Medicare Part D

Options for Employers and Unions

Presented at the Southern Conference on Teacher Retirement

David Mitchell
Director Market Strategy and Business Development
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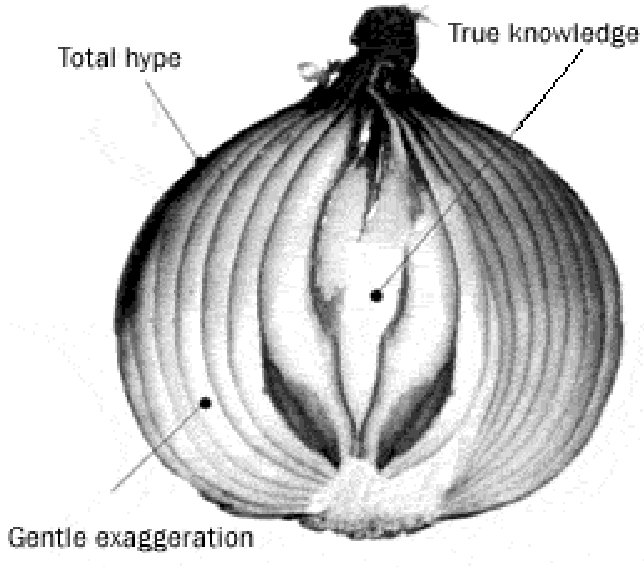
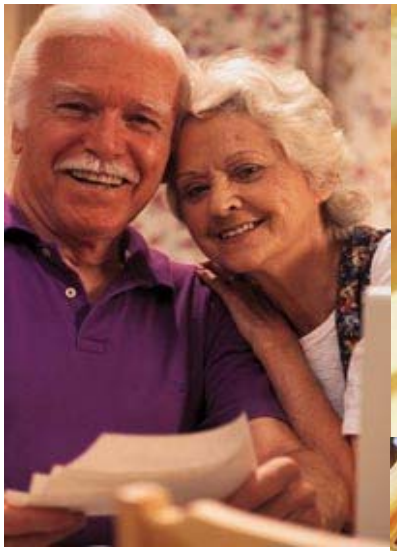
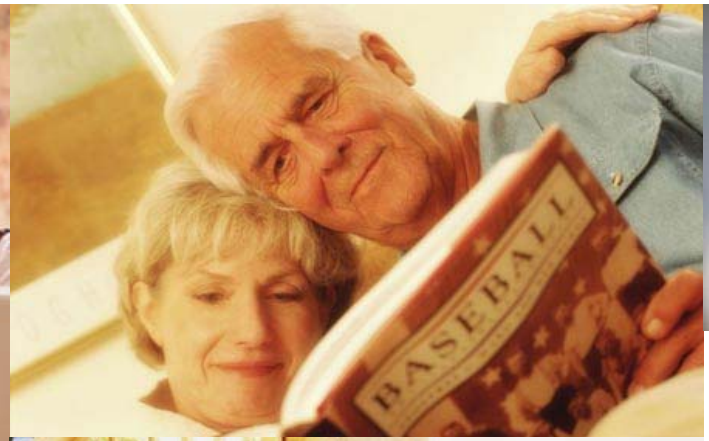
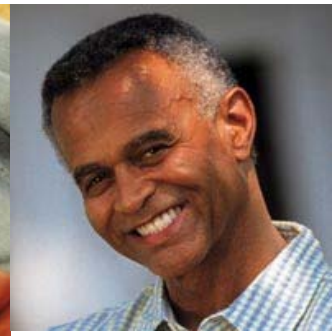
Our agenda
Peeling the Onion of Medicare Part D

- Review the Medicare Modernization Act
- Review Medicare Part D Standard Benefit
- Discuss each of the employer, government, health & welfare options
  - Primary (Retiree Subsidy)
  - Employer PDP
  - Enhanced PDP
  - Secondary or Wraparound
  - Drop coverage
- Identify strategies to help you make your decisions
- Resources Available
- Q&A



"All people with Medicare are now one step closer to having a new drug benefit and new health plan options regardless of their income or how they receive their medical coverage"
- Mark McClellan, M.D., Ph.D, CMS administrator



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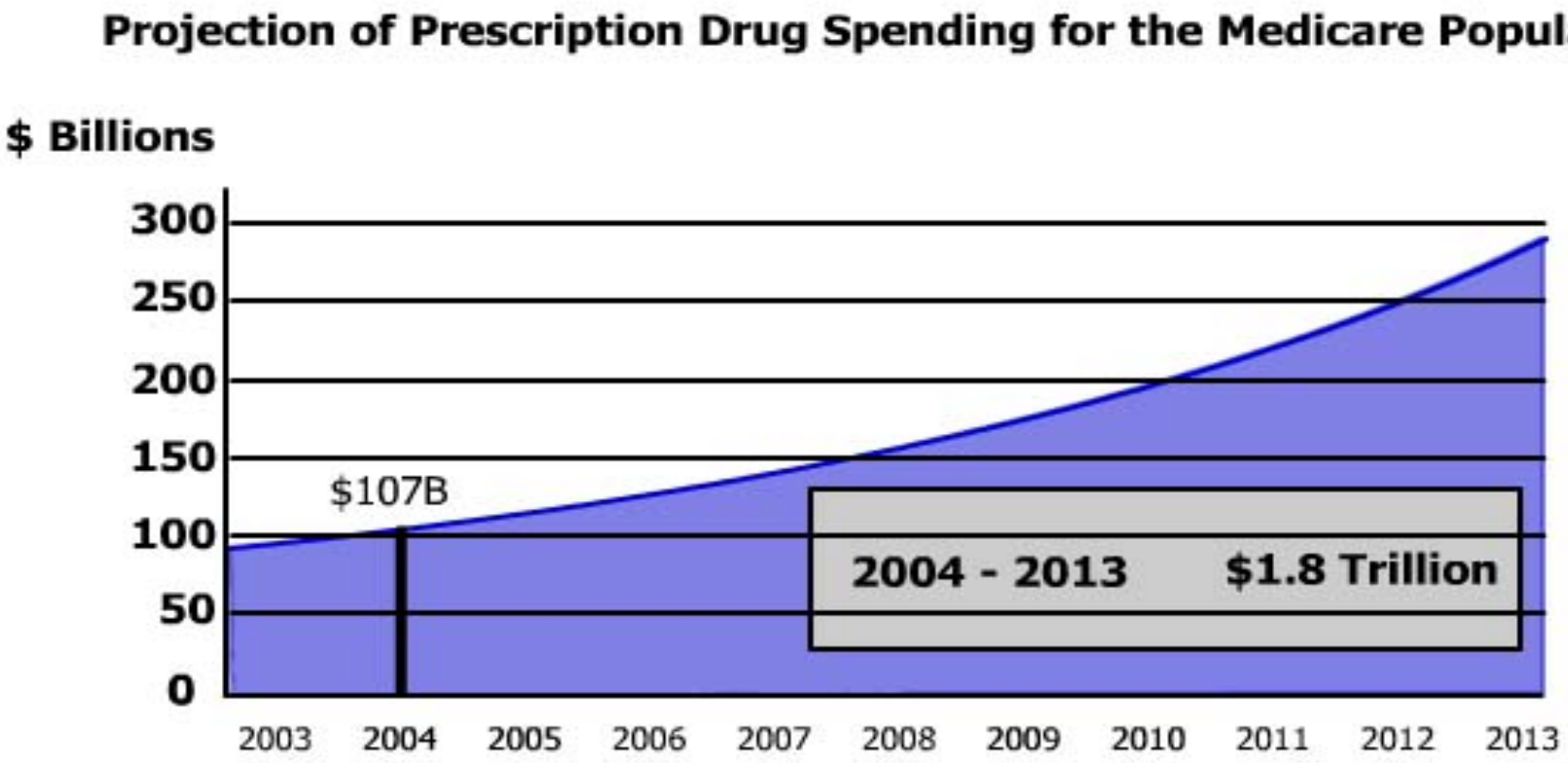
As our country ages, the projections for drug spend increases dramatically



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Summary of Medicare Modernization Act

Adds part D benefit effective 1/1/06

- Created discount card as interim step

Maximizes employer participation through subsidies

- Prevent windfalls
- Minimize administrative burden
- Minimize government costs

Seeks Prescription Drug Plan's (PDPs) and Medicare Advantage Plans (MA-PDs) to provide new coverage

- Risk and incentives for PDPs, within "corridors"
- PDP regions established by the Secretary
- Must include cost-effective drug utilization programs, quality assurance programs, and medication therapy management programs

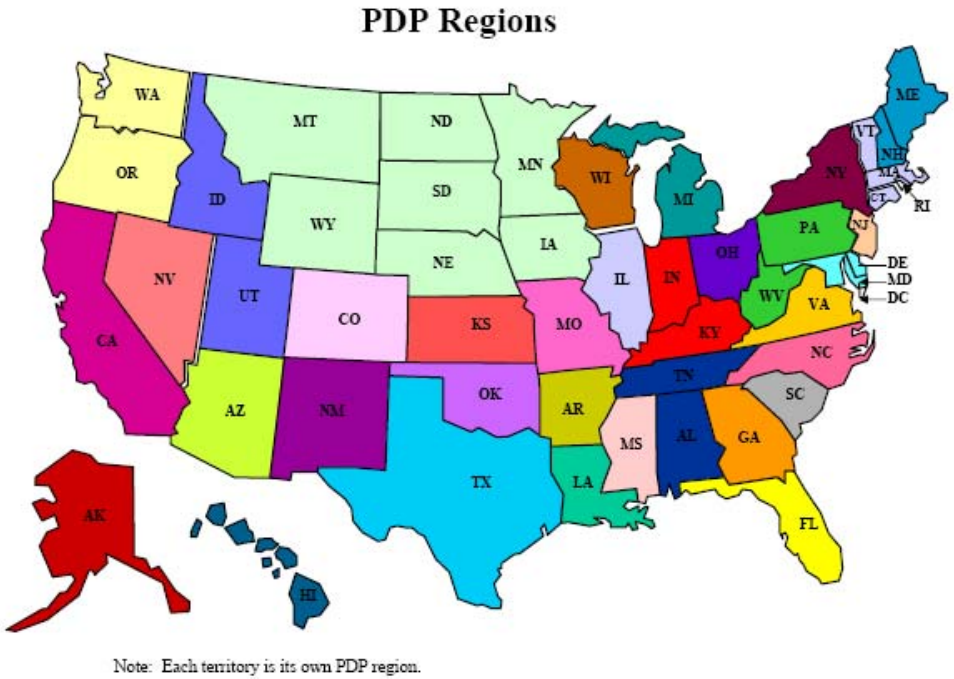
Stops Medigap insurers from selling after 1/1/06

Source: Medicare Prescription Drug, Improvement, and Modernization Act of 2003

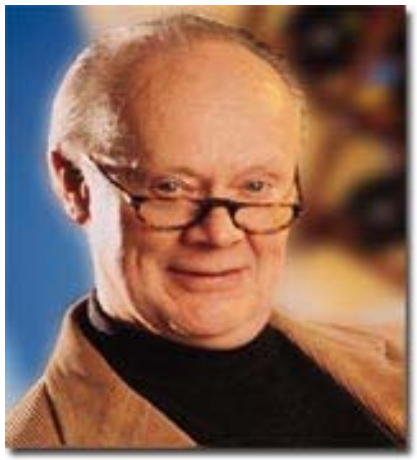
Prescription Drug Plan and MA-PD:

offer individual and employer group enrollment

- 34 PDP and 26 MA-PD regions
- Application and financial bid to CMS
- Must offer Part D standard benefit; can offer additional "enhanced" coverage for increased premium
- Formulary, pricing, and pharmacy network subject to CMS review
- Responsible for tracking member True Out of Pocket (TrOOP)
- Medication Therapy Management (MTM) Programs to chronically ill



How will retirees receive their benefit?



Plan sponsored = employer, union, government

Some may be enrolled in employer sponsored plans and will receive their drug benefit the same as always.

Enroll in PDP

Some may enroll in a Prescription Drug Plan, a standalone Part D sponsor, like a PBM or a health plan

MA-PD

Others may choose to participate in MA – PD, Medicare Advantage, which combines drug coverage and medical.

Overview of Medicare Standard Part D Benefit

- Effective January 1, 2006
- Voluntary program
- Enrollment period when individuals age in
- Penalty if do not enroll when eligible (increase in premium)

The Standard Benefit
How it works

Cost of Medication

		Coverage Gap	
$0 -$250	$251 - $2250 Next $2000	$2251 - $5100 Next $2850	$5101 +

Medicare beneficiaries

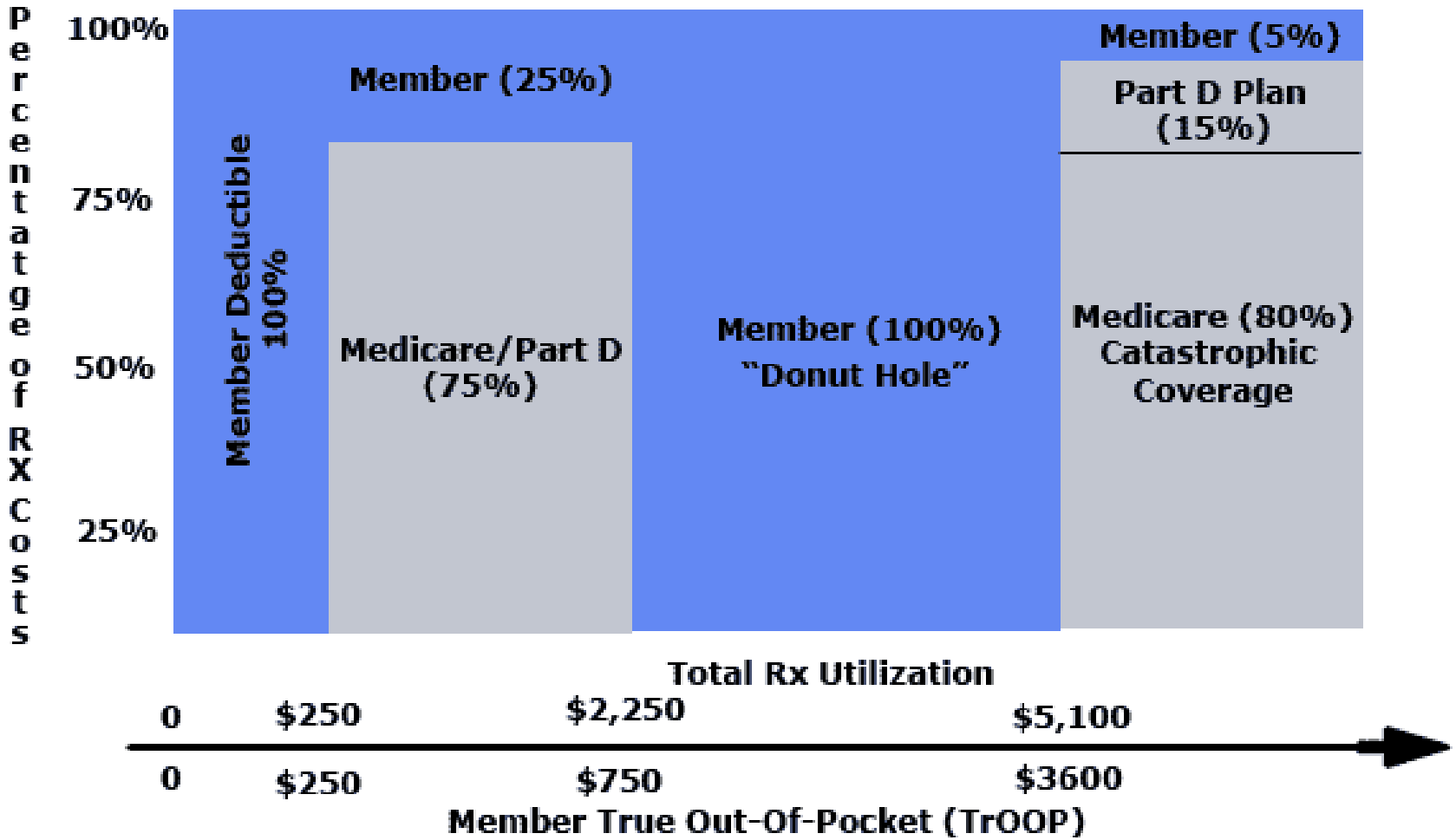
$250	$500	$2850	5% of each RX

True Out of Pocket TrOOP

$250	$750	$3600	$3600 + 5%of each RX

The Standard benefit

Member pays $35 a month premium



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Counting TrOOP

What counts towards TrOOP?

- Another individual (e.g. a family member or friend)
- A qualified State Pharmaceutical Assistance Program (SPAP)
- A charity
- A Personal Health Savings Vehicle (Flexible Spending Account, Health Savings Account, and Medical Savings Account)

What does not count toward TrOOP

- Employer / retiree plans/ Worker's Compensation
- Government programs (TRICARE, the VA, etc.)
- State-run programs that do not meet the SPAP definition
- Part D Plans' supplemental or enhanced benefit

The low-income subsidy benefits those 150% of the federal poverty level and below

Federal Poverty Level	Estimated Income Levels & Asset Test	Part D Benefit
<100% FPL	**Individual**: ~$9,600 **Couple** : ~12,600	**$0 premium** **$0 deductible** **$0 co-pay for nursing home residents** **$0 co-pay in catastrophic** **$1-2 generic/ $3-5 brand co-pays**
100-135% FPL	**Individual**: ~$13,000 income; ~$6,000 assets **Couple** :~17,000 income; ~$9,000 assets	**$0 premium** **$0 deductible** **$0 co-pay in catastrophic** **$2 generic/ $5 brand co-pays**
135-150% FPL	**Individual**: ~$14,000 income; ~$10,000 assets **Couple** : ~19,000 income; ~$20,000 assets	**Sliding scale premium** **$50 deductible** **15% co-insurance** **$0 co-pay in catastrophic** **$2 generic/ $5 brand co-pays in catastrophic**

Notice of Creditable Coverage

All employers with Medicare eligible employees or retirees must provide a notice of Creditable Coverage

- Details whether the prescription benefit provided is minimally as good as the standard Medicare Part D benefit
- Determined by gross value actuarial test
- If not creditable and retiree/employee does not join a PDP within specified time frame – member subject to premium penalty (1% for each month delayed).

CMS providing further guidance and language

Plans Sponsors

CMS (Centers for Medicare and Medicaid Services) recognizes the important role of plan sponsors in providing coverage for retirees. Plan sponsors include:

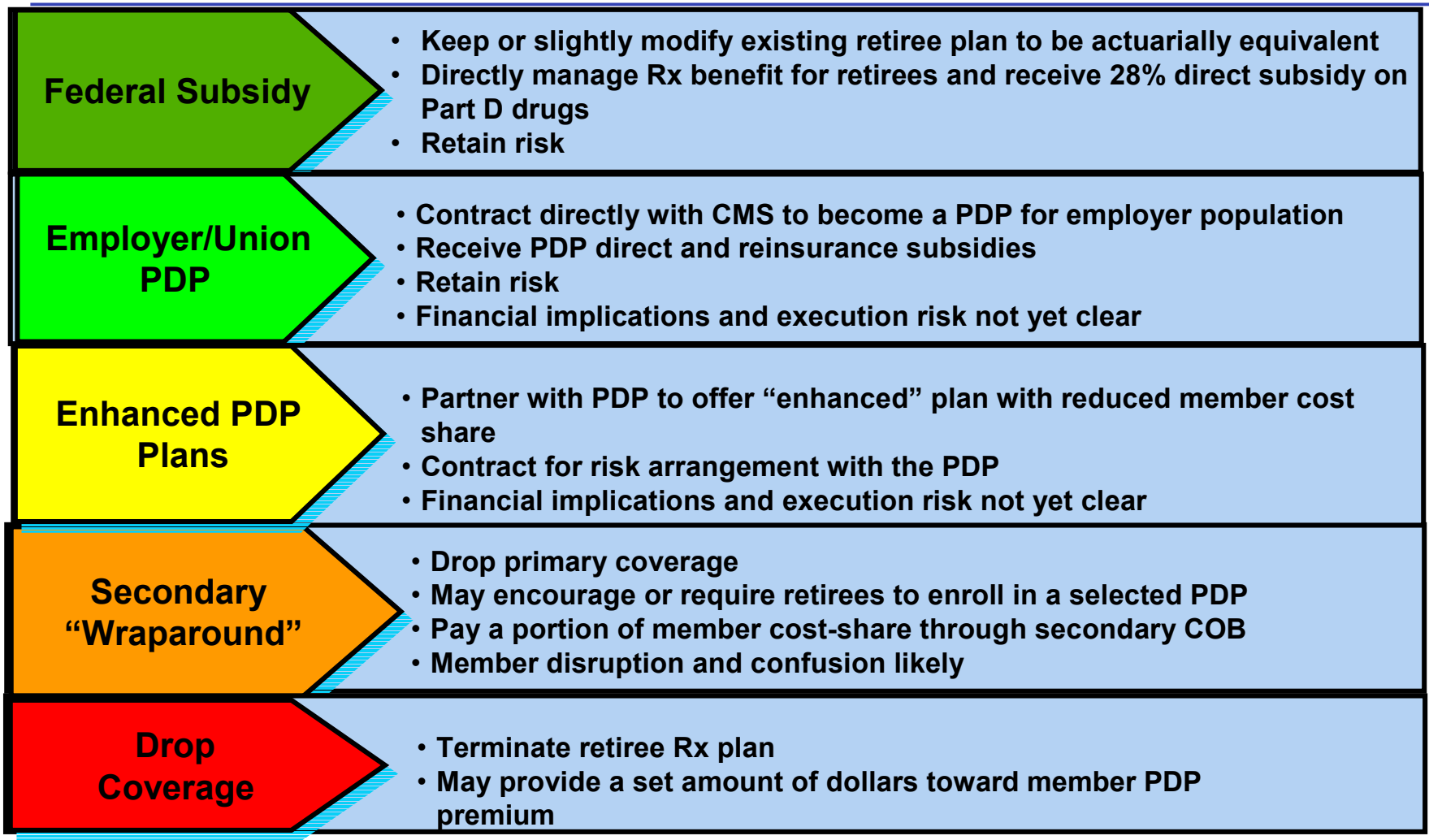
Employers

The Government

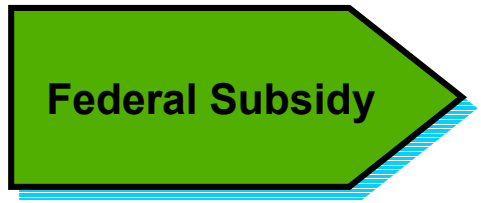
Unions

"We are adopting a streamlined approach for implementing employer group waivers that allows maximum flexibility for employers to retain retiree prescription drug coverage."
– Preamble to Final MMA Regulations

Medicare Part D Employer/Union Options



Plan Sponsor Considerations



1. Savings
   - CMS estimates 25% savings on allowable retiree drug spend (approx $668)
   - Allowable retiree costs = ingredient costs plus dispensing fees + tax net of rebates & other incentives
   - 28% subsidy determined at individual member level on Part D drugs only
2) Implementation is most straight-forward
   - Sponsor retains control of cost and clinical management strategies
3) No Member disruption
   - continue with current program
4) Little Administrative Burden
   - Plan is "opting out of Part D" by giving actuarially equivalent benefit
   - Majority of administration and development revolves around the subsidy application and payment process

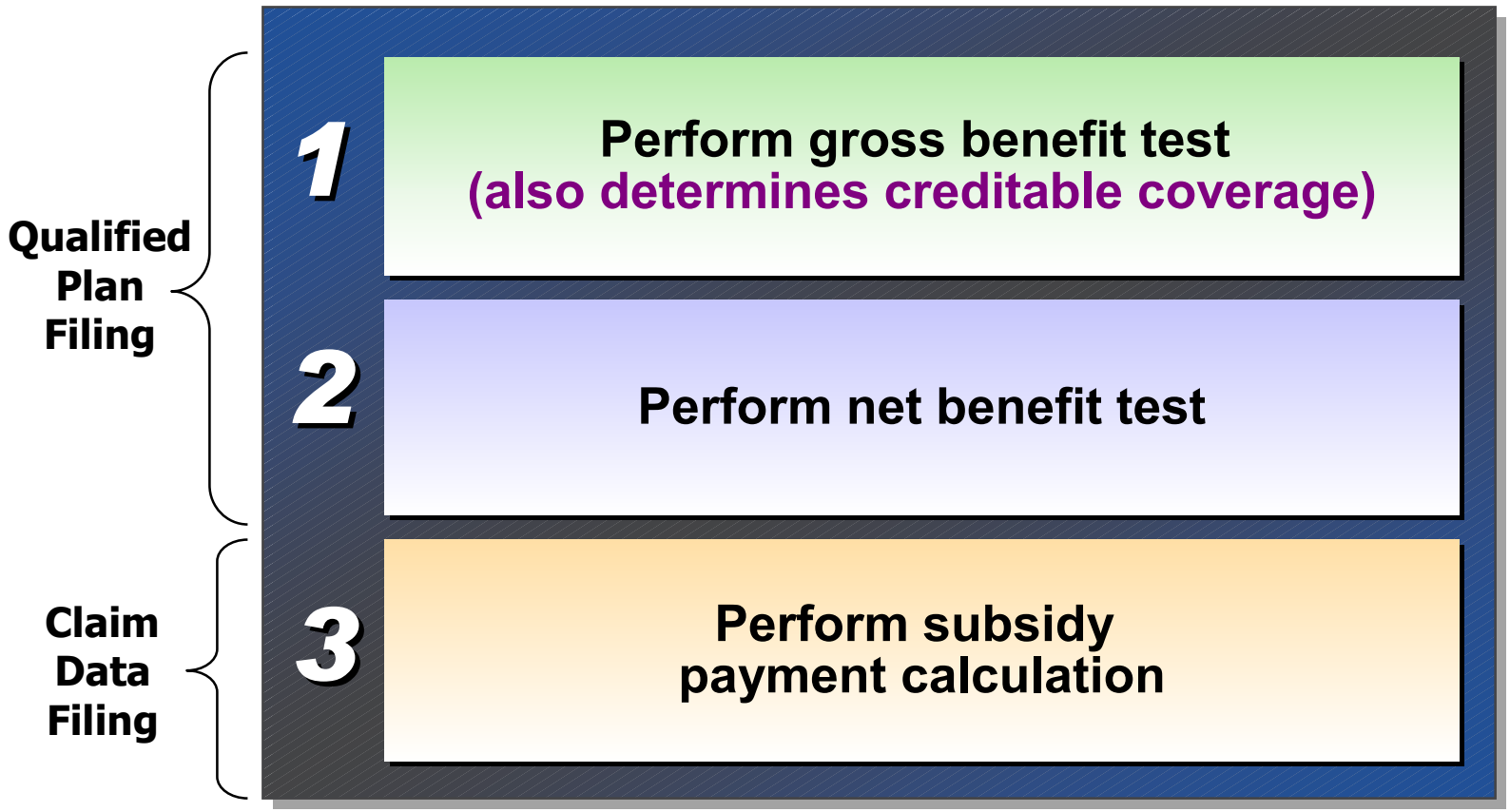
Submitting Application to CMS

Federal Subsidy

- Annual application
  - 2006 due on September 30, 2005
  - 2007 and beyond, 90 days prior to start of plan year
- Comply with terms and conditions of eligibility
- Confirm actuarially equivalent
- Acknowledge use of Federal Funds

Steps to Determine Federal Subsidy

Federal Subsidy



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Actuarial Equivalence

Two prong test using actual claims data

Federal Subsidy

Gross Value

Expected value of plan sponsor plan benefits	≥	Expected value of Medicare standard Part D benefit

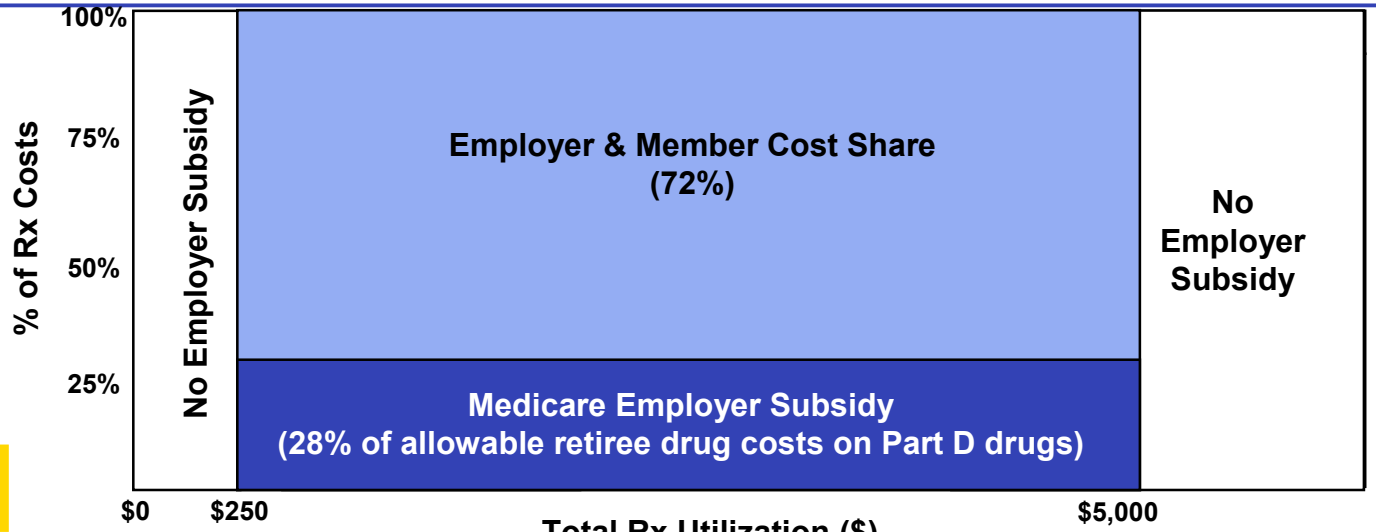
Net Value

Expected value of plan benefits Less retiree premium contributions for Rx coverage	≥	Expected value of Medicare standard Part D benefit Less Medicare Part D beneficiary premium Less portion of catastrophic coverage lost due to TROOP if providing secondary option in cases where they join a PDP

Non-calendar year plans

Example: September 1, 2005 – August 31, 2006

Federal Subsidy



Plan year

9/1/05 — 1/1/06 — 8/31/06 — 1/1/07

Track allowable costs to apply to $250 cost threshold and $5000 cost limit.

Begin collecting 28% subsidy as of 1/1/06 on claims incurred post 1/1

Not required to "restart" deductible

Apply allowable costs from 2005

2005 high-$ utilizers who reach cost limit before 1/1/2006 will reduce 2006 subsidy

Track allowable costs to apply to 2007 cost threshold and 2007 cost limit

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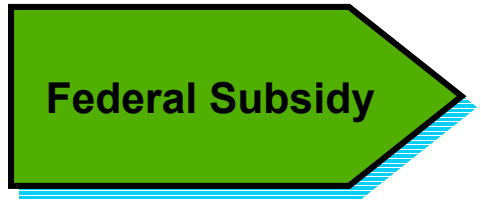
Advantages/Challenges

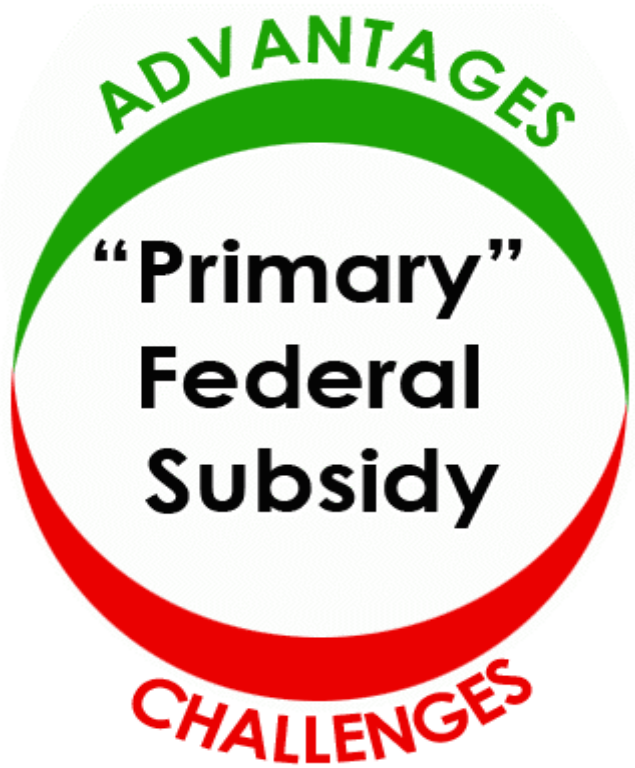


Advantages

- Clear, quantifiable savings
- Limited administrative burden for the plan sponsor; clear approach, no TrOOP Tracking
- Minimal disruption for members
- Benefits defined by 9/30/05
- Allowed to group enroll
- Control plan design including formulary & clinical rules

Challenges

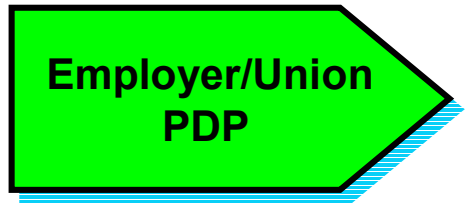
- Plan sponsor retains drug trend exposure
- Plan sponsor is subject to CMS audit of retiree plan
- No low income subsidy benefit
- Communication required to tell retirees not to choose a PDP



Key Dates for Future Guidance

Topic	Projected Date of Guidance
Notice of creditable coverage notice guidance including form, content, timing, and sample language	Spring 2005
Forms and related instructions for retiree drug subsidy application and actuarial attestation	Spring 2005
Guidance relating to data submissions and payments for retiree drug subsidies	Spring 2005

Plan Sponsor Considerations



- Must apply to become a Employer PDP
- Contract directly with CMS
- Limit to own retirees
- Employer continues to self-insure benefits
- Coverage can mirror todays with changes to meet CMS requirements
- Can collect low income subsidy
- Attractive option for tax-exempt entities who do not benefit from incremental "tax-free" status of subsidy
- Requires employer to work with subcontractors to administer benefit

Employer/Union PDP Waiver Guidance

- Government entities can become a PDP for the purpose of covering their own retirees
- Employer/Union PDPs may restrict enrollment to just their retirees and may group enroll
- Employer PDPs may enroll retirees into their plan regardless of retiree's region of residence
- No minimum enrollment requirement for Employer PDPs
- Employers need not have a state insurance license
- Employer/Union PDPs can not access the risk corridors of independent PDPs

Application was due on April 25th, if did not apply may want to consider for year 2

Advantages/Challenges

Employer/Union PDP

Advantages

- Generous CMS direct subsidy structure, which may provide higher savings
- Continue with same benefit
- Waivers allowed to group enroll
- Medco tracks TrOOP
- Control plan design including formulary & clinical rules

Challenges

- Additional CMS guidance required related to waivers for bidding
- Can not access risk corridors of CMS
- Tight timeline and significant implementation requirements
- Evolving CMS requirements

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Plan Sponsor Considerations

Enhanced PDP Plans

- A plan sponsor may contract with a PDP Sponsor(s) to create a Part D plan with "enhanced alternative coverage."
  - provides coverage beyond that of the standard Medicare benefit by:
    - reducing the deductible;
    - reducing the member cost-share in the coverage window;
    - increasing the initial coverage limit (the point where the donut hole begins);
    - and/or providing coverage of non-Part D drugs.
- Enhanced offers similar but improved member coverage benefits of a wraparound plan.
  - Member enrolled in *one* plan rather than two plans (Part D and secondary).
  - Employer pays a portion of the member's premium rather than a portion of the member's cost-share under the wraparound approach.

Advantages/Challenges

Enhanced PDP Plans

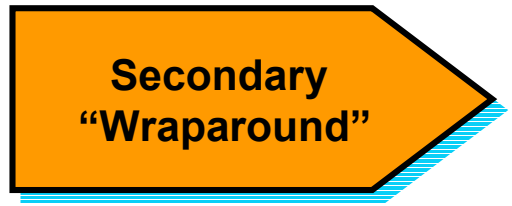
Advantages

- Provides, through one benefit and one card, better than standard coverage for retirees
- Costs per member are known after premium is negotiated with PDP sponsor
- PDP tracks TrOOP
- Likely can mirror current benefits
- PDP can access LIS which may reduce sponsor costs

Challenges

- Last product structure proposed by CMS so industry catching up
- Evolving guidance
- Re-insurance arrangements may be required by vendors for enhanced plans

Plan Sponsor Considerations



- Requires retirees to join a PDP (estimated premium of $37 per month)
- Employer plan secondary to Medicare
  - Wraparound benefit that pays a portion of the costs that the member would otherwise pay.
  - Not the same as Medicare A or B supplement due to TrOOP
- May have multiple PDPs to coordinate wrap around with
- Wraparound coverage will not count toward the member's TrOOP costs
  - Delays when catastrophic coverage kicks in
- CMS admits that tracking of TrOOP is still an issue and is continuing to work with the industry to find a solution.

Advantages/Challenges

Secondary "Wraparound"

Advantages

- Savings opportunity
- No obligation to report to CMS
- No actuarial attestation

Challenges

- Potential member noise and confusion given two benefits and two cards
- Unknown availability of Part D plans for members
- Potentially significant paper claims volume given two benefits and potentially multiple PDPs
- Rebates and utilization management controls are inapplicable

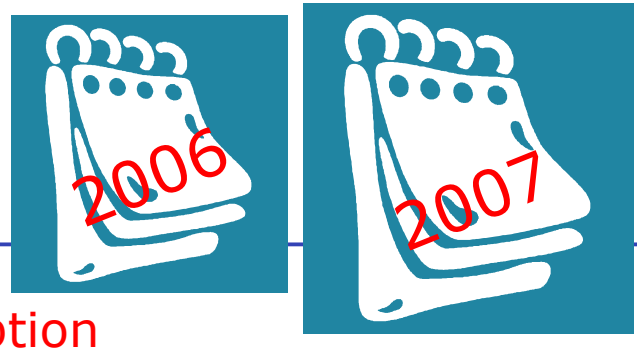
Plan Sponsor Considerations

- Employers may decide to drop coverage for retirees altogether.
- Terminating the Rx plan for retirees may yield some cost savings for employers.
- Communication to retirees is critical and the message to members should be developed quickly after a decision to drop coverage is made.
- Employers also need to consider whether to provide some funding for member premiums in the Part D plan.

What is affecting sponsors decisions?

- Many plan sponsors are adopting account based, defined contribution approaches
  - Likely to increase under Medicare reform
- Hesitation and trepidation still apparent in the plan sponsor community
- Plan sponsors seeking a solution to near term cost increases
- Market stability and product availability restraining action

Multi-year strategy



- Employers and PDPs are allowed to change option on a yearly basis.
  - **Year 1 strategy considerations:**
    - Significant guidance is still required
    - Method for tracking TrOOP not yet established
    - Market uncertainty about PDPs available
    - Potential for significant member confusion
  - **Year 1 recommendation**: chose federal subsidy if actuarial equivalent and consider year 2 change as options clarified
  - **Year 2 strategy considerations**
    - Guidance will be clear on all options
    - Year of experience will be gained
    - Method for and testing of TrOOP tracking will be complete
    - Review experience of year 1 decision against more complete year 2 models

Little known about the New Medicare Rx Drug Program

Over one half of those on Medicare are aware of the new Rx drug program but only 15% say they understand the specifics fairly or very well.

Have you heard or read anything about a new Medicare prescription drug program that will go into effect in 2006?	Have Medicare Coverage (290) %
Aware of new program	
Yes	55
No	43
Not sure	3

How well do you understand the specific of this new Medicare prescription drug program?	Have Medicare Coverage (290) %
Level of knowledge	
Very well	6
Fairly well	9
Somewhat	10
Just a little	14
Not at all	13
Not sure	5
Not aware of plan	43

15%

Communications
Critical across all options

Notice of Creditable Coverage

- CMS model language will be provided
- Annual and ongoing mailings

Educational Member Communications

- Letter templates, newsletter articles, FAQs
- Execution strategy and calendar
- CSRs and benefits staff trained on Part D FAQs

Open Enrollment and Benefit Change communications

- Key messaging should be developed
- Ensure vendors and CSRs receive additional training to speak about impact of Part D, change in coverage options available

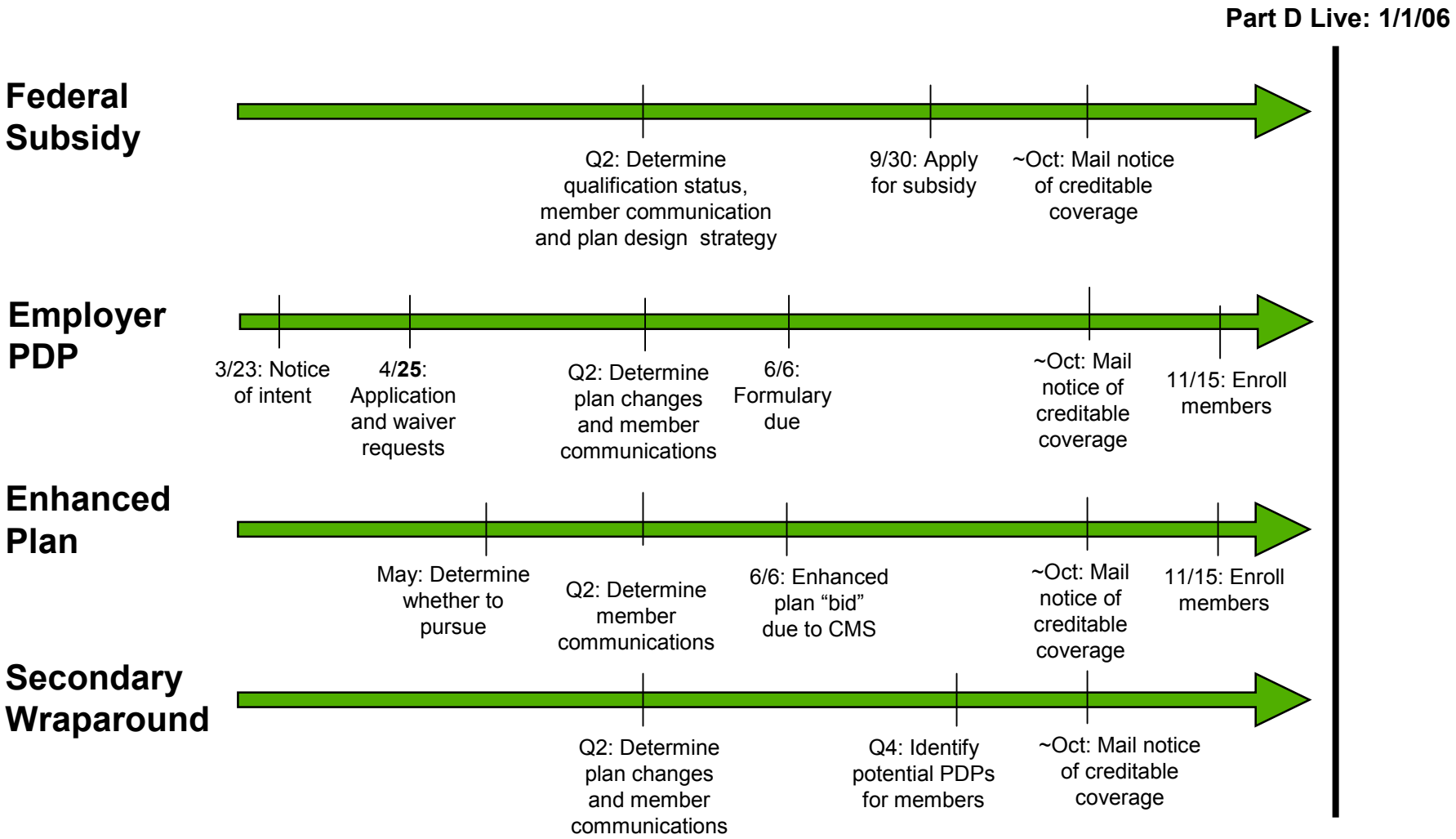
CMS Communication Activity

- Material Development calendar provided
- Mailings expected in May in October
- www.medicare.gov and 1-800-MEDICARE

Employer/Union Timeline Summary

The time to act is now

Subject to further CMS Guidance



The race to the finish is on…
And millions of retirees are watching

CMS

PBMs,PDP's and
MA-PDs

Employers
and Unions

TrOOP
Facilitator

Medicare Part D 1/1/06

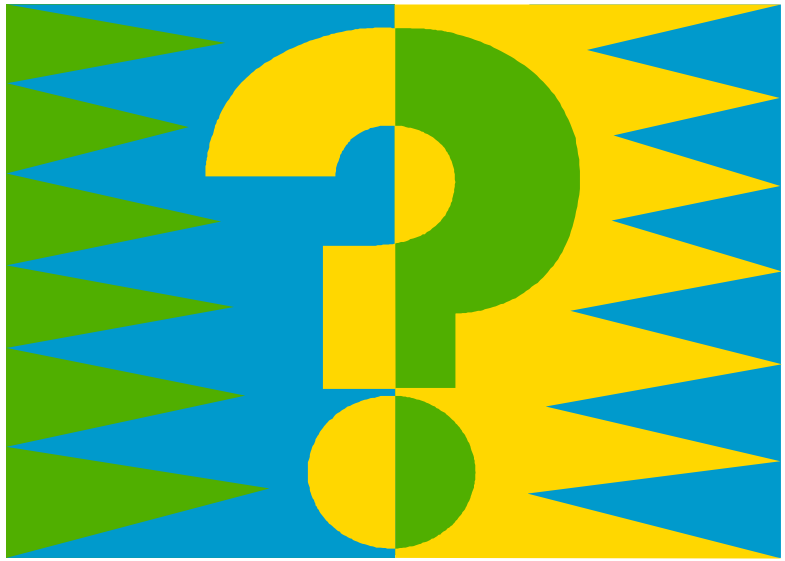
Medco – Unique qualifications for Part D participation and support of Medicare D Options

- Senior leadership team Medicare experience
- Senior population (9 million)
- Senior drug utilization data
- Senior-focused clinical rule set
- Medicare Discount Card program volume (>1M)
- Customer service – AARP senior communications training
- Gatekeeper program – service triage to community based services (i.e. meals on wheels)
- Unsurpassed scale and capacity

Useful information

	**Information related to regulation**	http://www.cms.hhs.gov/medicarereform/
	Final regulations	http://www.cms.hhs.gov/providerupdate/newregs.asp
	Employer Information	http://www.cms.hhs.gov/medicarereform/pdbma/employer.asp
	**Medicare General**	http://www.kff.org/medicare/
	Medicare Tutorials	http://www.kaiseredu.org/Tutorials/index.cfm

Questions



Medco Contacts:

Mark Wermes, VP & General Manager, 480.368.5051

David Mitchell, Director Market Strategy, 201.269.6052