

**NOTE TO: Medicare Advantage Organizations and Other Interested Parties**

**SUBJECT: Guidance on the Rebate Reallocation Process during Bid Negotiation**

Below are guidelines for the reallocation of rebate dollars in MA-PD plan bids following CMS' publication of the Part D National Average Monthly Bid Amount, the Part D Base Beneficiary Premium, and the Part D Regional Low-Income Premium Subsidy Amounts, and the MA regional benchmarks. Rebate reallocation is one aspect of the annual MA bid negotiation process that takes place in August. After changes to rebate allocation and any other changes to the bid submission negotiated between an MA organization and CMS, the MA organization will re-submit the bid package to HPMS.

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**1. Local MA Plans not offering Part D benefits may not reallocate rebate dollars.**

Local MA plans not offering Part D benefits had all the necessary information upon which to estimate their bid amounts for the June 6, 2005 bid submission. Therefore, the rebate reallocation process does not apply to these plan bids.

**2. Local and Regional MA-PD Plan Rebate Reallocation**

Once CMS has determined the Part D Base Beneficiary Premium, the MA-PD plan's Part D basic beneficiary premium may be higher or lower than the premium targeted in the June bid submission, i.e., rebate has been allocated where it is not needed.

The target premium is the premium net of rebate that the MA organization intends to charge beneficiaries for the plan's Part D basic benefits. The target premium may be specified as the low-income premium subsidy benchmark for the region (i.e., whatever amount is equivalent to a zero premium for full subsidy low-income beneficiaries), a zero premium for all beneficiaries, or a specific dollar amount net of rebates. Per the guidelines in the July 13, 2005 HPMS e-mail (subject: Target Part D Premium), MA organizations must have submitted to CMS the target premium for each MA-PD plan bid submission where rebate dollars are applied to reduce the Part D basic premium.

If more rebate dollars have been allocated to achieve the plan's target Part D basic beneficiary premium than are needed, this "excess" allocation results in a lower premium than intended. This includes the possibility that the premium is a negative number. Conversely, if not enough rebate has been allocated to achieve the plan's target Part D basic beneficiary premium, this "insufficient" allocation results in a premium is higher than intended. Below are the rules for addressing excess and insufficient rebate allocation to the Part D basic premium.

**2a. All rebate reallocation to adjust the Part D basic beneficiary premium (net of rebate) must return to the initial target premium. We will not accept a partial return to the target premium.**

**2b. Rebate reallocation to supplemental benefits and/or the Part B premium is required if the Part D basic beneficiary premium (net of rebate) is negative.**

No Part D plan can have a negative premium. Therefore, the "excess" rebate allocated to buy-down the Part D basic premium must be reallocated to buy-down the Part C or Part D

supplemental premiums or the Part B premium in order to return the D basic premium to the target premium amount. See item 5 below for possible uses of “excess” rebate.

**Example 2(b): Required Rebate Reallocation, given “Excess” Allocation**

<b>June - initial bid submission</b>	Estimate pre-rebate D basic premium	\$36
	Identify <b>target premium</b> (post-rebate premium)	\$0
	Determine rebate amount to apply to pre-rebate D basic premium to “buy down” to target	\$36
<b>August – Part D benchmarks published</b>	Outcome of nat’l Part D average bid and base premium: August pre-rebate D basic premium	\$34
	August post-rebate premium, applying June rebate allocation	-\$2 [\$34-\$36]
	Identify rebate allocation needed to move August pre-rebate premium to target premium [August pre-rebate – June target]	\$34 [\$34 – 0]
	Calculate “excess” rebate [June rebate – August rebate]	\$2 [\$36-\$34]
<b>Rebate Reallocation Required</b>	MA organization must reallocate \$2 of “excess” rebate to other benefits to return to target premium of \$0	

In example 2(b) above, the required change is the shift from a \$36 to a \$34 rebate allocation to the Part D basic premium in order to return to the target premium of \$0.

**2c. Rebate reallocation to Part C or D supplemental benefits is optional if the Part D basic beneficiary premium (net of rebate) is lower than the target premium but not less than zero.**

The MA organization has two options: leave the final Part D basic premium (net of rebate) unchanged (i.e., at the level resulting from application of the National Average Monthly Bid Amount and the Base Beneficiary Premium); or reallocate rebate to fund other portions of the plan benefit package in order to return to the target D basic premium. Rebate can be reallocated to reduce beneficiary premiums for the Part C and D supplemental benefits.

If the MA organization elects to allocate the “excess” rebate dollars to the other benefits, the final Part D basic premium must be the target premium.

**Example 2(c): Optional Rebate Reallocation, given “Excess” Initial Allocation**

<b>June - initial bid submission</b>	Estimate pre-rebate D basic premium	\$35
	Identify <b>target premium</b> (post-rebate premium)	\$20
	Determine rebate amount to apply to pre-rebate D basic premium to “buy down” to target premium	\$15
<b>August – Part D benchmarks published</b>	Outcome of nat’l Part D average bid and base premium: August pre-rebate D basic premium	\$30
	August post-rebate premium, applying June rebate allocation	\$15 [\$30-\$15]
	Identify rebate allocation needed to move August pre-rebate premium to target premium [August pre-rebate – June target]	\$10 [\$30-\$20]
	Calculate “excess” rebate [June rebate – August rebate]	\$5 [\$15-\$10]
<b>Rebate Reallocation Options</b>	(a) No rebate reallocation; leave at post-rebate D basic premium of \$15.	
	(b) Reallocate \$5 of “excess” rebate to other benefits to return to target premium of \$20	

In example 2(c) above, if the MA organization does not want to maintain the August post-rebate premium of \$15, only a return to \$20 is acceptable, not \$18. We will not accept a partial return to the target premium.

**2d. Rebate reallocation from the Part C or D supplemental premiums to the Part D basic premium in order to meet the target premium is optional if the Part D basic beneficiary premium (net of rebate) is higher than the target premium.**

The MA organization has two options: leave the final Part D basic premium (net of rebate) unchanged (i.e., at the level resulting from application of the National Average Monthly Bid Amount and the Base Beneficiary Premium); or reallocate rebate that had been applied to reduction of Part C and D supplemental premiums or the Part B premium toward the Part D basic premium, in order to return to the target D basic premium.

If the MA organization does elect to reallocate additional rebate dollars from other benefits, the final Part D basic premium must be the target premium.

**Example 2(d): Optional Rebate Reallocation, given “Insufficient” Initial Allocation**

<b>June - initial bid submission</b>	Estimate pre-rebate D basic premium	\$35
	Identify <b>target premium</b> (post-rebate premium)	\$20
	Determine rebate amount to apply to pre-rebate D basic premium to “buy down” to target premium.	\$15
<b>August – Part D benchmarks published</b>	Outcome of nat’l Part D average bid and base premium: August pre-rebate D basic premium	\$40
	August post-rebate premium, applying June rebate allocation	\$25 [\$40-\$15]
	Identify rebate allocation needed to move August pre-rebate premium to target premium [August pre-rebate – June target]	\$20 [\$40-\$20]
	Calculate “insufficient” rebate [August rebate to achieve target premium – June rebate]	\$5 [\$20-\$15]
<b>Rebate Reallocation Options</b>	(a) No rebate reallocation; leave at post-rebate D basic premium of \$25.	
	(b) Reallocate \$5 of rebate from other benefits to the Part D basic premium to increase total rebate to \$20, thus buying the \$40 premium down to the target premium of \$20.	

In example 2(d) above, if the MA organization does not want to leave the August post-rebate premium of \$25, only a return to \$20 is acceptable, not \$23. We will not accept a partial return to the target premium.

**3. Changes to Funding of the Part D Basic and Supplemental Benefits during Rebate Reallocation.**

During the rebate reallocation process, rebate dollars not used to reach the target premium for basic Part D coverage may be used to buy down the Part D supplemental premium. However, no modifications are allowed to the benefit design or pricing of the Part D basic benefit or the supplemental benefit offered under the “enhanced alternative” design. Changing the Part D benefit design would affect projected reinsurance due to the change in induced demand for basic Part D benefits. This change in reinsurance has an impact on the pricing of basic Part D benefits and, in turn, affects both the National Average Monthly Bid Amount and the Base Beneficiary Premium. The National Average Monthly Bid Amount and the Base Beneficiary Premium

should not be recalculated after being announced; thus, there can be no change in Part D benefit design.

Specifically, this prohibition includes the rule that no changes are allowed to the allowed costs, administrative costs, or gain/loss margin in the Part D basic and supplemental benefits.

**4. MA organizations must meet the §423.104(f) requirement on type of drug coverage offered by certain plans, and must reallocate rebate if necessary to meet this requirement.**

In accordance with 42 CFR §423.104(f), MA organizations may not offer an MA coordinated care plan in an area unless either that plan (or another MA plan offered by the same MA organization in the same service area) includes required prescription drug coverage.

Required prescription drug coverage is defined by 42 CFR §423.100 as MA-PD plan coverage of Part D drugs that is either

- Basic prescription drug coverage (i.e., defined standard coverage, actuarially equivalent standard coverage or basic alternative coverage); or
- Enhanced alternative coverage with no beneficiary premium for the Part D supplemental benefit. An MA-PD plan must apply rebate dollars to reduce to zero the beneficiary premium for the Part D supplemental benefit.

MA organizations are required to comply with this requirement. If necessary, MA organizations must reallocate rebate dollars from other benefits to achieve the required Part D supplemental benefit in the plan.

To restate: MA organizations offering coordinated care plans must offer in an area either (a) a basic-only Part D plan or (b) a basic plus supplemental Part D plan where the supplemental premium equals zero. Failure to meet this requirement will result in the inability to offer a Part D benefit. In addition, for MA organizations offering coordinated care plans, failure to offer a Part D benefit in an area will result in the organization being unable to offer a Part C benefit as well, pursuant to the rules of 42 C.F.R. §422.4.

**5. Changes to Funding of the Part C Supplemental Benefits during Rebate Reallocation**

During the rebate reallocation process, rebate dollars not used to reach the target premium for basic Part D coverage or the Part D supplemental premium may be used to further buy down the Part C supplemental premium. For a plan with “excess” rebate, an MA organization also could add new non-drug benefits (e.g., a vision benefit) to the Part C supplemental package and then buy down the new Part C premium.

CMS does not expect and will not allow MA organizations to redesign supplemental benefits during rebate reallocation process. For example, if an MA-PD plan’s Part D basic premium shifts from \$0 to -\$3, which means it has credited \$3 of rebate where it is not needed, rebate reallocation is required. The MA organization may decide to reallocate this \$3 to buy-down the cost of a benefit in the Part C supplemental package. However, we do not expect the MA organization to accomplish reallocation by moving \$15 out of A/B cost sharing reductions and moving \$18 into the additional benefit. We would consider this to be redesign of the supplemental benefit.

If the value of non-drug additional benefits is being increased as a result of reallocating rebate, we would allow changes in the supplemental administrative costs and the gain/loss margin that reflect the new level of the benefit. Similarly, if the gain/loss margin is determined as a percentage of medical costs, we expect that changes in administrative costs and margin will reflect application of the same approach. In general, we expect only minor changes to administrative costs and margins.

Part B premium reduction. Finally, the other use of rebate dollars allowed under §422.266 is reduction of the Part B premium. During the rebate reallocation process, rebate dollars may be shifted into or away from funding a reduction in this premium, under the reallocation rules described in other sections.

**6. Regional MA plans also must adjust rebate allocation to account for any increase or decrease in total rebate dollars.**

Once CMS has determined the MA regional benchmarks, there may be an increase or decrease in the total rebate dollars in a regional plan bid. The allocation of rebate dollars to fund the premium for Part C or Part D basic or supplemental benefits or the Part B premium reduction must be revised to reflect the new total.

**Section (6) Example: Regional Plan Decrease in Total Rebate combined with “Excess” Initial Allocation to Part D Basic Premium**

<b>June - initial bid submission</b>	Estimate total rebate dollars	\$55
	Estimate pre-rebate D basic premium	\$35
	Identify <b>target premium</b> (post-rebate premium)	\$20
	Determine rebate amount to apply to pre-rebate D basic premium to “buy down” to target premium.	\$15
<b>August – Part D and MA regional benchmarks published</b>	Outcome of nat’l Part D average bid and base premium: Final total rebate dollars	\$53
	August pre-rebate D basic premium	\$30
	August post-rebate premium, applying June rebate allocation	\$15 [\$30-\$15]
	Identify change in amount of total rebate	-\$2
	Identify rebate allocation needed to move August pre-rebate premium to target premium [August pre-rebate – June target]	\$10 [\$30-\$20]
	Calculate “excess” rebate [June rebate – August rebate]	\$5 [\$15-\$10]
	Reconcile reduced total rebate with “insufficient” D basic allocation	\$3 [\$5-\$2]
<b>Rebate Reallocation Options</b>	(a) Leave D basic premium at post-rebate premium of \$15. Subtract \$2 of rebate from other benefits to adjust for reduced total rebate	
	(b).Return to target premium of \$20. Allocate \$3 of rebate to other benefits.	

**7. Every plan bid must allocate the exact amount of the plan’s total rebate.**

The exact amount of the plan’s total rebate must be allocated among the various options described above. MA organizations must account for all rebate dollars in a plan’s bid. Moreover, the amount of rebate allocated to a supplemental benefit or the Part B premium reduction must

not exceed the value of that benefit. For example, if the Part D supplemental premium is \$50, an MA organization may not allocate more than \$50 to buy down that premium.

**8. Rounding rule: an organization can round the combined premium (that is, the combined A/B basic, A/B supplemental, PD basic and PD supplemental premiums) to the nearest dollar, as long as there is an offsetting reduction of no more than \$0.50.**

Example 1: Assume a plan has no premium for A/B benefits or supplemental benefits, and an initial basic Part D premium (target premium) of \$30. If the post-national-average-drug-bid combined premium for the plan is \$30.42, the MA organization could round the plan premium to \$30.00, and reduce the gain/loss margin for Part A/B benefits by \$0.42. (The gain/loss margin for Part D benefits may not change.)

Example 2. Assume a plan has no premium for A/B benefits or supplemental benefits, and an initial basic Part D premium (target premium) of \$30. If the post-national average drug-bid combined premium for the plan is \$32.42, the MA organization could charge a premium of \$32.00, with a reduction in gain/loss margin of \$0.42 margin for Part A/B benefits.

The organization could not round the premium to anything lower than \$32. For example, the organization could not round to a combined premium of \$30, with a reduction of gain/loss ratio by \$2.42. To return to the target premium of \$30, the MA organization would have to engage in rebate reallocation.

If the only change in the plan bid submission is rounding the combined premium (with the accompanying offset), no rebate reallocation is allowed.

**9. Local MA Plan Segments.**

Segmentation of local MA plans is discussed in p. 31-32 of the Instructions for 2006 Contract Year (“Call Letter), released April 15, 2005. The rules above on rebate reallocation for local plans apply to bids for plan segments, with the following clarifications.

- The plan’s health care benefit package must be the same across plan segments. However, the Part C package can be priced differently across segments, e.g., basic and supplemental premiums and cost-sharing may differ across segments.
- Segmentation does not apply to the Part D benefit. The Part D prescription drug benefit must be uniform across a plan’s service area; thus it may not vary across segments. The amount of rebate allocated to buy-down Part D premiums, the initial target D beneficiary premium, and the final D beneficiary premium must be identical across the entire service areas.