PART D PAYMENT CALCULATIONS

I. Reconciling the Direct Subsidy

1. Monthly Direct Subsidy

DS = STAND_BID * RAF – BENE_PREM

Where
DS = Direct subsidy
STAND_BID = Approved Part D standardized bid amount (see Plan Bid Pricing Tool)
RAF = Beneficiary's health status risk adjustment factor
BENE_PREM = Monthly beneficiary premium for basic coverage

The direct subsidy is reconciled by updating beneficiary risk adjustment factors and statuses, recalculating payments for any beneficiary with a change, and paying the difference between the original direct subsidy and the reconciled direct subsidy amount.

From January through December of 2006 Happy Health Plan received twelve monthly direct subsidy payments of $75.60 each for a total annual prospective direct subsidy of $907.20. At reconciliation Mrs. Adams' risk score increased to 1.221 because an additional diagnosis was reported. The additional diagnosis was 733.00 – osteoporosis, which has an associated risk factor of .115. The monthly prospective direct subsidy increased by $11.50 to $87.10 because the final risk factor increased from 1.106 to 1.221; the reconciled direct subsidy is $1,045.20.

Prospective Direct Subsidy

Prospective Monthly Direct Subsidy = $100.00 * 1.106 - $35.00
Prospective Monthly Direct Subsidy = $75.60
Month-by-month total of Prospective Direct Subsidy = $75.60 * 12
Month-by=month total of Prospective Direct Subsidy = $907.20

Reconciled Direct Subsidy

Reconciled Monthly Direct Subsidy = $100.00 * 1.221 - $35.00
Reconciled Monthly Direct Subsidy = $87.10
Month-by-month total of Reconciled Direct Subsidy = $87.10 * 12
Month-by=month total of Reconciled Direct Subsidy = $1,045.20

Annual Reconciled Direct Subsidy

Annual Reconciled Direct Subsidy = Total Reconciled Direct Subsidy – Total Prospective Direct Subsidy
Annual Reconciled Direct Subsidy = $1,045.20 - $907.20
Annual Reconciled Direct Subsidy = $138.00

Happy Health Plan will receive $138.00, which is the difference between the total prospective direct subsidy and the total final reconciled direct subsidy.

II. Reconciling the Low Income Cost Sharing Subsidy

2. Monthly Prospective Low Income Cost-Sharing Subsidy

PLICS = BLICS * LI_ENR

Where
PLICS = Monthly prospective low income cost-sharing subsidy
BLICS = Low income estimate in the approved bid (See Plan Bid Pricing Tool)
LI_ENR = Number of low income beneficiaries enrolled in the month

The prospective LICS for reconciliation is the sum of all prospective LICS payments made during the year, net of any adjustments.

3. LICS Reconciliation

RLICS = ALICS - PLICS

Where
RLICS = LICS reconciliation amount
ALICS = Sum of plan-reported actual low income cost-sharing dollars in the coverage year
PLICS = Sum of all Prospective Low income Cost-sharing Subsidy payments (includes any adjusted payments) in the coverage year

Bayside Health Plan received $120 per low-income member per month of prospective LICS based on their Part D bid. The plan had 24,000 LI member months, meaning that the plan received a total of $2,880,000 of prospective LICS. Based on PDE data, the plan reported $3,000,000 of actual LICS.

LICS Reconciliation Amount

LICS Reconciliation Amount = $3,000,000 - $2,880,000

LICS Reconciliation Amount = $120,000

CMS will not pay this reconciliation amount until the remaining reconciliations have been calculated.

III. Reconciling the Reinsurance Subsidy

4. Prospective Reinsurance Subsidy

PROSP_REINS = BID_REINS * ENR

Where
PROSP_REINS = Monthly prospective reinsurance subsidy
BID_REINS = Reinsurance per member per month estimate in the approved bid (See Plan Bid Pricing Tool)
ENR = Number of beneficiaries enrolled in the month

The prospective reinsurance for reconciliation is the sum of all prospective reinsurance payments made during the year, net of any adjustments.

Bayside's total prospective reinsurance subsidy, net of all adjustments, was $2,100,000. Since Bayside bid a prospective reinsurance amount of $35 pmpm and had 60,000 member months, Bayside's total prospective reinsurance was $2,100,000 ($35*60,000 = $2,100,000).this amount will be used in the final reconciliation of the reinsurance subsidy

5. DIR Ratio

DIR_RATIO = GDCA /(GDCA + GDCB)

Where
GDCA = Gross drug cost above the OOP threshold
GDCB = Gross drug cost below the OOP threshold

Bayside reported gross drug cost above the out-of-pocket threshold (GDCA) equal to $2,750,000 and gross drug cost below the out-of-pocket threshold (GDCB) equal to $13,750,000. Bayside's total gross drug cost is equal to t he sum of the GDCA and GDCB, or $16,500,000, is. To determine Bayside's DIR ratio, divide GDCA by total gross drug cost. Bayside's DIR ratio is .1667, meaning that 1/6 of Bayside's total gross drug cost occurred above the out of-pocket threshold.

DIR_Ratio

DIR_Ratio = $2,750,000/($2,750,000 + $13,750,000)

DIR_Ratio = $2,750,000/$16,500,000

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6. Reinsurance Portion of DIR

REINS_DIR = DIR_RATIO * DDIR

Where
REINS_DIR = Reinsurance portion of DIR
DDIR = DIR for Covered Part D drugs

Bayside reported $1,650,000 in DIR for covered drugs. To calculate Bayside's reinsurance portion of DIR, multiply the DIR for covered drugs by the DIR Ratio. Bayside's reinsurance portion of DIR is $275,000.

Reinsurance Portion of DIR

Reinsurance Portion of DIR = $1,650,000 * .1667

Reinsurance Portion of DIR = $275,000

7. Allowable Reinsurance Costs

ALLOW_REINS = GDCA − REINS_DIR

Where
ALLOW_REINS = Allowable Reinsurance Costs
GDCA = Gross Drug Costs Above the Out-of-Pocket Threshold
REINS_DIR = Reinsurance Portion of DIR

Bayside reported GDCA equal to $2,750,000. To calculate Bayside's allowable reinsurance cost, subtract the reinsurance portion of DIR from GDCA. Bayside's allowable reinsurance cost is $2,475,000.

Allowable Reinsurance Cost

Allowable Reinsurance Cost = $2,750,000 - $275,000

Allowable Reinsurance Cost = $2,475,000

8. Plan-Level Reinsurance Subsidy

REINS_SUBS = ALLOW_REINS * .8

Where
REINS_SUBS = Reinsurance Subsidy
ALLOW_REINS = Allowable Reinsurance Costs

The reinsurance subsidy is 80 percent of allowable reinsurance cost. To calculate Bayside's reinsurance subsidy, multiply allowable reinsurance cost by .8. Bayside's reinsurance subsidy is $1,980,000.

Reinsurance Subsidy

Reinsurance Subsidy = $2,475,000 * 0.8

Reinsurance Subsidy = $1,980,000

9. Reconcile Reinsurance Subsidy

REINS_RECON = REINS_SUBS − PROSP_REINS

Where
REINS_RECON = Reinsurance Reconciliation Amount
REINS_SUBS = Reinsurance Subsidy
PROSP_REINS = Sum of Prospective Monthly Reinsurance Subsidy

The reinsurance reconciliation amount is the difference between the actual and prospective reinsurance subsidy. Bayside's total prospective reinsurance was $2,100,000. The difference between $1,980,000 and $2,100,000 is -$120,000. The reinsurance reconciliation amount is negative. Bayside over-estimated its reinsurance subsidy. In other words, Bayside's prospective reinsurance, based on it own bid estimates, was greater than the actual reinsurance subsidy, which was based on their own PDE data. Bayside will pay back $120,000.

Reinsurance Reconciliation Amount

Reinsurance Reconciliation Amount = $1,980,000 − $2,100,000

Reinsurance Reconciliation Amount = -$120,000

10. Plan's Target Amount

PRELIM_TARGET = DS + BENE_PREM_PAY + AB_REB_PARTD

Where
PRELIM_TARGET = Target amount before administrative cost adjustment
DS = Total direct subsidy
BENE_PREM_PAY = Total basic beneficiary premiums for payment purposes
AB_REB_PARTD = A/B rebate for basic Part D benefit

TARGET= PRELIM_TARGET * (1.00 – AC_RATIO)
Where
TARGET = Target amount
PRELIM_TARGET = Target amount before administrative cost adjustment
AC_RATIO = Administrative cost ratio

Bayside received $2,868,000 in total direct subsidy payments, $600,000 in beneficiary premiums for payment purposes and $1,500,000 in A/B rebates. Bayside's administrative cost ratio is 15 percent. First, determine Bayside's preliminary target amount. To calculate Bayside's preliminary target amount, sum the total direct subsidy payments, the beneficiary premiums for payment purposes, and the A/B rebates, which add up to $4,968,000.

The second step is to eliminate administrative costs. Bayside's administrative cost ratio is 15 percent; the remaining cost, which should be included in the target amount, is non-administrative cost. Find Bayside's non-administrative cost by first subtracting .15 from 1.00, which is .85. To calculate Bayside's target amount, multiply the preliminary target amount by .85.

Preliminary Target Amount

Preliminary Target Amount = $2,868,000 + $600,000 + $1,500,000

Preliminary Target Amount = $4,968,000

Target Amount

Target Amount = $4,968,000 * (1.00 - 0.15)

Target Amount = $4,968,000*.85

Target Amount = $4,222,800

11. Risk Corridor Thresholds

Second threshold lower limit	=	Target Amount * 0.95
First threshold lower limit	=	Target Amount * 0.975
First threshold upper limit	=	Target Amount * 1.025
Second threshold upper limit	=	Target Amount * 1.05

CMS uses Bayside's target amount and Part D threshold risk percentages to calculate the risk corridor thresholds. Bayside's target amount is $4,222,800. Part D threshold risk percentages, in descending order are 105 percent, 102.5 percent, 97.5 percent, and 95.0 percent. To calculate the four threshold limits, multiply Bayside's target amount by each of these percentages. Later, these threshold limits are part of the final risk sharing amount calculation.

Risk Corridor Thresholds

Second threshold upper limit (STUL)	= $4,222,800 * 1.05	= $4,433,940
First threshold upper limit (FTUL)	= $4,222,800 * 1.025	= $4,328,370
First threshold lower limit (FTLL)	= $4,222,800 * 0.975	= $4,117,230
Second threshold lower limit (STLL)	= $4,222,800 * 0.95	= $4,011,660

12. Adjusted Allowable Risk Corridor Costs (AARCC)

AARCC = (URCC * (1.00 - IU)) – REINS_SUBS – DDIR

Where
AARCC = Adjusted allowable risk corridor costs
URCC = Unadjusted risk corridor costs
IU = Induced Utilization factor
REINS_SUBS = Reinsurance Subsidy
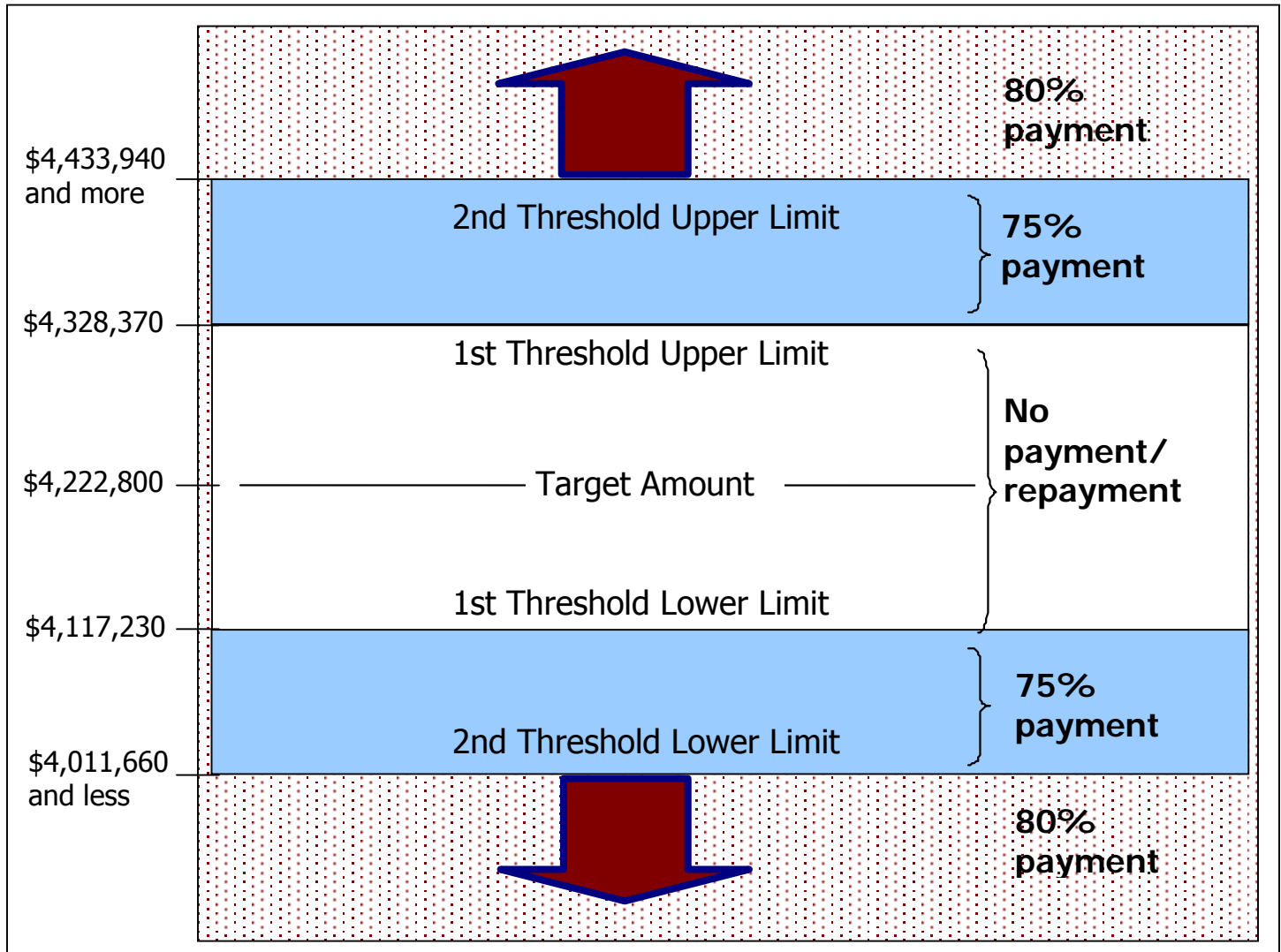DDIR = Covered Part D DIR

The AARCC for all plans excludes the reinsurance subsidy and DIR. In addition, EA plans must account for induced utilization. Bayside is an EA plan. Beneficiaries in EA plans pay a higher premium in exchange for reduced cost-sharing. These beneficiaries are expected to have higher drug costs than equivalent beneficiaries in other plans. Bayside uses the induced utilization factor submitted in its bid to exclude the effect of this potentially higher utilization. Bayside's unadjusted allowable risk corridor cost is $8,250,000. Bayside's induced utilization percentage is 1.0 percent. To exclude induced utilization, first subtract the induced utilization factor from 1.00, which equals .99. Then, multiply Bayside's unadjusted allowable risk corridor cost by .99. The result is $8,167,500. The reinsurance subsidy for Bayside is $1,980,000 and their Covered Part D DIR is $1,650,000.

Adjusted Allowable Risk Corridor Cost (AARCC)

AARCC = ($8,250,000 * (1.00 – 0.01)) - $1,980,000 - $1,650,000
AARCC = $8,167,500 - $1,980,000 - $1,650,000
AARCC = $4,537,500

PART D PAYMENT RECONCILIATION CALCULATIONS

Bayside's Risk Sharing Thresholds and Percentages

$4,433,940 and more	80% payment
	2nd Threshold Upper Limit — 75% payment
$4,328,370	
	1st Threshold Upper Limit
$4,222,800	Target Amount — No payment/ repayment
	1st Threshold Lower Limit
$4,117,230	
	2nd Threshold Lower Limit — 75% payment
$4,011,660 and less	80% payment

The last step in risk sharing is to determine where AARCC falls with respect to the threshold and calculate the payment adjustment. Bayside's AARCC is $4,537,500, which is above the $4,433,930 that marks the STUL. Thus there are two components of Bayside's risk sharing to calculate. The first component lies between $4,328,370 and $4,433,930 (between the FTUL and the STUL). The second component falls above the $4,433,930 that marks the STUL.

Cost Subject to Risk Sharing

Cost Subject to Risk Sharing > FTUL and ≤ STUL = $4,433,940 - $4,328,370

Cost Subject to Risk Sharing > FTUL and ≤ STUL = $105,570

Cost Subject to Risk Sharing > STUL = $4,537,500 - $4,433,940

Cost Subject to Risk Sharing > STUL = $103,560

PART D PAYMENT RECONCILIATION CALCULATIONS

Once the components subject to risk sharing have been determined, CMS will apply the risk sharing percentage for each component. First apply 90 percent risk sharing to the $105,570 between the FTUL and STUL, which is $95,013. In 2006, the government will increase the risk sharing percentage between the FTUL and STUL from 75 percent to 90 percent if at least 60 percent of Part D plans have AARCC above the FTUL, provided that those plans represent at least 60 percent of Part D enrollees. Then, apply 80 percent risk sharing to the $103,560 above the STUL, which is $82,848. Sum these two amounts to calculate Bayside's a total risk sharing payment of $177,861.

Risk Sharing Payment

Risk Sharing Payment = (.90 * $105,570) + (.80 * $103,560)

Risk Sharing Payment = $95,013 + $82,848

Risk Sharing Payment = $177,861

The risk sharing payment between the FTUL and STUL assumes that the 60/60 rule was met.

At this point, every step in the reconciliation process has been completed. In addition, to the reconciled direct subsidy that Bayside received from MARx, Bayside receives the net reconciliation amount of $177,861 from PRS.

- LICS reconciliation
- Reinsurance subsidy
- Risk sharing

Total Reconciliation Payment from PRS

LICS Reconciliation	$120,000
Reinsurance Subsidy Reconciliation	-$120,000
Risk Sharing	$177,861
Total Reconciliation Payment from PRS	$177,861