

Medicare Part D

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Medicare Part D

- How Is It Going?
- Any Change Expected Post Election
- Success Factors of PDPs

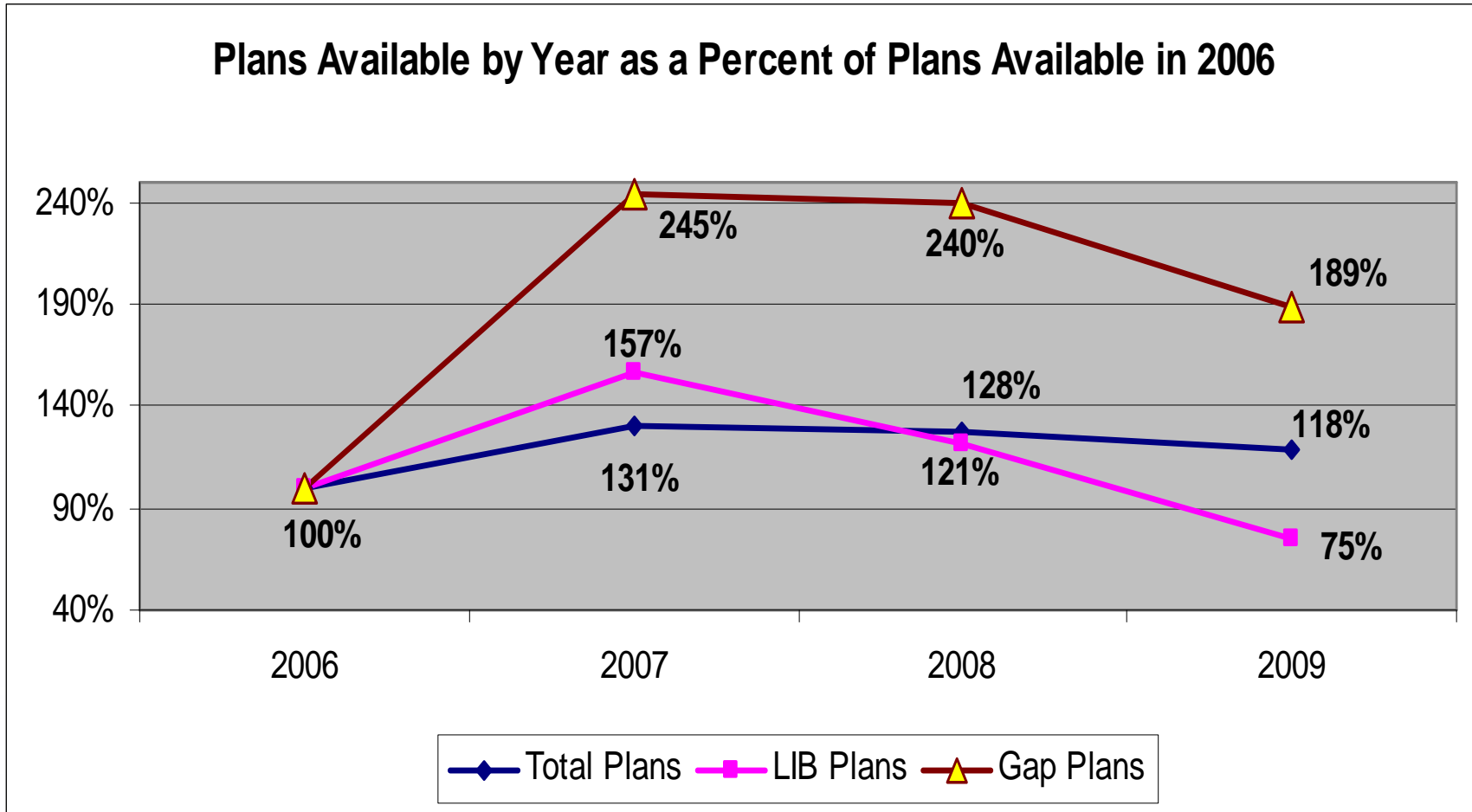
How Is It Going?

- 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)

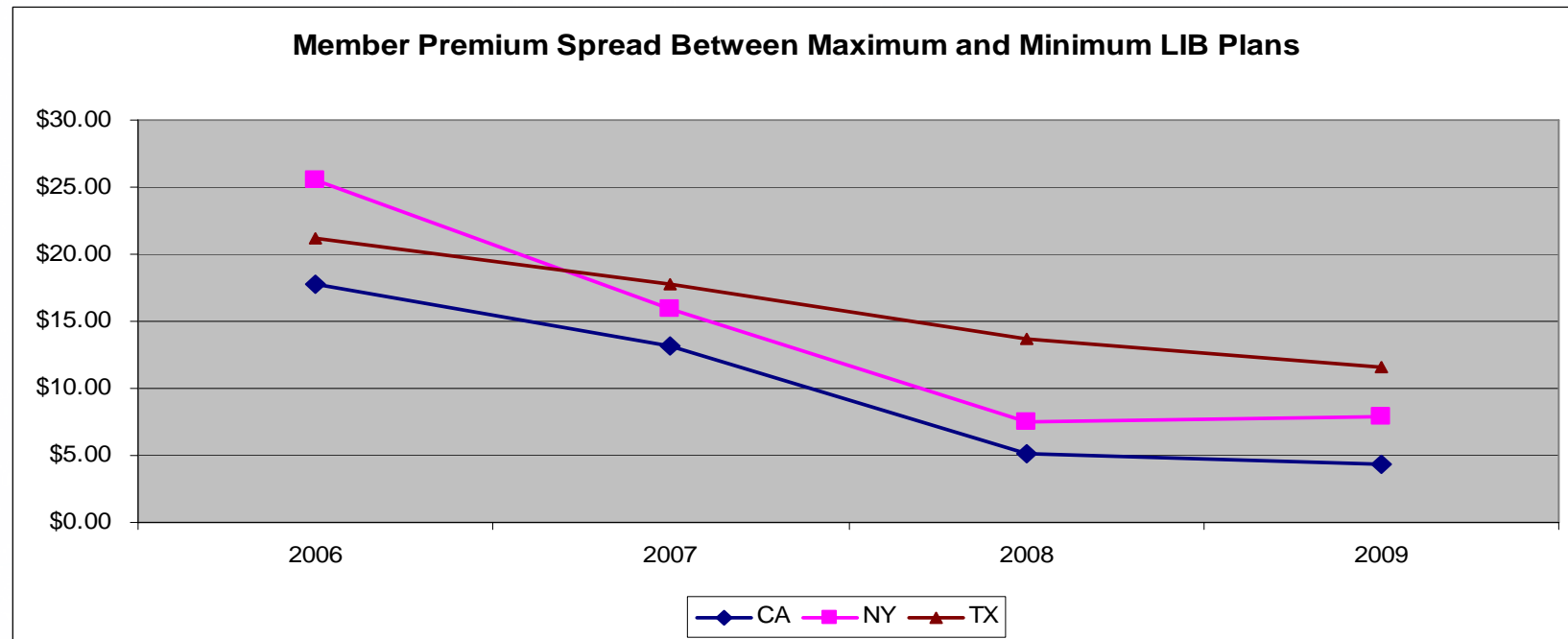
PDP Plans Offered By Year



Low Income Eligible Plans

LIB Plan Prices

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



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

	2009 Status			
	LIB Plan		non-LIB Plan	
<u>Basis for Pricing</u>	<u>PBPs</u>	<u>Avg Prem</u>	<u>PBPs</u>	<u>Avg Prem</u>
<u>Experience Rated Plans (same PBP)</u>				
2007 LIB Plan Experience	0	--	9	\$30.60
2007 non-LIB Plan Experience	1	\$21.50	3	\$43.17
<u>Partial Experience Rated Plans (same PBP)</u>				
2008 LIB Plan Experience	1	\$21.30	0	--
2008 non-LIB Plan Experience	2	\$18.80	0	--
<u>No Experience (same PBP)</u>				
Not Previously Offered	1	\$20.90	0	--
Totals	5	\$20.26	12	\$33.74

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.

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