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INSTRUCTIONS FOR COMPLETING  
THE PRESCRIPTION DRUG PLAN  
BID PRICING TOOL  
FOR CONTRACT YEAR 2010

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April 10, 2009

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## I. INTRODUCTION

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### BACKGROUND

Prescription Drug Plans (PDPs) and Medicare Advantage Prescription Drug Plans (MA-PDs) must submit a separate bid to the Centers for Medicare & Medicaid Services (CMS) for each prescription drug plan they intend to offer Medicare beneficiaries.

Organizations must submit the information via the CMS Health Plan Management System (HPMS) in the CMS-approved electronic format – the Prescription Drug Bid Pricing Tool (BPT). An actuarial certification and supporting documentation must be submitted for each bid as described in Appendix A and Appendix B, respectively.

The submitted bids will be subject to review, negotiation, and audit by CMS. As part of the negotiation process, CMS or its representative may request additional documentation supporting the information in the BPT. Organizations must be prepared to provide this information in a timely manner. All data submitted as part of the bid process are subject to audit by CMS or by any person or organization that CMS designates.

### DOCUMENT OVERVIEW

This document contains general pricing considerations and detailed instructions for completing the BPT. Following are the contents of each section:

- Section I: The Introduction contains a list of key changes from the CY2009 BPT and Instructions and provides sources of information that can be accessed for assistance during the bid submission process.
- Section II: Pricing Considerations contains guidance for preparing bids and presenting pricing results in the BPT.
- Section III: Data Entry and Formulas contains directions for completing the seven worksheets in the BPT and explains the formulas for calculated cells.
- Section IV: Appendices A through C contain requirements for Actuarial Certification, Supporting Documentation and Employer/Union-Only Group Waiver Plans, respectively. Appendices D through F contain information on the Calculation of the National Average Monthly Bid Amount, Calculation of the Low-Income Benchmark Premium Amounts and the Part D Payment Demonstration, respectively.

### NEW FOR CONTRACT YEAR 2010 (CY2010)

The key changes between the CY2010 BPT and CY2009 BPT are highlighted below. The changes improve the usability and functionality of the BPT and reflect updated regulatory guidance.

- Worksheet 1
  - An input for “LIS Member Months” in the base period was added at cell G12.
- Worksheet 2
  - The denominator in the credibility formulas in cells O49:O56 was updated to column k, “projected allowed pmpm”.

## PRICING CONSIDERATIONS

- The projected unit costs in cells J49:J56 are calculated using column n, “projected scripts per 1,000”, rather than column e, “base period scripts per 1,000”.
- “CMS Guideline Credibility” is calculated in cell O57 using total member months from Worksheet 1.
- A column titled “Covariance” has been added in cells O16:O32; the cells are calculated automatically in the BPT as projected allowed pmpm divided by the product of base period pmpm allowed times total utilization change times total unit cost change for each line.
- Worksheet 3
  - The “Network Pricing” option in cell D12 has been pre-populated with “pass-through” for consistency with the definition of negotiated prices in the Final Regulation that was published on January 12, 2009.
- Worksheet 5
  - The drop-down box options for “Type of Deductible” in cell I33 have been updated to “no deductible”, “applies to all tiers”, “applies to some tiers”.
- Worksheet 7
  - A “Working Model Text Box” has been added. It contains multiple cells that can be used by bid preparers to enter internal notes that facilitate communication between BPT and PBP preparers or track internal version schemes. The box will be deleted from the finalized file and therefore will not be uploaded to HPMS.

## BIDDING RESOURCES

- The CY2010 Call Letter may be found at <http://www.cms.hhs.gov/PrescriptionDrugCovContra/>
- The CY2010 Advance Notice may be found at <http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/Downloads/Advance2010.pdf>
- The CY2010 Payment Notice may be found at <http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/Downloads/Announcement2010.pdf>
- The CY2010 Actuarial Bid Training is offered as a web-based conference. The conference materials, including slides and streaming video downloads, are available at <http://www.cms.hhs.gov/apps/events/event.asp?id=550> and <http://www.cms.hhs.gov/apps/events/event.asp?id=552>.
- For questions about the bid form, e-mail the CMS Office of the Actuary (OACT) at [actuarial-bids@cms.hhs.gov](mailto:actuarial-bids@cms.hhs.gov).
- OACT will host weekly technical user group calls regarding actuarial aspects of the CY2010 bidding process. The conference calls will include live Question and Answer sessions with CMS actuaries. The call-in information is as follows:
  - Every Thursday from April 16 through May 28, 2009
  - 11:00am – 12:30pm ET
  - Dial-In Number: 1-800-857-3437

- Passcode: Rebate
- Call Leader: Paul Spitalnic
- For technical questions about the BPT, HPMS, or the upload process, refer to the following resources:
  - The Technical Instructions are located in HPMS, under HPMS Home > Plan Bids > Bid Submission > CY2010 > Documentation > BPT Technical Instructions
  - The *Bid Submission User's Manual*, also available in HPMS
  - HPMS Help Desk: 1-800-220-2028 or [hpms@cms.hhs.gov](mailto:hpms@cms.hhs.gov)

## **II. PRICING CONSIDERATIONS**

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### **BIDDING / PRICING APPROACH**

By statute, the bid must represent the revenue requirement of the expected population. Therefore, in most circumstances, Plan sponsors must use credible bid-specific experience in the development of projected allowed costs. This approach does not preclude Plan sponsors from reaching specific benefit and premium goals; the gain/loss margin guidance allows sufficient flexibility to achieve pricing targets provided that the overall margin meets the requirements in the guidance and that anti-competitive practices are not used.

It is important to note the distinction between reporting base period experience data in Worksheet 1 and projecting credible data for pricing. Base period experience must be reported at the plan level if the plan existed in CY2008, regardless of the level of enrollment. This experience must also be projected in Worksheet 2 and assigned an appropriate level of credibility by the certifying actuary. Data may be aggregated for determining manual rates to blend with partially credible projected experience rates or to account for significant changes in enrollment from the base period to the contract year.

### **SPECIFIC TOPICS**

#### **Actuarial Equivalence**

Actuarial equivalence must be demonstrated for plan benefit types other than Defined Standard (DS).

When the plan benefit type is Actuarially Equivalent (AE), two tests must be satisfied on Worksheet 4, Section IV, lines 16 and 17 to demonstrate actuarial equivalence:

- The average coinsurance percentage for amounts between the deductible and the initial coverage limit (ICL) must be actuarially equivalent to 25%.
- The average coinsurance percentage above the catastrophic limit must be actuarially equivalent to the percentage for DS coverage.

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When the plan benefit type is Basic Alternative (BA) or Enhanced Alternative (EA), five tests must be satisfied to demonstrate actuarial equivalence on Worksheet 5, Section VI, lines 1 through 5:

- The value of total coverage is at least actuarially equivalent to DS coverage.
- The alternative unsubsidized value of coverage is no less than the DS unsubsidized value of coverage.
- The average alternative benefits for beneficiaries with allowed drug costs at the ICL are not less than the average DS benefits at the ICL.
- The deductible is not greater than the DS deductible.
- The average alternative catastrophic cost sharing is not greater than the average DS catastrophic cost sharing.

### Base Period Experience

The experience data should be based on a calendar year 2008 incurred period with at least 30 days of paid claim run-out; 2 or 3 months of paid claim run-out is preferable.

Worksheet 1 must be completed with data for the plan ID. Note that these data –

- Must be submitted in Worksheet 1 for all plans with experience data for 2008, regardless of the level of enrollment.
- Must reconcile in an auditable manner to the plan level Prescription Drug Event (PDE) data submitted to CMS for payment and reconciliation. Some values may be estimated to account for unresolved events in the effort to estimate the final PDEs used in the reconciliation.
- Must be reported without adjustment. Adjustments may be made in Worksheet 2, Sections II and III to accommodate population, benefit design or other changes from the base period to the contract period.
- May be reported in aggregate for a number of plans only when there are enrollment changes associated with the dissolution of a plan and the retained members are mapped into existing plans. Each contract-plan ID must be identified in Section II, line 6.
- Must be provided for plans acquired by the plan sponsor.
- May not be used to aggregate data from a number of plans in order to achieve credibility.
- Must be reported in total at the plan level for every contract-plan ID when plans are aggregated; do not include partial plan experience on Worksheet 1.
- May be reported on more than one bid when plans are aggregated, depending upon the mapping of enrollment.

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A mapping of PDE fields to required BPT inputs is provided in the following table.

<b>Mapping of Prescription Drug Events to Part D Claims Experience in Worksheet 1, Section III</b>		
<b>Column</b>	<b>Field Name</b>	<b>PDE Reference Information</b>
(f)	Total Number of Scripts	Count # of PDEs where (Ingredient Cost + Dispensing Fee + Sales Tax + Vaccine Administrative fee) > Zero
(g)	Total Allowed Dollars	$\Sigma$ (Ingredient Cost + Dispensing Fee + Sales Tax + Vaccine Administrative fee)
(i)	Average Paid Amount per Member	$\Sigma$ [Covered Plan Paid Amount (CPP) + Non-Covered Plan Paid Amount (NPP) + Low-Income Cost Sharing (LICS)] / Members
(j)	Average Cost Sharing per Member	$\Sigma$ [Patient Pay Amount + Other TrOOP Amount + Patient Liability Reduction due to other Payer Amount (PLRO)] / Members
(k)	Supplemental Cost Share Reduction per Member	$\Sigma$ [Non-Covered Plan Paid Amount (NPP)] / Members
(l)	Reimbursement for LIS per Member	$\Sigma$ [Low-Income Cost Share (LICS)] / Members
(m)	Reimbursement for Federal Reinsurance per Member	$\Sigma$ {[Gross Drug Cost Above Out-of-Pocket Threshold (GDCA) with Catastrophic Coverage Codes A or C]* 0.8} / Members

When using PDE data, actuaries must be familiar with how the PDE transactions are developed from claims data and with the timing of the adjustment and deletion processes to ensure that the final transaction is accurately summarized. It is important to note that a PDE maps to one script throughout the BPT regardless of the number of days supply dispensed of the prescription.

### Coverage in the Gap

Under EA coverage, a Plan sponsor may reduce member cost sharing and/or provide coverage for drugs that are statutorily excluded from the definition of a Part D covered drug. One way for the Plan sponsor to reduce cost sharing is to provide partial or full coverage in the gap, that portion of DS coverage between the ICL and true out-of-pocket (TrOOP) threshold in which the cost sharing is 100%. While coverage in the gap is not permitted to change the TrOOP threshold of \$4,550 in CY2010, it will affect the point at which the member reaches the TrOOP threshold for catastrophic coverage. This impact must be modeled in Worksheets 5 and 6.

### Credibility

Based on an application of classical credibility theory to Medicare Part D experience, CMS has established a guideline for full credibility of 12,000 base period member months. The formula for partial credibility is the square root of the result of actual base period member months divided by 12,000. This formula is a guideline; actuaries must consider the quality of the base



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period experience when calculating credibility. Part D sponsors may use a different credibility methodology only if the alternate method is consistently applied among all plans in the contract and deemed acceptable by CMS.

When considering the credibility of plan experience, actuaries must consider ASOP No. 8, *Regulatory Filings for Health Plan Entities*, paying particular attention to the section “Use of Past Experience to Project Future Results” (3.2.4) and ASOP No. 23, *Data Quality*, particularly the section titled “Selection of Data” (3.2).

### Decreased Initial Coverage Limit

Plan sponsors that are decreasing the ICL must modify the pricing of the benefit in the BPT. Specifically:

✓ **Worksheet 6, column k, lines 1 through 8 and 19 through 27**

Enter the total cost sharing for allowed costs up to the DS ICL of \$2,830 by point of sale and type of drug for each line. Total cost sharing is the sum of (i) the amounts calculated based on the cost sharing structure of the alternative coverage up to the decreased ICL and (ii) 100% of the allowed costs between the decreased ICL and standard ICL.

### Direct and Indirect Remuneration (DIR)

Plan sponsors must include all expected amounts that will be reported as DIR under “Rebate” in the BPT. The DIR reported under “Rebate” represents the Plan sponsors’ best estimate of all DIR categories and amounts that they expect to report under the Part D payment reconciliation process for the respective contract year.

#### **Definition of Direct and Indirect Remuneration**

Per 42 CFR Section 423.308, direct and indirect remuneration (DIR) comprises any and all rebates, subsidies, or other price concessions from any source (including manufacturers, pharmacies, enrollees, or any other person or entity) that serve to decrease the costs incurred by the Part D sponsor (whether directly or indirectly) for the Part D drug. DIR includes discounts, chargebacks, average percentage rebates, cash discounts, free goods contingent on a purchase agreement, up-front payments, coupons, goods in kind, free or reduced-price services, grants, or other price concessions or similar benefits.

DIR also includes price concessions from pharmaceutical manufacturers for purchases under the Medicare prescription drug benefit that are received by subcontractors of Part D sponsors, such as pharmaceutical benefit managers (PBM), even if they are retained in lieu of higher service fees. CMS must assume that if a PBM retains a portion of the manufacturer rebates that it negotiates on behalf of a Part D sponsor, the direct payment that the PBM receives from the sponsor for its services will be less, since the sponsor will have received a price concession from the PBM. This price concession is a retained rebate and thus must be reported as DIR for payment purposes.

In accordance with CMS guidance, sponsors may enter into risk-sharing arrangements with entities other than CMS by sharing risk only around the cost of the drug as reflected on claims data, not around administrative services, professional services or other disallowed fees. Any

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gains or losses that the Part D sponsor may experience as a result of these risk-sharing arrangements also constitute DIR that must be reported to CMS. As with other types of DIR, the value can be negative.

Generic dispensing incentive payments, and any adjustments to generic dispensing incentive payments made to pharmacies after the point of sale dispensing event, are also considered DIR. Please note that generic dispensing incentive payments made to the pharmacy at the point of sale are part of the dispensing fee reported on the PDE record and therefore are not included in the DIR Report for Payment Reconciliation.

### **Gain/Loss Margin**

Overall Medicare margin levels for general enrollment and institutional/chronic care SNP plans are to be consistent with the Plan sponsor's corporate requirement. Overall Medicare margin levels may be determined either at the contract level or at a more aggregated level. The sponsor's Medicare margin requirement, as measured by percentage of revenue, is to be within a reasonable range, not to exceed plus or minus 1.5% of other lines of business. Additionally, for sponsors that price based on return on investment (ROI) or return on equity (ROE), the projected Medicare returns must be consistent with the company's return requirements. Comparisons to other lines of business must take into account the degree of risk or surplus requirements of the business.

The overall margin level expectations are to be consistent on a year-by-year basis. Actual organization returns are expected to vary year to year in practice, but to achieve the organization's requirement over a longer term period (for example, 3 to 5 years).

The overall margin levels included in the MA and Part D components of MA-PD bids must be within a reasonable range of each other, not to exceed plus or minus 1.5%, with any variation reflecting the different levels of financial risk for the two components. The individual Part D margin of an MA-PD bid can either be the same for all plans or may vary by plan in relation to the MA margin.

There is flexibility in setting gain/loss margin at the plan level, including the allowance for negative margin, provided that the overall margin meets CMS requirements, anti-competitive practices are not used, and the plan offers benefit value in relation to the margin level. For plans with negative margins, the Plan sponsor must develop and follow a business plan to achieve profitability. Exceptions to the business plan requirement are cases in which multiple Part D products are offered in a given service area and the pricing reflects implicit "subsidies" across benefit or service area offerings.

Anti-competitive practices will not be accepted. For example, significantly low or negative margins for plans that have substantial enrollment and stable experience, or "bait and switch" approaches to specific plan margin buildup, will be rejected, absent sufficient support that such pricing is consistent with these Instructions.

When Medicare benefits are funded by an outside source such as a state Medicaid program, the gain/loss margin must be consistent for Medicare and the other funding source.

### ***Relationship of Margin Requirements and Non-Benefit Expenses:***

The development of the margin requirements may reflect revenue offsets not captured in non-benefit expenses (such as investment expenses, income taxes and changes in statutory surplus) and may also include investment income.

### **Non-Benefit Expenses**

Non-benefit expenses are all administrative costs of operating the Medicare Prescription Drug Plan.

The non-benefit expenses must be entered separately on the BPT for the following categories:

- Marketing & Sales (for example, the cost of marketing materials, commissions, enrollment packages, identification cards, and salaries of sales and marketing staff).
- Direct Administration (for example, functions that are directly related to the administration of the Medicare Prescription Drug Plan). Examples of direct administration functions are as follows:
  - Customer service.
  - Billing and enrollment.
  - Claims administration.
  - True out-of-pocket (TrOOP) administration.
  - Pharmacy benefit management administration, which includes all of the costs for performing call center, claims, formulary management, network development and rebate management functions incurred by the plan or through a subcontractor.
  - Crossover fees, which are paid to obtain information from other payers to calculate TrOOP expenses.
  - Medicare Part D user fees, which are \$0.90 per-member per-year; \$0.08 pmpm on a national basis for CY2010.
  - Uncollected enrollee premium.
  - Uncollected cost sharing, which includes plan liability resulting from cost sharing not recovered in state-to-plan or plan-to-plan transactions.
  - Medication therapy management programs.
  - Disease management functions (such as patient education and disease monitoring).
  - Over-the-counter (OTC) drugs.
- Indirect Administration (for example, functions that may be considered “corporate services,” such as CEO, accounting operations, actuarial services, legal services, human resources, etc.).
- Net Cost of Private Reinsurance (that is, reinsurance premium less projected reinsurance recoveries).

All non-benefit expenses must be reported using appropriate, generally accepted accounting principles (GAAP). For example, acquisition expenses and capital expenditures must be deferred and amortized according to the relevant GAAP standards (to the extent that is consistent with the organization’s standard accounting practices, if not subject to GAAP).

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Also, acquisition expenses (marketing and sales) must be deferred and amortized in a manner consistent with the revenue stream anticipated on behalf of the newly enrolled members. Guidance on GAAP standards are promulgated by the Financial Accounting Standards Board (FASB). Of particular applicability is FASB's Statement of Financial Accounting No. 60, *Accounting and Reporting by Insurance Enterprises*.

Costs not pertaining to administrative activities, including goodwill amortization, income taxes, changes in statutory surplus, and investment expenses, must be excluded from non-benefit expenses. Similarly, non-insurance revenues pertaining to investments and fee-based activities cannot be reflected in the bid.

Start-up costs that are not considered capital expenditures under GAAP are reported as follows:

- Expenditures for tangible assets (for example, a new computer system must be capitalized and amortized according to relevant GAAP principles).
- Expenditures for non-tangible assets (for example, salaries and benefits must be reported in a manner consistent with the organization's internal accounting practices and the reporting of similar expenditures in other lines of business).

Non-benefit expenses that are common to offering an MA-PD must be allocated proportionately between the Medicare Advantage and Part D BPTs.

When Medicare benefits are funded by an outside source such as by a state Medicaid program, non-benefit expenses must be allocated proportionately between the Medicare revenue and the other revenue source.

### ***Related-Party Agreements***

The level of disclosure of related-party agreements must demonstrate that the operating results and financial positions for organizations participating in such agreements are not significantly different from the operating and financial arrangements that would have been achieved in the absence of the relationships. This level of disclosure is consistent with our 2009 guidance and comparable to the level required by GAAP.

The Plan sponsor is required to demonstrate that the above is true and that fees associated with these transactions are based on appropriately allocated, actual costs that are comparable with those experienced by unrelated organizations of similar size and market position.

To satisfy proprietary concerns, CMS can initiate separate contact with the sponsor and the subcontracted related-party when addressing related-party issues in the bid. Plan sponsors interested in this level of discussion must request it and identify a point of contact at the related party at the time of bid submission.

These requirements for related-party agreements apply to a plan sponsor that enters into a service agreement involving a parent company and subsidiary, or between subsidiaries of a common parent.

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A Plan sponsor in a related-party agreement with an organization that supports only the Part D sponsor must directly or indirectly, or through agreement with the subcontracted party, do the following:

- Prepare the BPT in a manner that does not recognize the independence of the subcontracted related party. For purposes of completing the BPT, the bid sponsor must consider the gain/loss and non-benefit expense of the related-party to be those of the sponsor. The sponsor cannot allocate all administrative costs in the related-party agreement to non-benefit expense.
- Develop the gain/loss and non-benefit expense of the related-party subcontractor in accord with the Instructions.
- Support the development of the gain/loss and the actual costs associated with the non-benefit expense as required by these Instructions.
- Disclose, in accord with the Instructions, subcontracted related-party agreements for all parties represented in the bid.

### Non-Uniform Deductible

Plan sponsors that are implementing a deductible that is not applied consistently among all formulary tiers (for example, \$0 deductible for Tier 1 – Generics and \$310 deductible for all other tiers) must modify the pricing of the benefit in the BPT. Specifically:

#### ✓ **Worksheet 5**

Enter \$0 in cell D39 and F41.

#### ✓ **Worksheet 6**

Reflect the impact of the non-uniform deductible in addition to the cost sharing required after the deductible is met in the applicable cost-sharing categories by point of sale and type of drug.

### PBM Pricing

For CY2010, Part D sponsors must develop their Part D bids using the pass-through price or negotiated amount paid to the dispensing provider at the point of sale as the basis for drug costs. For Part D sponsors that are contracted with a PBM, the following provisions apply: (i) when contracted under a lock-in pricing approach, the administrative expense component of the bid must reflect the expected difference between the lock-in price, or amount negotiated with the PBM, and pass-through price (this difference is referred to as the risk premium or PBM spread) and (ii) when the PBM retains a portion of the rebates, the administrative expense component of the bid must include these costs.

### Risk Score Development for CY2010

The projected CY2010 risk score must be:

- Based on the Part D RxHCC model.
- Adjusted for normalization.
- Reflective of appropriate projection factors.

### Normalization

At time of payment, the risk scores for each plan enrollee will be adjusted by the Part D normalization factor, which is 1.146 for CY2010. This adjustment accounts for the actual program risk score experience and the expected increase in coding reflected in the risk scores for the contract year versus the model calibration year. Accordingly, the projected risk scores for CY2010 bids must reflect the 1.146 normalization factor.

### Manual Rating Approach

Plans that are priced using a manual rating approach must estimate risk scores on a basis that is consistent with the development of the expected prescription drug expenses for the projected enrollees. Further the risk scores for new plans must be developed in a manner consistent with the Part D RxHCC risk model. Details of this model may be found at <http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/>, under “risk adjustment”.

### Preferred Experienced-Based Approach

The preferred method for projecting the CY2010 risk scores for experienced-rated plans is use of the Part D RxHCC risk scores for the 2008 enrollee cohort. Plan-specific risk score data that may be used as the basis for projecting CY2010 risk scores are available in HPMS under the “Risk Adjustment” link from the HPMS home page. (Note: You must have HPMS user access to view this information. The HPMS weblink is either <https://32.90.191.19/hpms/secure/home.asp> or <https://gateway.cms.hhs.gov> depending on your firm’s connection method.) The risk score data posted in HPMS are accompanied by technical notes to assist actuaries with interpreting the data presented.

There are several advantages to using the 2008 cohort Part D RxHCC risk scores in the projection of the CY2010 risk score:

- They are consistent with the base-period prescription drug expenditures.
- They are based on a mid-year cohort and require no adjustment for seasonality.
- They reflect the most complete MA and FFS diagnosis data for 2007 dates of service submitted through January 31, 2009, which is the final reporting deadline for this period.
- They are based on the latest risk model.

The projection of scores from 2008 to 2010 must reflect relevant projection factors, which include, but are not limited to, the plan’s aggregate risk score trend, the effect of partial-year enrollments and changes in plan population. While the mid-year cohort may be the most appropriate basis for projecting the CY2010 risk scores, the underlying experience for 2008 may need to be adjusted to reflect the effects of partial-year enrollments. Please note that the HPMS-reported scores are based on a mid-year cohort with nearly complete run-out data and require no explicit adjustment for (i) transition from lagged to non-lagged diagnosis data, (ii) incomplete reporting of diagnosis data, and (iii) seasonality. Finally, the projected scores must be normalized by dividing by the CY2010 Part D normalization factor, which is 1.146.

### Preferred Alternate Experience-Based Approach

The preferred alternate method to forecasting the CY2010 Part D risk scores for experience-rated plans is to use the scores from a 2009 Monthly Membership Report (MMR) file as the

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base scores. This approach may be appropriate if the plan was first offered in 2009, if there was limited enrollment in 2008 or if there were significant changes in plan or enrollment characteristics between 2008 and 2009.

The starting “raw” risk scores for this alternative approach are the average risk scores from one or more of the 2009 MMR files for non-adjustment records. These scores are trended to 2010 with explicit adjustment for the following factors:

- Part D normalization (multiply MMR scores by 1.085 to reverse 2009 normalization).
- The plan’s aggregate risk score trend
- Impact of lagged versus non-lagged diagnosis data.
- Run-out of diagnosis data.
- Seasonality.
- Population changes.
- Other appropriate factors.

Finally, the projected scores must be normalized by dividing by the CY2010 Part D normalization factor of 1.146.

### **Supporting Documentation**

In addition to the BPT and actuarial certification, organizations must submit supporting documentation for every bid. See Appendix B for a description of the supporting documentation requirements including content, quality and timing.

### **Types of Part D Covered Drugs**

#### ***Brand Drugs***

Brand drugs consist of single source drugs with no generic equivalent that were FDA-approved under an original new drug application (NDA) and innovator multi-source drugs that were originally marketed under an original NDA and that now have generic equivalents.

#### ***Preferred/Non-Preferred Brand Drugs***

Brand drugs that are placed in the most favorable position on the formulary in comparison to other similar brand drugs should be allocated to the preferred brand drug category. Brand drugs that are positioned in a less favorable position on the formulary should be allocated to the non-preferred brand category in the BPT.

#### ***Generic Drugs***

Non-innovator multi-source drugs are generic drugs.

#### ***Specialty Drugs***

Specialty drugs are reported separately only when a plan utilizes a designated Specialty tier in the formulary and PBP in accord with CMS guidelines. The CMS guidelines require that (i) only one tier be designated a Specialty tier, (ii) cost sharing associated with that tier be limited to 25% in the initial coverage range, and (iii) only Part D

## **PRICING CONSIDERATIONS**

covered drugs with plan-negotiated prices greater than \$600 per month be placed in the tier.

When a designated Specialty tier is used, all drugs in that tier must be reported by point of sale in Worksheet 2 and Worksheet 6 of the BPT. The drugs in the Specialty tier must not be sorted by type of drug status and must not be reported as a component of the generic, preferred brand and non-preferred brand drugs in the non-Specialty tiers.

When a designated Specialty drug tier is not used in the formulary and PBP, Specialty drugs must be sorted by generic, preferred brand and non-preferred brand status and must be reported in these categories by point of sale. In this situation, the Specialty categories in Worksheet 2 and Worksheet 6 are not completed.



### III. DATA ENTRY AND FORMULAS

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This section includes line-by-line instructions for completing the Part D BPT. It also describes the formulas for calculated cells.

#### **Prescription Drug**

To complete the Part D bid form, Plan sponsors must provide a series of data entries on the appropriate BPT worksheets. The number of inputs depends on the type of plan being offered and the length of time it has had a contract with CMS, among other factors.

The Part D bid form is organized as outlined below:

- Worksheet 1 – Rx Base Period Experience
- Worksheet 2 – PDP Projection of Allowed/Non-Benefit
- Worksheet 3 – Rx Contract Period Projection for Defined Standard Coverage
- Worksheet 4 – Rx Standard Coverage with Actuarially Equivalent Cost Sharing
- Worksheet 5 – Rx Alternative Coverage
- Worksheet 6 – Rx Script Projections for Defined Standard, Actuarially Equivalent or Alternative Coverage
- Worksheet 7 – Summary of Key Bid Elements

All Plan sponsors must complete Section I of Worksheet 1; completion of subsequent sections of the BPT is based on the plan benefit type being offered. The worksheets and sections that must be completed for each plan benefit type are defined below.

#### **Defined Standard Coverage**

##### **✓ Worksheet 1**

For plans with claims experience in CY2008, complete all sections; for new plans in CY2010, complete Section I.

##### **✓ Worksheet 2**

For plans with fully credible claims experience in CY2008, complete Sections II, III and V; for plans with partially credible claims experience in CY2008, complete all sections. For new plans in CY2010, complete Section IV.

##### **✓ Worksheet 3**

Complete all sections for all plans.

##### **✓ Worksheet 6**

Complete columns f, g, and h of Section II for all plans.

##### **✓ Worksheet 7**

Complete all sections for all plans.

**Actuarially Equivalent Coverage**

✓ **Worksheet 1**

For plans with claims experience in CY2008, complete all sections; for new plans in CY2010, complete Section I.

✓ **Worksheet 2**

For plans with fully credible claims experience in CY2008, complete Sections II, III and V; for plans with partially credible claims experience in CY2008, complete all sections. For new plans in CY2010, complete Section IV.

✓ **Worksheet 3**

Complete all sections for all plans.

✓ **Worksheet 4**

Complete all sections for all plans.

✓ **Worksheet 6**

Complete all columns of Section II for all plans.

✓ **Worksheet 7**

Complete all sections for all plans.

**Basic and Enhanced Alternative Coverage**

✓ **Worksheet 1**

For plans with claims experience in CY2008, complete all sections; for new plans in CY2010, complete Section I.

✓ **Worksheet 2**

For plans with fully credible claims experience in CY2008, complete Sections II, III and V; for plans with partially credible claims experience in CY2008, complete all sections. For new plans for CY2010, complete Section IV.

✓ **Worksheet 3**

Complete all sections for all plans.

✓ **Worksheet 5**

Complete all sections for all plans.

✓ **Worksheet 6**

Complete all columns of Section II for all plans.

✓ **Worksheet 7**

Complete all sections for all plans.

## DATA ENTRY & FORMULAS

### Data Entry

Do not leave a field blank to indicate a zero amount. If zero is the intended value, then enter a "0" in the cell.

## PD WORKSHEET 1 – RX BASE PERIOD EXPERIENCE

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Worksheet 1 contains general information about the plan and summarizes the base period Rx experience. Specifically, Section I collects general information about the plan that is displayed on all Part D BPT worksheets. Section II collects base period background information; Section III summarizes the base period Rx experience. Sections IV and V summarize components of the base period non-benefit expense and premium revenue, respectively. Section VI is an Income Statement Summary.

Section I must be fully completed for all plans (note that some fields may be pre-populated by the Plan Benefit Package (PBP) software). Sections II through VI must be completed for all plans with experience data for 2008 regardless of the level of enrollment.

### SECTION I – GENERAL INFORMATION

The fields of Section I have been formatted as the “General” format in Excel to support the link functionality to other spreadsheets. Therefore, certain numeric fields, such as Plan ID, Segment ID and Region Number, must be entered as text – that is, using a preceding apostrophe, and must include any leading zeros.

#### Line 1 – Contract Number

Enter the contract number for the plan. The designation begins with a capital letter H (local plan), R (regional Preferred Provider Organization plan), or S (Prescription Drug Plan) and includes four Arabic numerals (for example, H9999, R9999, S9999). Include all leading zeros (for example, H0001).

#### Line 2 – Plan ID

The plan ID and corresponding contract number form a unique identifier for the PBP being priced in the bid form. Plan IDs contain three Arabic numerals. This field must be entered as a text input and must include any leading zeros.

#### Line 3 – Segment ID

If the bid is for a “service area segment” of a local plan, enter the segment ID. This field must be entered as a text input and must include any leading zeros.

#### Line 4 – Contract Year

The cell is pre-populated with the calendar year to which the contract applies.

#### Line 5 – Organization Name

Enter the organization’s legal entity name. This information also appears in HPMS and in the PBP.

#### Line 6 – SNP

If the plan is a Special Needs Plan (SNP), enter “Y”. Otherwise, enter “N”.

**Line 7 – Plan Name**

Enter the name of the PBP. This information also appears in HPMS.

**Line 8 – Plan Type**

Enter the type of Part D plan. The valid options are listed in the table below.

Type of Plan	Plan Type Code
<b>Local Coordinated Care Plans:</b>	
Health Maintenance Organization (HMO)	HMO
Religious Fraternal Benefit HMO	RFB HMO
Religious Fraternal Benefit HMO with a Point-of-Service (POS) Option	RFB HMO POS
HMO with a POS Option	HMO POS
Provider-Sponsored Organization (PSO) with a State License	PSO State License
Religious Fraternal Benefit with a State License	RFB PSO State License
Preferred Provider Organization (PPO)	LPPO
Religious Fraternal Benefit PPO	RFB LPPO
<b>Regional Coordinated Care Plans:</b>	
Regional Preferred Provider Organization (RPPO)	RPPO
<b>Private Fee-for-Service Plans:</b>	
Private Fee-for-Service Plan (PFFS)	PFFS
Religious Fraternal Benefit PFFS	RFB PFFS
Employer/Union-Only Direct Contract PFFS	ED PFFS
<b>Prescription Drug Plans:</b>	
Medicare Prescription Drug Plan (PDP)	PDP
Fallback Plan	Fallback
<b>Demonstration Plans:</b>	
Continuing Care Retirement Community (CCRC)	CCRC
National PACE	PACE
End Stage Renal Disease (ESRD) I	ESRD I
ESRD II	ESRD II
1876 Cost	1876 Cost
1833 Cost	1833 Cost

**Line 9 – Enrollee Type**

If the plan covers enrollees eligible for both Part A and Part B of Medicare, enter “A/B”. If the plan covers enrollees eligible for Part B only, enter “Part B Only”. When the plan type is “PDP” or “Fallback”, then the enrollee type cell is white and locked; no input is required.

**Line 10 – PD Region**

Enter the region number of the region the plan will cover. This field must be entered as a text input and must include any leading zeros.

## WORKSHEET 1

The valid entries are shown in the following table:

Region	Description
01	Maine and New Hampshire
02	Connecticut, Massachusetts, Rhode Island and Vermont
03	New York
04	New Jersey
05	Delaware, District of Columbia and Maryland
06	Pennsylvania and West Virginia
07	Virginia
08	North Carolina
09	South Carolina
10	Georgia
11	Florida
12	Alabama and Tennessee
13	Michigan
14	Ohio
15	Indiana and Kentucky
16	Wisconsin
17	Illinois
18	Missouri

Region	Description
19	Arkansas
20	Mississippi
24	Kansas
25	Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wyoming
26	New Mexico
27	Colorado
28	Arizona
29	Nevada
30	Oregon and Washington
31	Idaho and Utah
32	California
33	Hawaii
34	Alaska
35	American Samoa
36	Guam
37	Northern Mariana Islands
38	Puerto Rico
39	Virgin Islands

### Line 11 – Plan Benefit Type

Enter the plan benefit type that identifies the type of coverage in the PBP. The valid options are “DS” for Defined Standard, “AE” for Actuarially Equivalent, “BA” for Basic Alternative and “EA” for Enhanced Alternative.

### Line 12 – Payment Demo Type

If the plan benefit type is EA, then enter the payment demo type that applies to the plan. The valid options are “NA” if the plan is not participating in the payment demonstration, “Fixed Cap” for the fixed capitation option, “Flex Cap” for the flexible capitation option and “MA Rebate” for the MA rebate option.

## SECTION II – BASE PERIOD BACKGROUND INFORMATION

### Line 1 – Time Period Definition

Enter the incurred dates of the base period data on the first two lines and the paid through date on the third line. For example, if the data reflect claims paid through February 2009, then the “paid through” date is 2/28/2009.

### Line 2a – Total Member Months

Enter the total member months represented in the base period experience based on CMS eligibility records.

**Line 2b – LIS Member Months**

Enter the number of low-income subsidy (LIS) member months represented in the base period experience based on CMS eligibility records.

**Line 3 – Risk Score**

Enter the normalized risk score, estimated to three decimal places, for the population represented in the base period data using the Part D RxHCC risk model.

**Line 4 – Completion Factor**

Enter the factor used to adjust the paid data to an incurred basis. The base period data must represent the best estimate of incurred claims for the time period, including any unpaid claims as of the “paid through” date.

**Line 5 – Network Pricing**

Enter the option that corresponds to the network pricing that was in effect in the base period. The valid options are “pass-through” or “lock-in”.

**Line 6 – Mapping**

Enter the contract and plan ID (in the format H9999-999) of the plan reported in Section III in the first column. With the exception of plan ID changes and/or plan mergers, CMS expects that the contract and plan ID for the base period experience will be the same as that shown in Section I. Enter the corresponding number of member months in the second column.

**Line 7 – Base Period Experience Description**

Use the text box to briefly describe the base period data reported in Section III. Do not adjust the data for credibility because this issue is addressed in Worksheet 2.

**SECTION III – PART D CLAIMS EXPERIENCE**

Lines 1 through 11 include experience relating to Part D covered drugs only. Lines 12 through 14 include experience for drugs that are covered by the plan but are not Part D covered drugs at the time they are dispensed.

**Lines 1 through 5:****✓ Column d – Number of Members**

Enter the number of members with total allowed claims in the allowed claim interval defined for each line. For example, if 7,000 members had total allowed claims between \$276 and \$2,510, then enter “7,000” in line 3, column d.

**✓ Column e – Member Months**

Enter the number of member months associated with the number of members in column d for each line.

✓ **Column f – Total Number of Scripts**

Enter the number of prescriptions filled for Part D covered drugs for the members in column d for each line.

✓ **Column g – Total Allowed Dollars**

Enter the total allowed dollars for the prescriptions filled for the members in column d for each line. Total allowed dollars are defined as ingredient cost plus dispensing fee, plus sales tax where applicable, prior to the application of any rebates recovered after the point of sale.

✓ **Column h – Average Allowed Amount per Member**

The value is calculated automatically in the BPT as column g divided by column d for each line.

✓ **Column i – Average Paid Amount per Member**

Enter the result of dividing the total paid dollars by the plan for the members in column d by the number of members in column d. Total paid dollars are defined as basic and supplemental payments for Part D covered drugs and are not net of rebates, low-income subsidy payments or federal reinsurance.

✓ **Column j – Average Cost Sharing per Member**

Enter the average cost sharing per member for Part D covered drugs for the members in column d for each line.

✓ **Column k – Supplemental Cost-Sharing Reduction per Member**

Enter the average value of supplemental cost sharing per member for Part D covered drugs for members in column d for each line.

✓ **Column l – Reimbursement for Low-Income Cost Sharing Subsidy per Member**

Enter the average low-income cost-sharing subsidy amount received and receivable for the members in column d for each line.

✓ **Column m – Reimbursement for Federal Reinsurance per Member**

Enter the average federal reinsurance amount received and receivable for the members in column d for each line.

✓ **Column n – Net Plan Responsibility per Member**

The value is calculated automatically in the BPT as column i minus the sum of columns j through m for each line.

**Line 6, columns d through n – Subtotal**

The values are calculated automatically in the BPT as the sum of lines 1 through 5 for columns d through g and as the weighted average based on the number of members in column d of lines 1 through 5 for columns h through n.

**Line 7 – Percentage OON**

✓ **Column g**



## WORKSHEET 1

Enter the percentage of total allowed dollars in line 6 for prescriptions filled at out-of-network (OON) pharmacies.

✓ **Column i**

Enter the percentage of average paid dollars in line 6 for prescriptions filled at OON pharmacies.

✓ **Column j**

Enter the percentage of average cost sharing per member in line 6 for prescriptions filled at OON pharmacies.

### **Line 8, column i and columns k through n – PMPM Values**

They are calculated by the BPT as the result of the subtotal of the column in line 6 divided by the number of member months in column d.

### **Line 9 – Minus Rebates**

✓ **Column g**

Enter the total amount of rebates received for the claims in lines 1 through 5. Total rebates include all direct and indirect remuneration received after the point of sale transaction and must be allocated to the plan using a methodology that represents the manner in which the rebates were generated.

✓ **Column i**

The value is calculated automatically in the BPT as column g divided by line 6 column e.

✓ **Column m**

Enter the amount of rebates attributable to the federal reinsurance amount in line 6.

✓ **Column n**

The value is calculated automatically in the BPT as column i minus the sum of columns k through m.

### **Line 10 – Plus Part D as Secondary**

✓ **Column g**

Enter the total amount of payments for Part D covered drugs for which the Part D plan is the secondary payer.

✓ **Column i**

The value is calculated automatically in the BPT as column g divided by line 6 column e.

✓ **Column n**

The value is calculated automatically in the BPT as column i minus the sum of columns k through m.

### **Line 11, columns i and k through n – Net Average Paid Amount PMPM**

The values are calculated automatically in the BPT as line 8 minus line 9 plus line 10.

**Line 12 – Non-Covered Supplemental Drugs**

✓ **Column g**

Enter the total amount of claims for prescription drugs that are covered by the plan but are not Part D covered drugs.

✓ **Column i**

The value is calculated automatically in the BPT as column g divided by line 6 column e.

**Line 13, column i – Rebates on Supplemental Drugs**

Enter the total amount of rebates received for the claims in line 12.

**Line 14, columns l and n – Net PMPM on Supplemental Drugs**

The value in column i is calculated automatically in the BPT as line 40 minus line 41 and carried to column n.

**SECTION IV – PMPM NON-BENEFIT EXPENSES**

Section IV summarizes all administrative expenses associated with the operation of the prescription drug plan in the base period, including any expenses that were offset by direct or indirect remuneration.

**Lines 1 through 4, column e – Basic**

Enter the sales and marketing, direct administration, indirect administration and net cost of private reinsurance average pmpm amounts for basic coverage on lines 1 through 4, respectively.

**Lines 1 through 4, column f – Supplemental**

Enter the sales and marketing, direct administration, indirect administration and net cost of private reinsurance average pmpm amounts for supplemental coverage on lines 1 through 4, respectively.

**Lines 1 through 4, column g and line 5 – Total Non-Benefit Expenses**

The values are calculated automatically in the BPT as sums of columns e and f.

**SECTION V – PMPM PREMIUM REVENUE**

Section V summarizes the components of premium revenue of the prescription drug plan for the base period.

**Lines 1 through 4, column e – Basic**

Enter the CMS Part D direct subsidy payment, low-income premium subsidy, member premium and member penalty premium average pmpm amounts for basic coverage on lines 1 through 4, respectively.

**Line 3, column f – Supplemental**

Enter the member premium average pmpm amount for supplemental coverage on line 3.

**Lines 1 through 4, column g and line 5 – Total Premium**

The values are calculated automatically in the BPT as sums of columns e and f.

**SECTION VI – PMPM INCOME STATEMENT SUMMARY**

Section VI is a summary of the prescription drug plan's income, including the amount of MA rebate allocable to Part D when applicable, for the base period.

**Lines 1 through 9, column m**

Enter the average pmpm amount of the MA rebate dollars used to buy down the Part D premium in line 4. The values in lines 1 through 3 and lines 5 through 9 are carried from other sections in Worksheet 1 or are calculated automatically in the BPT as sums or differences in column m.

## PD WORKSHEET 2 – PDP PROJECTION OF ALLOWED/NON-BENEFIT

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Worksheet 2 projects the base period experience to the contract year, blending with a manual rate when the base period experience is not fully credible, by point of sale and type of drug. Specifically, Section I displays general information about the plan. Sections II and III summarize the base period and contract period utilization per 1,000 members and allowed costs per script and the components of utilization and cost trends. Section IV blends the projected allowed costs with a manual rate based on the plan's credibility. Section V summarizes the components of non-benefit expense in the base and contract periods. Section VI is a text box for entering a description of the development of the manual rate.

### SECTION I - GENERAL INFORMATION

This section displays the information entered on Worksheet 1, Section I.

### SECTION II – UTILIZATION FOR COVERED PART D DRUGS

#### Lines 1 through 8 – Base Period

##### ✓ Column e – Number of Scripts/1000

Enter the number of prescriptions that were filled in the base period, expressed as annual prescriptions per 1,000 members, by point of sale (retail or mail order) and type of drug (generic, preferred brand, non-preferred brand or Specialty) for each line.

##### ✓ Column f – Allowed per Script

Enter the average allowed amount per script by type of script filled in the base period for each line. Allowed amount is defined as ingredient cost plus the dispensing fee, plus state sales tax where applicable, prior to the application of any rebates recovered after the point of sale.

##### ✓ Column g – PMPM

The value is calculated automatically in the BPT as column e times column f divided by 12,000 for each line.

#### Lines 1 through 8 – Components of Utilization Change

##### ✓ Column h – Trend in Scripts/1,000

Enter the utilization trend factor by type of script to project scripts/1,000 to the contract period for each line.

**✓ Column i – Formulary Change**

Enter the factor that represents the impact on utilization of changes in the formulary, including the addition, deletion or reclassification of drugs by type of script for each line.

**✓ Column j – Risk Change**

Enter the factor that represents the impact on utilization of the covered population's change in risk from the base period to the contract period by type of script for each line.

**✓ Column k – Induced Utilization**

Enter the factor that adjusts for the utilization difference between the base period type of benefit plan (DS, AE, BA or EA) and a DS plan by type of script for each line.

**✓ Column l – Other Change**

Enter the factor that represents the impact on utilization of any differences between the base period and contract period not included in the other components of utilization change, columns h through k, by type of script for each line.

**✓ Column m – Total Utilization Change**

The value is calculated automatically in the BPT as the product of columns h through l for each line.

**Lines 1 through 8, column n – Projected Scripts/1000**

The value is calculated automatically in the BPT as the product of columns e and m for each line.

**Lines 1 through 8, column o – Covariance**

The value is calculated automatically in the BPT as projected allowed pmpm divided by the product of base period allowed pmpm times total utilization change times total unit cost change for each line.

**Lines 9 through 14, columns e through o**

The values are calculated automatically in the BPT using information entered on lines 1 through 8 for each column.

**SECTION III – COST FOR COVERED PART D DRUGS****Lines 1 through 8 – Components of Unit Cost Change****✓ Column e – Inflation Trend**

Enter the factor that represents the impact on cost between the base period and contract period because of changes in drug prices by type of script for each line.

**✓ Column f – Discount Change**

Enter the factor that represents the impact on cost between the base period and contract period because of changes in point of sale network pricing, including discounts off of average wholesale price (AWP) and dispensing fees, by type of script for each line.

**✓ Column g – Formulary Change**

Enter the factor that represents the impact on cost because of changes in the formulary, including the addition, deletion or reclassification of drugs by type of script for each line.

**✓ Column h – Other Change**

Enter the factor that represents the impact on cost of any differences between the base period and contract period not included in the other components of unit cost change, columns e through j, by type of script for each line.

**✓ Column i – Total Unit Cost Change**

The value is calculated automatically in the BPT as the product of columns e through h by type of script for each line.

**Lines 1 through 8, column j – Projected Unit Cost**

The value is calculated automatically in the BPT as the product of base period allowed per script times total unit cost change for each line.

**Lines 1 through 8, column k – Projected Allowed PMPM**

The value is calculated automatically in the BPT as scripts/1,000 times projected unit cost divided by 12,000 for each line.

**Lines 9 through 14, columns e through k**

The values are calculated automatically in the BPT using information entered on lines 1 through 8 for each column.

**SECTION IV – PROJECTED ALLOWED PMPM****Lines 1 through 8****✓ Column l – Manual Utilization/1,000**

When the base period experience is not fully credible, enter the projected utilization per 1,000 members, based on a fully credible manual rate, by type of script for each line.

**✓ Column m – Manual Unit Cost**

When the base period experience is not fully credible, enter the projected unit cost per script, based on a fully credible manual rate, by type of script for each line.

**✓ Column n – Manual Rate PMPM**

The value is calculated automatically in the BPT as column l times column m divided by 12,000 by type of script for each line.

**✓ Column o – Credibility**

Enter the credibility percentage by point of sale and type of drug that is applied to the projected pmpm allowed amount in Section IV and blended with the pmpm manual rate to calculate the blended pmpm allowed amount for each line. The credibility must be greater than or equal to 0% and less than or equal to 100%.

**✓ Column p – Blended Allowed PMPM**

The value is calculated automatically in the BPT as the sum of (column o times column k) and [(1 minus column o) times column n] for each line.

**Lines 9 through 14, Columns l through p**

The values are calculated automatically in the BPT using information entered on lines 1 through 8 for each column. Cell O57, CMS Guideline Credibility is calculated automatically in the BPT as the square root of total member months from Worksheet 1 divided by 12,000, not to exceed 100%.

**SECTION V – PMPM NON-BENEFIT EXPENSE**

Section V summarizes the components of non-benefit expenses in the base period, applies trends and blends with manual rate non-benefit expenses to project administrative expenses in the contract period.

**Lines 1 through 4****✓ Column e – Base Period**

The value is carried from Worksheet 1, Section IV for each line.

**✓ Column f – Trend**

When the values in column e are greater than \$0.00, enter the expected trend in non-benefit expenses from the base to the contract period.

**✓ Column g – Contract Period**

The value is calculated automatically in the BPT as column e times column f for each line.

**✓ Column h – Manual Rate Expense**

When the base period non-benefit expenses are not fully credible, enter the projected non-benefit expense by component based on a fully credible source for each line.

**✓ Column i – Credibility**

Enter the credibility percentage by non-benefit expense component that is applied to projected pmpm non-benefit expenses and blended with pmpm manual rate expenses to calculate blended pmpm expenses for each line. The credibility must be greater than or equal to 0% and less than or equal to 100%.

**✓ Column j – Blended Non-Benefit Expense**

The value is calculated automatically in the BPT as the sum of (column g times column i) and [(1 minus column g) times column h] for each line.

**Line 5, columns e, g and j – Total Non-Benefit Expenses**

The values are calculated automatically in the BPT using information entered on lines 1 through 4 for each column.

**SECTION VI – DEVELOPMENT OF MANUAL RATE**

Provide a brief description of the source of the experience data used as the basis for the manual rate, as well as other relevant information including, but not limited to, benefit design, group size, group characteristics, utilization trends, pricing methodology, formulary changes, induction and risk assumptions.



## PD WORKSHEET 3 – CONTRACT PERIOD PROJECTION FOR DEFINED STANDARD COVERAGE

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Worksheet 3 develops the defined standard bid amount. Specifically, Section I displays general information about the plan. Section II collects contract period information; Section III summarizes the contract period Rx experience. Sections IV and V summarize components of the contract period non-benefit expenses and gain/loss margin and components of the defined standard bid amount, respectively.

Sections II through V must be completed by all plans.

### SECTION I – GENERAL INFORMATION

This section displays the information entered on Worksheet 1, Section I.

### SECTION II – PROJECTION DATA

#### Line 1 – Projected Member Months

The value is carried from Section III, line 6, column e. For an MA-PD, Part D projected member months are the sum of projected member months for MA, ESRD and hospice members.

#### Line 2 – Projected Average Risk Score

Enter the estimated average Rx risk score for the population expected to enroll in the contract period. Refer to the topic “Risk Scores” in the Pricing Considerations section of the Instructions for information concerning the development of the CY2010 risk score.

#### Line 3 – Projected Low-Income Subsidy (LIS) Member Months

Enter the estimated number of member months for enrollees who qualify for and obtain LIS status in the contract period.

#### Line 4 – Network Pricing

The cell is pre-populated with “pass-through”.

### SECTION III – PART D COVERED DRUG CLAIMS

The projection of contract period Rx experience must reflect the risk score entered in Section II, line 2.

#### Lines 1 through 5:

##### ✓ Column d – Number of Members

Enter the number of members expected to have total allowed claims in the allowed claim interval defined for each line. For example, if 6,500 members are expected to have total allowed claims between \$310 and \$2,830, then enter “6,500” on line 3,

column d. Do not include estimates for claims for which the Part D plan is the secondary payer.

✓ **Column e – Member Months**

Enter the number of member months expected in the contract period associated with the number of members in column d for each line.

✓ **Column h – Average Amount Allowed PMPM**

The value is calculated automatically in the BPT as column g divided by column d for each line.

✓ **Column n – Plan Liability PMPM**

The value is calculated automatically in the BPT as column h minus the sum of columns j through m for each line.

**Lines 2 through 5**

✓ **Column f – Number of Scripts**

Enter the estimated total number of prescriptions expected to be filled for Part D covered drugs for the members in column d for each line.

✓ **Column g – Projected Allowed Amount**

Enter the estimated total allowed dollars for prescriptions expected to be filled for Part D covered drugs for the members in column d for each line. Total allowed dollars must reflect the price paid to the dispensing provider at the point of sale and must be net of point of sale rebates and price concessions.

✓ **Column i – Cost Sharing**

The value is calculated automatically in the BPT as the sum of columns j through l for each line.

✓ **Column k – PMPM Deductible**

Enter the projected pmpm value of the deductible for the members in column d for each line.

✓ **Column l – Other Cost Sharing PMPM**

Enter the projected pmpm value of the 25% cost sharing between the deductible and ICL and the catastrophic coinsurance above the catastrophic limit for the members in column d for each line.

✓ **Column o – Federal LIS Cost Sharing PMPM**

Enter the projected amount of low-income cost sharing subsidy that will be received for the members in column d who are LIS-eligible divided by the total projected member months entered in Section II, line 1 for each line.

**Lines 4 through 5, column j – GAP PMPM**

Enter the projected pmpm value corresponding to amounts between the ICL and catastrophic limit for members in column d for each line.

**Line 5, column m – Federal Reinsurance PMPM**

Enter the projected amount of federal reinsurance that will be received for the members in column d divided by the total projected member months entered in Section II, line 1 for each line.

**Line 6 – Subtotal**

The value is calculated automatically in the BPT as the sum of lines 1 through 5 for each column.

**Line 7 – Minus Rebates**

✓ **Column g**

Enter the estimated total amount of rebates expected to be received for the claims in lines 1 through 5. Total rebates include all direct and indirect remuneration received after the point of sale transaction and must be allocated to the plan using a methodology that represents the manner in which the rebates were generated. Point of sale rebates reported in “Column g – Projected Allowed Amount” are not reported here.

✓ **Column h**

The value is calculated automatically in the BPT as column g divided by line 6 column e.

✓ **Columns m and n**

The value in column h is allocated automatically to columns m and n in the BPT based on the relative amount of federal reinsurance to total allowed amount.

**Line 8 – Minus Other Insurance**

✓ **Column g**

Enter, as a positive value, the projected total reduction to total allowed amount attributable to other Rx insurance.

✓ **Column h**

The value is calculated automatically in the BPT as column g divided by line 6 column e.

✓ **Column m**

Enter, as a positive value, the projected pmpm reduction to federal reinsurance attributable to other Rx insurance.

✓ **Column n**

The value is calculated automatically in the BPT as column h minus column m.

**Line 9 – Plus Part D as Secondary**

✓ **Column g**

## WORKSHEET 3

Enter, as a positive value, the projected total plan liability for Part D covered drugs for which the Part D plan is the secondary payer.

✓ **Column h**

The value is calculated automatically in the BPT as column g divided by line 6 column e.

✓ **Column m**

Enter, as a positive value, the projected pmpm plan liability for Part D covered drugs attributable to federal reinsurance for which the Part D plan is the secondary payer.

✓ **Column n**

The value is calculated automatically in the BPT as column h minus column m.

### **Line 10 – Projected Percentage Out-of-Network (OON) Allowed**

Enter the percentage of line 6, column g for projected allowed dollars for prescriptions that will be filled OON.

### **Line 11 – Projected Percentage Out-of-Network (OON) Plan Liability**

Enter the percentage of line 6, column n for projected Part D plan liability for prescriptions that will be filled OON.

### **Line 12, columns g through o – Total**

The values are automatically calculated in the BPT as line 6 minus line 7 minus line 8 plus line 9 for each column.

## **SECTION IV – PMPM NON-BENEFIT EXPENSE AND GAIN/LOSS**

Section IV summarizes components of the contract period non-benefit expenses and gain/loss margin.

### **Lines 1 through 5**

The values are carried from other worksheets or are calculated automatically in the BPT.

### **Line 6 – Total Gain/loss**

Enter the estimated pmpm amount of gain or loss projected during the contract period.

## **SECTION V – DEFINED STANDARD COVERAGE BID DEVELOPMENT**

Section V summarizes the components of the defined standard bid amount.

### **Lines 1 through 5, columns i and j**

The values are carried from other sections in Worksheet 3 or are calculated automatically in the BPT as sums or quotients.

## PD WORKSHEET 4 – STANDARD COVERAGE WITH ACTUARIALLY EQUIVALENT COST SHARING

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Worksheet 4 is completed when the plan benefit type is actuarially equivalent. The two tests that must be satisfied to demonstrate actuarial equivalence are as follows:

- The average coinsurance percentage for amounts between the deductible and the ICL must be actuarially equivalent to 25%.
- The average coinsurance percentage above the catastrophic limit must be actuarially equivalent to the percentage for DS coverage.

### Considerations for Actuarially Equivalent Coverage

Although the average cost sharing between the deductible and ICL must be 25% for an AE plan, it is expected that the cost sharing will be restructured to encourage more efficient drug use through tiered copays and/or coinsurance. As compared to DS plans, AE plans generally have higher generic, preferred brand and mail service utilization and lower non-preferred brand utilization. As a result of these favorable shifts, AE bids have lower costs under the ICL and in the catastrophic phase of the benefit than do DS bids.

Plan sponsors must model the differences between the AE benefit and the DS by making adjustments in utilization and average allowed amounts by type of drug and point of sale in Worksheet 6. The distribution of utilization between generic and brand, and retail and mail, must be reasonable given the proposed benefit. Significant changes to the benefit are expected to result in meaningful differences in utilization when compared to the DS bid. For example, it is reasonable to expect a noticeable increase in the utilization of generic drugs in an AE plan with a zero-dollar generic cost share.

### SECTION I – GENERAL INFORMATION

This section displays the information entered on Worksheet 1, Section I.

### SECTION II – PROJECTION DATA

This section displays the information entered on Worksheet 3, Section II.

### SECTION III – DEVELOPMENT OF BID FOR DEFINED STANDARD COVERAGE

This section displays the information entered on Worksheet 3, Section V.

### SECTION IV – DEVELOPMENT OF BID COMPONENTS AND TESTS FOR ACTUARIAL EQUIVALENCE

**Lines 1 through 3 and 5 through 14, columns e, h, and k**

The values are carried from other worksheets in the BPT.

**Line 4 – Allowed PMPM**

✓ **Column e – Amounts below the Initial Coverage Limit**

Enter the projected average allowed amount pmpm below the ICL.

✓ **Column h – Amounts above Catastrophic Threshold**

Enter the projected average allowed amount pmpm above the catastrophic threshold.

**Line 15 – Rebates**

✓ **Column k**

Enter the estimated total amount of rebates expected to be received by the plan.

✓ **Column h**

The value is calculated automatically in the BPT and is prorated for reinsurance.

**Lines 16 and 17 – Tests for Actuarial Equivalence**

The two actuarial equivalence tests are applied to certain values in Section IV to determine whether the proposed benefit plan qualifies as standard coverage with actuarially equivalent cost sharing.

**SECTION V – STANDARD COVERAGE BID DEVELOPMENT WITH ACTUARIALLY EQUIVALENT COST SHARING**

**Lines 1 through 5**

The values are calculated automatically in the BPT from values in Section IV. The amounts in the first column are calculated based on the plan's risk score, while the amounts in the second column are based on a 1.000 risk score.

**Line 6 – LIS**

Enter the projected average low-income cost-sharing pmpm subsidy for the risk score of the expected population.

## PD WORKSHEET 5 – ALTERNATIVE COVERAGE

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Worksheet 5 is completed when the plan benefit type is basic alternative or enhanced alternative. The five tests that must be satisfied to demonstrate actuarial equivalence are as follows:

- The value of total coverage is at least actuarially equivalent to DS coverage.
- The alternative unsubsidized value of coverage is no less than the DS unsubsidized value of coverage.
- The average alternative benefits for beneficiaries with allowed drug costs at the ICL are not less than the average DS benefits at the ICL.
- The deductible is not greater than the DS deductible.
- The average alternative catastrophic cost sharing is not greater than the average DS catastrophic cost sharing.

### Considerations for Basic Alternative and Enhanced Alternative Coverage

Although the average cost sharing between the deductible and ICL must be 25% for a BA or EA plan, it is expected that the cost sharing will be restructured to encourage more efficient drug use through tiered copays and/or coinsurance. As compared to DS plans, BA and EA plans generally have higher generic, preferred brand and mail service utilization and lower non-preferred brand utilization. As a result of these favorable shifts, BA and EA bids have lower costs under the ICL and in the catastrophic phase of the benefit than do DS bids.

Plan sponsors must model the differences between the BA or EA benefit and the DS by making adjustments in utilization and average allowed amounts by type of drug and point of sale in Worksheet 6. The distribution of utilization between generic and brand, and retail and mail, must be reasonable given the proposed benefit. Significant changes to the benefit are expected to result in meaningful differences in utilization when compared to the DS bid. For example, it is reasonable to expect a noticeable increase in the utilization of generic drugs in a BA or EA plan with a zero-dollar generic cost share.

BA and EA plans may reduce the value of the deductible. This action may in turn reduce the risk profile of the group and cause induced utilization.

BA and EA plans may provide coverage in the gap. Since the value of coverage up to the ICL must remain the same relative to the DS, a supplemental premium will result unless the cost of the additional coverage is offset by savings in catastrophic coverage. Additional coverage in the gap can delay the point at which a beneficiary achieves \$4,550 of true out-of-pocket (TrOOP) costs and reaches catastrophic coverage. This delay can reduce the amount of reinsurance that will be provided, cause induced utilization and increase the risk profile of the group. Members with extremely high spending will not benefit as much as those with moderate amounts of spending.

## SECTION I – GENERAL INFORMATION

This section displays the information entered on Worksheet 1, Section I.

## SECTION II – PROJECTION DATA

This section displays the information entered on Worksheet 3, Section II.

## SECTION III – DEVELOPMENT OF BID FOR DEFINED STANDARD COVERAGE

This section displays the information entered on Worksheet 3, Section V.

## SECTION IV – DEVELOPMENT OF BID COMPONENTS

### Lines 1 through 3

✓ **Columns f, g and m**

The values are carried from Worksheet 3 in the BPT.

✓ **Columns i and o**

The values are calculated automatically in the BPT as column f plus column g.

### Type of Deductible

Enter the type of deductible consistent with the description in the PBP for the alternative coverage. The valid options are “no deductible”, “applies to all tiers” or “applies to some tiers”.

### Alternative Coverage ICL

Enter the ICL consistent with the description in the PBP for the alternative coverage.

### Type of Gap Coverage

Enter the type of gap coverage consistent with the description in the PBP for the alternative coverage. The valid options are “no coverage”, “full coverage”, “partial – generics only”, “partial – increased ICL”, “partial – limited monetary amount” or “partial – other”.

### Lines 4 through 24

The values in columns d through o include Part D covered drugs only; the values in column q include non-Part D covered drugs only. The values are carried from other worksheets or are calculated automatically in the BPT with the exception of the following which must be entered:

✓ **Line 5, column k – Amounts in Gap**

Enter the projected average allowed amount pmpm in the coverage gap.

✓ **Line 5, column m – Amounts above Catastrophic**

Enter the projected average allowed amount pmpm above the catastrophic limit.

✓ **Line 6, column d – Proposed Deductible**

Enter the dollar value of the deductible consistent with the description in the PBP.

✓ **Line 8, column f – Value of Proposed Deductible**



Enter the projected pmpm value of the deductible for members with total allowed amount less than the ICL. Refer to the topic “Non-Uniform Deductible” in the Pricing Considerations section of the Instructions for more information.

✓ **Line 12, column k – Coinsurance Percentage in Gap**

Enter the effective coinsurance percentage for any coverage provided in the gap, including coverage because of variations in the ICL.

✓ **Line 18, column o – Minus Rebates**

Enter the estimated total rebates pmpm expected to be received for Part D covered drugs.

✓ **Line 18, column q – Minus Rebates**

Enter the estimated total rebates pmpm expected to be received for non-Part D covered drugs.

✓ **Line 20, columns m, o and q – Minus Other Insurance**

Enter, as a positive value, the projected reduction to average allowed amount pmpm attributable to other Rx insurance for Part D covered drugs, reinsurance-eligible Part D covered drugs and non-Part D covered drugs in columns m, o and q, respectively.

✓ **Line 22, columns m, o, and q – Plus Part D as Secondary**

Enter, as a positive value, the projected plan liability pmpm for which the Part D plan is the secondary payer for Part D covered drugs, reinsurance-eligible Part D covered drugs and non-Part D covered drugs in columns m, o and q, respectively.

## **SECTION V – DEVELOPMENT OF ACTUARIAL EQUIVALENT TEST**

### **Lines 1 through 8**

The values are calculated automatically in the BPT from values in Section IV. The amounts in the first column are calculated based on the plan’s risk score, while the amounts in the second column are based on a 1.000 risk score.

### **Line 9 – LIS**

Enter the projected average low-income cost-sharing pmpm subsidy for the risk score of the expected population.

## **SECTION VI – TESTS FOR ALTERNATIVE COVERAGE**

This section applies the five actuarial equivalence tests to certain values in Sections III through V to determine whether the proposed benefit plan qualifies as alternative coverage.

## **SECTION VII – DEVELOPMENT OF SUPPLEMENTAL PREMIUM**

### **Lines 1 through 5 and 8**

The values are calculated automatically by the BPT from values in Worksheet 5.

**Line 6 – Additional Non-Benefit Expenses**

The value is carried from Worksheet 3.

**Line 7 – Additional Gain/loss**

The value is carried from Worksheet 3.

**SECTION VIII – DEVELOPMENT OF INDUCED UTILIZATION ADJUSTMENT**

This section summarizes the additional costs of DS coverage with respect to the enhanced alternative plan with supplemental benefits and is used to adjust allowable costs for risk corridor payments.

**Line 2 – Impact of Alternative Utilization on Standard Benefit**

Enter the additional costs for Part D covered drugs under a DS plan in the first column if the utilization of the EA plan was used to price the DS coverage in the bid. The adjustment applies to the EA plan type and must be a positive value. For CY2010, this amount represents 75% of costs between the \$310 deductible and the \$2,830 ICL, plus 15% of costs in excess of the basic catastrophic limit or \$4,550.

## **PD WORKSHEET 6 – SCRIPT PROJECTIONS FOR DEFINED STANDARD, ACTUARIALLY EQUIVALENT OR ALTERNATIVE COVERAGE**

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Worksheet 6 summarizes drug utilization and costs by type of drug and in different distributions of drug spending. In addition, Worksheet 6 illustrates the underlying assumptions used in the demonstration of the actuarial equivalence tests in Worksheets 4 and 5. Section II collects data in a manner that supports an actuarial comparison of the proposed AE, BA or EA plan benefit type to DS coverage.

### **Considerations**

Although this worksheet is not a detailed model of the cost-sharing structure of the AE, BA or EA plan design, the impact of tiered cost sharing, non-uniform deductible, decreased ICL and benefit management programs on utilization must be clearly demonstrated. The distribution of utilization between generic and brand, and between retail and mail, must be reasonable given the proposed benefit. Significant changes to the alternative benefit are expected to result in meaningful differences in utilization when compared to the DS bid. For example, it is reasonable to expect a noticeable increase in the utilization of generic drugs in an alternative plan with a zero-dollar generic cost share.

Plan sponsors must model the impact of the alternative benefit compared to the DS by making adjustments in utilization and average script pricing in Worksheet 6. The distributions must be based on the intervals defined for DS coverage. For purposes of modeling the alternative coverage, members must be reported in the claims interval in which they were reported under DS coverage even though their total drug spend may be different because of the impact of the alternative benefits. For example, lines 1 through 9 must reflect the utilization for the AE, BA or EA plan for members expected to have less than the DS ICL of \$4,550 in CY2010. In other words, the amounts summarized in columns i, j and k must be based on the same members represented in columns f, g, and h of each line.

Refer to the Pricing Considerations section of the Instructions for information on modeling the impact of coverage in the gap, decreased ICL and non-uniform deductible.

### **SECTION I – GENERAL INFORMATION**

This section displays the information entered on Worksheet 1, Section I.

### **SECTION II – PROJECTIONS FOR EQUIVALENCE TESTS**

Data are collected for four levels of allowed costs on lines 1 through 36. The distribution of the population and Part D covered drug claims reported on Worksheet 3 must be used in completing this section. Columns f through h must be completed for all plans based on DS coverage; columns i through k must be completed when the plan benefit type is AE, BA or EA based on the alternative coverage. In developing the cost-sharing values in columns h and k, do not model the impact of the deductible, coverage gap and LIS subsidy. To model column h, use the cost-sharing structure of the DS plan; to model column k, use the cost-sharing structure of the alternative (AE, BA or EA) plan.

**Lines 1 through 8 – Population Not Exceeding Allowed Costs of \$2,830 with Standard Coverage**

All utilization for members with projected total allowed costs less than \$2,830 must be reported on these lines.

✓ **Columns f through h – Defined Standard Coverage**

Enter the projected total number of scripts, total allowed dollars, and total standard cost sharing for the population identified in Worksheet 3, Section III, cells D21 plus D22, using the cost-sharing structure of the DS plan by point of sale and type of drug in columns f, g and h, respectively, for each line. Calculate the cost sharing as if there were no deductible, coverage gap and LIS subsidy.

✓ **Columns i through k – Actuarially Equivalent or Alternative Benefits**

When the plan benefit type is AE, BA or EA, enter the projected total number of scripts, total allowed dollars and total cost sharing for the population identified in Worksheet 3, Section III, cells D21 plus D22, using the cost sharing structure of the AE, BA or EA plan by point of sale and type of drug in columns i, j and k, respectively, for each line. Calculate the cost sharing as if there were no deductible, coverage gap and LIS subsidy. These values include changes to utilization patterns based on the difference between DS coverage and the proposed alternative coverage.

**Line 9, columns f through k - Total**

The values are calculated automatically in the BPT as the sum of lines 1 through 8 for each column.

**Lines 10 through 17 – Population Exceeding Allowed Costs of \$2,830 with Standard Coverage**

All utilization for members with projected total allowed costs greater than or equal to \$2,830 must be reported on these lines.

✓ **Columns f and g – Defined Standard Coverage**

Enter the projected total number of scripts and total allowed dollars for the population identified in Worksheet 3, Section III, cells D23 plus D24 by point of sale and type of drug in columns f and g, respectively, for each line.

✓ **Columns i and j – Actuarially Equivalent or Alternative Benefits**

When the plan benefit type is AE, BA or EA, enter the projected total number of scripts and total allowed dollars for the population identified in Worksheet 3, Section III, cells D23 plus D24 by point of sale and type of drug in columns i and k, respectively, for each line. These values include changes to utilization patterns based on the difference between DS coverage and the proposed alternative coverage.

**Line 18, columns f, g, i and j – Total**

The values are calculated automatically in the BPT as the sum of lines 10 through 17 for each column.

**Lines 19 through 26 – Population Exceeding \$2,830 with Standard Coverage Amounts Allocated up to ICL**

All utilization for total allowed costs up to \$2,830 for members with projected total allowed costs greater than or equal to \$2,830 must be reported on these lines. These amounts are a subset of the amounts reported in lines 10 through 18; amounts in the gap are intentionally excluded.

✓ **Columns f through h – Defined Standard Coverage**

Enter the projected total number of scripts, total allowed dollars, and total standard cost sharing, for amounts allocated up to the ICL of \$2,830 in CY2010, for the population identified in Worksheet 3, Section III, cells D23 plus D24, using the cost sharing structure of the DS plan by point of sale and type of drug in columns f, g and h, respectively, for each line. Calculate the cost sharing as if there were no deductible, coverage gap and LIS subsidy.

✓ **Columns i through k – Actuarially Equivalent or Alternative Benefits**

When the plan benefit type is AE, BA or EA, enter the projected total number of scripts, total allowed dollars and total cost sharing, for amounts allocated up to the ICL, for the population identified in Worksheet 3, Section III, cells D23 plus D24, using the cost sharing structure of the AE, BA or EA plan by point of sale and type of drug in columns i, j and k, respectively, for each line. Calculate the cost sharing as if there were no deductible, coverage gap and LIS subsidy. These values include changes to utilization patterns based on the difference between DS coverage and the proposed alternative coverage.

**Line 27, columns f through k – Total**

The values are calculated automatically in the BPT as the sum of lines 19 through 26 for each column.

**Lines 28 through 35, columns f through k – Amounts Allocated over Catastrophic Coverage**

The amounts in these lines are a subset of the amounts reported in lines 10 through 18.

✓ **Columns f through h – Defined Standard Coverage**

Enter the projected total number of scripts, total allowed dollars, and total standard cost sharing, for amounts over the catastrophic limit, for the population identified in Worksheet 3, Section III, cell D24, using the cost-sharing structure of the DS plan by point of sale and type of drug in columns f, g and h, respectively, for each line.

✓ **Columns i through k – Actuarially Equivalent or Alternative Benefits**

When the plan benefit type is AE, BA or EA, enter the projected total number of scripts, total allowed dollars and total cost sharing, for amounts over the catastrophic limit, for the population identified in Worksheet 3, Section III, cell D24, using the cost-sharing structure of the AE, BA or EA plan by point of sale and type of drug in columns i, j and k, respectively, for each line. These values include changes to utilization patterns based on the difference between DS coverage and the proposed alternative coverage.

**Line 36, columns f through k – Total**

The values are calculated automatically in the BPT as the sum of lines 28 through 35 for each column.

**Line 37, columns i through k – Non-Part D Covered Drugs All Spending**

When the plan benefit type is EA and the plan covers non-Part D drugs, enter the projected total number of scripts, total allowed dollars and total cost sharing for the population identified in Worksheet 3, Section III using the cost-sharing structure of the EA plan by point of sale and type of drug in columns i, j and k, respectively, for each line.

**Example**

Below is an example of how lines 10 through 36 are to be completed. It is based on the CY2008 defined standard benefit parameters:

- Deductible: \$275
- ICL: \$2,510
- OOP Threshold: \$4,050
- Total Covered Part D Drug Spend at OOP Threshold: \$5,726.25

The example assumes that beneficiaries A and B reach catastrophic coverage with total allowed costs of \$10,000 and \$6,425, respectively. The following cost-sharing provisions apply:

Cost Sharing	Up to ICL	Catastrophic
Retail Generic	\$5	\$2.25
Retail Preferred Brand	\$25	\$2.25
Retail Non-Preferred Brand	\$50	\$5.60
Retail Specialty	25%	5%
Mail Order Generic	\$10	\$2.25
Mail Order Preferred Brand	\$50	\$2.25
Mail Order Non-Preferred Brand	\$100	\$5.60
Mail Order Specialty	25%	5%

For illustrative purposes only, the beneficiaries are shown separately and in aggregate.

Beneficiary A's costs are distributed as follows:

**Population Exceeding \$2,510 with Standard Coverage**

	Utilization	Beneficiary A Allowed	Cost Sharing
10. Retail Generic	20	\$ 500.00	
11. Retail Preferred Brand	15	\$ 1,500.00	
12. Retail Non-Preferred Brand	8	\$ 1,200.00	
13. Retail Specialty (2)	2	\$ 2,000.00	
14. Mail Order Generic	10	\$ 550.00	
15. Mail Order Preferred Brand	10	\$ 2,250.00	
16. Mail Order Non-Preferred Brand	5	\$ 2,000.00	
17. Mail Order Specialty (2)	-	\$ -	
<b>18. Total</b>	70	\$ 10,000.00	

**Amounts Allocated up to ICL \$2,510**

19. Retail Generic	5.02	\$ 125.50	\$ 25.10
20. Retail Preferred Brand	3.77	\$ 376.50	\$ 94.13
21. Retail Non-Preferred Brand	2.01	\$ 301.20	\$ 100.40
22. Retail Specialty (2)	0.50	\$ 502.00	\$ 125.50
23. Mail Order Generic	2.51	\$ 138.05	\$ 25.10
24. Mail Order Preferred Brand	2.51	\$ 564.75	\$ 125.50
25. Mail Order Non-Preferred Brand	1.26	\$ 502.00	\$ 125.50
26. Mail Order Specialty (2)	-	\$ -	\$ -
<b>27. Total</b>	17.57	\$ 2,510.00	\$ 621.23

**Amounts Allocated over Catastrophic Coverage**

28. Retail Generic	8.55	\$ 213.69	\$ 19.23
29. Retail Preferred Brand	6.41	\$ 641.06	\$ 14.42
30. Retail Non-Preferred Brand	3.42	\$ 512.85	\$ 19.15
31. Retail Specialty (2)	0.85	\$ 854.75	\$ 42.74
32. Mail Order Generic	4.27	\$ 235.06	\$ 9.62
33. Mail Order Preferred Brand	4.27	\$ 961.59	\$ 9.62
34. Mail Order Non-Preferred Brand	2.14	\$ 854.75	\$ 11.97
35. Mail Order Specialty (2)	-	\$ -	\$ -
<b>36. Total</b>	29.92	\$ 4,273.75	\$ 126.74

Beneficiary B's costs are distributed as follows:

**Population Exceeding \$2,510 with Standard Coverage**

	Utilization	Beneficiary B Allowed	Cost Sharing
10. Retail Generic	18	\$ 450.00	
11. Retail Preferred Brand	12	\$ 1,200.00	
12. Retail Non-Preferred Brand	10	\$ 1,500.00	
13. Retail Specialty (2)	-	\$ -	
14. Mail Order Generic	5	\$ 275.00	
15. Mail Order Preferred Brand	8	\$ 1,800.00	
16. Mail Order Non-Preferred Brand	3	\$ 1,200.00	
17. Mail Order Specialty (2)	-	\$ -	
<b>18. Total</b>	56	\$ 6,425.00	

**Amounts Allocated Up to ICL \$2,510**

19. Retail Generic	7.03	\$ 175.80	\$ 35.16
20. Retail Preferred Brand	4.69	\$ 468.79	\$ 117.20
21. Retail Non-Preferred Brand	3.91	\$ 585.99	\$ 195.33
22. Retail Specialty (2)	-	\$ -	\$ -
23. Mail Order Generic	1.95	\$ 107.43	\$ 19.53
24. Mail Order Preferred Brand	3.13	\$ 703.19	\$ 156.26
25. Mail Order Non-Preferred Brand	1.17	\$ 468.79	\$ 117.20
26. Mail Order Specialty (2)	-	\$ -	\$ -
<b>27. Total</b>	21.88	\$ 2,510.00	\$ 640.68

**Amounts Allocated over Catastrophic Coverage**

28. Retail Generic	1.96	\$ 48.94	\$ 4.40
29. Retail Preferred Brand	1.31	\$ 130.51	\$ 2.94
30. Retail Non-Preferred Brand	1.09	\$ 163.13	\$ 6.09
31. Retail Specialty (2)	-	\$ -	\$ -
32. Mail Order Generic	0.54	\$ 29.91	\$ 1.22
33. Mail Order Preferred Brand	0.87	\$ 195.76	\$ 1.96
34. Mail Order Non-Preferred Brand	0.33	\$ 130.51	\$ 1.83
35. Mail Order Specialty (2)	-	\$ -	\$ -
<b>36. Total</b>	6.09	\$ 698.75	\$ 18.44



The aggregate costs of Beneficiaries A and B are distributed as follows:

**Population Exceeding \$2,510 with Standard Coverage**

	Utilization	Total A & B Allowed	Cost Sharing
10. Retail Generic	38	\$ 950.00	
11. Retail Preferred Brand	27	\$ 2,700.00	
12. Retail Non-Preferred Brand	18	\$ 2,700.00	
13. Retail Specialty (2)	2	\$ 2,000.00	
14. Mail Order Generic	15	\$ 825.00	
15. Mail Order Preferred Brand	18	\$ 4,050.00	
16. Mail Order Non-Preferred Brand	8	\$ 3,200.00	
17. Mail Order Specialty (2)	-	\$ -	
<b>18. Total</b>	126	\$ 16,425	

**Amounts Allocated up to ICL \$2,510**

19. Retail Generic	12.05	\$ 301.30	\$ 60.26
20. Retail Preferred Brand	8.45	\$ 845.29	\$ 211.32
21. Retail Non-Preferred Brand	5.91	\$ 887.19	\$ 295.73
22. Retail Specialty (2)	0.50	\$ 502.00	\$ 125.50
23. Mail Order Generic	4.46	\$ 245.48	\$ 44.63
24. Mail Order Preferred Brand	5.64	\$ 1,267.94	\$ 281.76
25. Mail Order Non-Preferred Brand	2.43	\$ 970.79	\$ 242.70
26. Mail Order Specialty (2)	-	\$ -	\$ -
<b>27. Total</b>	39.45	\$ 5,020.00	\$ 1,261.91

**Amounts Allocated over Catastrophic Coverage**

28. Retail Generic	10.51	\$ 262.63	\$ 23.64
29. Retail Preferred Brand	7.72	\$ 771.57	\$ 17.36
30. Retail Non-Preferred Brand	4.51	\$ 675.98	\$ 25.24
31. Retail Specialty (2)	0.85	\$ 854.75	\$ 42.74
32. Mail Order Generic	4.82	\$ 264.96	\$ 10.84
33. Mail Order Preferred Brand	5.14	\$ 1,157.35	\$ 11.57
34. Mail Order Non-Preferred Brand	2.46	\$ 985.26	\$ 13.79
35. Mail Order Specialty (2)	-	\$ -	\$ -
<b>36. Total</b>	36.01	\$ 4,972.50	\$ 145.18

(2) - The Specialty tier is used only when the Plan sponsor places Specialty drugs on a separate tier in accordance with CMS guidelines.

**Network Pricing**

Enter the projected average percentage discount off of AWP and the projected average dispensing fees for generic, brand and Specialty drugs dispensed at retail and mail.

The values in this section must be based on the network pricing contracts that will be effective in CY2010 and the projected weighted utilization by pharmacy of the population identified in Worksheet 3.

## PD WORKSHEET 7 – SUMMARY OF KEY BID ELEMENTS

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Worksheet 7 summarizes key payment-related components of the bid and the Plan sponsor's estimate of the national average monthly bid amount and calculates premiums.

### SECTION I - GENERAL INFORMATION

This section displays the information entered on Worksheet 1, Section I.

### SECTION II – 2010 DEFINED STANDARD BENEFIT PARAMETERS

#### Line 1 – Deductible

The cell is pre-populated with the deductible for the DS plan benefit type.

#### Line 2 – Initial Coverage Limit

The cell is pre-populated with the ICL for the DS plan benefit type.

#### Line 3 – Out-of-Pocket Limit

The cell is pre-populated with the OOP for the DS plan benefit type.

### SECTION III – SUMMARY OF KEY BID ELEMENTS

#### Line 1 – Standardized Part D Bid

The value is carried from other worksheets in the BPT based on the plan benefit type (DS, AE, BA or EA).

#### Line 2 – National Average Monthly Bid Amount

Enter the Plan sponsor's estimate of the national average monthly bid amount at the time of bid submission. The final national average monthly bid amount for CY2010 will be calculated and published by CMS in early August 2009.

#### Line 3 – Base Beneficiary Premium

Enter the Plan sponsor's estimate of the base beneficiary premium amount. The national average monthly bid amount, basic Part D A/B rebate allocation reported on the MA BPT for MA plans and base beneficiary premium will determine the plan's basic Part D target premium.

#### Lines 4 and 5 – Basic Part D Premium (prior to A/B rebate reallocation)

The values are calculated automatically in the BPT. Line 4 is calculated as line 1 minus line 2 plus line 3. Line 5 reflects the value of the basic Part D premium from line 4 after the rounding rule selected on line 8 of this section has been applied. The basic Part D premium, before and after the rounding rule is applied, will be updated based on the actual national average monthly bid amount and base beneficiary premium that are calculated and published by CMS in early August.

**Lines 6 and 7 – Supplemental Part D Premium (prior to A/B rebate allocation)**

The values are calculated automatically in the BPT when supplemental benefits are offered. Line 6 is carried from Worksheet 5 of the BPT. Line 7 reflects the value of the supplemental Part D premium from line 6 after the rounding rule selected on line 8 of this section has been applied.

**Line 8 – Prospective Federal Reinsurance (non-standardized)**

The value is carried from other worksheets in the BPT based on the plan benefit type (DS, AE, BA or EA).

**Line 9 – Prospective Low-income Cost-Sharing Subsidy (non-standardized)**

The value is carried from other worksheets in the BPT based on the plan benefit type (DS, AE, BA or EA).

**Line 10 – Target Adjustment (allowed costs as a ratio of bid)**

The target adjustment is the administrative cost percentage of the bid and it is used in calculating the target amount for risk corridor payments. The value is calculated as –

$[(1.00 - \text{administration cost percentage}) \times (\text{total direct subsidy payments} + \text{total beneficiary premiums related to the standardized bid amount})]$

**Line 11 – Rounding Rule**

Select the option from the drop-down box that corresponds to the preferred method for rounding the Part D premium. The valid options are \$0.10 and \$0.50; the default is \$0.10. MA-PD plans are required to round to the nearest \$0.10; Part D plans are permitted to round to either the nearest \$0.10 or nearest \$0.50.

**SECTION IV – PART D BID PRICING TOOL CONTACTS AND DATE PREPARED**

Plan sponsors must identify three persons who are readily available and authorized to discuss the development of the bid and must enter their names, phone numbers and e-mail addresses on the designated lines; credentials are a required input for the certifying actuary.

Enter the date that the BPT was prepared on line 47. If the BPT is revised and resubmitted during the bid desk review process, then this date field must be updated accordingly.

**SECTION V – WORKING MODEL TEXT BOX**

This section contains multiple cells that can be used by bid preparers to enter internal notes that facilitate communication between BPT and PBP preparers or track internal version schemes.

This section will be deleted from the finalized file and therefore will not be uploaded to HPMS. Bid preparers must not enter information in this section meant to be communicated to CMS or to CMS reviewers, as CMS will not have access to it. This section will not be deleted from the working file or the backup file during finalization.

## IV. APPENDICES

### APPENDIX A – ACTUARIAL CERTIFICATION

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CMS requires an actuarial certification to accompany every bid submitted to HPMS. A qualified actuary who is a member of the American Academy of Actuaries (MAAA) must complete the certification. The objective of obtaining an actuarial certification is to place greater responsibility on the actuary's professional judgment and to hold him/her accountable for the reasonableness of the assumptions and projections.

#### Actuarial Standards of Practice and Other Considerations

In preparing the actuarial certification, the actuary must consider whether the actuarial work supporting the bid conforms to the current Actuarial Standards of Practice (ASOP), as promulgated by the Actuarial Standards Board. While other ASOPs apply, particular emphasis is placed on the following:

- ASOP No. 5, *Incurred Health and Disability Claims*.
- ASOP No. 8, *Regulatory Filings for Health Plan Entities*. Particular focus is placed on the following sections: "Use of Business Plans to Project Future Results" (3.2.3), "Use of Past Experience to Project Future Results" (3.2.4), "Recognition of Plan Provisions" (3.2.5), "New Plans or Benefits" (3.2.6), "Regulatory Benchmark" (3.2.8) and "Reasonableness of Assumptions" (3.2.9).
- ASOP No. 23, *Data Quality*. Particular focus is placed on the following sections: "Selection of Data" (3.2), "Reliance on Data Supplied by Others" (3.3), "Reliance on Other Information Relevant to the Use of Data" (3.4), "Review of Data" (3.5), "Use of Data" (3.7) and "Communications and Disclosures" (Section 4).
- ASOP No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*.
- ASOP No. 31, *Documentation in Health Benefit Plan Ratemaking*. Particular focus is placed on the following section: "Extent of Documentation" (3.2).
- ASOP No. 41, *Actuarial Communications*. Particular focus is placed on the following sections: "Reliance on Other Sources" (3.1.6) and "Actuarial Report" (3.3.3).

The certifying actuary must also consider whether the actuarial work supporting the bid complies with applicable laws, rules, Instructions for Completing the Medicare Prescription Drug Plan Bid Pricing Tool for Contract Year 2010 and current CMS guidance. In addition, he/she must consider whether the actuarial work supporting the bid is consistent and reasonable with respect to the plan benefit package and the organization's current business plan.

#### Certification Module

The certification module contains the following features:

- Standardized required language (the required elements are described in a subsequent section of this appendix).
- The ability to append free-form text language to the required standardized language.
- A summary of key information from the submitted bids.

- Links to additional information regarding the bid package such as the PBP, BPT and supporting documentation.
- The ability to certify multiple bids/contracts.
- The ability to print and save the submitted certification.

An initial actuarial certification must be submitted via the HPMS certification module in June. The actuary must also certify the final bid, which is pending CMS approval, via the certification module in August following the CMS publication of the Part D national average monthly bid amount, the Part D base beneficiary premium, the Part D regional low-income premium subsidy amounts and the MA regional benchmarks. Actuaries are not required to certify every intermittent resubmission throughout the bid review process, but they may do so if they wish. Note that in the event that the PBP changes after the “final” bid is certified, the bid that is uploaded into HPMS with the revised PBP must be recertified whether or not the BPT changes.

As was instructed in previous contract years, material changes to the certification language after the initial June certification submission are not allowed without prior written permission from the CMS Office of the Actuary.

Plan sponsors may have multiple actuaries assigned to one contract to perform the certifications. For example, a consulting actuary may certify the Part D portion of a bid, while an internal plan staff actuary may certify the MA portion of the bid. Also, one actuary may certify plan Hxxxx-001, while a different actuary may certify plan Hxxxx-002. The instructions contained in this appendix must be followed by all actuaries who will be certifying CY2010 bids.

If a certification is not submitted via the HPMS certification module, the bid will not be considered for CMS review and approval.

Every Part D BPT requires a certification.

### **Required Certification Elements**

The certification module contains the following information as part of the standardized language:

- The certifying actuary’s name/user ID and the date, “stamped” when the certification is submitted.
- Attestation that the actuary submitting the certification is a member of the American Academy of Actuaries (MAAA). As such, the actuary is familiar with the requirements for preparing MA and Part D bid submissions and meets the Academy’s qualification standards for doing so.
- The specific contract- plan- segment ID of the bid associated with the certification.
- The contract year of the bid contained in the certification.
- Indication of whether the certification applies to the MA bid, the Part D bid or both.

- Attestation that the certification complies with the applicable laws <sup>1</sup>, rules<sup>2</sup>, Instructions and current CMS guidance.
- Attestation that, in accordance with federal law, the bid is based on the “average revenue requirements in the payment area for a Medicare Advantage/Part D enrollee with a national average risk profile”.
- Attestation that the data and assumptions used in the development of the bid are reasonable for the PBP.
- Attestation that the data and assumptions used in the development of the bid are consistent with the organization’s current business plan.
- Attestation that the bid was prepared based on the current standards of practice, as promulgated by the Actuarial Standards Board of the American Academy of Actuaries, and that the bid complies with the appropriate ASOPs.
- A statement that, in accordance with ASOP 23, any data and assumptions provided by reliances were reviewed for reasonableness and consistency, and that supporting documentation for the reliance on information provided by others is uploaded with the bid.

Please refer to ASOP No. 23, “*Data Quality*”, and ASOP No. 41, “*Actuarial Communications*”, for additional details regarding reliances. Also, see Appendix B for information regarding supporting documentation required for reliances.

If you have any questions regarding the CY2010 certification instructions, please contact the CMS Office of the Actuary at [actuarial-bids@cms.hhs.gov](mailto:actuarial-bids@cms.hhs.gov).

### **Certification Module Access**

Detailed instructions regarding how to apply for access to the CY2010 certification module are released via an HPMS memo dated March 9, 2009.

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<sup>1</sup> Social Security Act sections 1851 through 1859; and Social Security Act sections 1860D-1 through 1860D-42.

<sup>2</sup> 42 CFR Parts 400, 403, 411, 417, 422, and 423

## APPENDIX B – SUPPORTING DOCUMENTATION

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### GENERAL

In addition to the BPT and actuarial certification, Plan sponsors must provide CMS with supporting documentation for every bid, as described in these Instructions.

Unless otherwise noted, Plan sponsors must upload all required supporting documentation at the time of the initial June bid submission. Additional supporting documentation must be made available to CMS reviewers upon request, and within 48 hours of the request, as required by these Instructions.

Supporting documentation requirements apply regardless of the source of the assumption, whether it was developed by the actuary, the Plan sponsor or a third party. If the actuary relied upon others for certain bid data and/or assumptions, those individuals are subject to the same documentation requirements. The actuary must be prepared to produce all substantiation pertaining to the bid, even if it was prepared by others or is based on a reliance.

In preparing supporting documentation, the actuary must consider ASOP No. 31, *Documentation in Health Benefit Plan Ratemaking*. In accordance with Section 3.2, “Extent of Documentation”, the materials provided must be written “with sufficient clarity that another actuary practicing in the same field could make an objective evaluation of the reasonableness of the work product.”

All data submitted as part of the bid process are subject to review and audit by CMS, or by any person or organization that CMS designates. Certifying actuaries must be available to respond to inquiries from CMS reviewers regarding the submitted bids.

Supporting documentation must –

- Be clearly labeled and easily understood by CMS reviewers.
- Include quantitative support and details, rather than just narrative descriptions of assumptions.
- Describe plan-specific variations in addition to an overall description of a pricing assumption or methodology.
- Tie to the values entered in the BPT.
- Include working formulas in Excel spreadsheets.
- Clearly identify if it is related to MA, Part D or both.
- Clearly identify the bid(s) relating to the support. At a minimum, the contract number must appear on the first page. Specific plan numbers must be included where appropriate, such as on the first page, in a separate chart or as an attachment.

Acceptable forms of supporting documentation include, but are not limited to, the following items:

- Meeting minutes from discussions related to bid development.
- E-mail correspondence related to bid development.
- A complete description of data sources – for example, a report’s official name/title, file name, date obtained, source file, etc.

- Intermediate calculations showing each step taken to calculate an assumption.
- A summary of contractual terms of administrative services agreements.
- A business plan.

Supporting documentation that is not acceptable or that may result in a request for additional information includes, but is not limited to, the following items:

- A reference to the supporting documentation for another plan, such as “the same as for plan Hxxxx-xxx”, and not the documentation itself. The supporting documentation for a plan must be self-contained.
- General descriptions of pricing that do not include plan-specific information.
- A statement that the source of a pricing assumption is “professional judgment” with no additional explanation, reasoning, supporting factors, studies, etc.
- “Living worksheets” that are overwritten with current data. Supporting documentation must include the version of the worksheet that was used in bid preparation.
- Information obtained after the bids are submitted.
- A statement that a pricing assumption or methodology is assumed acceptable based on its inclusion in a bid that was approved by CMS in a prior contract year. Data, assumptions, methodologies, and projections must be determined to be reasonable and appropriate for the current bid, independent of prior bid filings.

## **SUBMITTING SUPPORTING DOCUMENTATION**

Supporting materials must be in electronic format (Microsoft Excel, Microsoft Word, or Adobe Acrobat) and must be uploaded to HPMS. CMS will not accept paper copies of supporting documentation. Note that multiple substantiation files can be submitted to HPMS at one time by using “zip” files, which compress multiple files into one (.zip file extension). Also, one file can be uploaded to multiple plans in HPMS by using the CTRL key when plans are selected. However, documentation must not be uploaded to plans to which it does not pertain. It is not acceptable to upload to multiple plans materials specific to a Part D plan, MA plan or certain contract ID. That is, do not upload support for contracts/plans for which the substantiation does not apply.

### **Cover Sheet**

To expedite the bid review process, Plan sponsors must upload a “cover sheet” that lists all of the supporting documentation that is uploaded or provided with the bid form. The filename must include the phrase “cover sheet.” A cover sheet is required for each upload of substantiation.

The cover sheet must include detailed information for each support item, such as the filename and the location within the file, if applicable. The cover sheet must clearly identify the bid IDs and whether the substantiation is related to MA, Part D or both.

Note that some documentation requirements apply to every bid (for example, every bid contains a risk score assumption), while other documentation requirements apply only to bids that contain certain assumptions (for example, manual rate documentation applies only if a bid’s projection is based on manual rates). For documentation categories that apply to a subset of bids that contain a specified assumption, the cover sheet must not refer to a “range” of bid



IDs (such as “plans 001 – 030”, or “all plans under contract Hxxxx”). For these items, the cover sheet must contain the exact bid IDs (contract/plan/segment) to which the documentation applies.

For subsequent substantiation uploads, the cover sheet must summarize the additional documents uploaded at that time (that is, the cover sheet must not be maintained as a cumulative list). The subsequent cover sheets must also contain the exact bid IDs rather than a “range” of bid IDs.

Sample check lists and cover sheets for the initial June bid submission, and for subsequent substantiation uploads, are provided at the end of this appendix.

**Timing**

Plan sponsors and certifying actuaries must prepare all supporting documentation and upload required documentation into HPMS at the time of the initial June bid submission. These items are described in the “Initial June Bid Submission” section below.

Moreover, CMS recommends that other supporting documentation materials be uploaded with the initial June bid submission, though this is not required. However, these materials must be prepared at that time in order to be readily available to CMS reviewers upon request. See the “Upon Request by CMS Reviewers” section of this appendix for more information. When additional substantiation is requested by CMS reviewers, it must be provided within 48 hours. These materials will be reviewed at audit.

**Initial June Bid Submission**

The following documentation requirements apply to all bids (as all bids contain these assumptions):

- A cover sheet outlining the documentation files, as described above.
- A product narrative that offers relevant information about plan design, the product positioning in the market (such as high/low), changes in service area, type of coverage, contractual arrangements, marketing approach and any other pertinent information that would help expedite the bid review.
- Support for the credibility assumptions (Worksheet 2), including –
  - The credibility methodology used and a statement of whether or not it differs from the CMS guideline described in these Instructions.
  - The method for blending differences in the credibility for utilization and unit cost into a composite pmpm credibility factor.
- A mapping of allowed costs, effective cost sharing and script counts from the formulary tiers to type of drug and point of sale categories used in pricing (Worksheets 2 and 6).
- Support for non-benefit expense assumptions (Worksheet 2). The required elements include –
  - A summary of the non-benefit expenses by category of expense or by line item.
  - An analysis that demonstrates the development of each line item using relevant data, assumptions, contracts, financial information, business plans and other experience.

- A description of the relationship between the non-benefit expense line items reported in the BPT and auditable material such as corporate financials and plan-level operational data.
- Justification of the gain/loss margin (Worksheet 2). The required elements include –
  - Support for overall margin levels, including a description of the methodology used to develop margin assumptions, demonstration of year-by-year consistency, and supporting data.
  - Support for bids with negative margins – that is, a business plan that illustrates profitability within a few years.
  - A comparison of the gain/loss margin to the original business plan for plans with negative margins in prior years. This includes details and sources of deviation from the business plans for the prior years.
  - Justification of the margin for bids with relatively large projected overall gains/losses. Examples of support to be provided are (i) illustration of return on investment/equity requirement(s), (ii) demonstration of corporate return requirement(s), and/or (iii) other supporting documentation. The development of margin requirements may reflect revenue offsets not captured in non-benefit expenses (such as investment expenses, income taxes, and changes in statutory surplus) and may also include investment income.
  - If applicable, further analysis of the organization's ROI/ROE and distinctions between recouping start-up costs and ongoing organizational gain/loss.
- Detailed support for the development of projected risk scores (Worksheet 3). The required elements include –
  - A detailed description of and corresponding numerical demonstration of the methodology used to develop projected CY2010 Part D risk scores.
  - A description of the source data for the development of the projected CY2010 Part D risk scores.
  - A description of all projection factors and the basis for the factors.
  - A statement about the consistency between the development of the projected risk scores for the plan population and the development of projected prescription drug expenses, if the plan pricing is based on manual rates.

The following documentation requirements apply to all bids that contain these specified assumptions:

- Detailed support for the base period experience (Worksheet 1).
- Detailed support for the projection factors (Worksheet 2).
- Detailed support for the manual rate development (Worksheet 2), including a description/illustration of the underlying data source(s) and data/methodology used in the development of the manual rates, if manual rates are used. The required elements include –
  - A description of the source data, including the data's relevance to the Part D plan.
  - Credibility standards applied to the data and corresponding adjustments, if applicable.

- Consideration of any adjustments made for annual volatility of the source data.
- Any applicable adjustments to the source data, such as –
  - Approach and factors applied to account for incomplete claim run-out, formulary differences and/or expenditures that are not reflected in the source data;
  - Techniques and factors used to reflect differences between the underlying population and that expected of the Part D plan; and
  - Techniques and factors used to adjust for differences in plan design between the source data and the Part D plan.
- Data and methodology used to project the data from base period to CY2010.
- A description of the source of data for the development of corresponding CY2010 risk scores and how it compares to the risk profiles of the population underlying the manual rate source data.
- All other applicable factors and/or adjustments.
- Disclosure of related-party service agreements (Worksheet 4).
  - The required elements for a plan sponsor that enters into a service agreement involving a parent company and subsidiary, or between subsidiaries of a common parent include–
    - The identity of the related-party organization.
    - A description of the business arrangement and services provided.
    - The financial terms.
    - A point of contact at the related party (when the sponsor is requesting that CMS enter into a separate discussion with a subcontracted related party).
    - A demonstration that the operating and financial results of the participating organizations are not significantly different from those that would have been achieved by the plan in the absence of the related party relationships as outlined in the “Pricing Considerations” section of these instructions.
  - The required elements for a plan sponsor in a related-party agreement with an organization that is providing services to unrelated parties must directly or indirectly, or through agreement with the subcontracted party, provide the following:
    - A written summary outlining the terms of actual contracts between the subcontractor and the comparable, unrelated parties for similar services. The support must demonstrate that the financial arrangements between related parties are not significantly different from those that would have been achieved by the plan sponsor in the absence of the related-party relationships.
    - An explanation of the disparities in the financial arrangements between related parties and unrelated parties. The explanation must fully address the advantaged or disadvantaged positions and, overall, must demonstrate that the financial arrangements are not significantly different from those that

would have been achieved by the plan sponsor in the absence of the related-party relationships.

- The input sheet(s) for the pricing model used in the development of the bid.
- An explanation of how CY2009 bid audit findings and observations were addressed in the current bid for the same plan. To the extent that an issue applies to other plans in the same contract or parent organization, the documentation for the audited plan must describe how the bids for all plans are treated consistently regarding that issue.
- Support for reliance on information supplied by others that –
  - Identifies the source(s) of the information – for example, name, position, company, date;
  - Identifies the information relied upon;
  - States the extent of the reliance – for example, states whether or not checks as to reasonableness have been applied; and
  - Indicates to which plan(s) the reliance information applies.

See the sample format at the end of this appendix.

#### **Upon Request by CMS Reviewers**

It is not required that the items below be uploaded with the initial June bid submission, but they must be prepared at that time in order to be readily available for CMS reviewers upon request. If substantiation is requested by CMS reviewers, it must be provided within 48 hours. These materials will be reviewed at audit:

- Reconciliation of base period experience with company financial data (Worksheet 1). The data are to be reported on an incurred, rather than an accounting or GAAP, basis, including both claims paid and unloaded claim reserves. Because the results reflect an experience period versus accounting period, the data need not be based on an audited GAAP financial basis.
- Support for trend projection assumptions (Worksheet 2).
- Copies of related-party agreements for a plan sponsor who has entered into a related-party agreement with an organization that is providing services to unrelated parties.
- A letter supporting any information upon which the certifying actuary relied, if applicable. This letter must be signed by the person (source) who provided the information.
- Communication between CMS reviewers and the Plan sponsor throughout the bid review process (that is, e-mail communication).

Additional information not specified in this list may be requested by CMS reviewers, as needed, at any point during the bid desk review process.

**PART D CHECKLIST FOR REQUIRED SUPPORTING DOCUMENTATION**

<b>Initial June Bid Submission - Required for all bids</b>
Cover sheet
Product narrative
Credibility assumption
Mapping of allowed costs, script counts and cost sharing in formulary tiers to type of drug and point of sale categories
Non-benefit expenses
Gain/loss margin
Projected risk scores

<b>Initial June Bid Submission - Required for all bids with specified assumptions</b>
Base period experience and projections
Manual rate development
Disclosure of related party agreements
Input sheet(s) for pricing model
Bid audit results
Reliance information

<b>Upon Request by CMS Reviewers</b>
Reconciliation of base period experience with company financial data
Trend projection assumptions
Reliance letter
Bid review communications
Other

**SAMPLE COVER SHEET – SUBMITTED WITH INITIAL BID UPLOAD****Supporting Documentation Cover Sheet****CY2010 Bid Submission****Organization Name:** Health One**Contract(s):** H1234, H9999, and S9999**Date:** June 1, 2009

<b>Documentation Requirement</b>	<b>Specific Bid ID(s) or N/A</b>	<b>File Name</b>	<b>Location within File (if Applicable)</b>	<b>Applies to: MA, PD, or Both</b>
Cover sheet	All bids	Cover Sheet 6-1-09.pdf	Page 1	both
Product narrative	All bids	Cover Sheet 6-1-09.pdf	Pages 2-4	both
Credibility assumption	All bids	Cover Sheet 6-1-09.pdf	Page 5	both
Cost sharing mapping	All bids	Cover Sheet 6-1-09.pdf	Page 6	both
Non-benefit expenses	All bids	AdminProfit.xls	Sheet1	both
Gain/loss margins	All bids	AdminProfit.xls	Sheet2	both
risk scores	All bids	Risk CY10.xls	MA-Sheet 1 PD-Sheet 2	both
Manual rates	H1234-003-0 S9999-001-0	Manual.xls	Section II	PD
ESRD subsidy	H1234-001-0 H1234-004-0	Manual.xls	Section I	MA

**SAMPLE COVER SHEET – SUBMITTED AS A SUBSEQUENT SUBSTANTIATION UPLOAD****Supporting Documentation Cover Sheet #2****CY2010 Bid Submission****Organization Name:** Health One**Contract(s):** H1234, H9999, and S9999**Date:** July 16, 2009

<b>Documentation Requirement</b>	<b>Specific Bid ID(s) or N/A</b>	<b>File Name</b>	<b>Location within File (if Applicable)</b>	<b>Applies to: MA, PD, or Both</b>
Cover sheet	H1234-001-0 H1234-003-0 H1234-004-0 H1234-801-0 H9999-001-0 S9999-001-0	Cover Sheet 7-16-09.doc	n/a	both
E-mail communication with CMS bid reviewers	H1234-001-0 H1234-003-0 H1234-004-0 H9999-001-0	E-mail1.doc	n/a	MA
E-mail communication with CMS bid reviewers	H9999-001-0 S9999-001-0	Email2.doc	n/a	PD
E-mail communication with CMS bid reviewers	H9999-001-0 S9999-001-0	Email3.doc	n/a	PD

**SAMPLE FORMAT FOR RELIANCE ON INFORMATION SUPPLIED BY OTHERS**

<b>Bid ID</b>	<b>MA or PD or Both</b>	<b>Source (Name, Position, Company)</b>	<b>Type of Information</b>	<b>Comments</b>
H1234-002-00	MA and PD	Joe Smith, Director of Finance, ABC Health Plan	Administrative expenses, gain/loss margin	
H1234-002-00	MA and PD	Jane Doe, Medicare Analyst, ABC Health Plan	Claim modeling, risk score	I have not performed any independent audit or otherwise verified the accuracy of these data or information.

## APPENDIX C – EMPLOYER/UNION-ONLY GROUP (EGWP) REQUIREMENTS

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The Medicare Prescription Drug Improvement, and Modernization Act of 2003 (MMA) gives employers and unions a number of options for providing prescription drug coverage to their retirees. Employers and unions can –

- Provide coverage at least as good as Medicare’s Part D DS benefit and receive a tax-free retiree subsidy of 28% of a retiree’s drug costs between \$310 and \$6,300;
- Purchase customized benefits from a PDP or MA-PD pursuant to CMS waivers; or
- Contract directly with CMS to become a PDP and provide customized benefits pursuant to CMS waivers.

Under sections 1860D-22(b) and 1857(i) of the Social Security Act (SSA), CMS may waive or modify Part D requirements that hinder the design of, offering of, or enrollment in an employer or union Part D retiree plan. The waiver authority applies to PDPs and MA-PDs that offer employer/union-only group plans and to employer/union-only groups that contract directly with CMS to become a PDP.

For CY2006, CMS issued guidance that waives or modifies many of the requirements for these entities. CMS waiver guidance is located at <http://cms.hhs.gov/EmpGrpWaivers>. All of the standard Part D bidding guidelines apply, with the exception of those specifically waived.

For CY2010, CMS does not require a Part D BPT for employer/union-only group plans.

For additional information on CY2010 EGWP bidding policy, please refer to the CY2010 Call Letter.



## APPENDIX D – CALCULATION OF NATIONAL AVERAGE MONTHLY BID AMOUNT

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For CY2006, the national average monthly bid amount was calculated using equal weighting applied to all PDP sponsors, and assigned MA-PD plans a weight based upon prior enrollment. New MA-PD plans were assigned a zero weight. This approach was used because no PDP enrollment data existed for 2005.

For CY2007 and CY2008, the national average monthly bid calculation was performed according to the guidelines established by the “Medicare Demonstration to Limit Annual Changes in Part D Premiums due to Beneficiary Choice of Low-Cost Plans.” Specifically, 80% of the calculation for CY2007 was based on the 2006 averaging methodology, also known as the uniform-weighting average, and 20% was based on an enrollment-weighted average. For CY2008, 40% of the calculation was based on the uniform-weighting average and 60% was based on an enrollment-weighted average. The demonstration was no longer in effect for CY2009 and the benchmarks were based on the 2008 enrollments applied to the 2009 bids. The CY2010 benchmarks will be based on the 2009 enrollments applied to the 2010 bids.

The following table illustrates the impact of the weighted enrollment methodology for two enrollment periods, June 2008 and February 2009. The June 2008 enrollment shows the basis of the actual 2009 benchmark calculation. Recall that the 2009 benchmark was calculated as 100% of the enrollment-weighted approach.

The same values are presented based on the February 2009 enrollment. Since the 2010 benchmarks will be based on 2009 enrollment, these values may be useful for estimating the 2010 benchmarks. The left section of the table shows the actual 2009 benchmarks, which were calculated based on June 2008 enrollment. The right section, titled “February 2009 Enrollment,” indicates how the 2009 benchmarks would have been calculated based on more current enrollment data.

	<b>Enrollment Weighted Approach</b>	
	<b>June 2008 Enrollment</b>	<b>February 2009 Enrollment</b>
<b>National average monthly bid amount</b>	<b>\$84.33</b>	<b>\$82.57</b>
<b>Base beneficiary premium</b>	<b>\$30.36</b>	<b>\$29.83</b>
<b>Direct subsidy</b>	<b>\$53.97</b>	<b>\$52.74</b>

This illustrative recalculation of the 2009 benchmarks is provided for the purpose of assisting Plan sponsors in developing the projected 2010 national average monthly bid amount and base beneficiary premium, which will be used in the calculation of the plan’s target premium. The final 2010 benchmarks will be based on the 2009 enrollments applied to the 2010 bids.

## APPENDIX E – CALCULATION OF LOW-INCOME BENCHMARK PREMIUM AMOUNTS

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The Medicare Prescription Drug Improvement, and Modernization Act of 2003 (MMA) directs CMS to use a weighted average to calculate the regional low-income benchmark premium amounts used in the determination of the low-income premium subsidy amounts. In determining the 2006 low-income benchmark premium amounts, PDPs were weighted equally, MA-PDs were assigned a weight based on prior enrollment as of March 31, 2005, and new MA-PDs were assigned a zero weight. For CY2007, under the “Medicare Demonstration to Transition Enrollment of Low-Income Subsidy Beneficiaries,” CMS calculated the regional low-income benchmark premium amounts using the same weighting methodology applied in 2006 – that is all PDP bids were weighted equally, and MA-PD bids received weights based on plan enrollments in the reference month (June 2006).

For CY2008, CMS implemented a transition to the statutorily required weighting such that the regional low-income benchmark premiums would experience a smaller decrease. CMS calculated the 2008 regional benchmarks using a composite of the 2006 weighting approach (simple average) and the statutory weighting formula (weighted average), as described below:

- The first component, the simple average, was the same as the 2006 weighting methodology for the regional low-income benchmark premium amount. The PDP organization premium amounts for basic prescription drug coverage in each region were weighted equally and the MA-PD plan premiums, after the application of Part A/B rebates, were weighted based upon prior enrollment.
- The second component was a weighted average of the premium amounts for each PDP and MA-PD with a weighting based on each plan’s prior enrollment as a percentage of all beneficiaries enrolled in those plans.

For CY2008, 50% of the regional low-income benchmark amount was based on the first component, the simple average, and 50% was based on the second component, the enrollment-weighted average.

For CY2009, the “Medicare Demonstration to Transition Enrollment of Low-Income Subsidy Beneficiaries” and the de minimus policy were not in effect. The regional low-income benchmark amounts were calculated based on 100% of the weighted LIS enrollments.

For CY2010, the regional low-income benchmark amounts will be calculated based on 100% of the weighted LIS enrollments.

The following table illustrates the impact of calculating the regional low-income benchmark amounts based on 100% of the weighted LIS enrollments for two enrollment periods, June 2008 and February 2009.

**APPENDIX E**

PD Region	State(s)	Enrollment Weighted Approach	
		June 2008 Enrollment	February 2009 Enrollment
01	NH, ME	\$28.12	\$25.29
02	CT, MA, RI, VT	\$31.74	\$29.63
03	NY	\$27.71	\$24.43
04	NJ	\$30.99	\$28.99
05	DE, DC, MD	\$30.85	\$29.64
06	PA, WV	\$29.23	\$27.05
07	VA	\$31.72	\$30.18
08	NC	\$33.45	\$31.09
09	SC	\$32.01	\$30.17
10	GA	\$29.16	\$28.09
11	FL	\$21.47	\$19.14
12	AL, TN	\$29.80	\$27.42
13	MI	\$32.08	\$30.53
14	OH	\$28.40	\$26.21
15	IN, KY	\$33.95	\$31.97
16	WI	\$38.15	\$33.04
17	IL	\$30.18	\$28.35
18	MO	\$31.89	\$28.46
19	AR	\$26.89	\$25.55
20	MS	\$31.53	\$29.72
21	LA	\$27.48	\$25.02
22	TX	\$25.36	\$24.06
23	OK	\$29.36	\$27.03
24	KS	\$33.66	\$30.81
25	IA, MN, MT, ND, NE, SD, WY	\$33.19	\$31.00
26	NM	\$20.55	\$17.29
27	CO	\$30.17	\$27.68
28	AZ	\$16.22	\$12.85
29	NV	\$20.20	\$20.20
30	OR, WA	\$31.76	\$29.44
31	ID, UT	\$37.46	\$34.19
32	CA	\$24.86	\$23.55
33	HI	\$25.01	\$21.35
34	AK	\$36.00	\$33.31

## APPENDIX F – PART D PAYMENT DEMONSTRATION

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The Part D Payment Demonstration allows varied payment rules for Plan sponsors offering supplemental benefits in an enhanced alternative plan benefit type. The details for this demonstration are provided in CMS’s “Instructions for Part D Payment Demonstration.” The May 10, 2005 instructions describe the following three demonstration options:

- Flexible capitation option.
- Fixed capitation option.
- Flexible MA rebate option.

As originally approved, this 5-year payment demonstration is scheduled to end after 2010. Since 2010 is the last scheduled year for the Part D Reinsurance Payment Demonstration, CMS will not accept any new or expanded applications for reinsurance demonstration plans to be offered in 2010. However, flexible capitated, fixed capitated, and Medicare Advantage rebate option plans that were offered in 2009 may be extended for 2010.

Generally, the capitation options replace the typical reinsurance subsidy of 80% of allowed costs that apply after the beneficiary has reached the OOP threshold of \$4,550 in of true out-of-pocket payments (TrOOP) in CY2010 with a capitation amount reflecting the actuarial value of that subsidy under DS coverage. The distinction between the flexible and fixed options is that, under the fixed capitation option, catastrophic coverage is required to begin at \$6,440 of total drug expenditures in CY2010, consistent with the point at which a beneficiary would have catastrophic coverage under the DS benefit. The flexible option permits catastrophic coverage to begin at any point after the beneficiary has \$4,550 of TrOOP spending in CY2010.

The flexible MA rebate option permits supplemental benefits that fill in the coverage gap to count toward the accumulation of the beneficiary’s TrOOP. In this option, as is the case for non-demonstration Part D plans, reinsurance will be paid based on 80% of allowed reinsurance costs after the beneficiary has satisfied the TrOOP requirement. No change to the bidding requirements or bid pricing tool (BPT) is necessary to support plans choosing this option.

It should be noted that a non-demonstration Part D plan that provides supplemental coverage will generally delay the point at which a beneficiary reaches catastrophic coverage. Accordingly, a non-demonstration Part D plan will likely see a shift in allowed costs from amounts that would be provided under catastrophic coverage for DS coverage to amounts in the coverage gap for enhanced alternative coverage. Since the fixed capitation option and the flexible MA rebate option do not delay the point at which a beneficiary reaches catastrophic coverage, neither should entail a shift from catastrophic costs to gap coverage costs. For the flexible capitation option, a shift in costs between catastrophic and coverage gap is to be expected.

The impact described above is illustrated in the following table, which shows the benefit options available for Part D plans. In this table, the only benefit design change represented in the non-standard options is the variation of the point at which the coverage gap begins. In addition, the values reflect the benefit parameters in effect for 2006.

<b>Benefit Design</b>	<b>Defined Standard</b>	<b>Enhanced Alternative</b>	<b>Flexible Capitation</b>	<b>Fixed Capitation</b>	<b>Flexible MA Rebate</b>
Deductible	\$250	\$250	\$250	\$250	\$250
Coinsurance	25%	25%	25%	25%	25%
Coverage Gap Begins	\$2,250	\$3,250	\$3,250	\$3,250	\$3,250
Catastrophic Threshold	\$5,100	\$5,850	\$5,850	\$5,100	\$5,100

The alternative coverage worksheet in the BPT requires costs to be allocated to below the ICL, in the coverage gap and above the catastrophic threshold. The ICL is statutorily defined to be \$2,250 for 2006. For the EA option outlined above, the actuarial value of costs for the alternative coverage between the ICL (\$2,250) and the catastrophic threshold (\$5,850) must be presented in the coverage gap column. The coinsurance percentage for this period must reflect that the portion of the coverage between \$2,250 and \$3,250 would have 25% coinsurance and the portion of coverage between \$3,250 and \$5,850 would have 100% coinsurance. The same is true for the flexible capitation option summarized in the table; both the fixed capitation option and the flexible MA rebate option have the same pattern, except that the catastrophic threshold begins at \$5,100 instead of \$5,850.

Following is an explanation of each option:

- **Capitation Options.** The reinsurance capitation amounts reflected on the alternative coverage worksheet are based on the development of the estimated reinsurance amounts included in the DS worksheet.
- **Flexible MA Rebate Option.** The only supplemental cost sharing permitted in the flexible MA rebate option is filling in the coverage gap. As such, no reductions in the deductible, cost-sharing amounts up to the ICL of \$2,830 for CY2010 or the amounts in the catastrophic period are allowed. For catastrophic coverage, plan bids must reflect a \$310 deductible for CY2010 and have cost-sharing percentages within 2% of the 25% amount (that is, between 24.5% and 25.5%) up to the initial coverage limit and within 2% of the cost-sharing percentage estimated for the DS benefit.

### **Modeling Considerations**

Plan sponsors must consider the effects of the benefit design on the underlying population they expect to enroll and must complete the BPT accordingly. Specifically, providing supplemental coverage in exchange for a premium, or at the expense of offering other benefits, is likely to result in a change in the plan's expected risk/cost profile as compared to a plan that is offering basic benefits only. If the net value of these supplemental benefits, defined as the difference between the actuarial value of the supplemental benefits and the amount of the premium, is positive for a class of beneficiaries, a Plan sponsor should expect to enroll a greater proportion of these beneficiaries as compared to the class of beneficiaries with a negative value. For purposes of evaluating the effect on the anticipated enrolled population, the Plan sponsor must consider the impact of the value of supplemental benefits at all points of the drug expense distribution.

The following table illustrates the pattern of supplemental benefit value for the designs summarized in the table above. Note that a supplemental premium is presented for illustrative purposes only; actual premium amounts for such coverage could differ significantly. Again, this example reflects the benefit parameters in effect for 2006.

<b>Benefit Design</b>	<b>Defined Standard</b>	<b>Enhanced Alternative</b>	<b>Flexible Capitation</b>	<b>Fixed Capitation</b>	<b>Flexible MA Rebate</b>
<b>Supplemental Premium</b>	<b>\$0</b>	<b>\$240</b>	<b>\$220</b>	<b>\$315</b>	<b>\$315</b>
<b>Beneficiary Cost Share at Drug Expense of:</b>					
\$1,250	\$500	\$500	\$500	\$500	\$500
\$2,250	\$750	\$750	\$750	\$750	\$750
\$3,250	\$1,750	\$1,000	\$1,000	\$1,000	\$1,000
\$5,100	\$3,600	\$2,850	\$2,850	\$2,850	\$2,850
\$5,600	\$3,625	\$3,350	\$3,350	\$2,875	\$2,875
\$6,100	\$3,650	\$3,613	\$3,613	\$2,900	\$2,900
\$10,000	\$3,845	\$3,808	\$3,808	\$3,095	\$3,095
<b>Value of Supplemental Benefit:</b>					
\$1,250	NA	\$0	\$0	\$0	\$0
\$2,250	NA	\$0	\$0	\$0	\$0
\$3,250	NA	\$750	\$750	\$750	\$750
\$5,100	NA	\$750	\$750	\$750	\$750
\$5,600	NA	\$275	\$275	\$750	\$750
\$6,100	NA	\$38	\$38	\$750	\$750
\$10,000	NA	\$38	\$38	\$750	\$750

When modeling supplemental benefits, Plan sponsors must factor behavioral impacts into the anticipated selection. Beneficiaries spending less than the \$2,250 ICL will not receive any additional benefits from purchasing the supplemental coverage. Plan sponsors modeling these types of benefits should consider the possibility that a lower percentage of enrollees with spending under the ICL may participate than if a DS plan were offered.

Similarly, the value of the supplemental benefits decreases as the spending level exceeds the catastrophic threshold for the DS benefit in the EA and flexible capitation options. The illustrative net value, after subtracting the premium for the supplemental benefits, is negative for beneficiaries spending in excess of \$6,100 in the table above. Again, during their development, Plan sponsors must consider the possibility that fewer such beneficiaries will enroll. A tendency toward stability in the enrolled population as the program matures may mitigate some of the behavioral effects outlined above.

Another point of interest in the table is the difference between the supplemental premiums for the EA and the flexible capitation options. Although a benefit pattern for two designs may be

identical, the supplemental premium will be slightly lower for the flexible capitation option. This difference exists because the supplemental premium development for the EA plan includes a cost component for the estimated reduction in reinsurance payments between the EA plan and the DS plan (the typical TrOOP impact). Since the reinsurance capitation in the flexible capitation option is based on the DS estimate, there is no reduction in reinsurance value, and thus no additional supplemental premium needs to be incorporated.

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