Medicare Part D

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Medicare Part D

- How Is It Going?
- Any Change Expected Post Election
- Success Factors of PDPs
After higher than expected earnings in 2006 and 2007, earnings fall back to Earth in 2008

- Humana lowers earnings estimate by 25% in March 2008
  - “…related to changes in actuarial assumptions made in the company's stand-alone Enhanced Medicare Part D product for 2008 based on experience witnessed during the first two months of the year.”

- UnitedHealth revises earnings in July 2008
  - “Furthermore, UnitedHealth is experiencing a decrease in the gross margin for Medicare Part D and Medicare Chronic Special Needs Plans.”
Plan Offerings Decreasing

- The number of Organizations offering PDP plans has been stable since 2006 (count of Parent Organizations with >10 members)
  - 2006: 64
  - 2007: 66
  - 2008: 65
  - Source: CMS Monthly Reports by Contract (as of October)

- However, the number of plans offered has steadily decreased since 2007
  - Low Income Eligible Plans are decreasing rapidly (LIB calculation supports this change)
  - Source: CMS Monthly Reports by Contract (as of October)
PDP Plans Offered By Year

Plans Available by Year as a Percent of Plans Available in 2006

- Total Plans
- LIB Plans
- Gap Plans

- 2006: 100%
- 2007: 131%
- 2008: 121%
- 2009: 118%

- 2006: 240%
- 2007: 245%
- 2008: 240%
- 2009: 189%
Low Income Eligible Plans

- LIB Plan Prices
  - Spread between low and high plans narrowing as actual data becoming available.
  - Source: CMS Landscape Files

![Graph showing the member premium spread between maximum and minimum LIB plans for different years and states: CA, NY, TX. The spread decreases over time, with the lowest spread occurring in 2009.](image-url)
Changes Expected Post Election

- State licensure in 2010
  - Failure to obtain could lower number of plans.
- Government “aided” drug-price negotiating
  - Congress is likely to support such a move
- Risk score based on pharmacy data
  - Not a requirement although it is expected
  - 2006 data inappropriate, may be implemented by 2011 bids
- Part D is not going away
Success Factors of PDPs

- **Enhanced Plans**
  - Do not offer richest benefit in the market
    - High utilizers can do the math
  - Avoid gap plans (especially) with brand coverage
    - Three plans offered in 2009 with some brand coverage
    - Full coverage of generic drugs is decreasing – many plans now covering only a subset of generic drugs

- **Low Income Eligible Plans**
  - Lean formulary to control drug cost and maximize rebates
  - Low price to attract non-Low Income members with low utilization
    - Members with $0 spend have risk scores > 0.00
Success Factors of PDPs

- Experience
  - Using appropriate data to price plans is essential.
  - Pricing should be separated for Low Income and non-Low Income members
    • Risk scores do not fully account for differences in populations
  - Risk scores were not designed for gap coverage
Success Factors of PDPs

- This grid shows the average PDP premiums for plans in the Florida Region based on (assumed) experience used for pricing
  - Source: CMS Landscape Files

- Conclusion:
  - Plans with 2007 experience tended to have higher 2009 premiums

### Florida

<table>
<thead>
<tr>
<th>Basis for Pricing</th>
<th>2009 Status</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LIB Plan</td>
</tr>
<tr>
<td></td>
<td>PBPs</td>
</tr>
<tr>
<td><strong>Experience Rated Plans (same PBP)</strong></td>
<td></td>
</tr>
<tr>
<td>2007 LIB Plan Experience</td>
<td>0</td>
</tr>
<tr>
<td>2007 non-LIB Plan Experience</td>
<td>1</td>
</tr>
<tr>
<td><strong>Partial Experience Rated Plans (same PBP)</strong></td>
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</tr>
<tr>
<td>2008 LIB Plan Experience</td>
<td>1</td>
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<tr>
<td>2008 non-LIB Plan Experience</td>
<td>2</td>
</tr>
<tr>
<td><strong>No Experience (same PBP)</strong></td>
<td></td>
</tr>
<tr>
<td>Not Previously Offered</td>
<td>1</td>
</tr>
<tr>
<td>Totals</td>
<td>5</td>
</tr>
</tbody>
</table>
Success Factors of PDPs

- In 2008, Humana offered 26 plans under the LIB. In 2009, these same plans were priced an average of 60.2% higher.
  - All plans were experience rated using 2007 plans that were LIB eligible.
  - Source: CMS Landscape Files.

<table>
<thead>
<tr>
<th>Increase Filed</th>
<th>Plans</th>
<th>Mems</th>
<th>2008 Avg Prem</th>
<th>2009 Avg Prem</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>35% &lt; Premium Increase &lt; 50%</td>
<td>5</td>
<td>201,748</td>
<td>$26.93</td>
<td>$39.04</td>
<td>45.0%</td>
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<tr>
<td>50% &lt; Premium Increase &lt; 75%</td>
<td>17</td>
<td>872,954</td>
<td>$25.22</td>
<td>$40.70</td>
<td>61.4%</td>
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<tr>
<td>Premium Increase &gt; 75%</td>
<td>4</td>
<td>106,588</td>
<td>$22.94</td>
<td>$41.93</td>
<td>82.8%</td>
</tr>
<tr>
<td>Total All Bids (2008 LIB Elig)</td>
<td>26</td>
<td>1,181,290</td>
<td>$25.31</td>
<td>$40.53</td>
<td>60.2%</td>
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</tbody>
</table>