



2019 HEALTH
MEETING

JUNE 24-26 | PHOENIX, AZ



Session 7, Medicare Part D Accruals: Modeling and Financial Considerations

[SOA Antitrust Disclaimer](#)

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2019 Health Meeting

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Session 007: Medicare Part D Accruals

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SOCIETY OF ACTUARIES

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Accrual Basics



Acronyms

- CGDP – Coverage Gap Discount Program
- CMS – Centers for Medicare & Medicaid Services
- CPP – Covered part D Plan Paid amount
- CS – Cost Sharing
- DIR – Direct and Indirect Remuneration
- DOW – Day Of the Week
- GDCA – Gross Drug Cost Above OOP threshold
- GDCB – Gross Drug Cost Below Out-of-Pocket (OOP) threshold
- ICL – Initial Coverage Limit
- LEP – Late-Enrollment Penalty
- LI – Low-Income
- LICS – Low-Income Cost-sharing Subsidy amount
- MMR – Monthly Membership Report
- NLI – Non Low-Income
- NPP – Non-covered Part D Plan Paid amount
- P2P – Plan-to-Plan
- PDE – Prescription Drug Event
- PDR – Premium Deficiency Reserve
- PLRO – Patient Liability Reduction due to Other payer amount
- PMPM – Per Member Per Month
- PRGMPPM – Per Revenue Generating Member Per Month
- S2P – State-to-Plan
- TrOOP – True Out Of Pocket costs

Traditional Pharmacy Coverage

- Cash Inflows:
 - Premiums
 - Rebates
- Cash Outflows:
 - Claim costs
 - Administrative costs

https://www.actuary.org/sites/default/files/files/publications/Practice_Note_Medicare_Part_D_accounting_practice_note_april2008.pdf

Medicare Part D Coverage

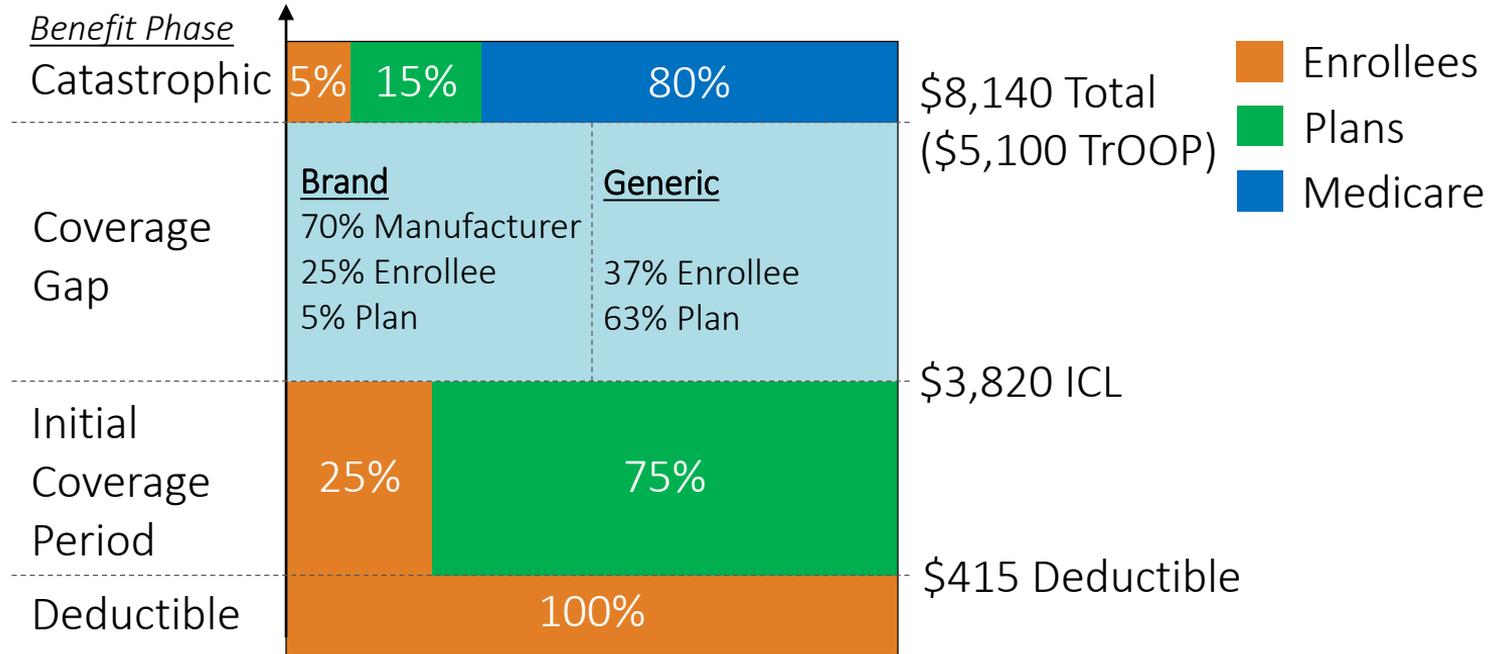
- Cash Inflows:
 - Basic and supplemental premiums (may include Part C buydowns)
 - LIPS payments
 - LICS subsidy payments
 - Direct Subsidy
 - Reinsurance subsidy
 - LEP payments from enrollee
 - CGDP payments
 - DIR (Rebates)
 - **Accrual settlement receivables**
- Cash Outflows:
 - Claim costs (on behalf of carrier, CMS, LI enrollee)
 - CPP, NPP, Non-covered, CGDP
 - Administrative costs
 - LEP payments to CMS
 - **Accrual settlement payables**

https://www.actuary.org/sites/default/files/files/publications/Practice_Note_Medicare_Part_D_accounting_practice_note_april2008.pdf

Part D Benefit

Before we understand Part D accruals, we need to understand the Part D benefit.

2019 Benefit Phases

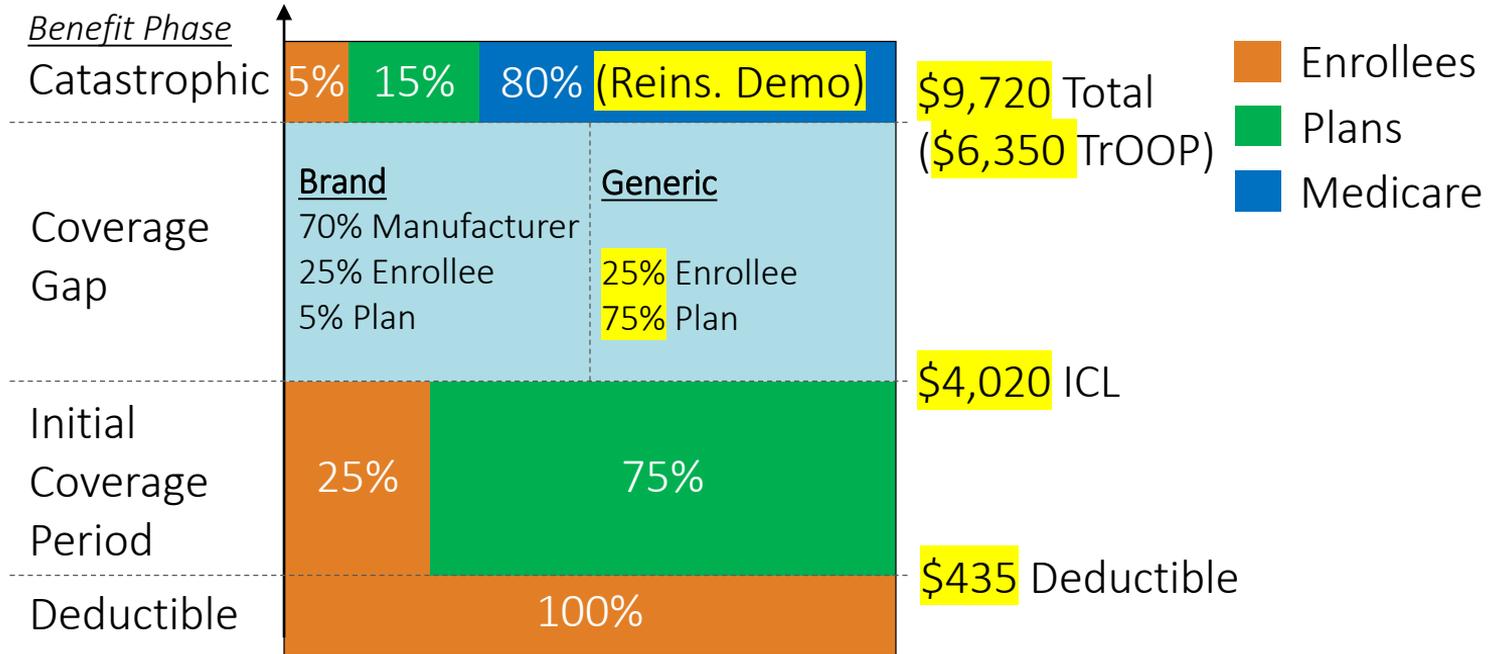


*Not drawn to scale

*<https://www.kff.org/medicare/fact-sheet/an-overview-of-the-medicare-part-d-prescription-drug-benefit/>

*<https://q1medicare.com/PartD-The-2020-Medicare-Part-D-Outlook.php>

2020 Benefit Phases



*Not drawn to scale

*<https://www.kff.org/medicare/fact-sheet/an-overview-of-the-medicare-part-d-prescription-drug-benefit/>

*<https://q1medicare.com/PartD-The-2020-Medicare-Part-D-Outlook.php>

Part D Accruals

- What are they?
 - Reinsurance settlement
 - LICs subsidy settlement
 - Risk-sharing settlement
- Within your company financials?
 - Shows runout in relation to government payments

*This presentation does not cover the CGDP settlement.

Reinsurance Settlement

- The 80% section of the catastrophic benefit (GDCA)
- Components:
 - Bid reinsurance subsidy (MMRs)
 - Actual catastrophic claims \times 80% (PDEs)
- DIR (Rebates)?

Reinsurance Settlement Example (\$M)

*Simplified Calculation

Good Bids
H9991-001

Bad Bids
H9992-001

Bad Luck
H9993-001

GDCA	a	\$35	\$35	\$75
GDCB	b	\$65	\$65	\$75
Allowed	$c = a + b$	\$100	\$100	\$150
DIR Ratio	$d = a \div c$	35%	35%	50%
DIR	e	\$15	\$15	\$22.50
Reinsurance DIR	$f = e \times d$	\$5.25	\$5.25	\$11.25
Allowable Reinsurance	$g = a - f$	\$29.75	\$29.75	\$63.75
Reinsurance Subsidy	$h = g \times 80\%$	\$23.80	\$23.80	\$51
Reinsurance Subsidy (MMR)	i	\$24	\$50	\$24
Reinsurance Settlement	$j = h - i$	-\$0.20	-\$26.20	\$27

LICS Subsidy Settlement

- Cost sharing paid by CMS on behalf of LI enrollees
- Pass through item for the plan
- Components:
 - LICS subsidy (MMRs)
 - Actual member cost sharing (PDEs)

LICS Subsidy Settlement Example (\$M)		Good Bids H9991-001	Bad Bids H9992-001	Bad Luck H9993-001
Actual CS covered by CMS	a	\$30	\$30	\$40
LICS (MMR)	b	\$30	\$50	\$30
LICS Settlement	$c = a - b$	\$0	-\$20	\$10

Risk-Sharing Settlement

- Risk corridor applies outside of +/-5%
- Plan shares gain/(loss) with CMS
- Only applies to basic portion of the bid
- Components:
 - Basic PD premium and Direct Subsidy (MMRs)
 - Administration and profit load from bid
 - Covered Plan Paid, CPP (PDEs)
 - Reinsurance subsidy
 - DIR (Rebates)
- Settlement (two-sided risk): **Plan** retains,
 - 100% of 1st 5%,
 - 50% from 5% to 10%, and
 - 20% after 10%
- Settlement (two-sided risk): **CMS** retains,
 - 0% of 1st 5%,
 - 50% from 5% to 10%, and
 - 80% after 10%

Risk-Sharing Settlement Example (\$M)

*Simplified Calculation

Good Bids
H9991-001

Bad Bids
H9992-001

Bad Luck
H9993-001

		Good Bids H9991-001	Bad Bids H9992-001	Bad Luck H9993-001
CPP	a	\$90	\$90	\$135
DIR	b	\$15	\$15	\$22.50
Reinsurance Subsidy	c	\$23.80	\$23.80	\$51
Allowable Risk Corridor Costs	$d = a - b - c$	\$51.20	\$51.20	\$61.50
Basic Premium + DS (MMR)	e	\$80	\$90	\$80
Admin + Profit Load (Bid)	f	35%	35%	35%
Target Amount	$g = e \times (1 - f)$	\$52	\$58.50	\$52
Profit / (Loss) Amount	$h = g - d$	\$0.80	\$7.30	-\$9.50
Profit / (Loss) % of Target	$i = h \div g$	1.54%	12.48%	-18.27%
Risk-Sharing Settlement	Previous Slide	\$0.00	-\$2.62	\$4.74

Results for the Year

Total Settlement Example (\$M)		Good Bids H9991-001	Bad Bids H9992-001	Bad Luck H9993-001
Reinsurance Settlement	a	-\$0.20	-\$26.20	\$27
LICS Subsidy Settlement	b	\$0	-\$20	\$10
Risk-Sharing Settlement	c	\$0	-\$2.62	\$4.74
Total Settlements	$d = a + b + c$	-\$0.20	-\$48.82	\$41.74

- Good Bids Ins. Co. – Owes \$0.20M to CMS
- Bad Bids Ins. Co. – Owes \$48.82M to CMS
- Bad Luck Ins. Co. – CMS owes back \$41.74M

Estimating Accruals mid year



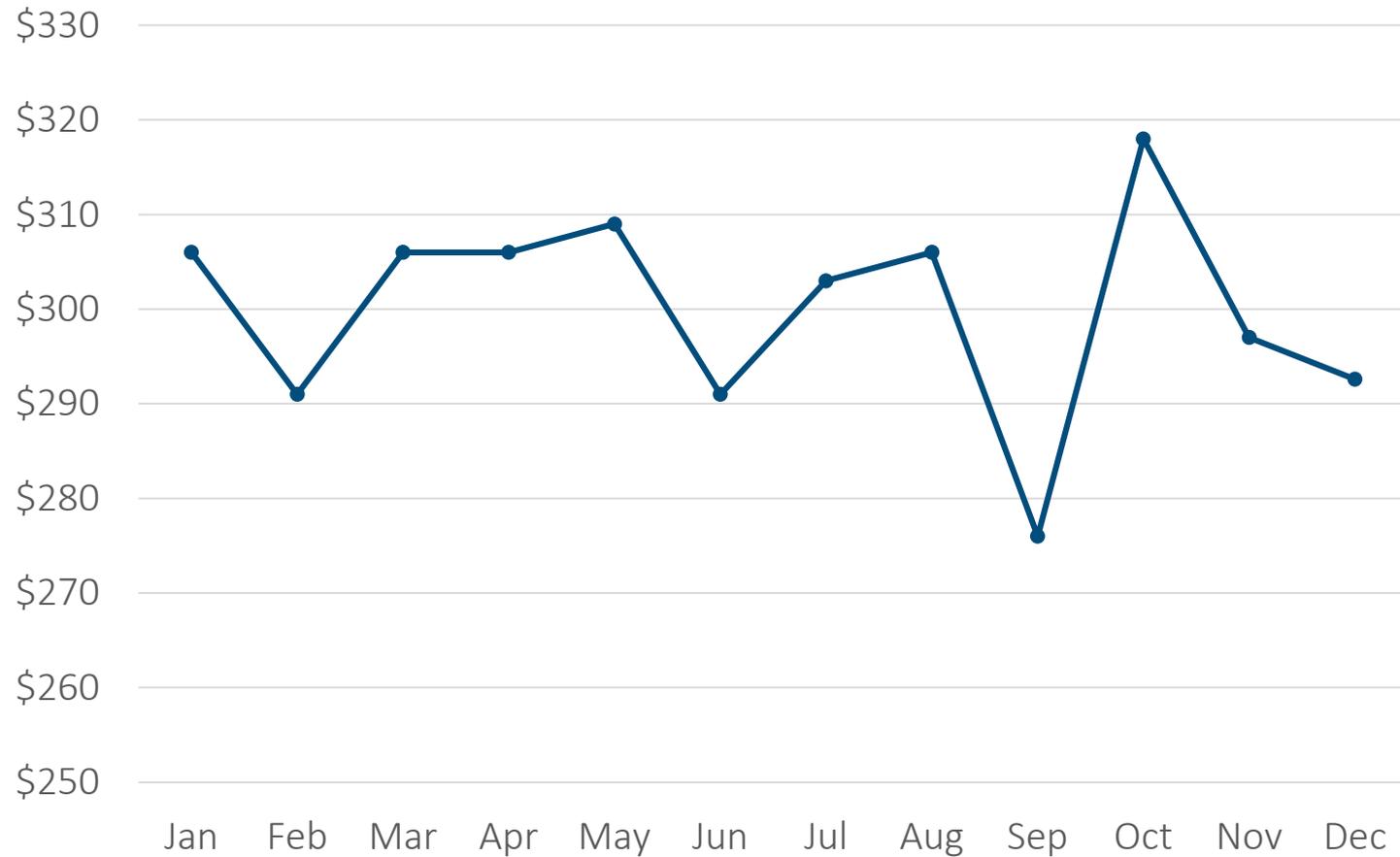
Projecting Accruals

- What data do you already have?
 - Time period of projection and available data
 - Historical data
 - Bid information
 - Post-bid information

Projecting Allowed

- Rely on bid early in the year
- Rely on experience later in the year
- Day Of the Week (DOW)
 - Weekdays (high util) vs. weekends and holidays (low util)
 - How many weekdays, weekends, and holidays are in each month?
- Seasonality?
- High cost drugs

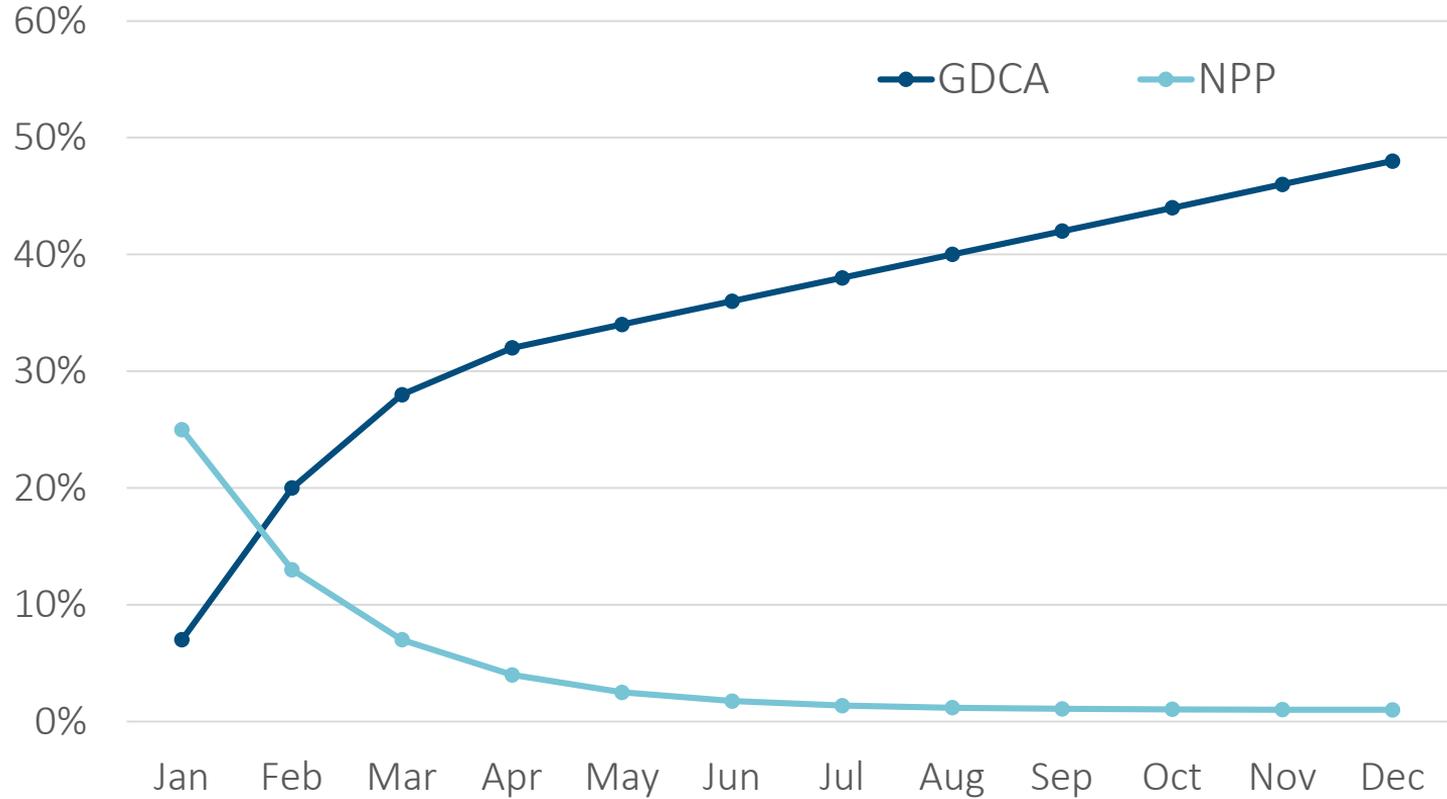
2018 Allowed PMPM



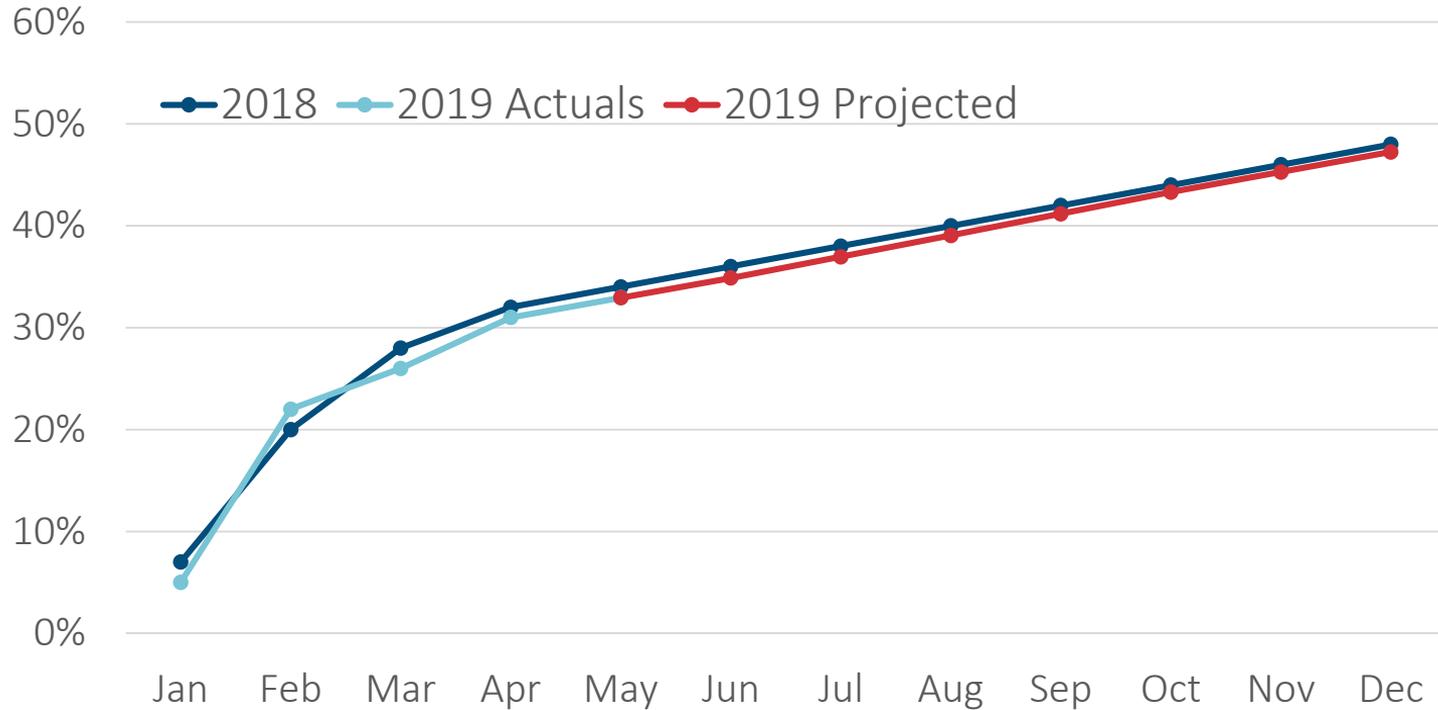
Projecting Components of Allowed

- Using historical patterns
- Considerations:
 - Credibility
 - Part D program changes
 - Plan benefit changes
 - Population changes (NLI vs. LI)
- What do Monthly MMR revenues look like?

Two of the Part D liability patterns (as a % of allowed)



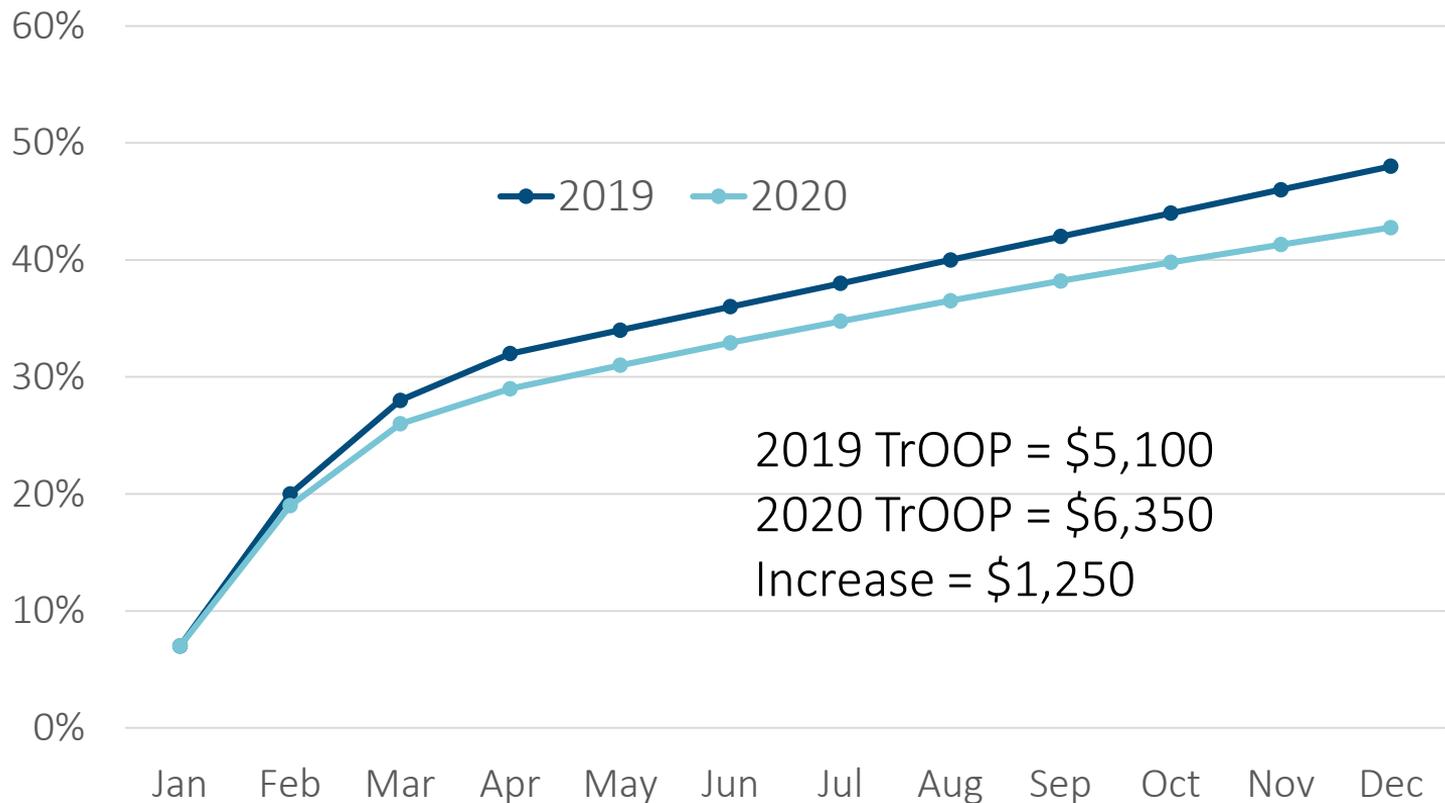
GDCA projection (data through April, as a % of allowed)



GDCA projection (data through April, as a % of allowed)

Month	2018 Act.	2019 Act.	Adj	2019 Projected
	A	B	C	$D = [D_{n-1} \text{ or } B_{n-1}] \times A_n \div A_{n-1} \times C_n$
Jan	7%	5%		
Feb	20%	22%		
Mar	28%	26%		
Apr	32%	31%		
May	34%		1.000	33%
Jun	36%		1.000	35%
Jul	38%		1.004	37%
Aug	40%		1.004	39%
Sep	42%		1.004	41%
Oct	44%		1.004	43%
Nov	46%		1.000	45%
Dec	48%		1.000	47%

PD program change to GDCA (as a % of allowed)



Analyzing misses for next bid year



What causes a miss?

- For Reinsurance and LICs, prospective payments from CMS are estimated at the time of bid submission, about 7 months before the beginning of the contract year.
 - 2020 bids completed in April and May of 2019.
- No prospective payment other than the direct subsidy and part D basic premium for the Risk Sharing settlement, which is also estimated 7 months before the beginning of the year.

Common drivers of Reinsurance Settlement miss

- Larger than expected DIR
 - Change PBM post bid submission, mid-year market checks and other factors
- Not accounting for DIR directly at the plan level in initial years of a Contract
- Not common, but unanticipated high cost drugs

Common drivers of LICS Settlement miss

- Failure to track and account for changes in NLI & LI mix
- Failure to track and account for changes in mix of LI cost sharing category

Common drivers of Risk Sharing Settlement miss

- Larger than expected DIR
 - Change PBM post bid submission, mid-year market checks and other factors
- Not accounting for DIR directly at the plan level in initial years of a Contract
- Not accounting for additional revenue due to late diagnosis data in risk sharing settlement
 - By far the most often overlooked aspect of a settlement

Treatment of Settlements in Statutory Statements



Treatment of Settlements in Statutory Statements

- Reinsurance and LICS
 - If an asset: Page 2, Line 17 (Amounts related to uninsured plans)
 - If a liability: Page 3, Line 22 (Liability for amounts held under uninsured plans)
- Both settlements are outside the scope of a Statement of Actuarial Opinion

https://www.actuary.org/sites/default/files/files/publications/Practice_Note_Medicare_Part_D_accounting_practice_note_april2008.pdf

Treatment of Settlements in Statutory Statements

- Risk Sharing
 - If an asset: Page 2, Line 15.3 (Accrued retrospective premiums)
 - If a liability: Page 3, Line 4 (Aggregate health policy reserves)
- This settlements is within the scope of a Statement of Actuarial Opinion

https://www.actuary.org/sites/default/files/files/publications/Practice_Note_Medicare_Part_D_accounting_practice_note_april2008.pdf

Changes in Rebates for 2020 impacting Part D accruals



Rebates at point of sale and Part D Settlements

- February 6, 2019 proposed revisions to federal Anti-Kickback Statute (AKS) would prohibit plan sponsors from retaining manufacturer rebates
- Theoretically impacts Reinsurance and Risk Sharing settlements
- Awaiting final rule

Questions, Comments and Conclusion

Thank you!



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