

# Medicare Modernization Act

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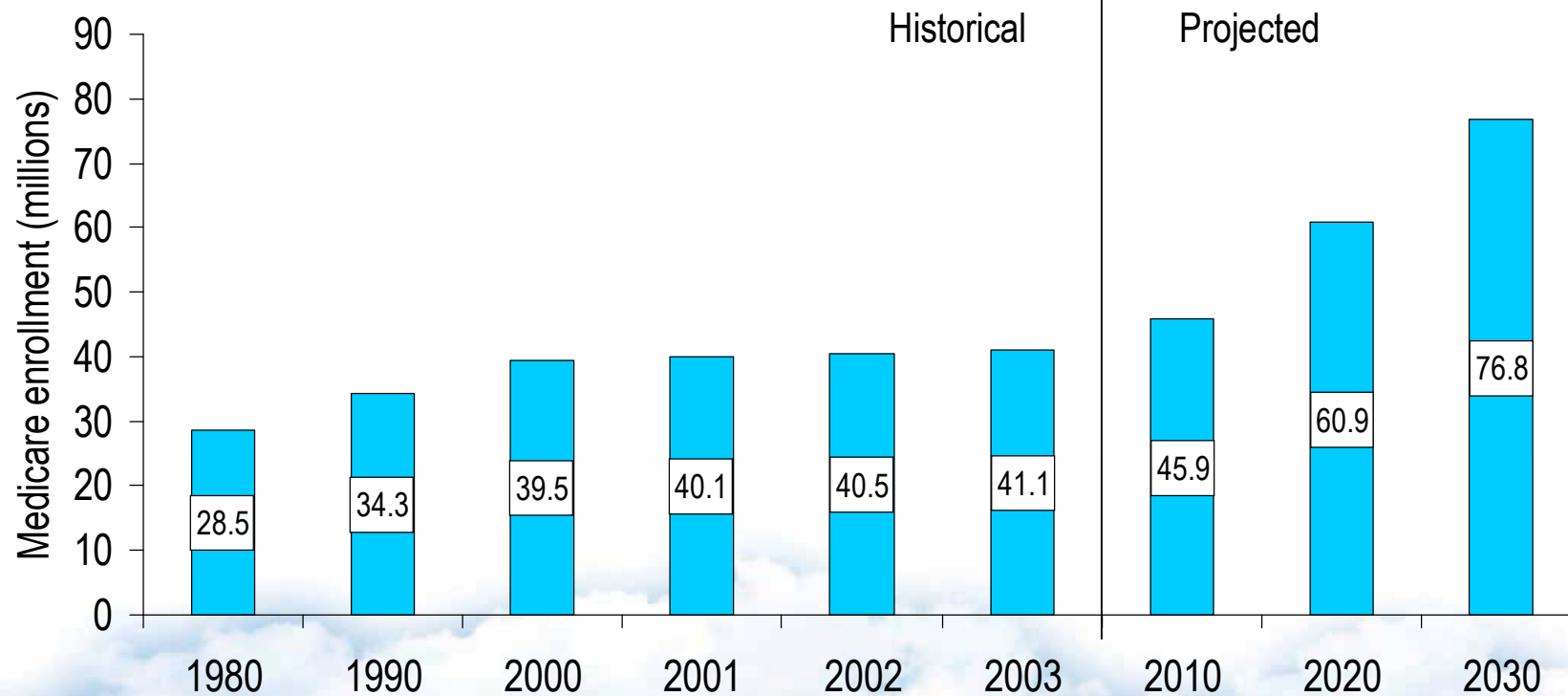
# Agenda

- Medicare Basics
- Highlights of the MMA
- Medicare Prescription Drug Benefit
- Employer Sponsored Retiree Plans
- Competitive Bidding Process
- Other Changes

# Medicare Basics

- **Part A** - covers basic inpatient hospital services after a deductible (\$912 for 2005)
- **Part B**
  - Covers outpatient professional provider services after deductible (\$110 for 2005)
  - Beneficiary pays \$78.20 per month for this coverage, deducted from their Social Security check
- **Medicare Supplement**– Supplements “gaps” in Parts A & B
- **Part C** – offered through private managed care plans- these plans are called Medicare Advantage plans
- **Part D** – the new prescription drug benefit (begins 1/1/06)

# Medicare Basics



Source: CMS



# Medicare Basics

## 1966–Early '90s

- Single entitlement program
- Government bears all risk



## TODAY

- Entitlement program
- Some private HMO plans
- Government bears most of the risk



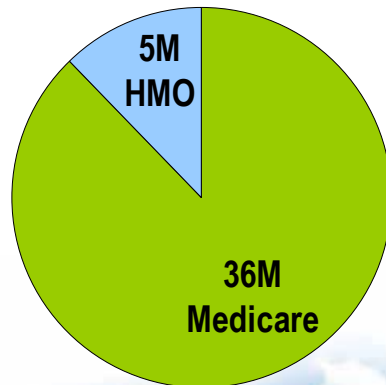
## 2006–2009

- Means tested
- Many private HMO and PPO plans
- Risk shifting to private plans

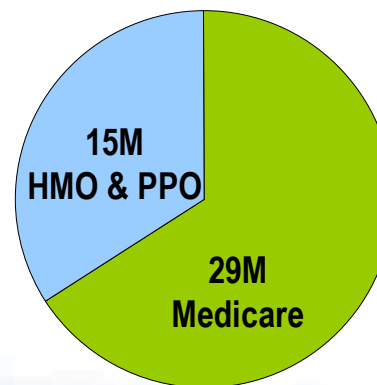


## 2010→

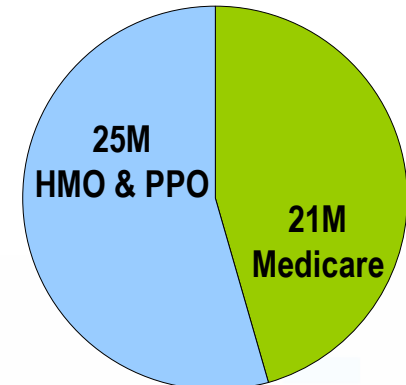
- Means tested
- Private sector “competes” with Medicare
- More risk shifted to private plans



41 Million  
Beneficiaries



44 Million  
Beneficiaries



46 Million  
Beneficiaries

# Highlights of the MMA

- Federal law enacted November 2003.
- New Part D Drug benefit for 2006
- Expands managed care and discourages Medigap
- Encourages employer sponsored plans
- Creates incentives for private entities to compete with Medicare

# Medicare Prescription Drug Benefit (Part D)

- Beyond the Discount Program
- Effective January 1, 2006
- Available through Private Plans Only
  - Regional stand-alone prescription drug plan (PDP)
  - Part of a Medicare Advantage plan (MA – PD)

# Medicare Prescription Drug Benefit (continued)

<b>Drug Expense</b>	<b>Part D Pays</b>	<b>Beneficiary Pays</b>	<b>Maximum Out-of-Pocket Costs</b>
Less than \$250	Nothing	All Costs	\$250
\$250 - \$2,250	75%	25%	\$750
\$2,250 - \$5,100	Nothing	All Costs	\$3,600
Over \$5,100	95%	5%	\$3,600+

Government Subsidy: 74.5%

Expected Beneficiary Monthly Premium: \$35

# Medicare Prescription Drug Benefit (continued)

## TrOOP

- True out of pocket cost (TrOOP) is \$3,600 for 2006
- Amounts paid by family or state assistance plans are counted for TrOOP
- Employer payments or insurer payments do not count toward TrOOP
- Payments not counted toward TrOOP increase the \$5,100 threshold.

# Medicare Prescription Drug Benefit (continued)

- Equivalent or Alternate Plans Permitted
- Enhanced Plans Permitted
- Benefits Indexed Each Year
- Minimum Formulary Requirements
- Medication Therapy Management Programs (MTMP)

# Medicare Prescription Drug Benefit (continued)

- Voluntary Enrollment, auto-enrollment for dual-eligibles
- Premium Penalties for late enrollees unless creditable coverage

*Creditable coverage - the actuarial value of the benefits is at least as great as the actuarial value of the Part D benefits.*

*Employers must give notice to actives and retirees (including spouses) on whether or not they have creditable coverage*

- Subsidies for Low Income Beneficiaries – Premium and Benefits for up to 150% of FPL with asset limits

# Medicare Prescription Drug Benefit (continued)

## What will the Market Look Like?

- Available through Regional PDPs or MA Plans
  - Can not enroll in a PDP if in MA Plan
  - PDPs must offer plans to entire region (same premium)
- Multiple Plan Sponsors per Region (34 Regions)
- Multiple Plans per Plan Sponsor
- Standard, Basic, and Enhanced Plans (or no coverage)

# Employer Sponsored Retiree Plans

## Employer Options

- Discontinue Drug Coverage
- Purchase (or Subsidize) a Part D Plan
- Become a PDP
- Wrap-Around Part D
- Continue Plan and Receive Subsidy

# Employer Sponsored Retiree Plans (Continued)

Plan Sponsor Subsidy – Expected to be the most popular

- 28% of drug costs\* between \$250 and \$5,000 (indexed)
- \*Total cost - sponsor and beneficiary
- Tax free
- Estimated value (average): \$668 per retiree per year, value of \$1,028 if in 35% bracket
- No restrictions on how to use the money

# Employer Sponsored Retiree Plans (Continued)

## Qualifications for the Subsidy

- Must meet two tests for actuarial equivalence – Gross and Net

**Gross test:** The plan must provide benefits at least as rich as the Part D benefits.

**Net test:** The value of the sponsor's plan must be at least as good as the value of the Part D plan taking into consideration the beneficiary's contribution (premium).

- Sponsor's plans may be combined for the net test only.
- An actuarial certification is required.

# Employer Sponsored Retiree Plans (Continued)

## Other Considerations for the Subsidy

- Certain drugs are excluded.
- There is no subsidy for retirees enrolled in Part D
- Annual application required, initial notice September 30, 2005
- Record keeping and federal paperwork required
- Audits likely

# Employer Sponsored Retiree Plans (Continued)

## Other Options – Wrap Plan

- Retiree must enroll in two plans, a PDP and the plan sponsor's
- There will be multiple variations of PDP plans
- Several PDPs to coordinate with
- Final PDP announcements from CMS in September
- Wrap plans increase the catastrophic coverage level, benefiting the government. For example, 75% coverage through the donut hole results in moving the catastrophic coverage from \$5,100 to over \$13,000.

# Employer Sponsored Retiree Plans (Continued)

## Other Options – Employer Waivers

- PDPs and MA-PD plans may apply to CMs to offer different plans to employer groups
- These plans may be restricted to retirees of a particular employer
- Retirees do not have to live in the region of the PDP or MA-PD

# Competitive Bidding Process

## Sources of Revenue

- CMS Direct Subsidy
- Member Premium
- Reinsurance from CMS for 80% of the catastrophic benefit (amounts above \$3,600 out-of-pocket)
- The Low Income Subsidy reimburses the Plan for the cost of the premium and benefit subsidies for low income members.
- Aggregate Reinsurance

# Competitive Bidding Process (Continued)

The Direct Subsidy is based on the weighted average information from all bids.

Example:

A.	National Average Part D Cost	\$120.00
B.	National Benchmark Member Premium (25.5% of A)	\$30.60
C.	National Average Reinsurance Cost	\$25.00
D.	Direct Subsidy (A – B – C)	\$64.40

# Competitive Bidding Process (Continued)

Member Premium may be more or less than the National Average, depending on the Plan's bid.

A.	Plan Cost Less Reinsurance	\$100.00	\$90.00
B.	National Average Cost Less Reinsurance	\$95.00	\$95.00
C.	Difference (A – B)	\$5.00	(\$5.00)
D.	National Benchmark Member Premium	\$30.60	\$30.60
E.	Plan Member Premium (C + D)	\$35.60	\$25.60

# Competitive Bidding Process (Continued)

## Bid Negotiations

- CMS will review bids and may negotiate changes.
- Administrative costs will be checked for reasonableness in comparison with other bids
- Aggregate drug costs will be reviewed
- CMS expressed interest in cost containment programs
- Actuarial back-up and assumptions will be examined
- CMS may request additional information to substantiate bids

# Competitive Bidding Process (Continued)

## Enhanced Plans

- Costs are allocated in the bid forms to standard and supplemental portions of the plans
- Adjustments for increased utilization are expected
- The value of the increased utilization must be included as part of the supplemental benefits
- The government reinsurance payments are less

# Competitive Bidding Process (Continued)

## Risk and other Considerations

- Risk adjusters apply based on health status
- Government reinsurance of 80% of allowable costs over \$5,100 for each individual
- Aggregate reinsurance

Plan is at full risk within 2.5% of target

50% share of savings/loss from 2.5% to 5.0% of target

20% share of savings/loss over 5.0%

# Competitive Bidding Process (Continued)

## Risk and other Considerations (Continued)

- There are no geographical factors for the bid
- Studies show that there are significant variations by area
- Premium will likely vary by geographical area

# Other Changes

## Medicare Advantage Plans

- MA Payment rate increases and increased payment trends
- MA Bidding process replaces the ACRP
- CMS shares in the savings (bid vs. benchmark)
- Must offer at least one plan with drug benefits at least as rich as Medicare Part D
- No plans with less rich benefits are permitted
- CMS has the power to negotiate bid amounts

# Other Changes

- New plan options created: Regional PPOs and Private FFS Plans
- Medigap plans with Rx will no longer be permitted, except for renewing members
- Increases the Part B deductible for 2005, indexing thereafter
- Means-tested Part B premiums beginning in 2007
- New Medicare services for 2005: Initial physical exam, screening tests for heart disease and diabetes

# Questions?

