



2019 HEALTH
MEETING

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Session 111, Launching a Medicare Prescription Drug Plan

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111 - Launching a Medicare Prescription Drug Plan

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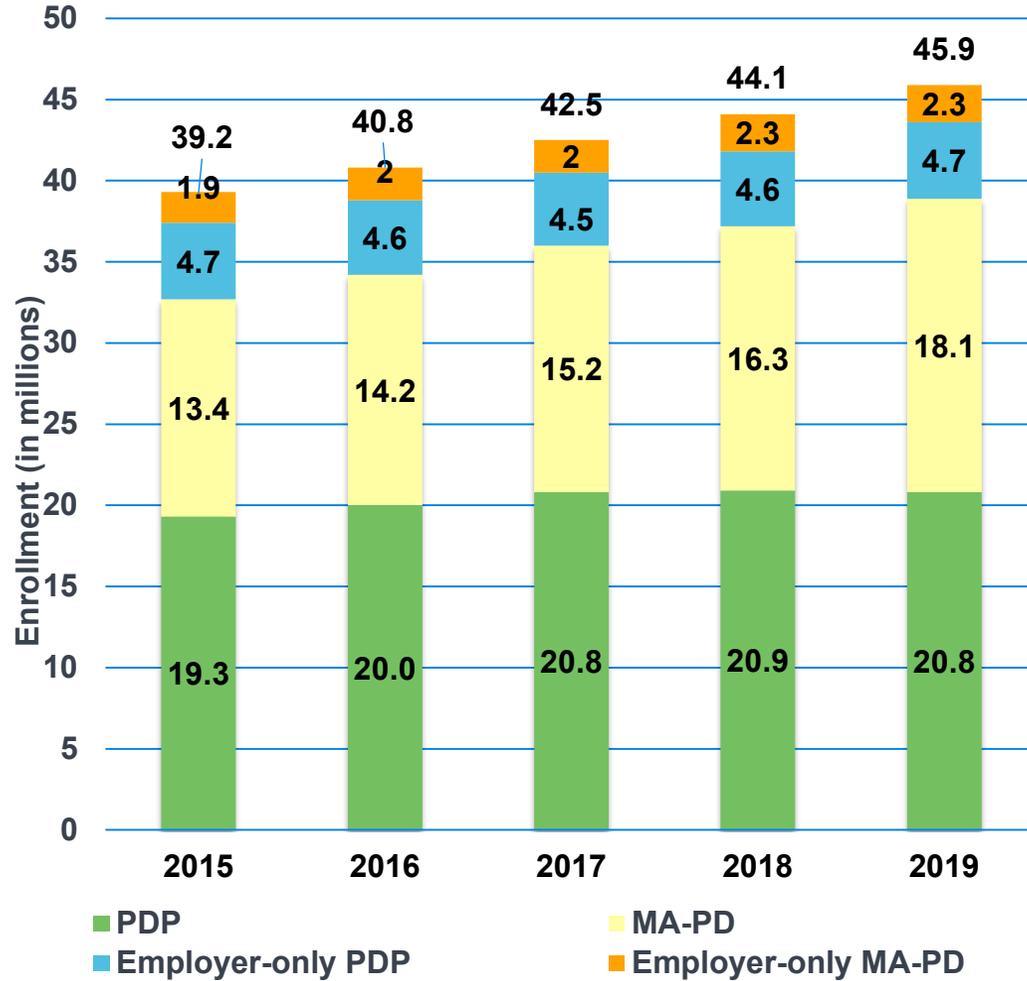
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June 26, 2019

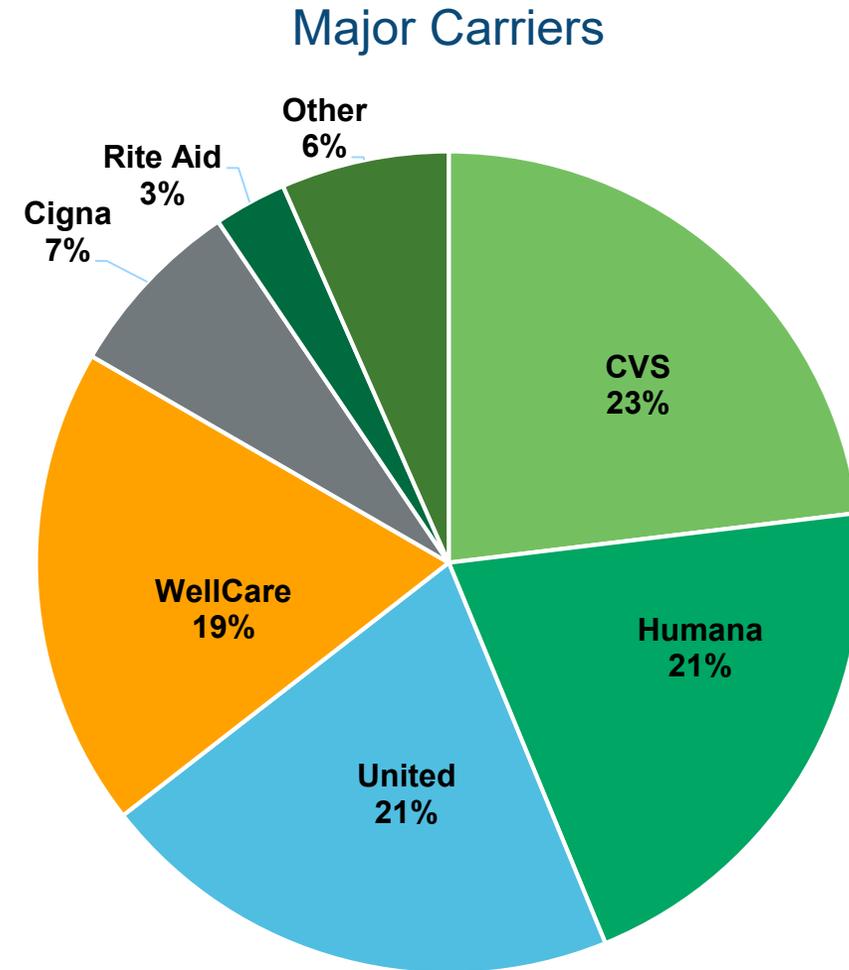
Outline

- Background
- Strategy and feasibility
- Organizational setup
- Pricing
- Financial considerations
- Operations

Background

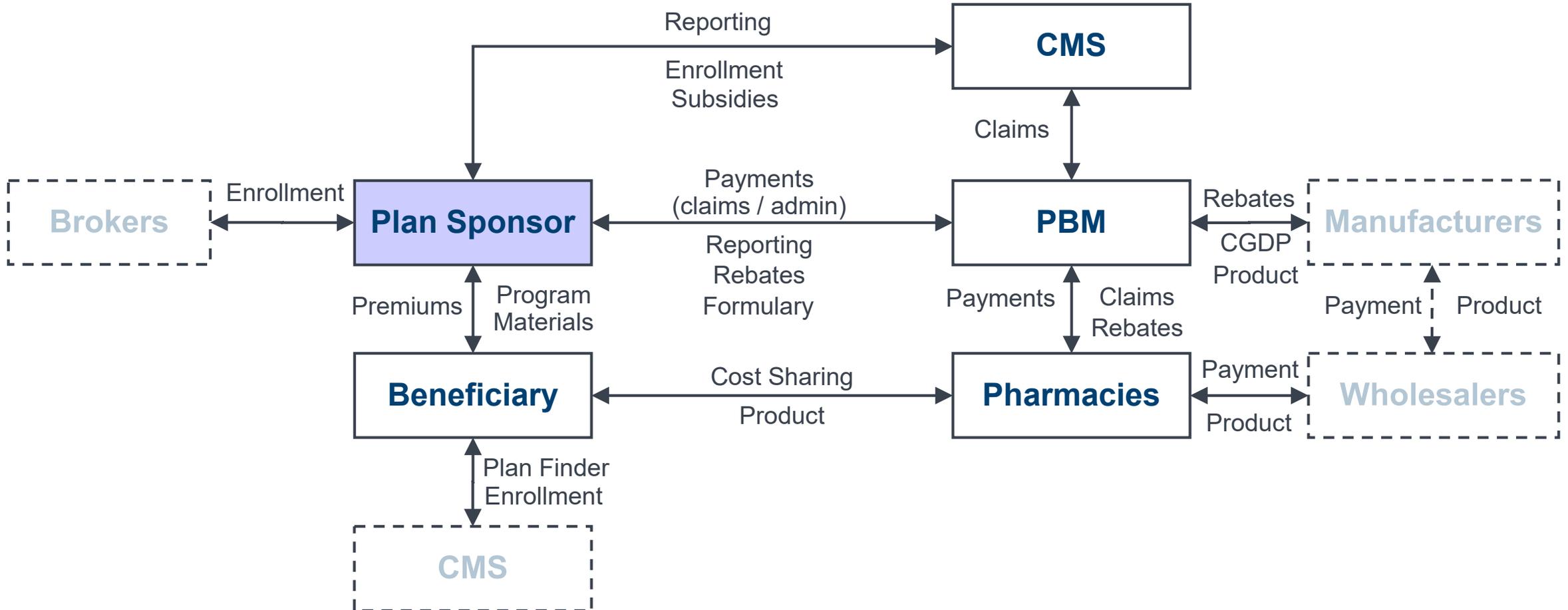


*Data as of February, 2019



Membership is concentrated across a few carriers

Stakeholder Relationships



Question 1

What is the topic of this talk?

- A) Employer group waiver plans (EGWPs)
- B) Considerations when launching a new PDP
- C) Pharmacy benefit managers
- D) Considerations when launching a rocket

Question 2

The top four carriers account for what percentage off the PDP market?

- A) 71%
- B) 78%
- C) 84%
- D) 102%

Evaluate Strategy

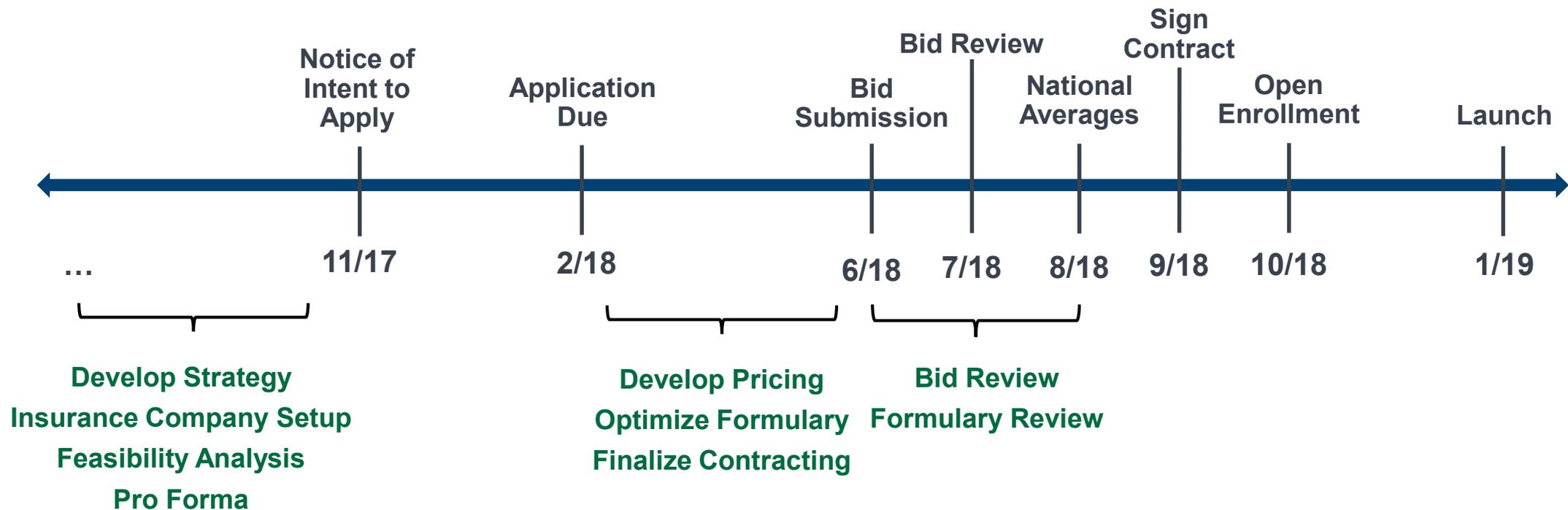
- Enterprise strategy
 - Complement existing product offerings to attract new or retain existing membership
 - Avoid sending customers to direct competitors
 - Provide seamless customer experience
 - Offer full suite of senior health solutions
 - Develop a primary source of revenue
 - Attract members for potential upselling
 - Growth / loss leader
- Product strategy
 - Competitive pricing
 - Membership growth
 - Low income membership

Assess Feasibility

- Capturing market share
 - Setting premiums
 - Cobranding with other organizations
 - Establishing / choosing pharmacy networks to attract / best serve potential members
- Evaluating risk
 - Financial
 - Compliance
 - Operational
 - Reputational

Timeline

- The time from conception to launch can take several years



Organizational Setup

- Strategy
 - Align with enterprise goals
 - Develop internal membership targets
 - Set premium targets to attract desired membership
- Operational
 - PBM
 - Administration
 - Beneficiary experience
 - Build partnerships and vendor management
 - Little in-house expertise on PDPs required hiring staff

Marketing Strategy

- Find “right” balance between leaning on existing Med supp marketing and branching out
 - Great success with Med supp brokers
 - Vast majority of current Med supp customers have/need a PDP
 - Additional opportunities to capture new lives and build new relationships/strengthen existing relationships
- Messaging
 - Pairing with Med supp
 - New avenue of Medicare Plan Finder

Question 3

Which of the following is *not* a risk to evaluate when considering entering the PDP market?

- A) Financial risk to the company
- B) Reputational risk
- C) Compliance risk
- D) The board game Risk

Question 4

What is a reasonable time frame for launching a new PDP?

- A) Weeks
- B) Months
- C) Years
- D) We'll tell you when it's launched!

Pricing

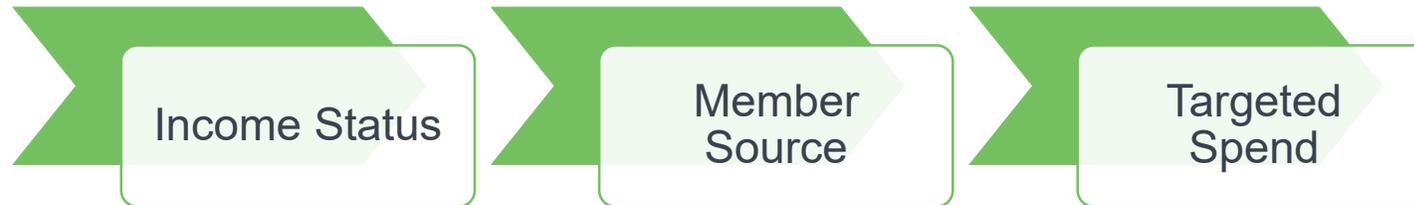
- Pricing is key for attracting the desired membership
 - Lower premiums attract non-utilizers and lower spend members
 - Higher premiums are generally associated with richer formularies with medications attracting utilizers
- Pricing risks for the plan sponsor
 - Competitor bidding
 - Misalignment between bid and actual assumptions
 - Enrollment and member experience
 - Trends and newly launched medications



Pricing depends on several interrelated components with their own risks

Pricing – Risk Profile

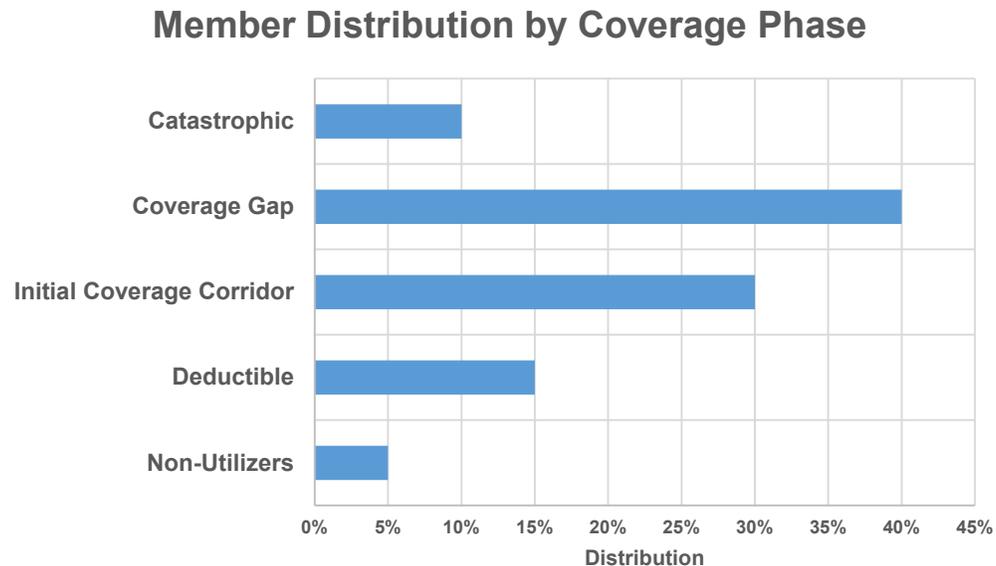
- Develop risk profile of membership



- Member sources
 - Assumptions about existing Med supp customers pairing with the PDP
 - Attracting other lives through Medicare Plan Finder
- Estimate targeted spend by income status

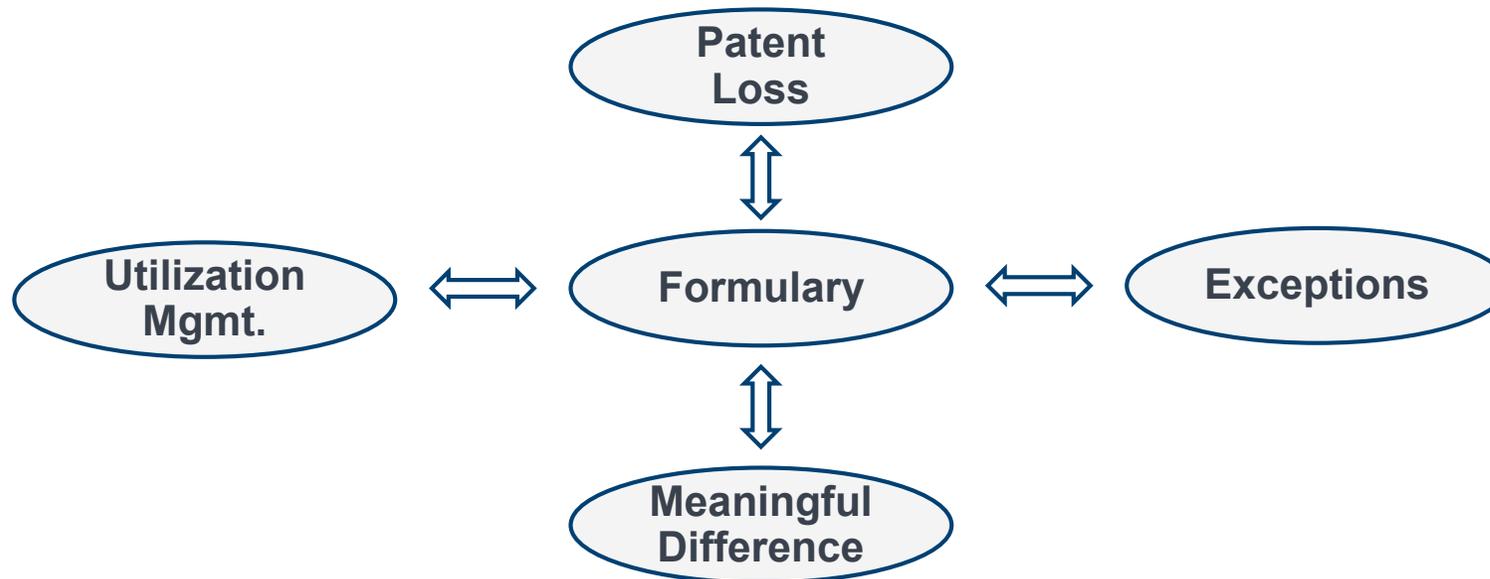
Pricing – Manual Rates

- Attract members by several means
 - Premium / total cost
 - Pharmacy networks
 - Formulary
 - Brand recognition
 - Benefits
 - Plan performance
- Use this information with the risk profile to develop a distribution of members by annual spend



Pricing – Formularies / Benefits

- Formularies are key for attracting the modeled population
 - Optimize for manufacturer rebates where appropriate
 - Pair with benefit design to help realize modeled utilization
- Avoid being an outlier



Pricing – Pharmacy Networks

- Retail pharmacies are the primary focus
- Mail pharmacies typically align with the PBM
- Specialty pharmacies are gaining importance

Network Type

- Preferred
- Standard
- Limited

Pricing

- Rebates
- Contingencies
- Contractual terms

Other

- Access standards
- Cost sharing differentials
- Geo Access

Pricing – Competition

- Anticipate competitor actions
 - Sets national averages and direct subsidy
 - Premiums strategies set by other carriers to attract profitable members
- Mergers and acquisitions

Question 5

Which of the following is a means to attract members?

- A) Premium and total cost
- B) Pharmacy network
- C) Brand recognition
- D) All of the above

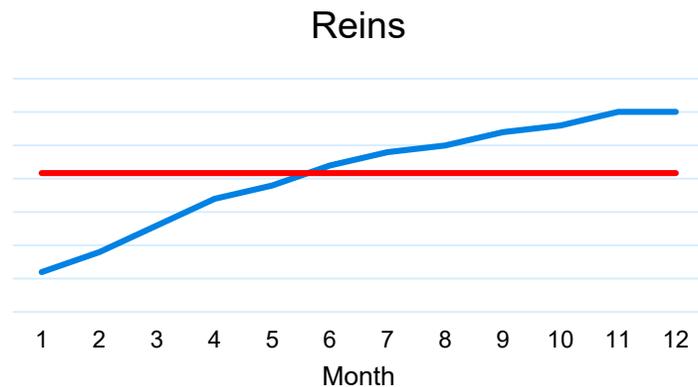
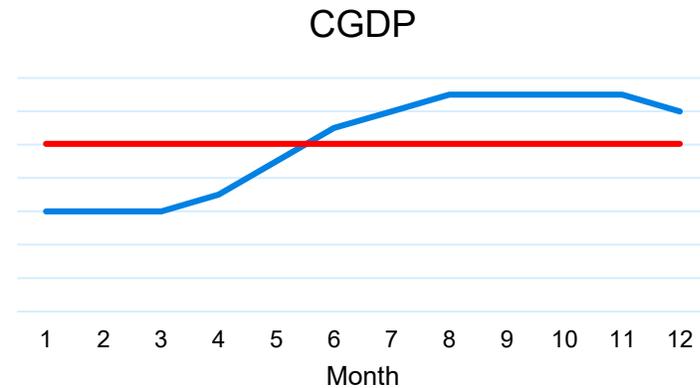
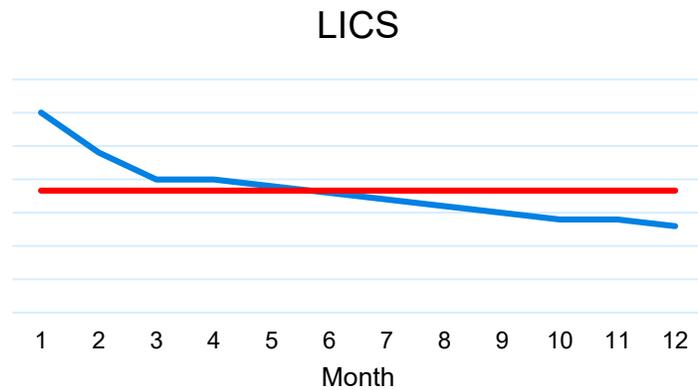
Question 6

What must a well-designed formulary have?

- A) Equal distribution of drugs among tiers
- B) Sufficient drug coverage without being an outlier in the market
- C) Strict enforcement of utilization management controls
- D) No exceptions

Financial Considerations - Subsidies

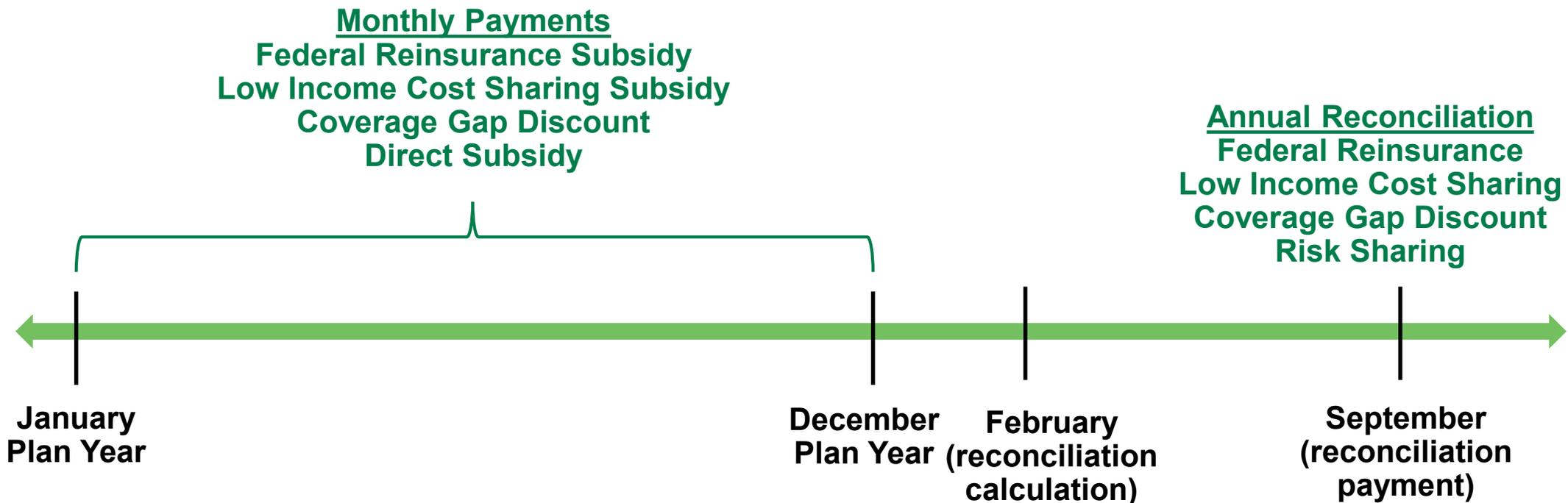
- Cash flows require enterprise-wide education for accurate planning
- Accrual varies by subsidy type



— Actual
— Payments

Financial Considerations – Cash Flows

- Short tail on claim completion, long tail on final settlements
- Can require significant capital if experience is misestimated



Operations

- Data processing
 - Setting up IT infrastructure
 - Coordinating among data vendors
 - Understanding CMS data layouts and building tools to process data
- Developing a compliance culture
 - Medicare has different rules than the commercial market
 - Immovable deadlines
- Develop monthly reporting
 - Cash flow reporting
 - Financial forecasting
 - Reserving for pharmacy claims

Question 7

Why is there potential cash flow strain for PDPs when CMS provides significant funding?

- A) Actual experience exhibits seasonality while CMS makes level payments
- B) CMS payments are all made after the end of the plan year
- C) This is a trick question—there's no potential for cash flow strain
- D) Heavy capital infusion is needed for the donut hole

Question 8

What is the completion pattern on drug claims?

- A) Roughly the same as inpatient medical claims
- B) Short tail on most claims, with a few outliers
- C) Half complete within a month; half complete within six months
- D) Completely unpredictable

Top 10 Considerations When Launching a PDP

- 1) Cash flow timing
- 2) Financial risk
- 3) CMS compliance
- 4) Premium and cost-sharing
- 5) Formulary
- 6) Competition
- 7) Staffing / operations
- 8) Pharmacy network
- 9) Marketing
- 10) Brand strength

Caveats, Limitations, and Qualifications

Todd Wanta is a member of the American Academy of Actuaries and meets the Qualification Standards of the Academy to render the actuarial opinion contained herein. To the best of his knowledge and belief, this presentation is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

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This presentation is designed to inform the audience of launching a Medicare Part D prescription drug plan. Any opinions expressed are those of the author and not Milliman. This information may not be appropriate, and should not be used, for other purposes.

Thank You!

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