

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
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CENTER FOR MEDICARE

TO: All Stand-alone Prescription Drug Plan Sponsors

FROM: Cynthia G. Tudor, Ph.D., Director, Medicare Drug Benefit and C & D Data Group

SUBJECT: 2011 Part D Out-of-Pocket Cost Comparison Review Instructions

DATE: April 30, 2010

As noted in the Part D Plan Benefit Package (PBP) Submission and Review Instructions memo issued on April 16, 2010, CMS revised its regulations to ensure that Part D sponsors submit meaningfully different PBPs within the same service area. Effective for contract year 2011, these revisions stipulate that CMS will only approve a bid submitted by a Part D sponsor if its plan benefit package or plan cost structure is substantially different from those of other plan offerings by the sponsor in the service area with respect to key characteristics such as premiums, cost-sharing, formulary structure, or benefits offered. This memorandum provides information on how CMS will implement this new provision.

In consultation with beneficiaries and their advocates we have learned that it has been difficult for beneficiaries to distinguish between plan offerings of the same sponsor when cost-sharing and premiums are similar between the enhanced and basic drug plan offering. To determine if cost sharing and formulary and benefit differences result in substantial differences for the 2011 Contract Year, CMS will compare PBP offerings by the same sponsor in a service area by evaluating expected out-of-pocket cost (OOPC) amounts under each offering. To do this CMS will calculate an OOPC amount for each 2011 PBP using drugs reported from a nationally representative population of Medicare beneficiaries, run through each plan's benefit design.

In establishing a target for differentiation among an organization's plan offerings, we will be particularly scrutinizing "low-additional-value" enhanced alternative benefit designs as CMS is concerned that some low-additional-value enhanced offerings are not understood by beneficiaries in terms of expected value and may not be meaningfully different from the basic offering. Using plan offerings submitted for 2010, CMS evaluated enhanced alternative PBPs to identify those with a meaningful increase in value over the basic plan offerings. We found that for those plans offering a supplemental enhanced benefit including at least a reduced deductible, as well as coverage in the gap of at least some generics, there was a monthly median difference of \$22 between the enhanced and basic plan in the same service area (or in other words, we found there was \$22 less in expected out-of-pocket costs (OOPCs) for the enhanced plan, exclusive of premium amounts).

Based on these findings, for the 2011 bid negotiations CMS expects the OOPC plan differential (exclusive of premium amounts) between a basic and enhanced benefit offering of the same sponsor in the same service area to be least at \$22 monthly (\$264 annually). Additionally, CMS expects that where two enhanced stand-alone drug plans are offered within the same service area, the second enhanced plan will have a higher value than the first and include coverage of at least some brand drugs in the gap.

To prepare for negotiations with CMS, Part D sponsors planning to offer multiple plans may want to review CMS' OOPC calculations as well as calculate and compare OOPCs for a set basket of drugs and constant group of beneficiaries already enrolled with their organization. The 2010 CMS OOPC calculations and methodology are available via HPMS. To access these data in HPMS, from the left navigation bar select: "Quality and Performance", then "Part D Performance Metrics and Reports" and then select "Part D Out-of-Pocket Costs".

Based on plan review of prior year OOPC calculations and their own OOPC analysis for 2011, sponsors should target necessary revisions to PBPs prior to uploading them. CMS expects sponsors to submit CY 2011 plan bids that meet the meaningful difference requirements but will not prescribe how the sponsors should redesign benefits packages to achieve these differences. Sponsors not meeting our targets will be asked to amend or withdraw their offering(s). Plan sponsors are to follow CY 2011 renewal/non-renewal guidance to determine if their plans may be consolidated with other plans.

For technical guidance on Part D OOPC calculations please contact the HPMS help desk (hpms@cms.hhs.gov). For questions regarding 2011 benefit package reviews related to OOPCs please email PartDbenefits@cms.hhs.gov.