



Prescription for Medicare Modernization

Medicare Part D as a Model

Lambert van der Walde

Capital Markets Advisor to the Administrator
Centers for Medicare & Medicaid Services

Overview of Medicare Part D

- 1) Medicare Drug Coverage before Part D**
- 2) Structure of the Part D Drug Benefit**
- 3) Results of Part D**

Overview of Medicare Part D

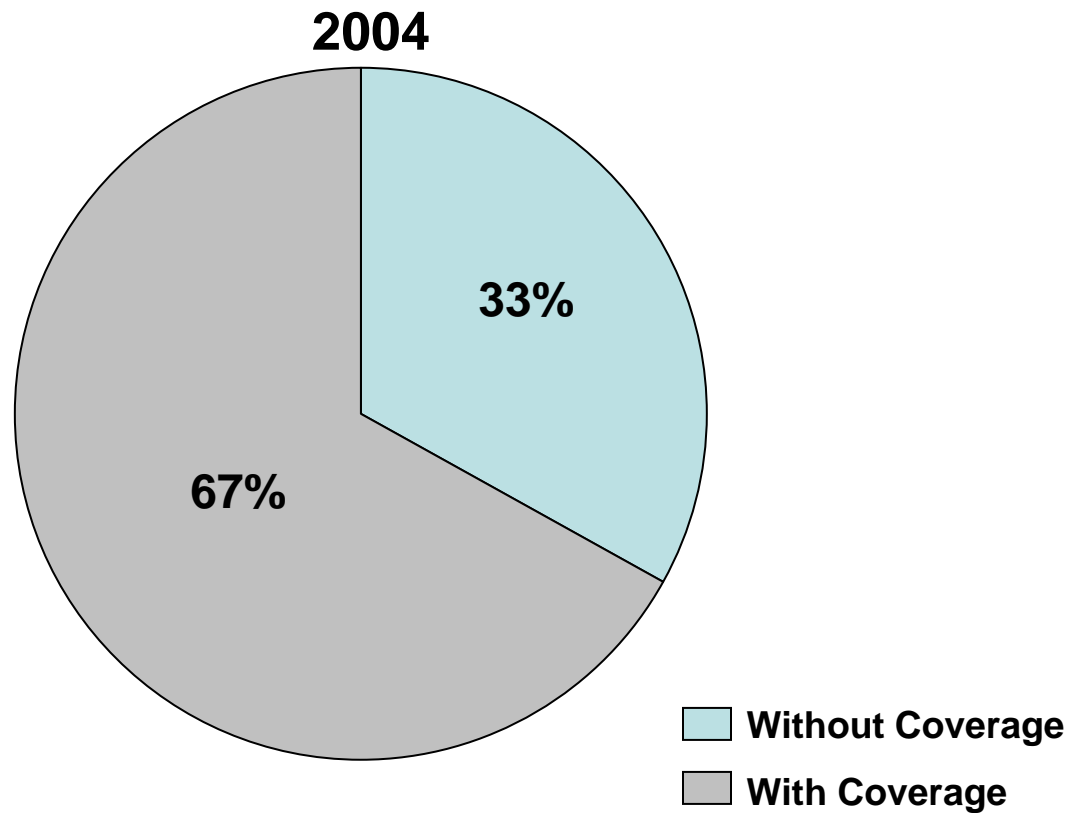
1) Medicare Drug Coverage before Part D

2) Structure of the Part D Drug Benefit

3) Results of Part D

The Number of Seniors Without Drug Coverage was 33% in 2004

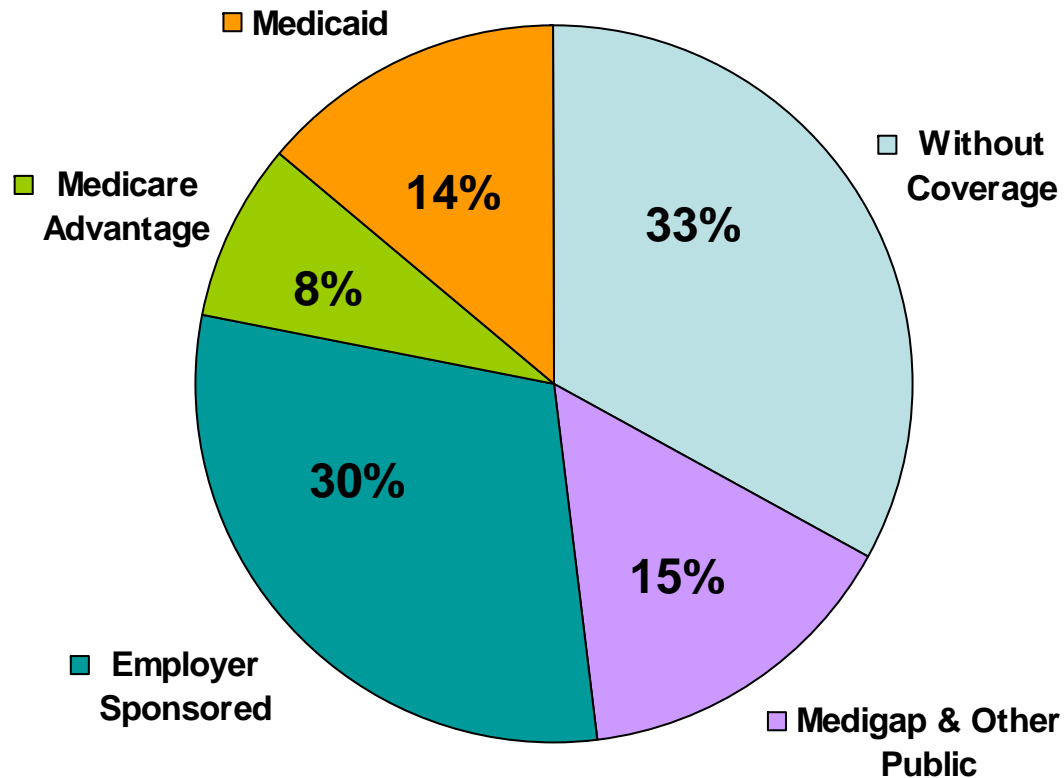
Percent of Seniors with Coverage



Source: CMS, Office of Research, Development and Information, 2004

The Number of Seniors Without Drug Coverage was 33% in 2004

Percent of Seniors with Coverage



Source: CMS, Office of Research, Development and Information, 2004

Overview of Medicare Part D

- 1) Medicare Drug Coverage before Part D
- 2) Structure of the Part D Drug Benefit**
- 3) Results of Part D

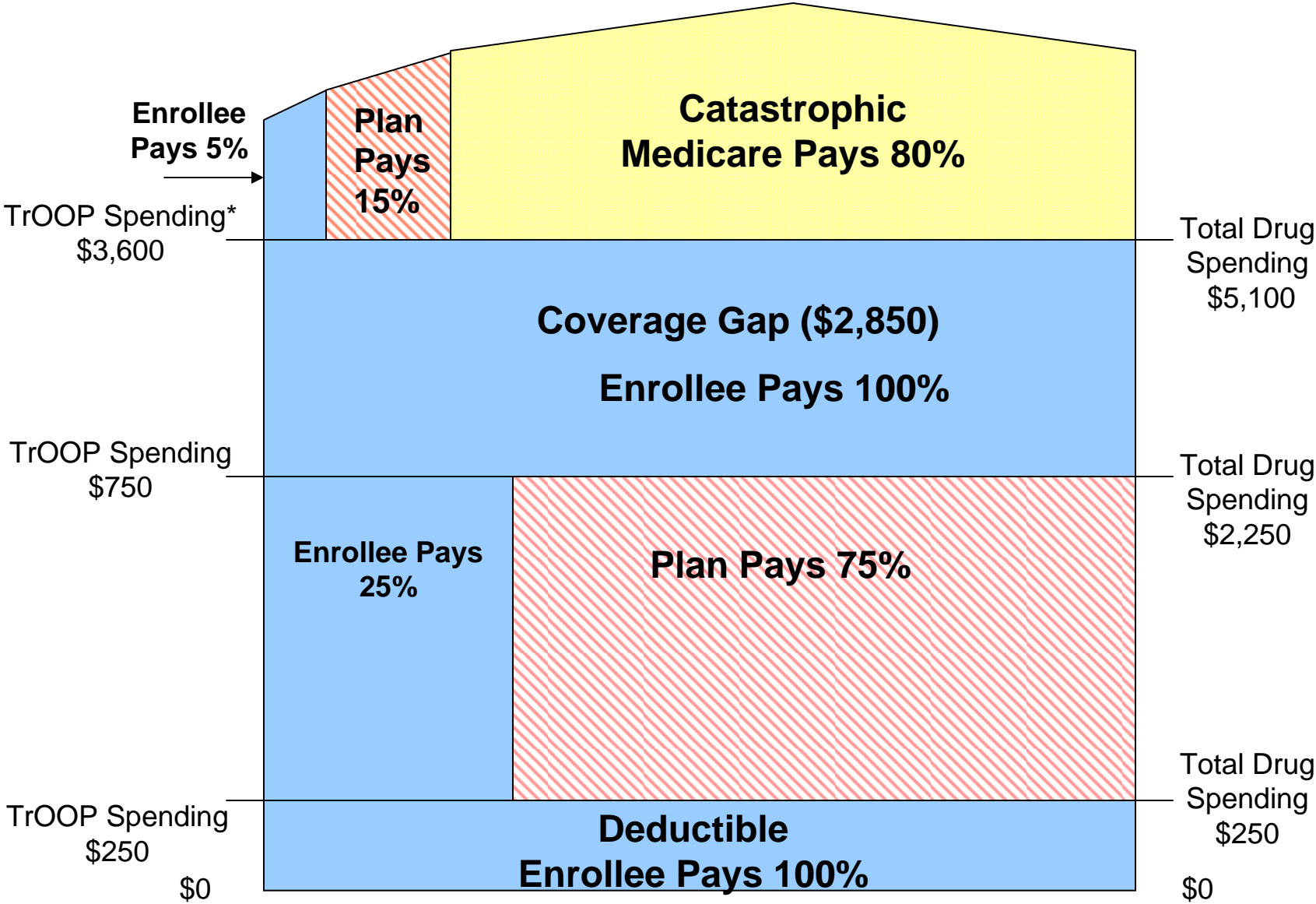
Is it too complicated?

Newspaper Headlines Regarding Confusion

- Officials' Pitch for Drug Plan Meets Skeptics
- ...Sorting Out the Medicare Drug Plan
- New Medicare Plan Presents a Drug Benefit Conundrum
- The Deadly Doughnut
- Confusion Is Rife About Drug Plan as Sign-Up Nears
- New Problems in Medicare Drug Benefit

Source: New York Times, July 17, October 11, November 4, November 11, November 13, December 14, 2005.

Medicare Part D Standard Benefit, 2006

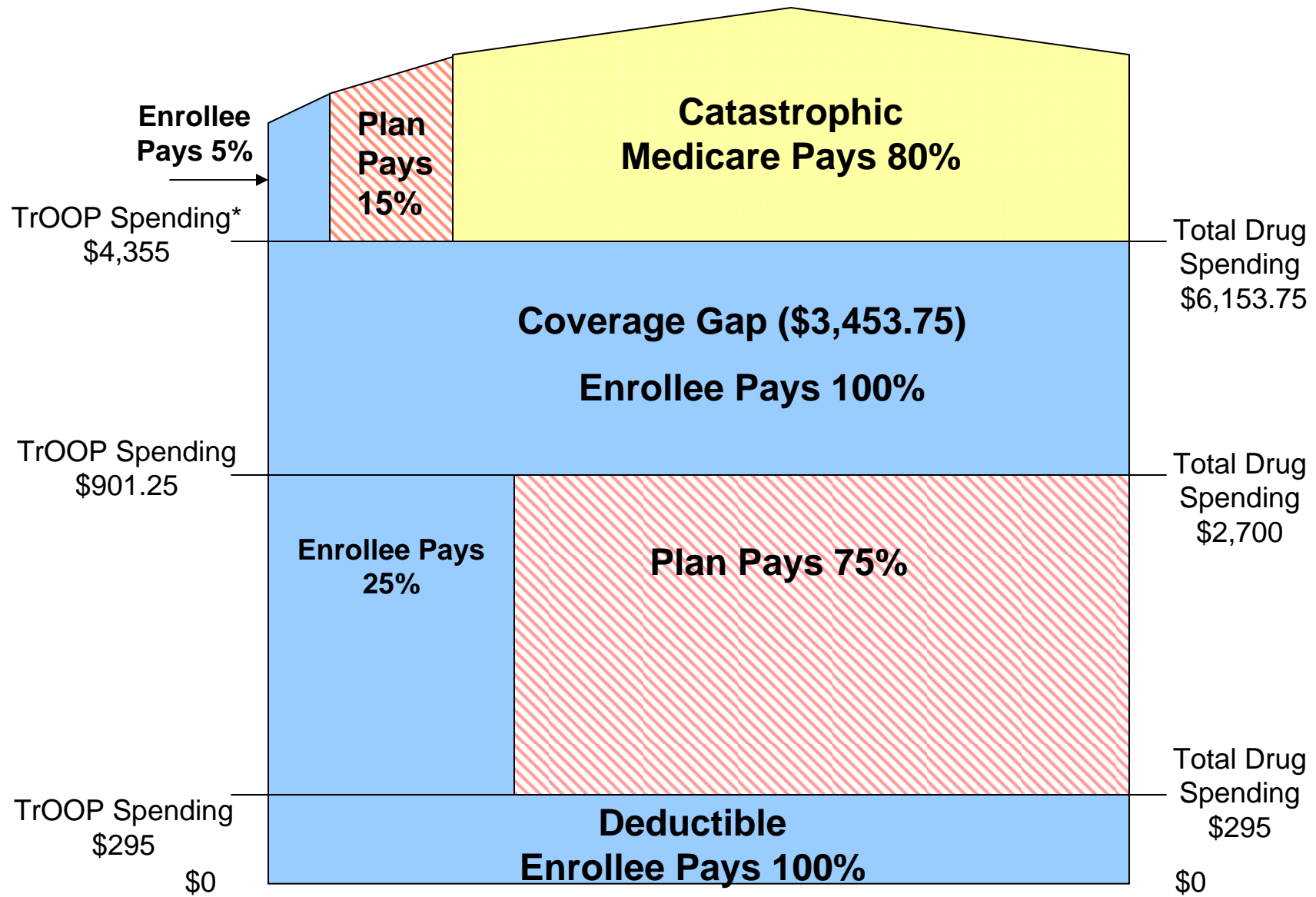


* Catastrophic coverage is triggered when true out-of-pocket spending (TrOOP) reaches \$3,600.

Benefit Types

1. **Defined Standard: the benefit exactly as described in the statute (last slide)**
2. **Actuarially-Equivalent Standard: same as Defined Standard, but cost sharing between \$250 and \$2,250 may vary from 25%**
3. **Basic Alternative: variable deductible, multiple cost sharing tiers, and/or alter coverage gap; same expected value as the statutory benefit**
4. **Enhanced Alternative: the same as Basic Alternative, but greater expected value than the statutory benefit**

Medicare Part D Standard Benefit, 2009

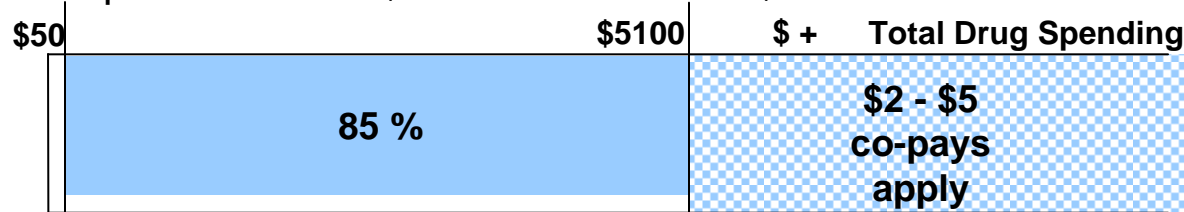


* Catastrophic coverage is triggered when true out-of-pocket spending (TrOOP) reaches \$4,355.

Low-income Benefit Overview

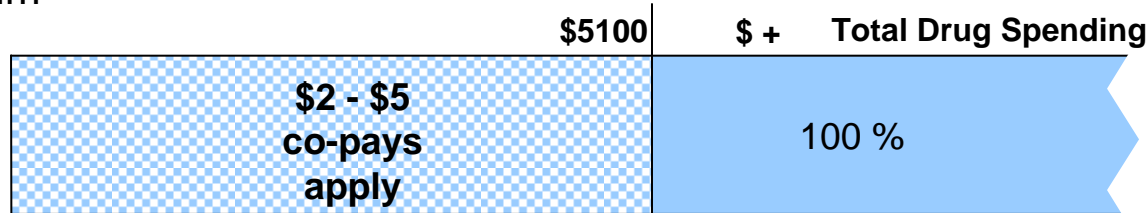
**Beneficiaries <150% FPL who also meet the asset test
(\$10k individual / \$20k couple)***

Sliding scale premium from \$0 to the estimated \$35 / month



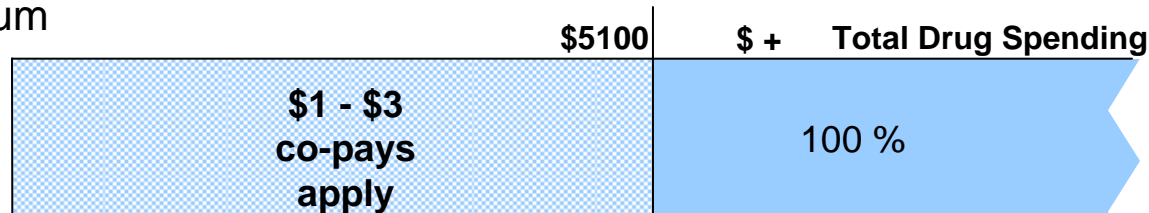
**Beneficiaries <135% FPL who also meet the asset test*
(3X SSI limits, \$6k individual / \$9k couple in 2003)**

\$0 premium



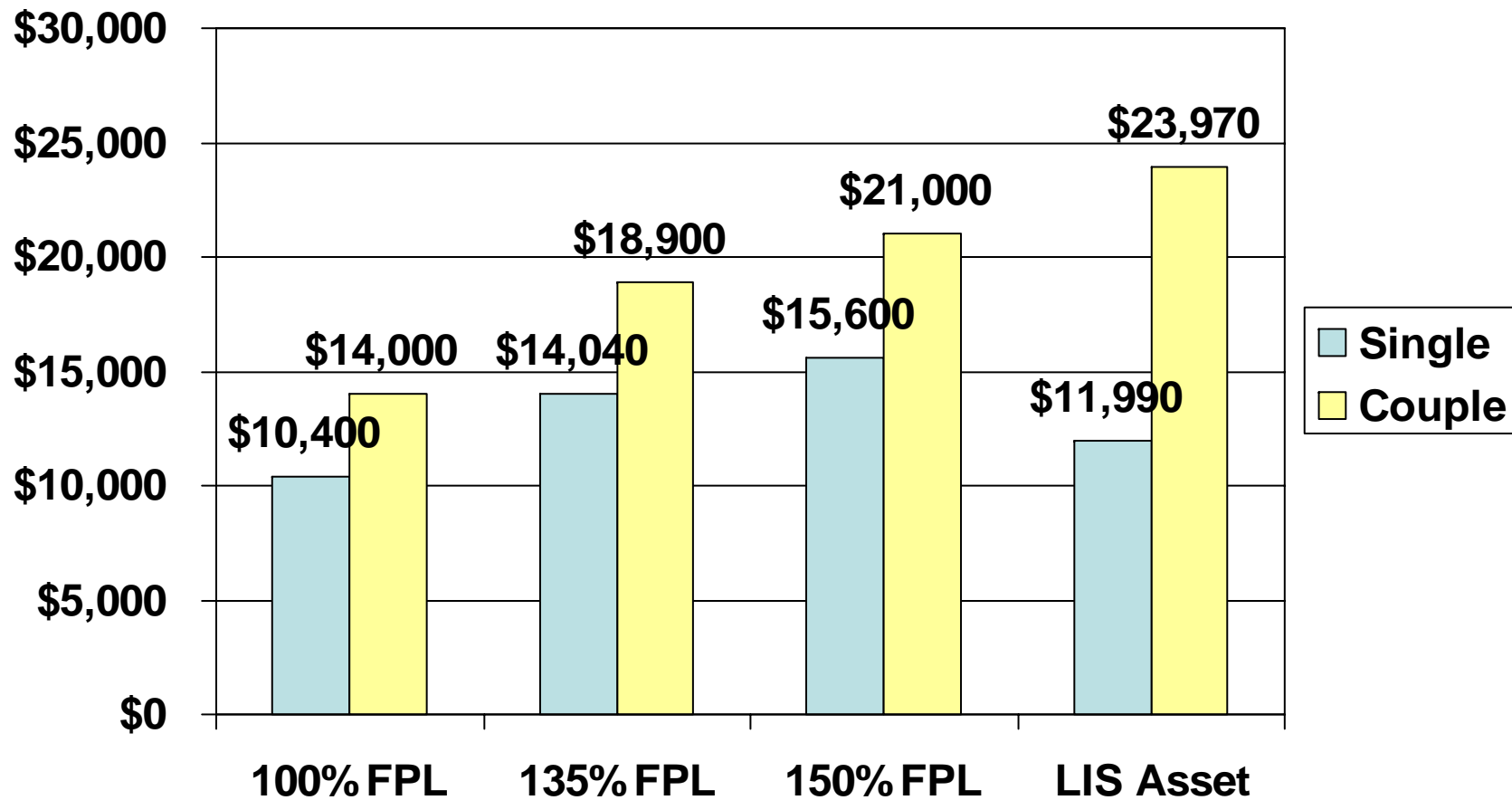
Beneficiaries <100% FPL and full dual eligible for Medicaid*

\$0 premium



* Cost sharing is \$0 if the beneficiary is on Medicaid and institutionalized.

Medicare Low-Income Subsidy (LIS) Eligibility Level: 2008



Means Testing

- Used to determine Low-Income Subsidy eligibility
 - Income
 - Assets
- Under MIPPA, certain assets are no longer used in the test

Plan Formulary Requirements

- USP (United States Pharmacopoeia) serves as safe-harbor for categories and classes
- Non-discriminatory
- Two drugs in each category and class
- 6 Protected Classes
 - “All or substantially all”
- Robust appeals process
- May have traditional pharmacy benefit management tools:
 - tiering
 - step therapy
 - prior authorization

Three Types of Risk Sharing

1. Risk Adjustment

- New prospective risk adjustment model

2. Catastrophic Coverage

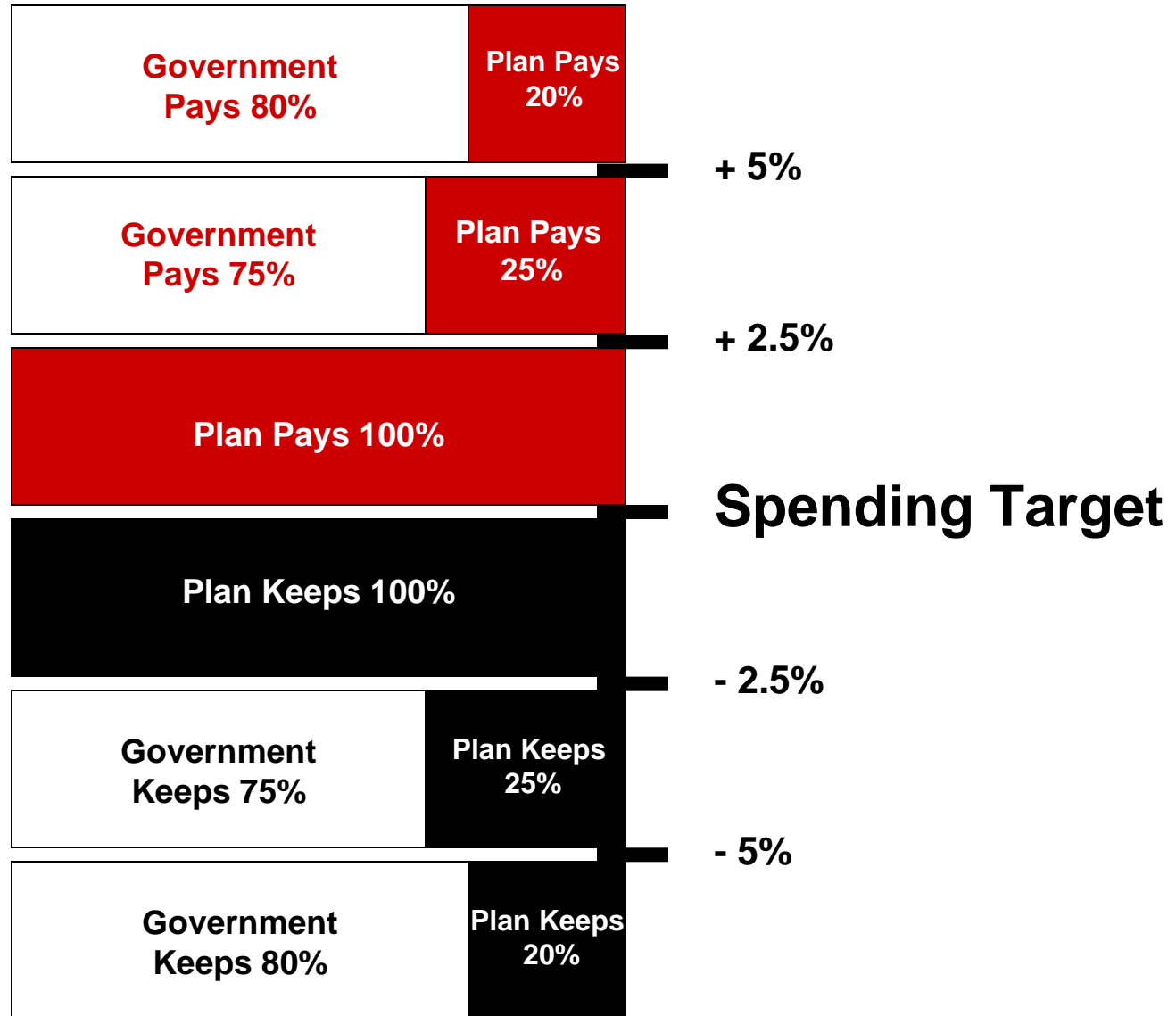
- Begins at the end of the coverage gap

3. Risk Corridors

- Symmetrical reinsurance should plan's spending deviate from actuarial projections

Risk Corridors

2006 & 2007



Calculation of the Bid

Drug plans and Medicare Advantage plans submit bids for the drug benefit.

<u>Plan 1 Bid</u> \$125
<u>Plan 2 Bid</u> \$130
<u>Plan 3 Bid</u> \$135
<u>Plan 4 Bid</u> \$140
<u>Plan 5 Bid</u> \$145

The bids form a national weighted average (benchmark).

<u>Nat'l Avg.</u> \$135

On average, Medicare pays 74.5% of the benchmark.

<u>Fed Share</u> \$100

Beneficiaries pay 25.5% of the benchmark +/- the difference between the bid and the benchmark.

+

<u>Plan 1 Premium</u> \$25
<u>Plan 2 Premium</u> \$30
<u>Plan 3 Premium</u> \$35
<u>Plan 4 Premium</u> \$40
<u>Plan 5 Premium</u> \$45

Overview of Medicare Part D

- 1) Medicare Drug Coverage before Part D
- 2) Structure of the Part D Drug Benefit
- 3) **Results of Part D**

Did it work?

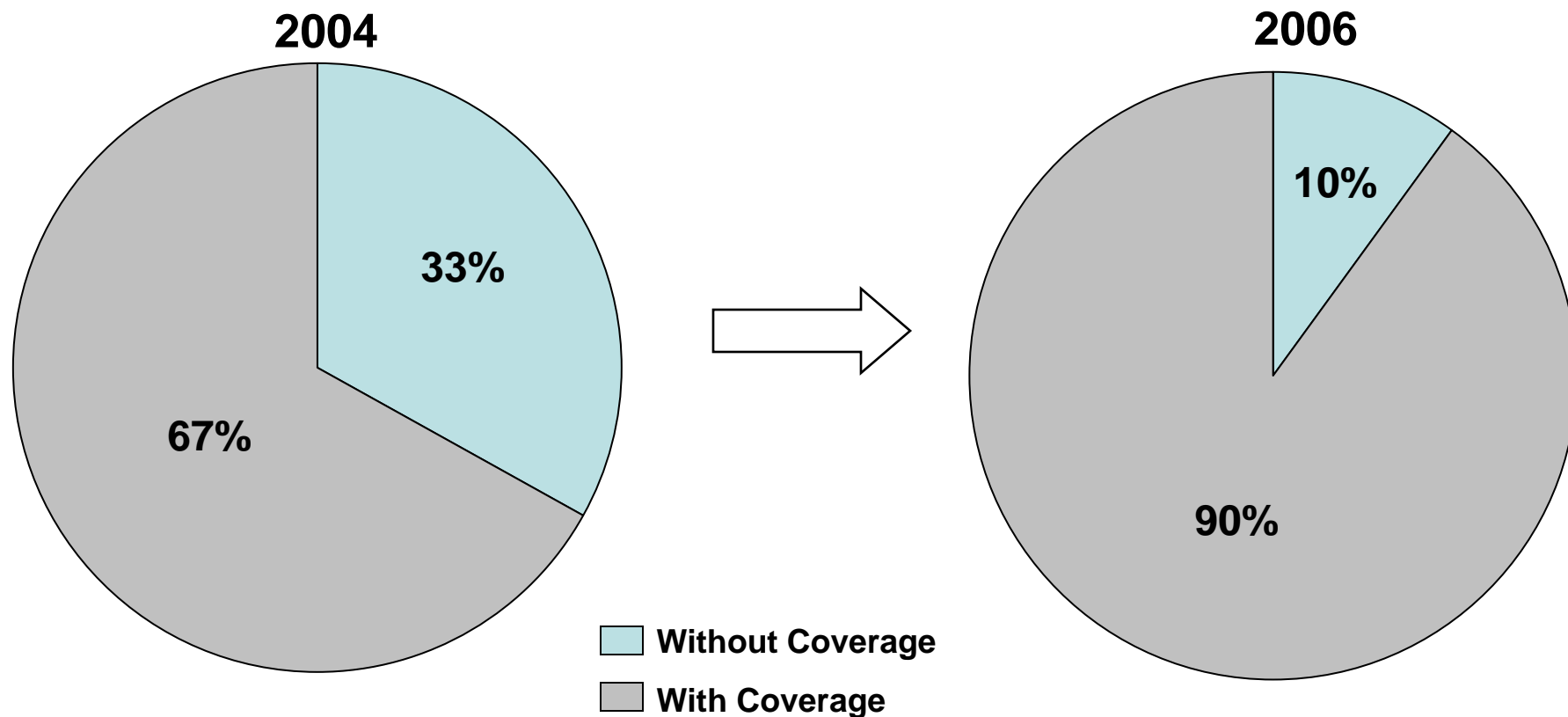
Newspaper Headlines Following Launch

- Start of Medicare Drug Plan Sees Successes and Struggles
- States Intervene After Drug Plan Hits Snags
- A New Drug Benefit, but for Whom?
- For Some Who Solve Puzzle, Medicare Drug Plan Pays Off
- ...New Drug Plan Baffles Patient and Provider Alike

Source: New York Times, January 2, 8, 15, March 26, June 11, 2006.

Between 2004 to 2006, The Number of Seniors Without Drug Coverage Decreased from 33% to 10%

Percent of Seniors with Coverage, 2004 and 2006



Source: CMS, Office of Research, Development and Information, 2004; HHS Press Release, June 14, 2006. <http://www.hhs.gov/news>. "Over 38 million people with Medicare now receiving prescription drug coverage"

Beneficiary Premiums

\$37: Monthly Estimate



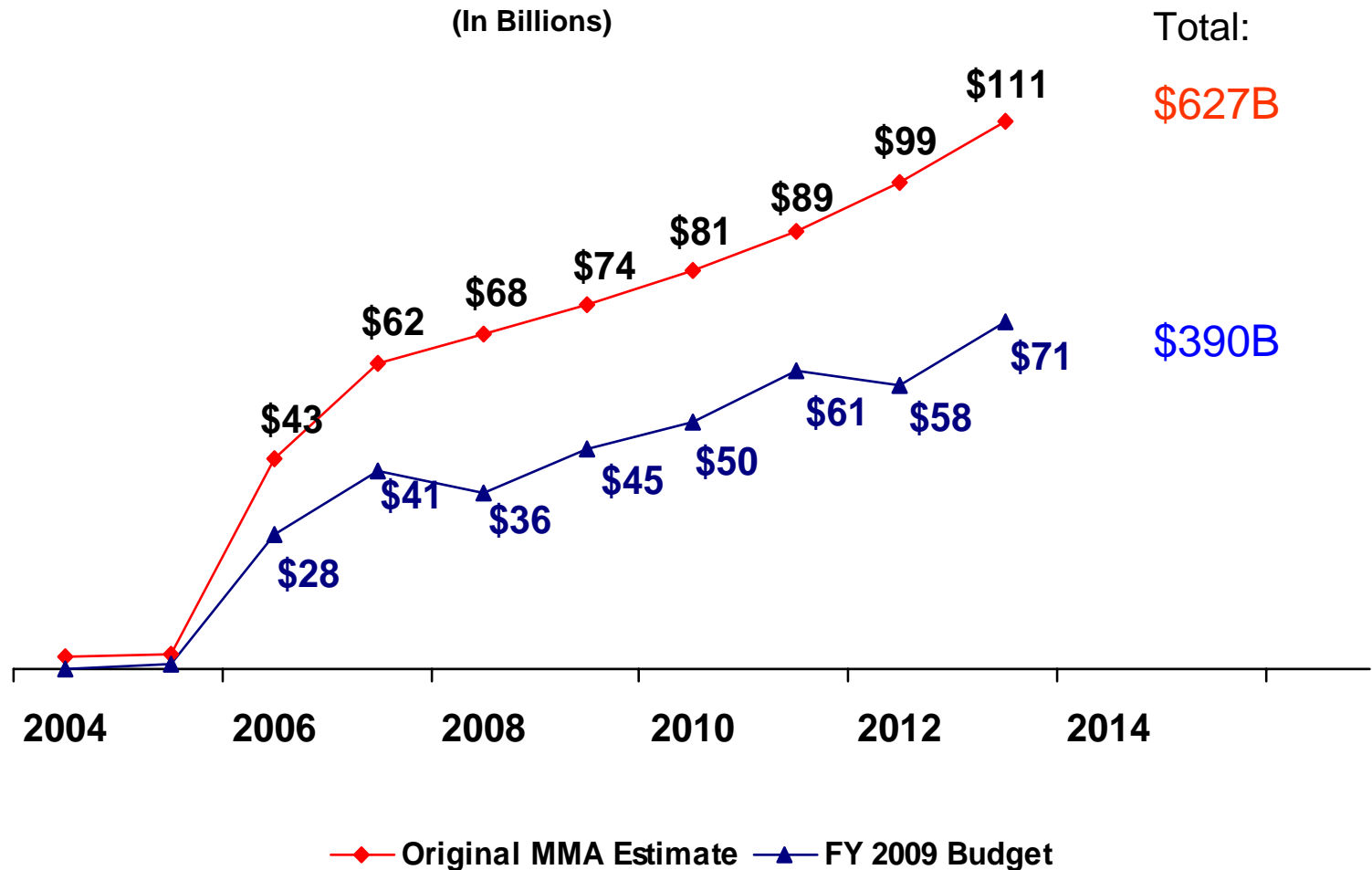
\$32: Average Plan Bid



\$24: Average Beneficiary PMPM

Total Projected Spending Under Part D, Original MMA vs. FY Budget 2009 Estimates

Total spending under Medicare Part D is projected to be 38.5 percent lower than previously estimated.

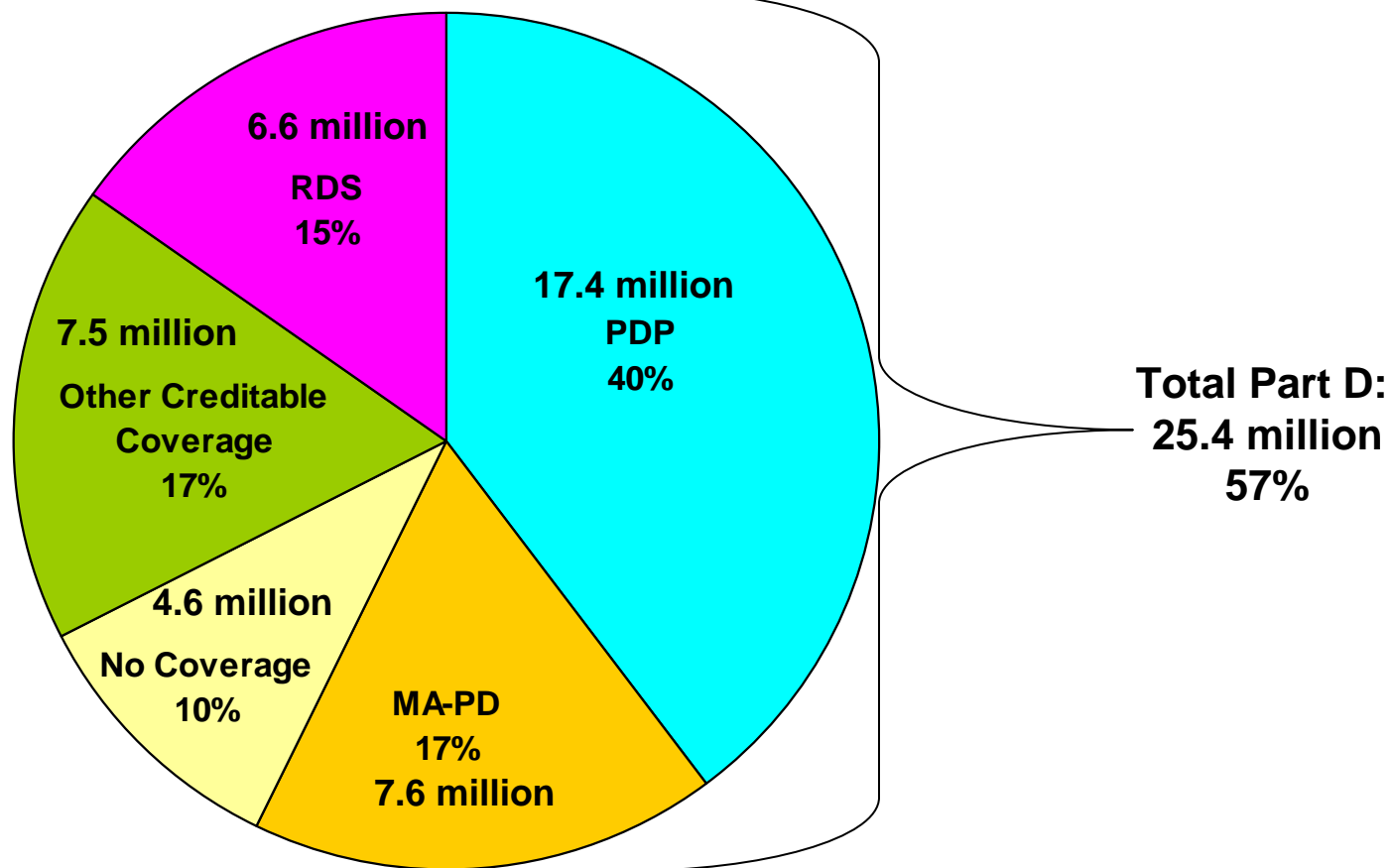


Data are from the original MMA estimate and FY 2009 President's Budget
 Source: Office of the Actuary, CMS.

Percent of Medicare Beneficiaries With Drug Coverage by Source of Coverage, 2008

About 90 percent of all Part D-eligible Medicare beneficiaries have drug coverage.

44.2 Million Part D-eligible Beneficiaries



Premium Structure

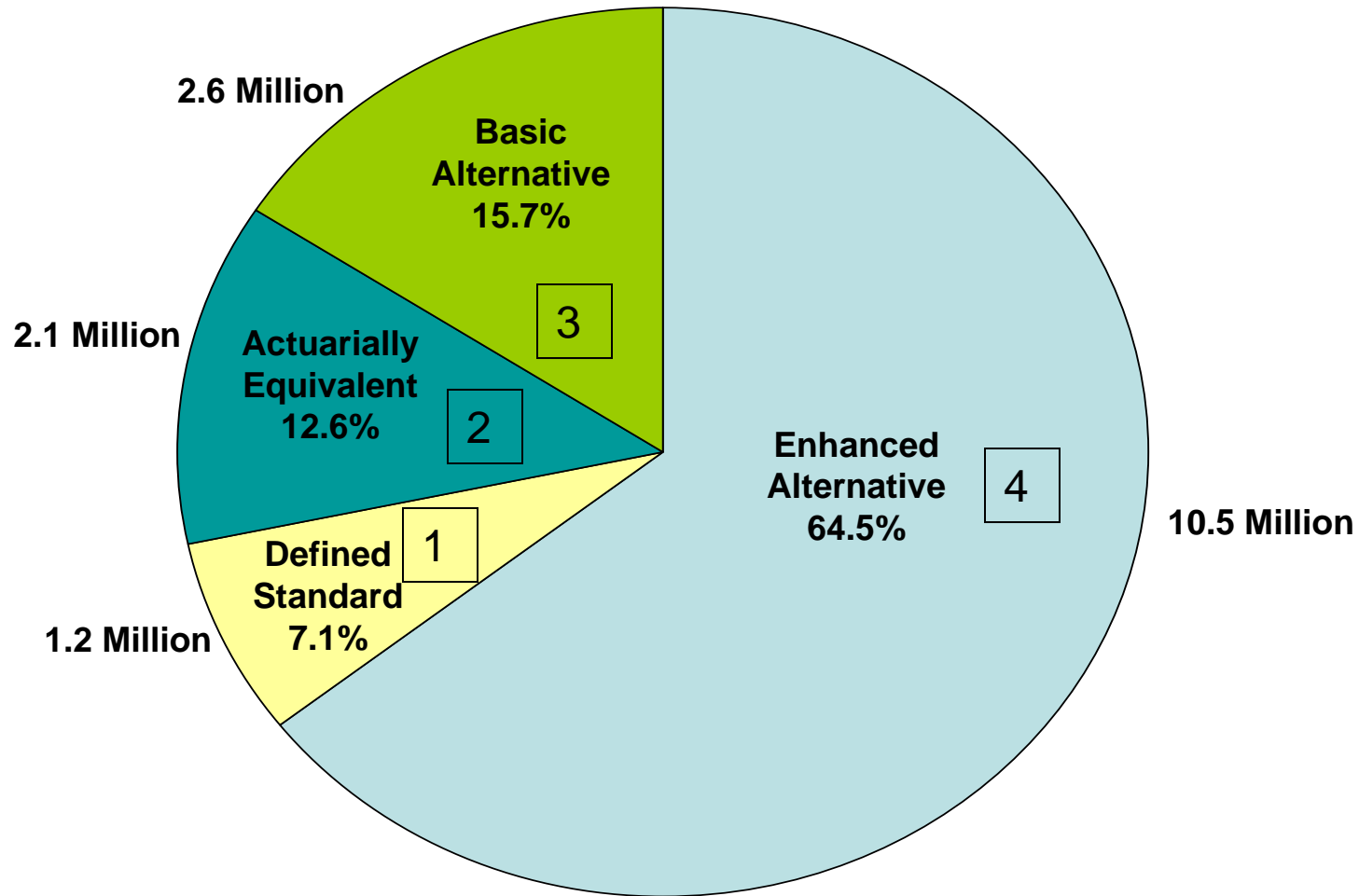
Premium Revenue	2006	2007	2008	2009	
Direct Subsidy (National Average Bid - Beneficiary Premium)	\$60.10	\$53.08	\$52.59	\$53.97	74.5%
Reinsurance	\$33.98	\$26.82	\$29.01	\$34.73	
Beneficiary Premium	\$32.20	\$27.35	\$27.93	\$30.36	25.5%
Total Premium to Plan	\$126.28	\$107.27	\$109.53	\$119.06	100%

Benefit Types

1. **Defined Standard:** the benefit exactly as described in the statute
2. **Actuarially-Equivalent Standard:** same as Defined Standard, but cost sharing between \$250 and \$2,250 may vary from 25% and copays can be tiered
3. **Basic Alternative:** variable deductible, multiple cost sharing tiers, and/or alter coverage gap; same expected value as the statutory benefit
4. **Enhanced Alternative:** the same as Basic Alternative, but greater expected value than the statutory benefit

Distribution of MA-PD and PDP Enrollment* by Benefit Type, 2008

The majority of MA-PD and PDP enrollees are in Enhanced Alternative Plans



Note: *Low-income subsidy beneficiaries, including Medicaid, are excluded.

Defined Standard -- The statutorily defined standard package.

Actuarially Equivalent -- The same as standard coverage, except the plans can offer tiered copays instead of coinsurance.

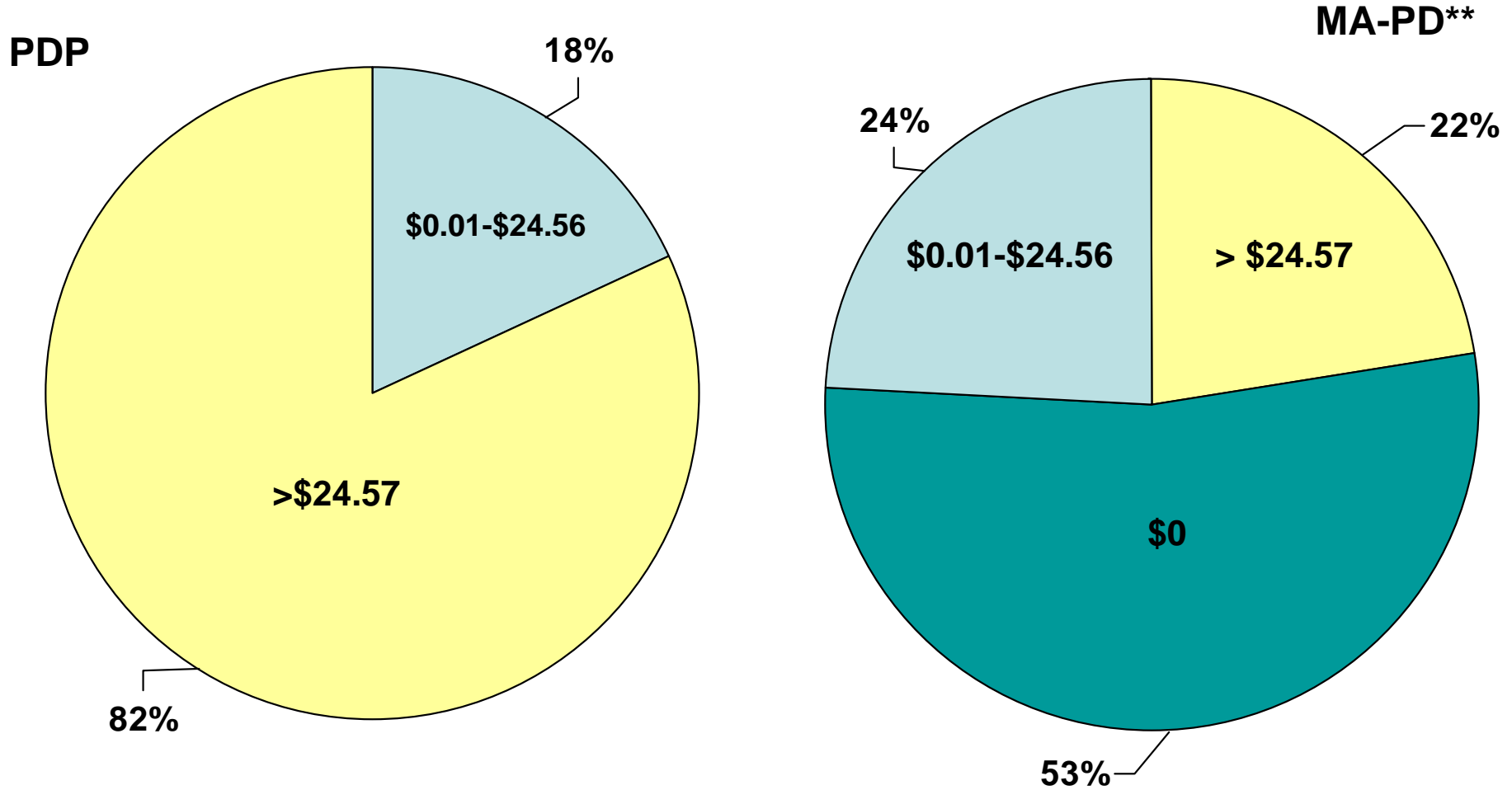
Basic Alternative -- Same as actuarially equivalent, except the plans can also lower the deductible and change the \$2,250 standard initial coverage limit.

Enhanced Alternative -- Same as basic alternative, except plans can also cover some excluded drugs, and can offer some coverage through the coverage gap.

Source: CMS, CPC, Medicare Drug Benefit Group.

Distribution of Part D Enrollment* by Premium, 2008

The majority of MA-PD enrollees do not pay a premium for their prescription drug coverage.



*Low-income subsidy beneficiaries, including Medicaid, are excluded.

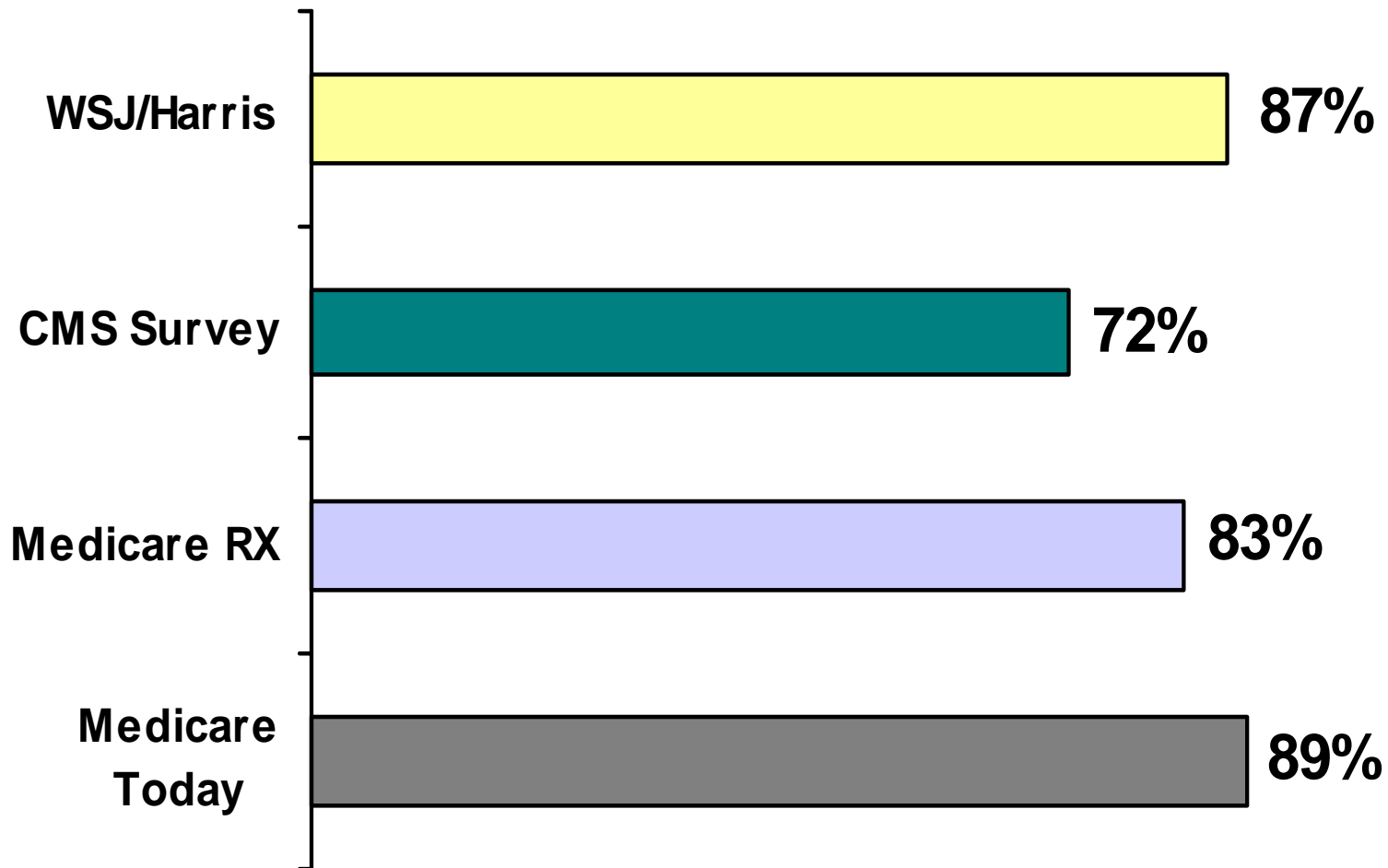
**Includes: Local Coordinated Care Plans; Private Fee-For-Service; Regional Preferred Provider Organizations; Cost Plans, and Demo Plans.

Excludes: PACE & employer sponsored coverage

Source: CMS, CPC, Medicare Drug Benefit Group.

Beneficiary Satisfaction with Part D, 2007-2008

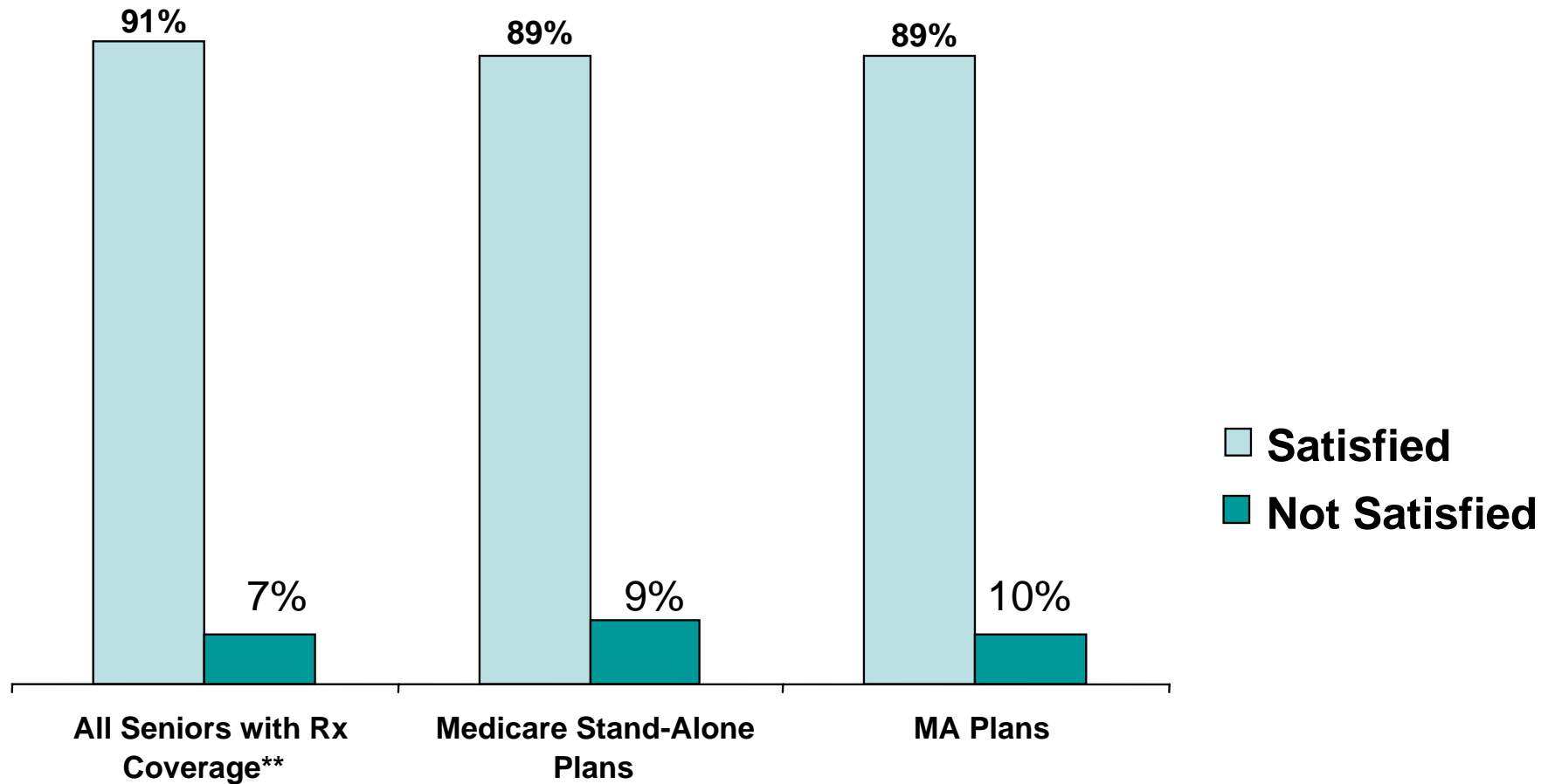
Overall Satisfaction with Part D is High



Source: Wall Street Journal/Harris Poll (January 2008), Medicare Today Survey (October 2007), Medicare Rx Network (November 2007), CMS Internal Survey (January 2008).

Beneficiary Satisfaction with Part D, 2007

Satisfaction with Medicare Part D Compares favorably with other forms of coverage



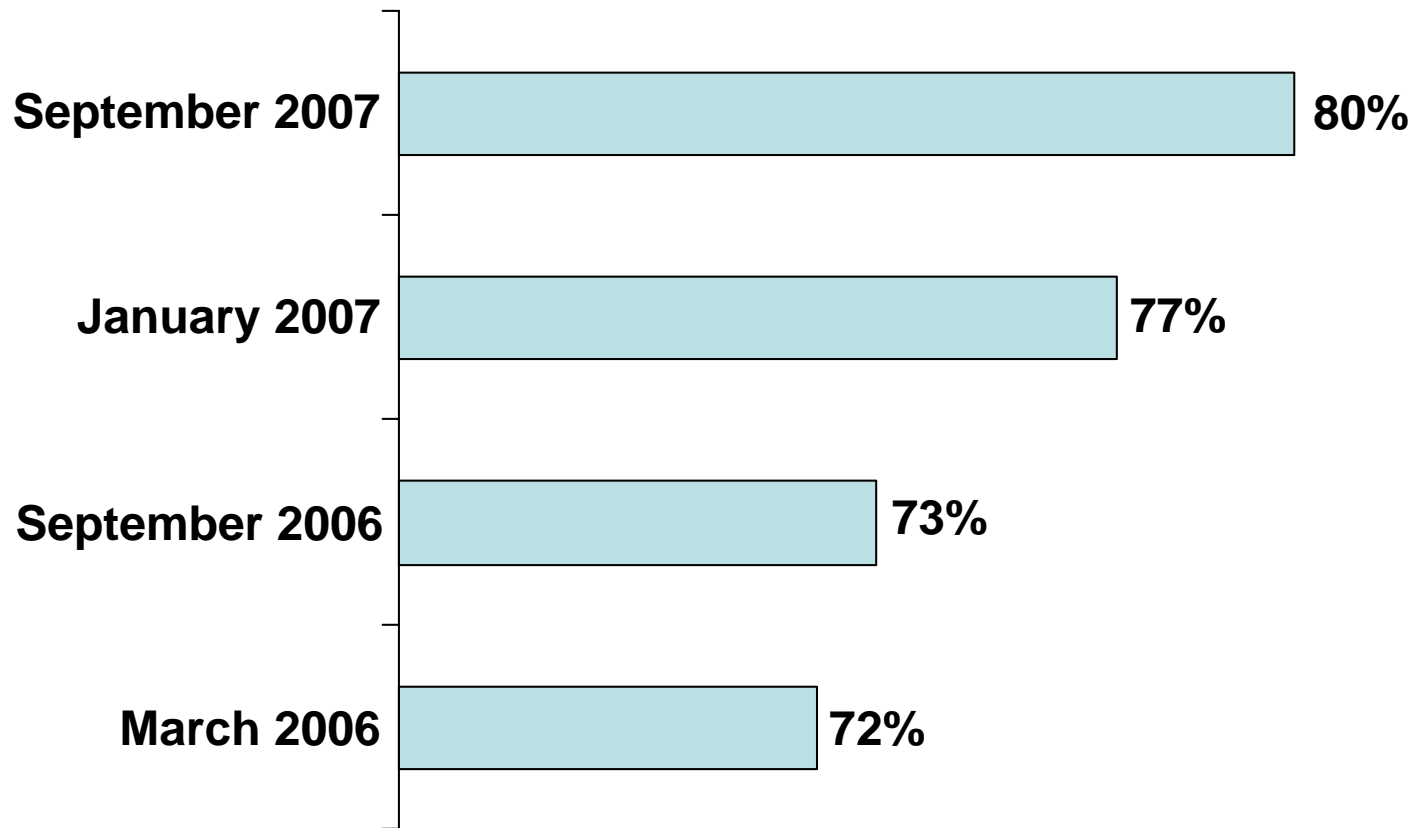
Source: *Seniors Impressions about Medicare Part Rx: Second Year Update*, Medicare Today Survey, October 2007

**All seniors with coverage includes: Employer/union plans with drug coverage, Medicare PDP, MA-PDP, VA, & Other

Beneficiary Satisfaction with Part D, 2007

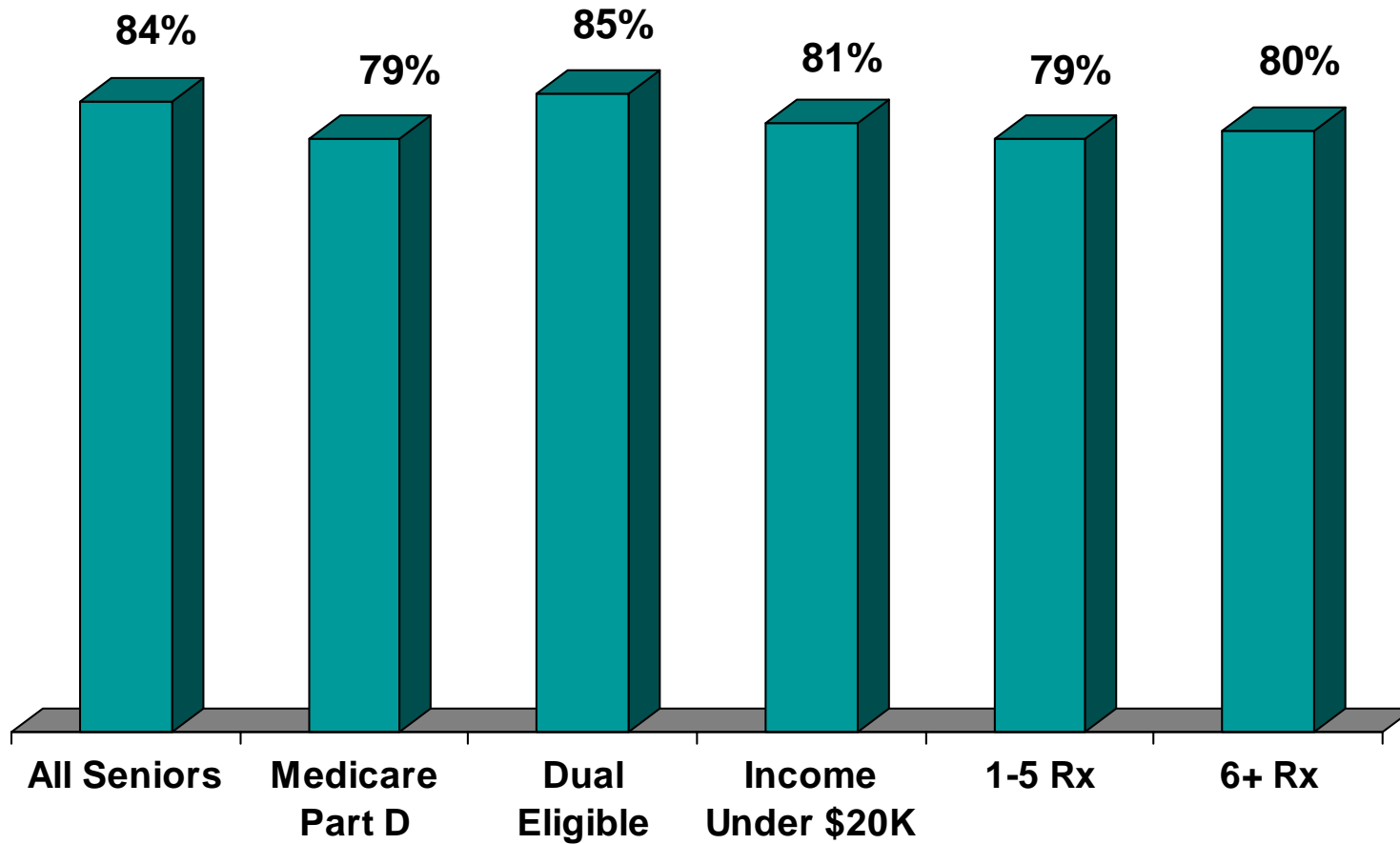
Access to medication has Increased over time

Percent agreeing with “My plan covers all the medicines my doctor prescribes”



Beneficiary Satisfaction With Drug Costs, 2007

Most beneficiaries are satisfied with their drug costs.



Source: *Senior Impressions of Medicare Part D*, Medicare Rx Education Network Survey, November 2007



Questions?

Follow-up:

Ivanderwalde@cms.hhs.gov

(202) 690-2623