strategies

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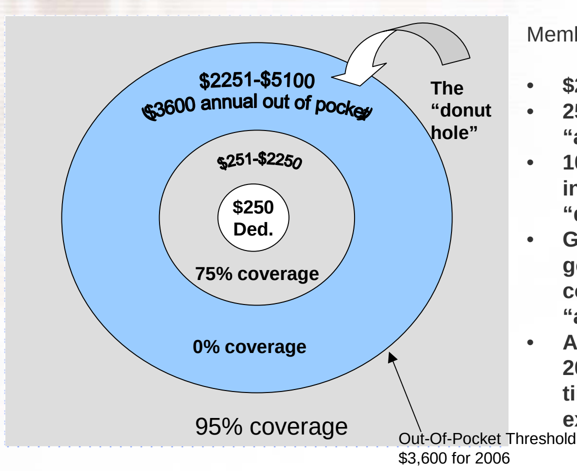
Agenda

- Medicare Prescription Drug Coverage Overview
- Summary of Employer Options
- Analysis of Different Options
- General Conclusions
- Questions

Medicare Prescription Drug Coverage Overview

- Medicare Modernization Act (MMA) includes new **voluntary** coverage of prescription drugs for Medicare eligibles
- Potential "vehicles" for Medicare eligibles to receive coverage:
  - Prescription Drug Plan (PDP)
  - Medicare Advantage Plan (MA-PD)
  - Employer/Union (multiple options)
  - Several other minor options

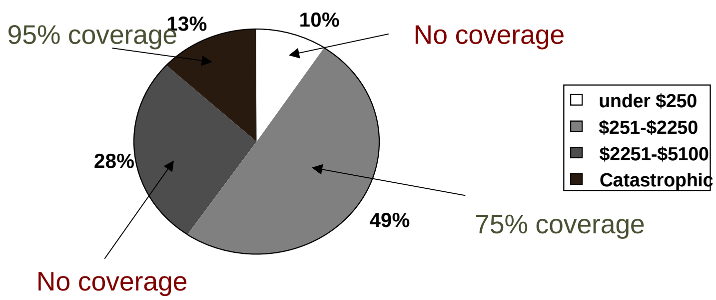
Standard Coverage Under Part D



Member pays:

- **$250 deductible**
- **25% from $250 - $2,250 in "allowable costs"**
- **100% from $2,250 - $5,100 in "allowable costs" (the "donut hole")**
- **Greater of 5% or $2 generic / $5 brand copayment after $5,100 in "allowable costs"**
- **All of these values are for 2006 and increase over time based on the Part D experience**

Federal subsidy of Part D covers about 40% of total prescription drug costs.



Total Rx estimated cost (including admin):	$225 to $255
Federal share estimate:	$ 90 to $100
Beneficiary premium estimate	$ 30 to $ 40

Risk Sharing Provisions for the Part D Standard Benefit Design

- Three primary risk sharing provisions
  - Risk adjusters
    - Applied to the bid amount or “direct subsidy”
    - CMS’ current plan is to develop these based on medical claims and diagnoses by individual
  - Reinsurance
    - Government payment of 80% of “allowable costs” in excess of $5,100
    - Calculated for each individual
  - Risk corridors
    - Provide additional payments to the PDP if total costs exceed 102.5% of the risk-adjusted bid amount or or refunds to the government if total costs fall below 97.5% of the risk-adjusted bid amount
    - Thresholds and percent reimbursed/refunded vary by year

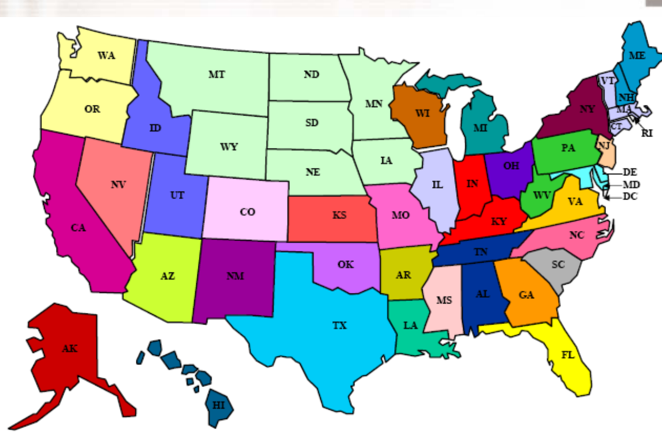
True Out-of-Pocket (TrOOP)

Definition - allowable incurred costs payable by the beneficiary or by specified third parties on their behalf within the limits of the standard benefit

Counts towards TrOOP
- ✓ Beneficiaries
- ✓ Another individual (e.g., family, friend)
- ✓ Qualified State Pharmaceutical Assistance Programs (SPAPs)
- ✓ "Bona fide" charities
- ✓ Low-Income Cost-Sharing Subsidy

Doesn't Count toward TrOOP
- Group health plans
- Governmental programs (VA, Black Lung, TRICARE, other)
- Workers' Compensation
- Automobile/No-Fault/Liability Insurances
- Unqualified SPAPs
- Enhanced alternative portions of a PDP or MA-PD plan
- Part D premiums

PDP Regions



Note: Each territory is its own PDP region.

Employer Options - Overview

- Employers have multiple options
  - Employer after-tax subsidy from CMS
  - Employer-sponsored PDP
  - Standard Part D with Coordination of Benefits
    - Integration with a stand-alone PDP
    - Wrap-around a stand-alone PDP
  - Pay Part D premium for retirees
  - Eliminate Coverage

Option 1: Employer Subsidy

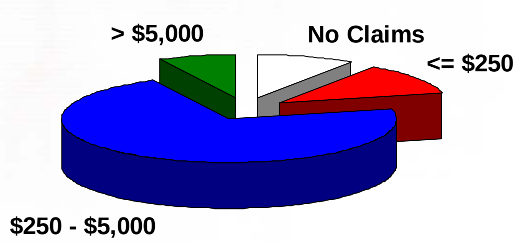
Employer continue to offer current plan (or enhance if necessary) and collect employer subsidy

- This is the simplest option under the MMA
  - MMA creates an incentive for employers to continue to offer drug benefits
  - Employer must offer a qualified retiree prescription drug plan in order to receive the subsidy
- Two pronged actuarial equivalence test for qualified retiree Rx coverage
  - Gross value test (total value to the retiree through benefits paid by plan must be >= Part D standard coverage)
  - Net value test (member contribution to the coverage must be <= member contribution for Part D standard coverage)
- Other considerations
  - To maximize subsidy payments, need to offer drug benefits within the range in which subsidy payments are made
  - Plan design is not subject to PDP design requirements
  - CMS is trying to give employers flexibility to encourage participation

Option 1: Subsidy Calculation and Estimate

- Calculate annual cost per retiree
  - Employee portion (copayment and deductible)
  - Employer portion
  - Rebates may need to be netted out in some fashion
- Deduct first $250
- Multiply next $4,750 times 28%
- Maximum subsidy is $1,330
- Subsidy is after-tax
- Based on R&A employer data this works out to about 20.5% of gross claims
- No reimbursement for any administrative fees, etc.
- Minimal change in service from retiree perspective

Case Study: Distribution of Retirees by drug spend (allowable expenses)



The majority of members will drive some Rx reimbursement.

Option 2: Employer-Sponsored PDP

- General regulatory requirements applying to PDPs:
  - Stand-alone PDPs have an obligation to offer drug benefits to all eligibles throughout a region
  - There are certain already approved **waivers for employment-based retiree coverage**
    - Delayed timeline
      - March 23, 2005 – Letter of intent (soft deadline)
      - April 18, 2005 – Application due to CMS
      - June 6, 2005 – Formularies and bids due
    - Waiver of state licensure requirements (must meet CMS solvency standards)
    - Governmental entities eligible to be a PDP for their retirees
    - Employers, Labor orgs., or fund trustees could offer a PDP to their retirees only
    - Employers, etc can offer coverage wherever their retirees are located and are not restricted to a specific service area
    - No minimum enrollment requirements
    - Employer can also request waivers for other requirements
    - CMS has shown willingness to approve additional waivers if justified

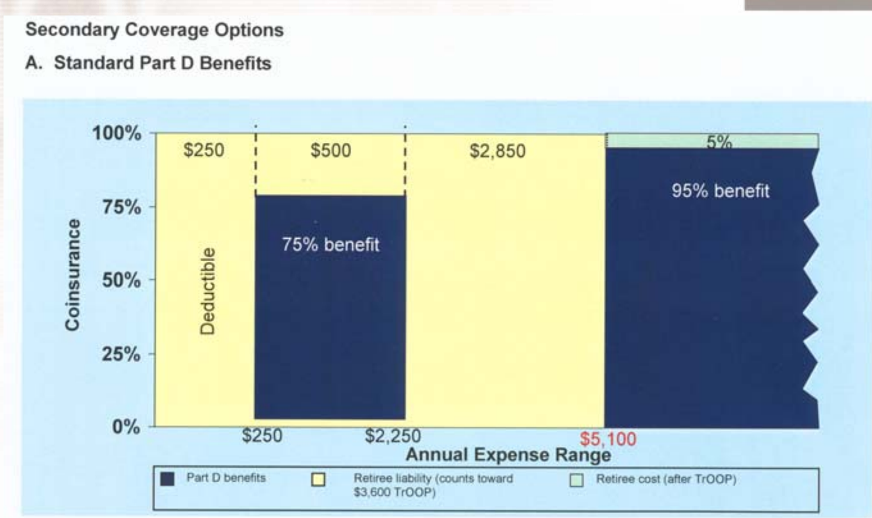
Option 2: Employer-Sponsored PDP (continued)

- Important regulatory requirements for stand-alone PDPs (many of these will likely be waived or already have been waived for employer-sponsored PDPs)
  - PDPs must meet provider network standards under Tricare
    - Ex. 90% of enrollees must be within 2 miles of participating pharmacy
  - Required to allow “any willing pharmacy” into network
  - Part D imposes requirements on PDP formularies
    - Composition of pharmacy and therapeutics committee
    - Classes of drugs on the formulary
    - Limits on changes to the formulary and notices on beneficiaries
    - Must have at least two drugs in each category and each class
  - Must have drug utilization management program and medication therapy management program meeting CMS regulations
  - Must submit bids that are actuarially certified
  - Must provide enrollees with an appeal mechanism
  - Subject to requirements similar to Medicare Advantage: lock-in, enrollment, appeals & grievances and other beneficiary protections

Option 2: Employer-Sponsored PDP (continued)

- Employer could offer only supplemental coverage which mirrors their current benefit design
- Revenue, even after-tax, may be greater due to the risk sharing provisions under Part D
- For tax-exempt organizations, revenue will almost definitely be greater than taking the subsidy

Option 3: Standard Part D with Coordination of Benefits or Wrap-Around Coverage

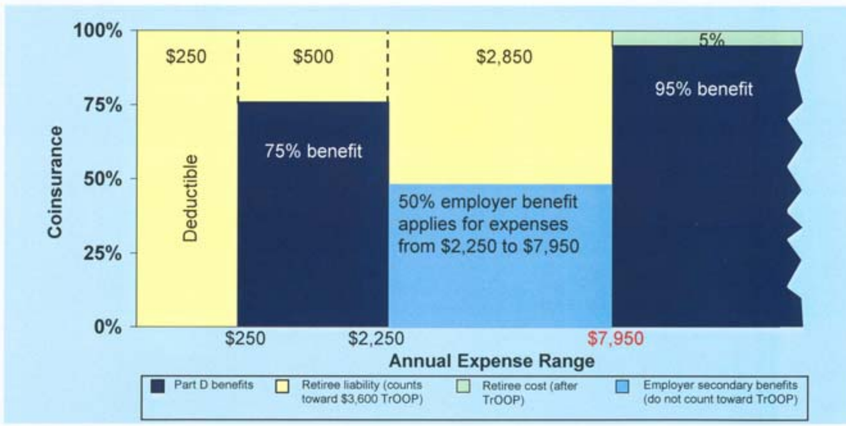


Source: Towers Perrin

Option 3: Standard Part D with Coordination of Benefits or Wrap-Around Coverage (continued)

Secondary Coverage Options

B. Employer Pays 50 percent of Expenses in Donut Hole

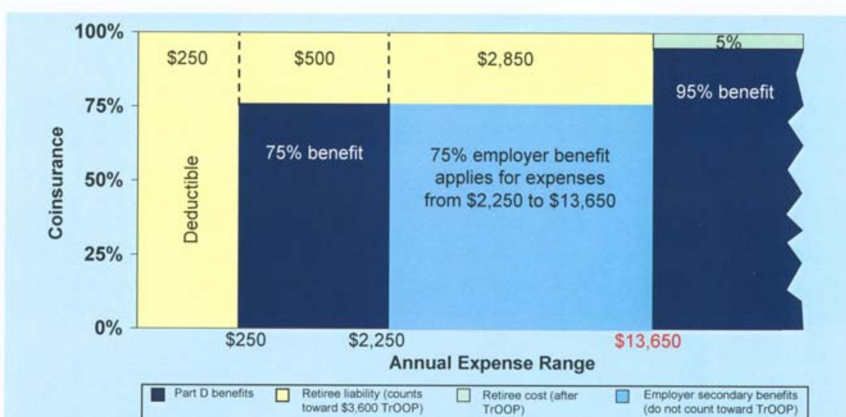


Source: Towers Perrin

Option 3: Standard Part D with Coordination of Benefits or Wrap-Around Coverage (continued)

Secondary Coverage Options

C. Employer Pays 75 percent of Expenses in Donut Hole

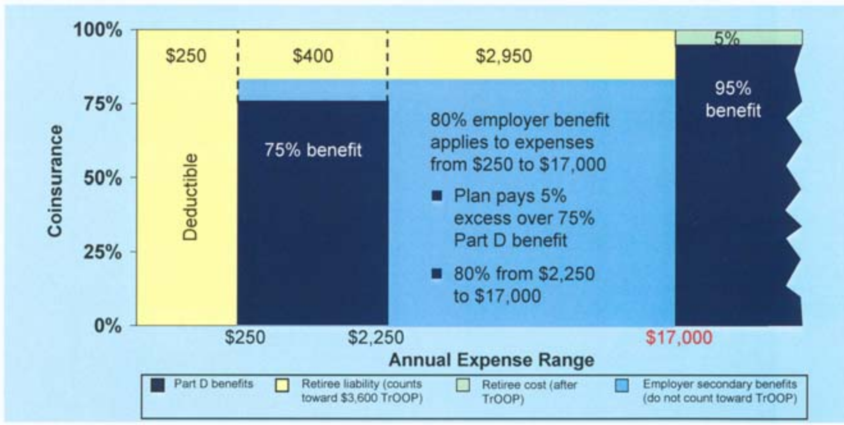


Source: Towers Perrin

Option 3: Standard Part D with Coordination of Benefits or Wrap-Around Coverage (continued)

Secondary Coverage Options

D. Employer Pays 80 percent of Expenses in Donut Hole



Source: Towers Perrin

Option 3: Pros and Cons

- Pros
  - Actuarial value of Part D benefit, even with the reduction in government reinsurance payments, may be greater than that of an employer subsidy and reduce employer liability
  - Can keep the same plan design employees know
- Cons
  - PDP requirements are more onerous than a qualified retiree plan, although with an integrated wrap, these requirements would be borne by the PDP
  - Filling in the donut hole may impact the PDP and their reimbursement from the government, which would require additional payments from the employer to the PDP
  - Administratively more complex than a subsidy
  - May require additional administrative structure from the PDP

Option 3: Financial Implications

Area	Per Retiree Per Month
Part D program revenue (including administration), no additional benefits ($130 - member premium of (estimate) $35):	$95.00
Foregone reinsurance for unlimited benefit:	(33.00)
Value of member portion of catastrophic coverage which may have to be paid back due to risk corridors	(3.00)
Risk and demographic factors for the group change numbers up and down	??
Total	**$59.00**

Employers should explore PDP, especially if risk scores are above 1.0

Summary

Current retiree strategies need to be reevaluated.

Options Review

- Subsidy program least complex, least risky and perhaps represents the smallest revenue enhancement option (especially for tax-exempt entities)
  - Must be a qualified retiree prescription drug plan
  - Must meet the two-pronged tests
- Employer as a stand-alone PDP
  - May generate greater revenue than the subsidy
  - CMS has granted numerous waivers to make this option attractive
  - Deadlines much sooner than for the subsidy
- Employer provide COB/Wrap-around Coverage
  - May provide a "happy medium"
  - May require additional payments to the PDP to compensate for the lost reinsurance payments from CMS

Questions?