

# Actuarial Bid Training



## Introduction to Bidding

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CMS Office of the Actuary  
Updated April 2011



# Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (PL 108-173)

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- MMA
  - Title I – Prescription Drugs – Part D
  - Title II – Medicare Advantage – Part C
    - Formerly “Medicare+Choice”



# Competitive Bidding

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- Used by MA and Part D programs
- Began in Contract Year (CY) 2006
- Annual Process, which includes—
  - Release of MA Rate Book (April)
  - Initial Bid Submission (June)
  - Release of Part D and RPPPO benchmarks (typically August)



# Competitive Bidding

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- Each bid must—
  - Present the estimated revenue requirements of the plan
  - Be standardized with respect to risk
  - Document methods and assumptions in compliance with—
    - Applicable ASOPs
    - CMS's bid instructions and guidance
    - Applicable laws and rules
  - Be certified by a qualified actuary



# Competitive Bidding

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- Revenue Requirement =
  - Benefit Expenses +
  - Non-Benefit Expenses +
  - Gain/Loss Margin



# Risk Adjustment

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- Bids reflect projected costs
- Bid must be “Standardized”
  - Risk score of 1.000
  - Risk profile of the average Medicare beneficiary
- Risk scores reflect—
  - Demographic characteristics
  - Health status/disease information
- Used in bidding and plan payment processes
- Separate risk models for MA and Part D



# Bid Pricing Tool (BPT) vs. Actual Plan Pricing

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- Actual plan pricing may occur outside the BPT
- BPT has specific requirements, for example—
  - Reporting plan experience
  - Assigning credibility
- BPT offers flexibility in the gain/loss margin
  - At the plan level, G/L margin has wide range of acceptability
  - At the contract level, G/L is more restricted



# MA – Plan Types

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- HMO, PPO, PFFS, etc.
- Special Needs Plans (SNPs)
- Regional PPOs (RPPOs)
  - 26 MA Regions Defined by CMS
  - Service Area are Region-based
- All other plans (Non-RPPOs) have service areas that are county-based





# MA – Plan Benefits

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- MA plans must offer all the items and services covered under Medicare Parts A and B
  - “Basic” or “Medicare-Covered” services
  - Medicare A/B, Medicare FFS, Original Medicare, Traditional Medicare
- MA plans may offer additional benefits
  - Mandatory Supplemental – for all plan enrollees
  - Optional Supplemental – purchased separately



# MA – Plan Benefits (cont.)

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- **Mandatory Supplemental**
  - **Reduced cost sharing**
    - Called FFS cost-sharing Buydown
    - MA cost sharing < Medicare FFS cost sharing, example—No hospital deductible
  - **Additional Benefits**
    - Non-covered services, example—dental
    - Extending benefit limits of Medicare-covered services, example—IP days > Medicare limit



# MA – Benchmarks

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- Non-RPPOs
  - Weighted average of rate book values
  - Weights = projected plan enrollment % by county
- RPPOs—a blend of two components:
  - Statutory—rate book values
  - Plan Bid—weighted average of bid amounts in each region



# MA – Plan Payment

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- Depends on—
  - The beneficiary's risk score, and
  - The relationship between the bid amount and the MA benchmark
- Bid > benchmark
  - CMS payment = benchmark
  - Beneficiary premium = difference
- Bid < benchmark
  - CMS payment = Bid + MA Rebate
  - MA Rebate = X% of (benchmark – bid)



# MA – Plan Payment (cont.)

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- Total Payment = Bid Amount + Rebate
- Bid Amount: funds Medicare Covered benefits
- Rebate: funds Supplemental benefits
  - Reduced premiums (Part B or Part D),
  - Reduced cost sharing, or
  - Increased benefits
    - Expansion of Medicare Covered Benefits (e.g., eliminate deductible)
    - Provision of Non-covered Benefits (e.g., vision benefits)



## Part D – Plan Types

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- Coverage provided/administered by private health plans
  - Medicare Advantage plans offering a prescription drug benefit (MA-PD)
  - Prescription Drug Plans (PDPs)
    - PDPs must cover an entire region
    - CMS defined 39 PD Regions



# Defined Standard Benefit

(2006 values)

Total Drug Spending	Beneficiary Spending	Beneficiary Pays	Plan Pays	Government Pays
\$0-250 Deductible	\$250	100%		
\$250-2,250 Initial Coverage Limit (ICL)	\$750	25%	75%	
\$2,250-5,100 Coverage Gap	\$3,600 TrOOP	100%		
\$5,100+ Catastrophic Coverage	> \$3,600	5% (or copay)	15%	80% Reinsurance



# Part D – Plan Benefit Types

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- Defined Standard (DS) plans
- Actuarially Equivalent (AE) plans
  - May NOT alter Deductible or ICL amounts
  - May vary cost-sharing requirements:
    - Between the deductible and ICL, and
    - Above the catastrophic threshold
  - Must pass three actuarial equivalence tests





# Part D – Plan Benefit Types (cont.)

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- Basic Alternative (BA), Enhanced Alternative (EA)
  - May alter the deductible, and increase the ICL
  - May vary cost-sharing requirements:
    - Between the deductible and ICL, and
    - Above the catastrophic threshold
  - Must pass six actuarial equivalence tests
  - EA has supplemental premium
    - Cost of supplemental Part D benefits



## Part D – Benchmarks

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- National Average Monthly Bid Amount (NAMBA)
  - Based on bid amounts in each submission
  - Excludes any supplemental premiums
  - NAMBA typically released by CMS in August
- Base Beneficiary Premium (BBP) equals 25.5% of NA, adjusted for reinsurance
- Basic Pt D Prem = Bid – NAMBA + BBP



# Part D Payment

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- Direct Subsidy
- Federal Reinsurance Subsidy
- Risk Sharing
- Low Income Subsidy (LIS)



# Part D Payment (cont.)

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- Direct Subsidy
  - Monthly Payments
  - Based on the 75% of costs between deductible and ICL, and 15% of costs in catastrophic covg
  - Standardized bid, risk adjusted for health status, and net of beneficiary premiums
- Reinsurance
  - Interim payments with reconciliation after year end
  - Reimbursement for 80% of costs in catastrophic coverage level



## Part D Risk Sharing

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- Risk sharing limits exposure to unexpected drug costs not included in the bid
- Plan sponsor and government share profits and losses
- Payments and retentions are based on plan's target amount



## Part D Risk Sharing (cont.)

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- Target Amount = Direct Subsidy + Beneficiary Premium + A/B Rebate Applied to Premium – Administrative Cost Ratio
- Reconciliation determines the difference between the target amount and allowable risk corridor costs



## Part D Risk Sharing (cont.)

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- Allowable risk corridor costs are actual paid costs under the DS benefit less:
  - Direct and Indirect Remuneration (DIR)
  - EA cost-sharing amounts
  - Federal reinsurance and LICS payments
  - Beneficiary cost sharing
  - Induced utilization, if applicable



## Part D Risk Sharing (cont.)

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- The risk corridors for 2008 – 2011 are:

Risk Corridor	Government's Share	Plan's Share
0% to 5%	0%	100%
5% to 10%	50%	50%
10% or more	80%	20%

- If difference is—
  - a gain, the plan pays the government
  - a loss, the government pays the plan





# Low Income Premium Subsidy Amount (LIPSA)

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- Paid to plans by the gov't for LIS beneficiaries
- LIPSA is equal to the lesser of:
  - The Part D basic premium for the plan
  - The Low Income regional benchmark
    - Or lowest regional beneficiary premium if  $>$  benchmark
- If plan premium  $>$  than LIPSA, then low income beneficiary pays the difference



## LIS (cont.)

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- Low Income Premium Benchmarks
  - Based on submitted plan premiums
  - Benchmarks typically released by CMS in August
  
- Benefits for low income beneficiaries include:
  - Reduced or eliminated deductible
  - Reduced cost-sharing
  - Reduced or eliminated premium
  - No late enrollment penalty



# Low Income Cost Sharing (LICS) Subsidy

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- Beneficiaries who qualify pay reduced cost-sharing amounts
- LICS funds the difference between—
  - Reduced, LIS cost-sharing amounts, and
  - Cost-sharing amounts for the plan
- LICS is paid prospectively based on bid values
- Reconciliation based on actual cost sharing



# In Conclusion

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- For more guidance consult—
  - BPT101, other Bidder Training Sessions
  - BPT Instructions, located at
    - HPMS: <https://gateway.cms.hhs.gov>
      - Plan Bids > Bid Submission > Contract Year YYYY > Download > BPT Spreadsheets
    - CMS Website: <http://www.cms.hhs.gov/>
      - Medicare > Health Plans-Medicare Advantage Rates & Statistics > Bid Forms and Instructions