DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services 7500
Security Boulevard
Baltimore, Maryland 21244-1850

CENTER FOR MEDICARE

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TO: All Medicare Advantage Organizations, Section 1876 Cost Plans and Part D Plan Sponsors

FROM: Amy Larrick Chavez-Valdez,
Director, Medicare Drug Benefit and C & D Data Group

Kathryn A. Coleman,
Director, Medicare Drug & Health Plan Contract Administration Group

SUBJECT: Enhanced Out-of-Pocket Cost Model Update

The purpose of this memorandum is to provide information about the Out-of-Pocket Cost (OOPC) Model used by stand-alone Prescription Drug Plans (PDPs) to evaluate meaningful difference between plan offerings and by Medicare Advantage Organizations (MAO) in calculating changes in Total Beneficiary Cost (TBC) from one year to the next. CMS explained the technical enhancements to the Bid Review OOPC Model in the June 26, 2020 HPMS memorandum titled "Release of Proposed Enhancements to the Bid Review Out-of-Pocket Cost Model and Request for Stakeholder Comments." CMS sought stakeholder comment on the proposed model updates and used the feedback received to make additional enhancements to both the Parts C & D Baseline and Bid Review OOPC Models. A summary of this feedback is included below.

Part D – Summary of Stakeholder Feedback and Model Updates

Stakeholder comments supported the use of the proposed model cohort based on a random 0.1% sample of all Part D beneficiaries and their associated Prescription Drug Event (PDE) data to calculate Part D OOPC estimates. Commenters agreed that these enhancements provide for a larger, more representative cohort, more timely data, and up-to-date drug cost estimates, compared to the fee-for-service (FFS) cohort from the Medicare Current Beneficiary Survey (MCBS). While the comments supported the use of the new cohort and drug mapping based on PDE data, respondents indicated that one of the disadvantages of the proposed OOPC model is that potential formulary alternatives and formulary exceptions are not accounted for in the model. As a result, CMS undertook an analysis of beneficiaries enrolled in Part D plans from 2018-2019 to quantify the prevalence of these alternative coverage scenarios. Using the

information from this analysis, the Enhanced Part D OOPC Models have been updated so that the cost attributed to a drug that is not on a plan's formulary will now be determined by an algorithm that randomly assigns one of the following outcomes to the drug, weighted by prevalence:

1. Non-formulary status (49%) - the full cash price for all non-formulary drugs will be used to estimate the OOP cost (we note that this is how all OOP costs for non-formulary drugs are calculated in the current model, prior to this enhancement);
2. Application of exception tier cost sharing (15%) – the applicable cost-sharing identified in a plan's PBP for formulary exceptions will be used to estimate the OOP cost; or
3. Potential formulary alternative (36%) – a formulary drug within the same class or subclass as the non-formulary drug will be substituted, and the formulary and benefit design applied to estimate the OOP cost.

This enhancement of the Part D OOPC methodology will enable the model to better predict real-world occurrences and will provide for a more accurate reflection of the estimated Part D OOPC.

Part C – Summary of Stakeholder Feedback

Commenters were generally supportive of the proposed enhancements and continued use of the MCBS cohort to calculate Part C OOPCs. Respondents were also supportive of the proposal to expand the MCBS cohort to include beneficiaries with end-stage renal disease (ESRD) and to include participants with a missing health status in the bid review OOPC cohort. It was noted that including a broader population in the OOPC model cohort resulted in greater cost sharing for several service categories, such as inpatient and skilled nursing facility services.

Respondents also indicated that establishing the Part C cohort based on the Common Medicare Environment (CME) and FFS claims data did not necessarily represent their enrollees' out-of-pocket cost experience and limits data for supplemental benefits. We note that the OOPC model is a standardized approach to evaluating plans, based on a nationally representative cohort of Medicare beneficiaries. Estimated out-of-pocket costs for each plan benefit package are calculated on the basis of utilization patterns for the MCBS cohort, rather than a plan's actual enrollees.

Next Steps

With this memorandum, CMS is releasing the following Enhanced OOPC Models for both Parts C and D, inclusive of the additional updates: CY 2021 Baseline and CY 2022 Bid Review. Technical User Guides and Methodology documents with instructions regarding how to execute the files and run the models are posted on the CMS website on the OOPC Resources page. Please note that MAOs will need to calculate their Part C and Part D OOPCs separately and

combine them for their total OOPC value. As in the past, all MA plans (including those that do not include a Part D benefit) will have both a Part C and a Part D OOPC value. This information will allow MAOs, PDP sponsors, and interested stakeholders to gain familiarity with the changes in advance of their use in bid evaluation.

The updated versions of these Enhanced OOPC Models will be used for bid evaluation purposes starting with CY 2023 bid submissions. The CY 2022 Baseline OOPC Model (expected to be issued in December 2021/January 2022), as well as all other future model releases, will include these enhancements for bid evaluation purposes. CMS acknowledges that the OOPC values calculated using the enhanced model may vary at the plan level compared to current OOPC model values. In advance of CY 2023 bid submissions, CMS intends to provide additional details on how these models may impact CMS bid review thresholds pertaining to section 1854(a)(5)(C)(ii) of the Social Security Act and 42 C.F.R. §§ 422.254(a)(4), 422.256(a), and 423.272(b)(3)(i).

Please submit any questions via email at: OOPC@cms.hhs.gov.