

DATE: August 14, 2008

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

SUBJECT: Release of the 2009 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 2009 and the associated base beneficiary premium. We are also announcing the Part D regional low-income premium subsidy amounts applicable in 2009. Finally, we are releasing the Medicare Advantage (MA) regional benchmarks for 2009. 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/MedicareAdvvtgSpecRateStats/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 2009. 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.

This year marks the end of a transition from equal weighting to enrollment weighting. In 2006, under section 1860D-13(a)(4)(B)(ii), CMS assigned equal weighting to PDP sponsors and assigned MA-PD plans a weight based on their prior enrollments. From 2007 to 2008, under the “Medicare Demonstration to Limit Annual Changes in Part D Premiums Due to Beneficiary Choice of Low-Cost Plans,” as approved on August 14, 2006, CMS transitioned from the 2006 method of calculation to a weighted average based on actual plan enrollment as of the prior year. During this transition, the national average monthly bid amount was calculated as a composite of the simple average calculated using

the 2006 weighting methodology and the enrollment-weighted average calculated based on actual plan enrollments. CMS has now completed this transition; therefore for 2009, 100 percent of the national average monthly bid amount is based on the enrollment-weighted average. For determining the enrollment-weighted average bid, Part D enrollees (in stand-alone prescription drug plans and in Medicare Advantage drug plans) from the reference month of June 2008 are used.

The national average monthly bid amount for 2009 is \$84.33.

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 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 2009 is \$30.36.¹

Part D Regional Low-Income Premium Subsidy Amounts

In accordance with 42 CFR §423.780, full low-income subsidy 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

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.

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 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.

This year marks the end of a transition, which took place in accordance with the “Medicare Demonstration to Transition Enrollment of Low-Income Subsidy Beneficiaries” (approved on August 15, 2006), from a calculation that uses a simple average to the enrollment-weighted average required by statute. This year the calculation is 100 percent enrollment-weighted. 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 2009 calculation was June 2008.

The regional low-income premium subsidy amounts are provided in a spreadsheet called “PartDLowIncomePremiumSubsidyAmounts2009-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 > 2009 > Regional rates and benchmarks 2009

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

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

MA Regional 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 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 2009, the national weights applied to the statutory and plan-bid components are 79.2 percent and 20.8 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 2008. (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 22 of the 26 MA regions² are in a file labeled "MARegionalRate2009-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 > 2009 > Regional rates and benchmarks 2009

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/

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² In the remaining 4 MA regions, there are no regional MA plans.

Important Part D Premium Information and MA Regional Plan Information

Today, CMS released Part D Base Beneficiary Premium, the Part D National Average Monthly Bid Amount, the Part D Regional Low-Income Premium Subsidy Amounts, and Medicare Advantage Regional Benchmarks. This information can be found on the CMS website at <http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/RSD/>, at the link to “2009.” On HPMS, you can also view your following plan-specific data: plan standardized bid amounts, plan-specific premiums, and MA rebate dollars used.

To view the plan-specific information, follow this path:

HPMS Home > Plan Bids > Bid Submission > Contract Year 2009 > Manage Plans > Review Plan Data.

Rebate Reallocation Period

After reviewing the information on the HPMS page, some of your plan bids will need to be resubmitted to adjust your MA rebate dollars in the Bid Pricing Tool (BPT). Local MA-only plans (which do not offer Part D), PDPs (which do not have MA rebates), and local employer plans (non-regional “800-series” plans) cannot resubmit their bids during the rebate reallocation period.

Guidance on rebate reallocation and premium rounding can be found in Appendix F of the Instructions for Completing the Medicare Advantage Bid Pricing Tool for Contract Year 2009. Changes to the Bid Pricing Tool must be in accordance with the guidance contained in Appendix F.

You will have until midnight EDT on Wednesday, August 20, 2008 to complete your resubmissions.

If resubmitting, the Part D bid pricing tools must reflect the final benchmarks released earlier in this announcement. No other changes will be accepted to the Part D bid forms. Since the Part D bid is not changing, there is no need to update the Date Prepared field in the PD BPT.

A “final” actuarial certification must be submitted by all plans later this month. A separate announcement will be released regarding the submission of final actuarial certifications.

If you have questions about this information, please contact Jennifer Lazio 410-786-0747. You may also contact Deondra Moseley at 410-786-4577.

If you have technical questions about your resubmissions, please contact the HPMS Help Desk at 1-800-220-2028 or hpms@cms.hhs.gov.