



Office of the Actuary

DATE: August 13, 2009

NOTE TO: Medicare Advantage Organizations, Medicare Prescription Drug Plan Sponsors, and Other Interested Parties

SUBJECT: Release of the 2010 Part D National Average Monthly Bid Amount, the Medicare Part D Base Beneficiary Premium, the Part D Regional Low-Income Premium Subsidy Amounts, and the Medicare Advantage Regional PPO Benchmarks

We are releasing the Medicare Part D national average monthly bid amount for 2010 and the associated base beneficiary premium. We are also announcing the Part D regional low-income premium subsidy amounts applicable in 2010. Finally, we are releasing the Medicare Advantage (MA) regional PPO benchmarks for 2010. Below we describe the determination of these amounts. The regional low-income premium subsidy amounts and the regional MA benchmarks can be downloaded from the CMS web site at:

<http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/RSD/list.asp#TopOfPage>

Part D National Average Monthly Bid Amount

In accordance with section 1860D-13(a)(4) of the Social Security Act (“the Act”), codified in 42 CFR §423.279 CMS has calculated the national average monthly bid amount for 2010. For each coverage year, CMS computes the national average monthly bid amount from the applicable Part D plan bid submissions in order to calculate the base beneficiary premium, as provided in 42 CFR §423.286(c).

The national average monthly bid amount is a weighted average of the standardized bid amounts for each prescription drug plan and for each MA-PD plan described in section 1851(a)(2)(A)(i) of the Act. The weights are based on the number of enrollees in that plan. The weight for each plan bid is equal to a percentage with the numerator equal to the number of Part D eligible individuals enrolled in the plan in the reference month (as defined in 42 CFR §422.258(c)(1)) and the denominator equal to the total number of Part D eligible individuals enrolled in the reference month in all applicable Part D plans. The calculation does not include bids submitted by MSA plans, MA private fee-for-service plans, specialized MA plans for special needs individuals, PACE programs under section 1894, any “fallback” prescription drug plans, and plans established through reasonable cost reimbursement contracts under section 1876(h) of the Act.

The reference month for the 2010 calculation was June 2009.

The national average monthly bid amount for 2010 is \$88.33.

Part D Base Beneficiary Premium

The base beneficiary premium is equal to the product of the beneficiary premium percentage and the national average monthly bid amount. The beneficiary premium percentage (“applicable percentage”) is a fraction, with a numerator of 25.5 percent and a denominator that is 100 percent minus a percentage equal to (i) the total reinsurance payments that CMS estimates will be paid for the coverage year, divided by (ii) that amount plus the total payments that CMS estimates will be paid to Part D plans based on the standardized bid amount during the year, taking into account amounts paid by both CMS and plan enrollees.

In accordance with section 1860D-13(a) of the Act, codified in 42 CFR §423.286, Part D beneficiary premiums are calculated as the base beneficiary premium adjusted by the following factors: (i) the difference between the plan’s standardized bid amount and the national average monthly bid amount; (ii) an increase for any supplemental premium; (iii) an increase for any late enrollment penalty; (iv) a decrease for Medicare Advantage Prescription Drug Plans (MA-PDs) that apply MA A/B rebates to buy down the Part D premium; and (v) elimination or decrease with the application of the low-income premium subsidy.

The Part D base beneficiary premium for 2010 is \$31.94.¹

Part D Regional Low-Income Premium Subsidy Amounts

In accordance with 42 CFR §423.780, full low-income subsidy (LIS) individuals are entitled to a premium subsidy equal to 100 percent of the premium subsidy amount. The premium subsidy amount is equal to an amount which is the lesser of the plan’s premium for basic coverage or the regional low-income premium subsidy amount.

The regional low-income premium subsidy amounts are the greater of the low-income benchmark premium amount for a PDP region or the lowest monthly beneficiary premium for a prescription drug plan that offers basic prescription drug coverage in the PDP region. In accordance with section 1860D-14 of the Social Security Act and the Final Rule “Modification to the Weighting Methodology Used to Calculate the Low-Income Benchmark Amount,” published in the Federal Register on April 3, 2008, the low-income benchmark premium amount for a PDP region is a weighted average of the monthly beneficiary premiums for basic prescription drug coverage in the region. The weight for each PDP and MA-PD plan is equal to a percentage—the numerator being

¹ As noted above, the actual Part D premiums paid by individual beneficiaries equal the base beneficiary premium adjusted by a number of factors. In practice, premiums vary significantly from one Part D plan to another and seldom equal the base beneficiary premium.

equal to the number of Part D eligible LIS individuals enrolled in the plan in the reference month and the denominator equal to the total number of Part D eligible LIS individuals enrolled in all PDP and MA-PD plans in a Part D region in the reference month.

In accordance with the “Medicare Demonstration to Revise the Part D Low-Income Benchmark Calculation,” as approved on August 11, 2009, the weighted average premium amounts described above are calculated using Part D premiums for MA-PD plans before they have been reduced by any applicable MA A/B rebates. (The determinations of low-income benchmark premium amounts in prior years were based on MA-PD premiums after reduction by MA rebates.)

The calculation does not include bids submitted by MA private fee-for-service plans, PACE programs under section 1894, “800 series” plans, and contracts under reasonable cost reimbursement contracts under section 1876(h) of the Act (“Cost Plans”). The reference month for the 2010 calculation was June 2009.

The regional low-income premium subsidy amounts are provided in a spreadsheet called “PartDLowIncomePremiumSubsidyAmounts2010-final.csv” which can be accessed on the CMS website through the following path:

[www.cms.hhs.gov > Medicare > Medicare Advantage Rates & Statistics](http://www.cms.hhs.gov/MedicareAdvantageRates&Statistics) (under the Health Plans header) > Ratebooks & Supporting Data > 2010 > Regional rates and benchmarks 2010

A direct link to the Ratebooks & Supporting Data page is:

<http://www.cms.hhs.gov/MedicareAdvantageSpecRateStats/RSD/list.asp#TopOfPage>

MA Regional PPO Benchmarks

Per section 1858(f)(2), the standardized benchmark for each MA region is a blend of two components: (i) a statutory component consisting of the weighted average of the county capitation rates across the region; and (ii) a competitive, or plan-bid, component consisting of the weighted average of all of the standardized A/B bids for regional MA PPO plans in the region. (Such regional MA plan bids relate to the benefits covered under Parts A and B of Medicare.) The two components are then blended for each region, with the statutory component reflecting the national market share of traditional Medicare and the regional MA plan-bid component reflecting the market share of all MA organizations in the Medicare population nationally. In other words, the weights used to combine the statutory and competitive components of the benchmark are the same for all regions and equal the national enrollment percentages for traditional Medicare and all MA plans. For 2010, the national weights applied to the statutory and plan-bid components are 76.3 percent and 23.7 percent, respectively.

The separate weighted-average statutory component and weighted-average competitive component in each region are determined based on the following weights:

- The weighting for the statutory component is based on all MA eligible individuals in the region—i.e., all Medicare beneficiaries who are either in the traditional, fee-for-service Medicare program or enrolled in MA plans and who are entitled to benefits under Part A and enrolled in Part B.
- The weighting for the plan-bid component is based on the enrollment in regional MA plans in the region for the reference month of June 2009. (That is, the weight for each plan's bid is based on the plan's market share in the region.)

The statutory and plan-bid components of the MA regional standardized benchmarks for 20 of the 26 MA regions² are in a file labeled "MARegionalRate2010-final.csv" which can be accessed on the CMS website through the following path:

www.cms.hhs.gov > Medicare > Medicare Advantage Rates & Statistics (under the Health Plans header) > Ratebooks & Supporting Data > 2010 > Regional rates and benchmarks 2010

The direct link to the Ratebooks & Supporting Data page is:

<http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/RSD/list.asp#TopOfPage>

Questions on 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 can be directed to me at (410) 786-2328.

/s/

Paul Spitalnic, A.S.A., M.A.A.A.
Director
Parts C & D Actuarial Group
Office of the Actuary
Centers for Medicare & Medicaid Services

² In the remaining 6 MA regions, there are no regional MA plans.