Article from:

Health Watch

January 2009 – No. 60

SOCIETY OF ACTUARIES Health Section

ISSUE 60 JANUARY 2009

HealthWatch

Full Medicare Part D Coverage through the Gap—an Endangered Benefit?

Taking a Closer Look at the Payment Demonstration

by Julia Lambert

As evidenced by the 2009 plan landscape, Part D gap coverage for Medicare beneficiaries is hard to come by. No stand-alone Part D plans with full brand coverage through the gap are available in 2008 or 2009. On the MA-PD side, there are a few options, but only a handful. Despite CMS encouragement to offer rich benefit options, why do insurers continue to gravitate towards lower cost plans with less coverage through the gap? The main issues include:

- low member premium plans continue to be attractive in the marketplace
- medical and pharmacy trends are increasing faster than the benchmark rates, causing insurers to reduce benefits in order to maintain premiums
- even with risk adjusted rates, anti-selection issues cause pricing difficulties for rich benefit plans

Exhibit A illustrates the decline in the percentage of plans with full formulary coverage between 2007 and 2009. This data was collected from multiple files within the CMS Landscape Source Data files on the CMS website.

One option provided by CMS that still remains, at least through the 2011 benefit year, is the Part D Payment Demonstration option. Although it was first introduced in February 2006 as a mechanism for enhanced benefit plans to offset the "federal reinsurance penalty," relatively few plans have taken advantage of the option.

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Exhibit A: Percent of Each Plan Type offering Full Formulary Coverage Through the Gap

Plan Type	2007	2008	2009
PDP Stand-alone	1.3%	0.0%	0.0%
MA-PD non-SNP	1.8%	1.5%	0.6%
MA-PD SNP	n/a	3.4%	1.3%

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This article takes a closer look at what the Payment Demonstration is, when an MCO may consider it, and its risks and rewards.

What's the "Federal Reinsurance Penalty?"

Federal reinsurance covers 80 percent of the catastrophic plan costs. Catastrophic plan costs are defined as the benefit period after the members cost-sharing reaches the TrOOP (true out of pocket) threshold ($4,350 in 2009). For a Defined Standard plan, this translates to $6,153.75 of total covered drug expense in 2009. When a Part D plan provides enhanced benefit coverage, the point where catastrophic coverage begins is later than the catastrophic coverage point in the Defined Standard plan. This results in reduced amounts of federal reinsurance in an enhanced plan relative to a Defined Standard plan and higher premiums for the members. In effect, the member must pay for the increase in the benefit during the deductible period and the donut hole PLUS the increased length of gap coverage due to the delay of the federal reinsurance period.

Exhibit B diagrams the Defined Standard benefit plan and the catastrophic coverage period where federal reinsurance applies. Exhibit C shows the delay of the catastrophic coverage for a simple plan design where the plan pays a straight 70 percent coinsurance for all drugs until catastrophic coverage begins ("70/30 Plan"). For an average membership base (allowed cost of $160 PMPM), the loss of federal reinsurance for this benefit plan is approximately $7 PMPM. However, the loss in federal reinsurance for richer plan designs and/or sicker members could be materially more, up to amounts as high as $30 PMPM.

What Does the Payment Demonstration Do?

In a nutshell, payment demonstrations pay the federal reinsurance amount corresponding to the Defined Standard benefit to the plan. That is, it removes the federal reinsurance penalty. In exchange, the plan must use the moneys to offer supplemental Part D benefits and share in the catastrophic risk.

There are three types of demonstration plans: 1) Flexible Capitation, 2) Fixed Capitation and 3) MA Rebate. For purposes of this article, we will focus on the Flexible Capitation option and review how it impacts the following components of an enhanced benefit plan:

- Member Premium
- Benefits, including TrOOP, Cost-sharing, and Catastrophic Coverage
- Administrative Costs
- Risk Sharing

Exhibit B: Defined Standard Benefits

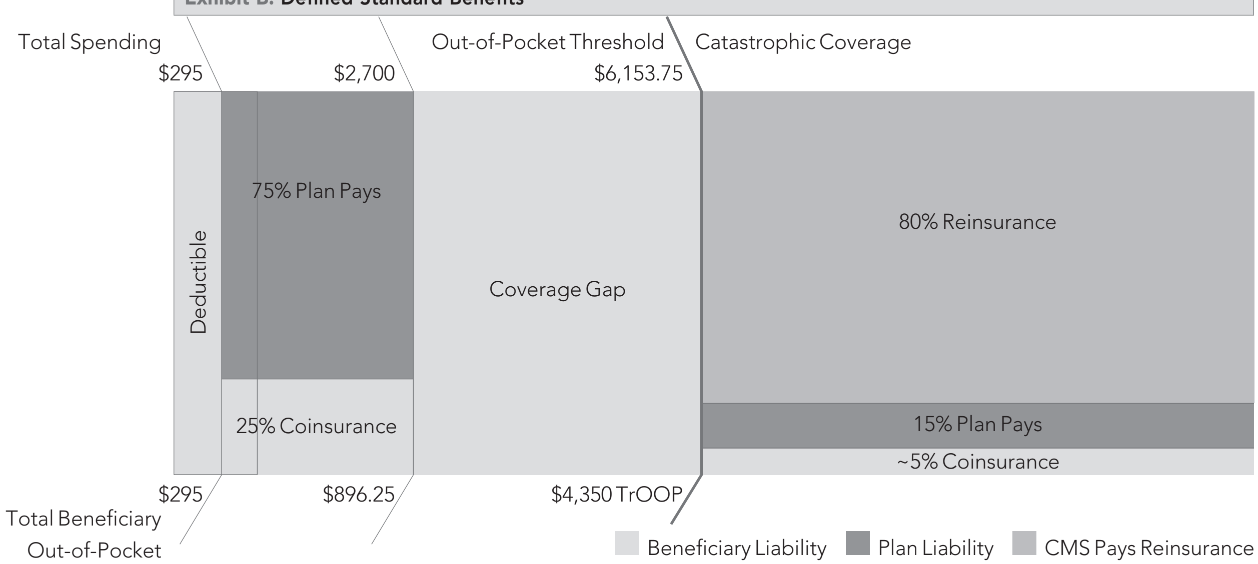

Exhibit C: Enhanced Coverage No Demo

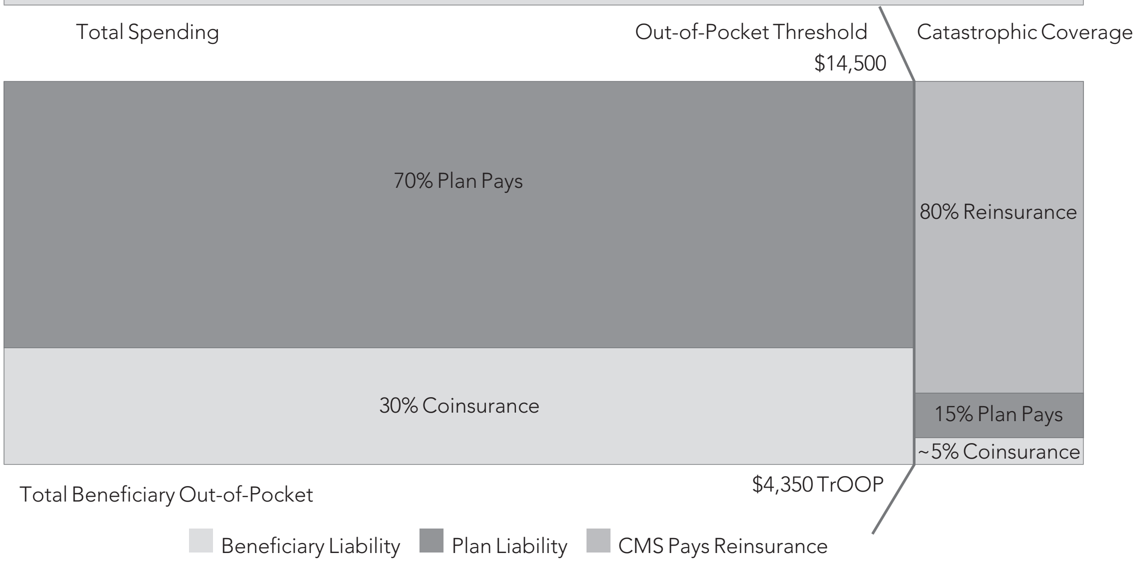

Exhibit D: 2009 PMPM Member Premium Savings under Flexible Capitation

Rx Risk Score	0.9	1	1.1	1.2	1.5
Part D Allowed PMPM	$135	$160	$180	$200	$270
Benefit Design[1]	**PMPM Member Premium Savings**				
Plan A	$1.75	$2.55	$3.60	$4.20	$7.40
Plan B	$3.60	$5.05	$7.30	$8.50	$15.05
Plan C	$5.20	$7.05	$10.55	$12.25	$21.85
Plan D	$6.90	$8.95	$13.20	$15.20	$27.10

[1]Benefit Design Descriptions

Plan A: Defined Standard plus 25% plan coinsurance on all drugs through gap
Plan B: Defined Standard plus 50% coninusrance on all drugs through gap
Plan C: 70% plan coinsurance on all drugs until catastrophic coverage
Plan D: 85% plan coinsurance on all drugs until catastrophic coverage

Member Premium

Member premium under the Flexible Capitation demonstration is reduced by the additional amount of federal reinsurance paid to the plan. In essence, the penalty amount is paid back to the plan to help reduce the member premium amount. As discussed earlier, the exact amount will depend on the specifics of the plan design. Exhibit D presents the member premium savings for various populations and benefit plans.

Benefits

The Flexible Capitation option does not change the benefit plan. The TrOOP cost amount ($4,350 in 2009), catastrophic coverage, and the member cost-sharing amounts remain the same under the Flexible Capitation option as the amounts without the payment demonstration.

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Exhibit E: Shared Risk Plan A, No Payment Demonstration

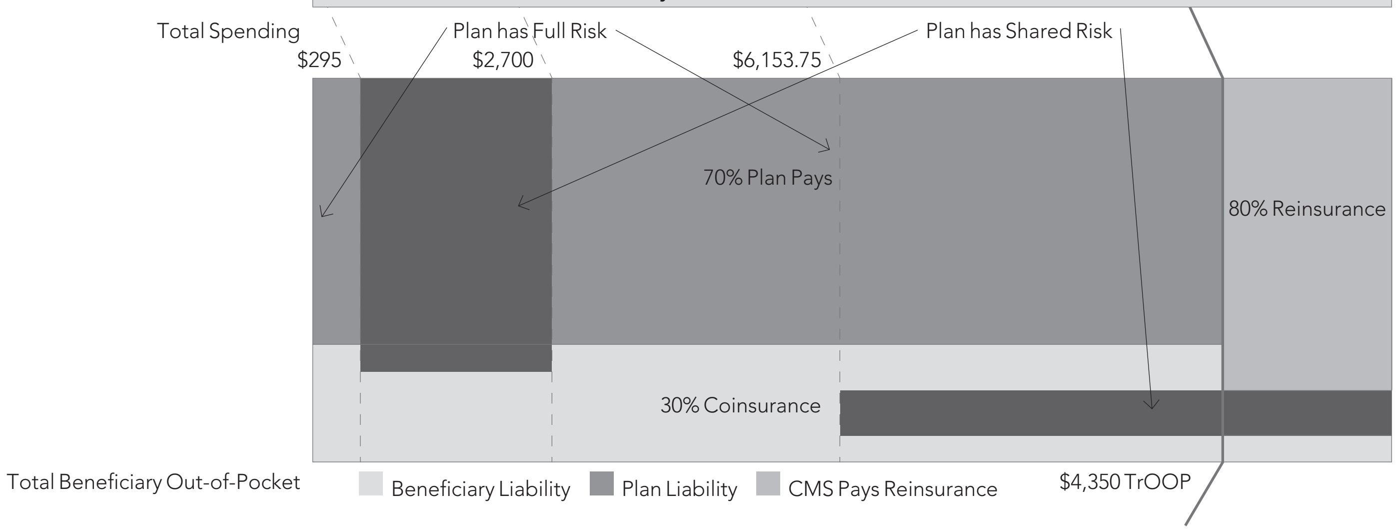
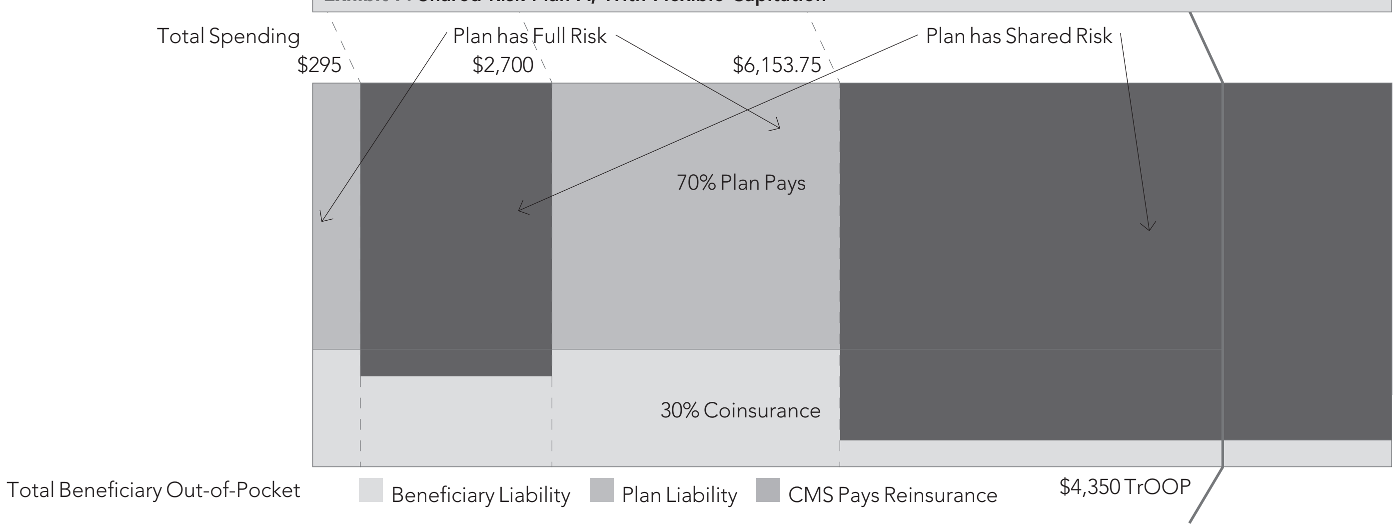


Exhibit F: Shared Risk Plan A, With Flexible Capitation



Risk Sharing

Risk sharing for plans under the Payment Demonstration is different than for plans without the Payment Demonstration. It's generally known that the federal reinsurance of 80 percent of catastrophic costs are forfeited when doing a demonstration, but the change in the risk share is really more extensive than this simple notion.

First, we should review the risk provisions of an enhanced plan without a Payment Demonstration. Exhibit E diagrams the various risk sharing provisions for the 70/30 Plan for all drugs assuming no Payment Demonstration is in place. Generally:

- Plan takes no risk (CMS takes full risk) on the federal reinsurance piece
- Plans share risk with CMS (with risk corridors) on the plan liability piece of the Defined Standard benefit. This includes 75 percent of costs between the thresholds of $295 and $2,700 and 15 percent of all costs beyond $6,153.75.
- Plan takes full risk for everything else.