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MEMORANDUM

Date: April 5, 2006

To: All Part D Plan Sponsors

From: Tom Hutchinson, Acting Director
Medicare Plan Payment Group

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

Today CMS released guidance on the new Medicare Part D Benefit Parameters for the Standard Benefit and related benefit factors for 2007.

By statute, CMS is required to update the Part D benefit parameters for the Standard Benefit each year. Included in the notice are the methodologies for updating the Part D benefit, the updated Part D standard benefit parameters for 2007, and the updated cost threshold and cost limit for qualified retiree prescription drug plans.

It is important to note that these revised benefit parameters will have only a minimal effect for most beneficiaries, in part because the vast majority of beneficiaries are not enrolled in a plan with the Standard Benefit. In 2006, over 90% of beneficiaries were not enrolled in the standard benefit design, but rather have enrolled in plans with low or no deductibles, flat payments for covered drugs, and in some cases, coverage in the coverage gap. (Beneficiaries eligible for the low-income subsidy have a very comprehensive benefit, with no coverage gap and usually no deductible.) Plans will continue to have flexibility to offer beneficiaries benefit designs with these popular features as benefit packages are developed for 2007.

These alternative plans must have equal or greater actuarial value compared to the standard benefit, and that actuarial value will increase in 2007. Overall, the average actuarial value of the Medicare prescription drug benefit (standard or equivalent) is expected to increase by approximately the same rate as the benefit parameters, specifically 6.86 percent. As a result, many plans would be able to offer a benefit package in 2007 that is quite similar to their 2006 coverage.

The indexing of the Standard Benefit parameters in 2007 primarily reflects increasing drug utilization by seniors. With the introduction of the Part D benefit in 2006, millions of Medicare beneficiaries now have drug coverage for the first time, and millions more have improved coverage. The drug prices negotiated by the Part D drug plans are generally much more favorable than the prices that many of these beneficiaries had to pay. Consequently, the introduction of Part D is expected to hold down overall drug price growth in 2006. In addition, many beneficiaries are now able to afford more prescription drugs. CMS' Office of the Actuary has estimated that the effect of the lower prices slightly outweighs the cost of the greater utilization, leading to slightly slower growth in overall prescription drug expenditures in the U.S. in 2006, even though seniors are using many more prescription drugs.

Further Information

If you have questions about this guidance, please contact Meghan Elrington at (410) 786-8675.