

Medicare Part D Benefit Parameters for Standard Benefit: Annual Adjustments for 2007

The Medicare Modernization Act (MMA) directs CMS to update the statutory parameters for the standard Part D drug benefit each year. These parameters include the standard deductible, initial coverage limit, and catastrophic coverage threshold, along with other related factors. Included in this notice are (i) the methodologies for updating these parameters, (ii) the updated parameter amounts for the Part D standard benefit and low-income subsidy benefit for 2007, and (iii) the updated cost threshold and cost limit for qualified retiree prescription drug plans.

As required by statute, the parameters for the standard benefit are indexed to the increase in average total drug expenses of Medicare beneficiaries. As a result, the actuarial value of the drug benefit increases along with any increase in drug expenses, and the standard Part D benefit continues to cover a constant share of drug expenses from year to year.

The Part D benefit parameters are updated using one of two indexing methods specified by statute. The first method is the annual percentage increase in average expenditures for Part D drugs per eligible beneficiary, and the second is the annual percentage increase in the Consumer Price Index (all items, U.S. city average).

I. Annual Percentage Increase

Section 1860D-2(b)(6) of the MMA defines the “annual percentage increase” as “the annual percentage increase in average per capita aggregate expenditures for covered Part D drugs in the United States for Part D eligible individuals, as determined by the Secretary for the 12-month period ending in July of the previous year using such methods as the Secretary shall specify.” The following parameters are updated using the “annual percentage increase”:

Deductible: from \$250 in 2006 and rounded to the nearest multiple of \$5

Initial Coverage Limit: from \$2,250 in 2006 and rounded to the nearest multiple of \$10

Out-of-Pocket Threshold: from \$3,600 in 2006 and rounded to the nearest multiple of \$50

Minimum Cost-sharing in the Catastrophic Coverage Portion of the Benefit: from \$2 for generic or preferred drug that is a multi-source drug and \$5 for all other drugs in 2006 and rounded to the nearest multiple of \$0.05

Maximum Copayments below the Out-of-Pocket Threshold for certain Low Income Full Subsidy Eligible Enrollees: from \$2 for generic or preferred drug that is a multi-source drug and \$5 for all other drugs in 2006 and rounded to the nearest multiple of \$0.05

Deductible for Low Income (Partial) Subsidy Eligible Enrollees: from \$50 in 2006 and rounded to the nearest \$1

Maximum Copayments above the Out-of-Pocket Threshold for Low Income (Partial) Subsidy Eligible Enrollees: from \$2 for generic or preferred drug that is a multi-source drug and \$5 for all other drugs in 2006 and rounded to the nearest multiple of \$0.05

II. Annual Percentage Increase in CPI (all items, U.S. city average)

Section 1860D-14(a)(4) of the MMA specifies that the annual percentage increase in the Consumer Price Index, All Urban Consumers (all items, U.S. city average) as of September of the previous year is used to update the maximum copayments below the out-of-pocket threshold for full benefit dual eligible enrollees with incomes that do not exceed 100% of the Federal poverty line. For 2007, they are increased from \$1 for generic or preferred drug that is a multi-source drug and \$3 for all other drugs in 2006 and rounded to the nearest multiple of \$0.05 and \$0.10, respectively.

III. Calculation Methodology

Annual Percentage Increase

The first time CMS will have Part D program data that can be used in the calculation of the annual percentage increase as defined in the MMA will be in 2008 for the 2009 contract year benefit parameters. Therefore, until sufficient Part D program data becomes available, the National Health Expenditures (NHE) prescription drug per capita estimates will be used. The annual percentage increase for determining the 2007 benefit parameters is based on the past and projected NHE prescription drug per capita costs as follows:

$$\frac{\text{August 2005 – July 2006}}{\text{August 2004 – July 2005}} = \frac{\frac{5}{12}(\text{CY 2005}) + \frac{7}{12}(\text{CY 2006})}{\frac{5}{12}(\text{CY 2004}) + \frac{7}{12}(\text{CY 2005})} = \frac{\frac{5}{12}(\$675) + \frac{7}{12}(\$720)}{\frac{5}{12}(\$630) + \frac{7}{12}(\$675)} = 1.0686$$

(Source: Prescription Drug Spending, National Health Accounts, 1960-2015; National Health Statistics Group; November, 2005; Table 11 at <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/proj2005.pdf>)

Therefore, the annual percentage increase applicable for the 2007 parameters is 6.86%. As noted above, the actuarial value of the standard Part D benefit is also estimated to increase by approximately 6.86%.

The 2008 and future updates will include an adjustment for any variations between the projected and actual amounts from the prior period.

Annual Percentage Increase in Consumer Price Index, All Urban Consumers (all items, U.S. city average)

The annual percentage increase in CPI as of September of the previous year referenced in the MMA is interpreted to mean that, for contract year 2007, the September, 2006 CPI should be used in the calculation of the index. To ensure that Plan sponsors and CMS have sufficient time to incorporate the cost-sharing requirements into benefit designs, marketing material and systems development, the methodology to calculate this update includes an estimate of the September, 2006 CPI based on the projected amount included in the President's FY2007 Budget. The September, 2005 value is from the Bureau of Labor Statistics. The 2008 and future updates will include any variations between the projected and actual September CPI amounts from the prior period. The annual percentage increase in CPI for contract year 2007 is calculated as follows:

$$\frac{\text{Projected September 2006 CPI}}{\text{Actual September 2005 CPI}} \text{ or } \frac{202.4}{198.8} = 1.0181$$

(Source: President's 2007 Budget and Bureau of Labor Statistics, Department of Labor)

Thus, the increase factor for the full benefit dual beneficiary maximum cost-sharing amounts for 2007 is 1.81%.

IV. Part D Payment Demonstration Adjustment

The fixed capitated option of the Part D Payment Demonstration includes a catastrophic benefit that begins at the total drug expense corresponding to the out-of-pocket threshold in the Defined Standard Benefit. For 2007, this amount is increased from \$5,100 in 2006 to \$5,451.25. Specifically, this is the minimum amount of total covered Part D drug expenditures that will have occurred when the beneficiary reaches the TrOOP threshold or \$3,850 in 2007. This expense level is determined arithmetically as a function of the 2007 out-of-pocket threshold (as opposed to being indexed directly).

V. Retiree Drug Subsidy Amounts

As outlined in §423.886(b)(3), the cost threshold and cost limit for qualified retiree prescription drug plans that end in years after 2006 are adjusted in the same manner as the annual Part D deductible and out-of-pocket threshold are adjusted under §423.104(d)(1)(ii) and (d)(5)(iii)(B), respectively. Specifically, they are adjusted by the "annual percentage increase" as defined in Section I. Annual Percentage Increase, above. The cost threshold and cost limit are defined as \$250 and \$5,000, respectively, for plans that end in 2006. For 2007, the cost threshold and cost limit are increased to \$265 and \$5,350, respectively.

VI. Part D Benefit Parameter Chart for Standard Benefit, Low-Income Subsidy Benefit, and Retiree Drug Subsidy

2007 Percentage Increases		
Annual Percentage Increase: Applied to all parameters but (1)		6.86%
Annual Percentage Increase in CPI (all items, U.S. city average): Applied to (1)		1.81%
Part D Benefit Parameters	2006	2007
Standard Benefit Design Parameters		
Deductible	\$250	\$265
Initial Coverage Limit	\$2,250	\$2,400
Out-of-Pocket Threshold	\$3,600	\$3,850
Total Covered Part D Drug Spend at OOP Threshold (2)	\$5,100	\$5,451.25
Minimum Cost-sharing in Catastrophic Coverage Portion of Benefit		
Generic/Preferred multi-source drug	\$2.00	\$2.15
Other	\$5.00	\$5.35
Part D Full Benefit Dual Eligible Parameters		
Copayments for Institutionalized Beneficiaries	\$0.00	\$0.00
Maximum Copayments for Non-Institutionalized Beneficiaries		
Up to or at 100% FPL		
Up to Out-of-Pocket Threshold (1)		
Generic/Preferred multi-source drug	\$1.00	\$1.00
Other	\$3.00	\$3.10
Above Out-of-Pocket Threshold	\$0.00	\$0.00
Over 100% FPL		
Up to Out-of-Pocket Threshold		
Generic/Preferred multi-source drug	\$2.00	\$2.15
Other	\$5.00	\$5.35
Above Out-of-Pocket Threshold	\$0.00	\$0.00
Part D Non-Full Benefit Dual Eligible Full Subsidy Parameters		
Maximum Copayments up to Out-of-Pocket Threshold		
Generic/Preferred multi-source drug	\$2.00	\$2.15
Other	\$5.00	\$5.35
Maximum Copayments above Out-of-Pocket Threshold	\$0.00	\$0.00
Part D Non-Full Benefit Dual Eligible Partial Subsidy Parameters		
Deductible	\$50.00	\$53.00
Coinsurance up to Out-of-Pocket Threshold	15%	15%
Maximum Copayments above Out-of-Pocket Threshold		
Generic/Preferred multi-source drug	\$2.00	\$2.15
Other	\$5.00	\$5.35
Retiree Drug Subsidy Amounts		
Cost Threshold	\$250	\$265
Cost Limit	\$5,000	\$5,350

(1) CPI adjustment applies to copayments for non-institutionalized beneficiaries up to or at 100% FPL.

(2) Amount of total drug spending required to attain TrOOP level in the standard benefit if beneficiary does not have prescription drug coverage through a group health plan, insurance, government-funded health program, or similar third party payment arrangement.