

# Medicare Advantage and Prescription Drug Plans Enrollment and Payment Conference

## Part D Payment and Reconciliation

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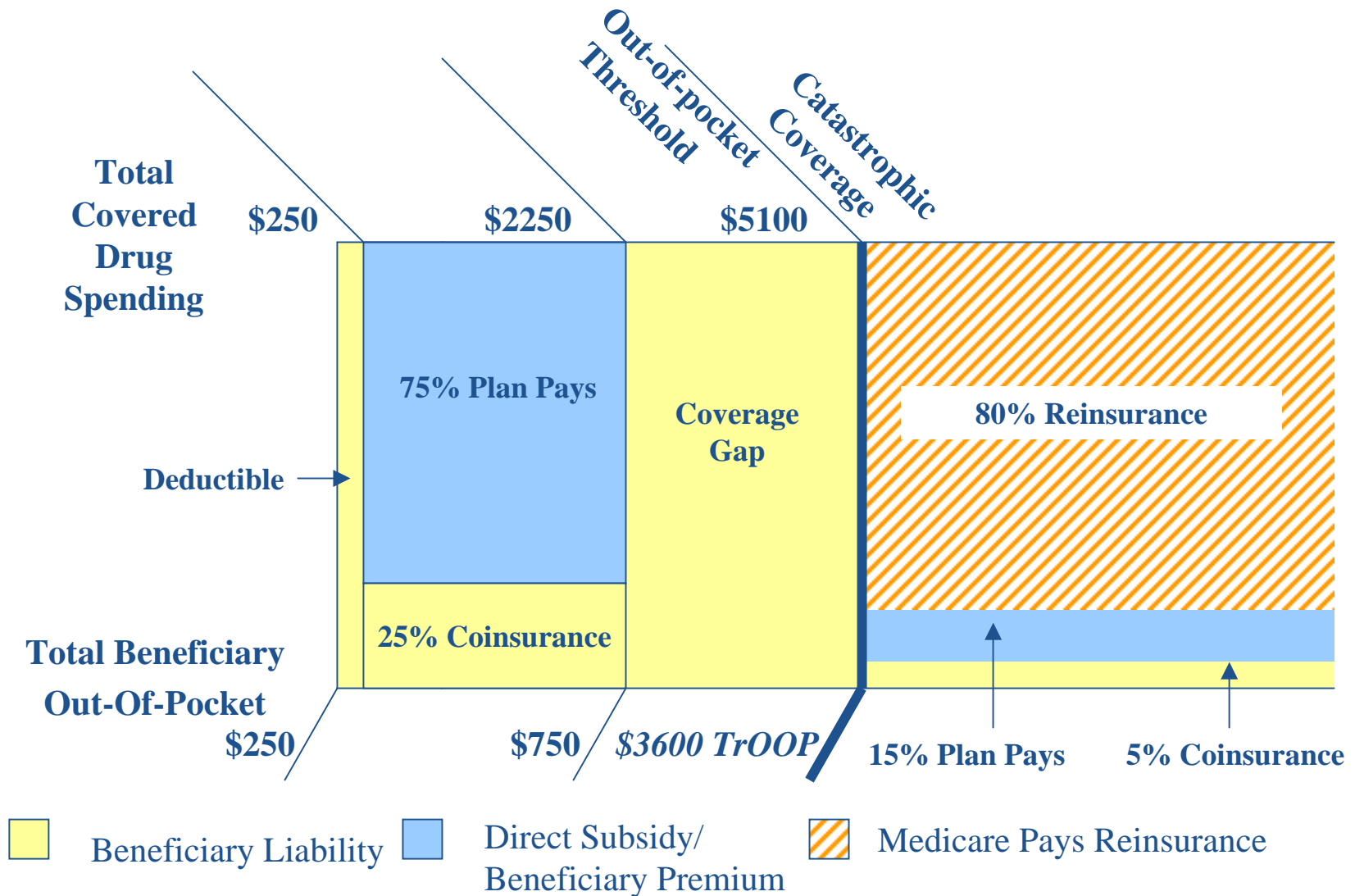
# Purpose

- Introduce Part D payment methodology so stakeholders understand the legislated methodology and how PDE data collection supports it.
- Explain systems, data sources and steps for calculating payment amounts to be used in the reconciliation process.

# Four MMA Payment Mechanisms

- Direct subsidy
- Low income subsidy
- Federal reinsurance subsidy
- Risk sharing

# Defined Standard Benefit 2006



# What is Covered?

- Statutorily-specified Part D drugs also covered under a specific plan benefit package (PBP).
- Includes non-Formulary Part D drugs covered as exceptions.

# Part D Risk Adjustment

- Statistical method that uses an individual's health status in a base year and demographic characteristics to predict expected covered plan cost under the Part D benefit in the next year.
- Appropriately adjusts payment for the characteristics of the enrolled population.
- Multiplied by bid to calculate direct subsidy.
- Part D model is Rx-HCC model.

# Rx-HCC Factors

- Demographic Factor:
  - Age (*as of February 1 in payment year*)
  - Gender
  - Originally disabled status

*Note: new enrollees have demographic factor only*

- Health Status Factor(s)
  - 3,562 diagnosis codes roll up to 84 hierarchical condition categories.

# Rx-HCC: Risk Factor Calculation

- Rx-HCC sums demographic factor and health status factor(s).
- Multiplier term: If beneficiary is low income eligible (LIS) or long term institutional (LTI), MARx selects the higher incremental factor to multiply by the beneficiary Part D RA Factor.

Part D Risk Adjustment Factor from RAS

Demographic Factor

+ Health Status Factor(s)

Part D RA Factor (*MMR#61*)



# Direct Subsidy Calculation

- Multiply the following amounts to risk adjust the standardized bid:
  - ✓ Plan's approved Part D standardized bid amount
  - ✓ Part D RA Factor (*MMR#61*)
  - ✓ LTI or LIS multiplier (*MMR#63 or MMR#65 when applicable*)
- From the risk adjusted bid, subtract the Part D Basic Premium Amount (*MMR#67*) to determine the direct subsidy
- Direct subsidy is calculated for every enrolled beneficiary
- Plan's monthly total direct subsidy is sum of the direct subsidies for each enrollee

# Direct Subsidy Example

Standardized Bid Amount	\$100.00
Part D RA Factor ( <i>MMR#61</i> )	x <u>1.221</u>
	\$122.10
Part D LIS Multiplier ( <i>MMR#63</i> )	
or	
Part D LTI Multiplier ( <i>MMR#65</i> )	x <u>1.08</u>
	\$131.87
Part D Basic Premium Amount ( <i>MMR#67</i> )	- <u>\$ 35.00</u>
Direct Subsidy Payment ( <i>MMR#71</i> )	\$96.87

# Total Prospective Payments

- Prospective payments equal monthly payments net of adjustments for
  - Rebate for Part D Basic Premium (MMR#66)
  - Part D Direct Subsidy Payment Amount (MMR#68)
  - Reinsurance Subsidy Amount (MMR#69)
  - Low-Income Subsidy Cost-Sharing Amount (MMR#70)
  
- Adjustment Reason Codes (MMR#28)
  
- Paymt/Adjustmt Start and End Dates (MMR#29 and #30) indicate the appropriate benefit year to which the adjustments apply.

# Direct Subsidy Reconciliation

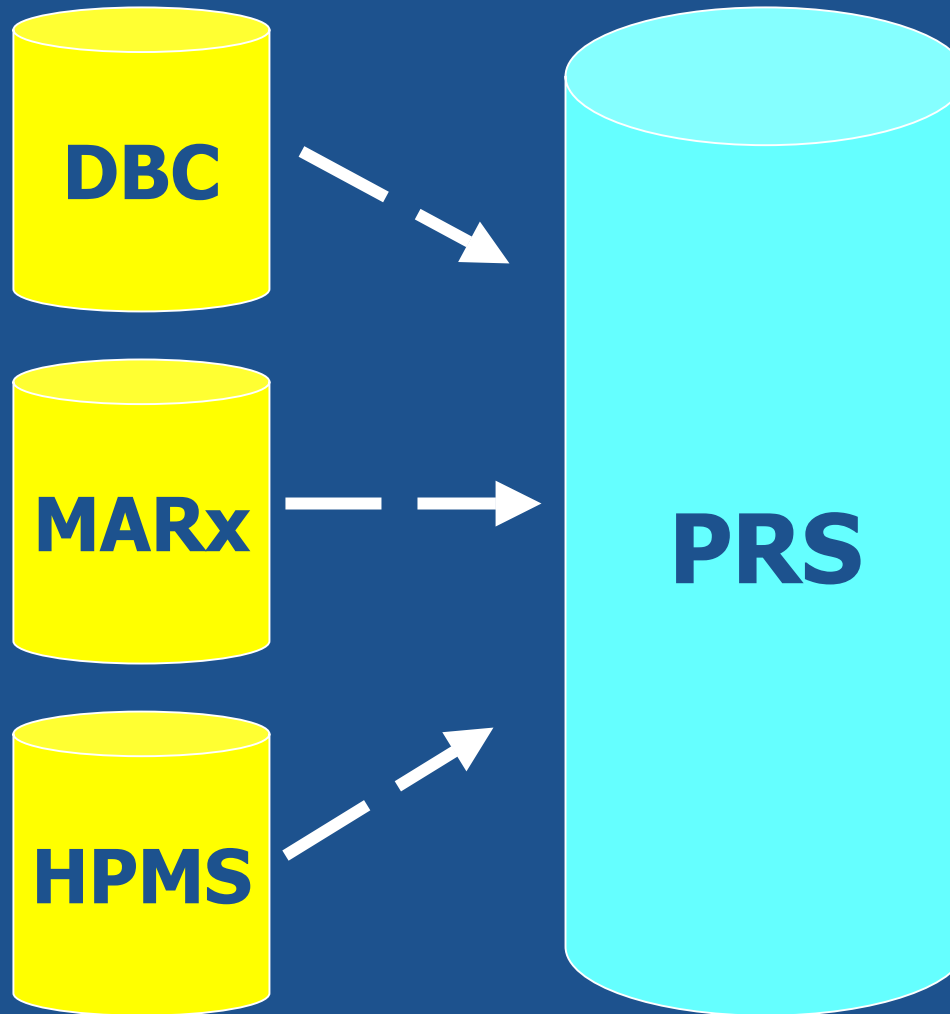
- Calculate new risk adjustment factors
- Determine appropriate LTI status
- Calculate new direct subsidy amounts for any beneficiary with changes
- Subtract the original direct subsidy amount from the reconciled direct subsidy amount
- Direct subsidy reconciliation will be performed in MARx and paid when complete

# What is Cost Based Reconciliation?

- Compares prospective payments to actual costs incurred by the plan.
- Conducted after the end of the benefit year.
- Specific rules for reconciling each payment
- Costs are reported by plans on Prescription Drug Event (PDE) records.

**Prospective Payments: MMR**  
**Actual Costs: PDE Data**

# Reconciliation Systems Overview



# Reconciliation: LICS

- Prospective LICS:  
Low-Income Subsidy Cost-Sharing Amount  
(MMR#70), net of adjustments.
- Actual LICS:  
Plan level LICS reported on PDEs.

## LICS Reconciliation

$$\begin{array}{r} \text{Actual LICS} \\ - \text{Prospective LICS} \end{array}$$

## LICS Reconciliation Amount

*(LICS Reconciliation Amount may be positive or negative)*

# Reconciliation: Reinsurance

- Prospective Reinsurance Subsidy:
  - Reinsurance Subsidy Amount (*MMR#69*), net of adjustments.
- Actual Reinsurance Costs:
  - 80% of Gross Drug Cost Above the OOP Threshold (GDCA) net of any other direct or indirect remuneration (DIR).



# Direct and Indirect Remuneration (DIR)

- Payment and reconciliation must exclude DIR, defined as:
  - Discounts, chargebacks or rebates, cash discounts, free goods contingent on a purchase agreement, up-front payments, coupons, goods in kind, free or reduced-price services, grants of other price concessions or similar benefits offered to some or all purchasers from any source, including manufacturers, pharmacies, enrollees, or any other person, that would serve to decrease the costs incurred by the Part D sponsor for the drug.

# Reconciliation: Reinsurance

## Allowable Reinsurance Cost

- Plans report GDCA on PDEs.
- Calculate the reinsurance portion of DIR and subtract from GDCA.
- Multiply by 0.8 to determine the reinsurance subsidy.

### Reinsurance Reconciliation

$$\begin{array}{r}
 \text{Actual Reinsurance Subsidy} \\
 - \text{Prospective Reinsurance Subsidy} \\
 \hline
 \text{Reinsurance Reconciliation Amount}
 \end{array}$$

*(Reinsurance Reconciliation Amount may be positive or negative)*

# Risk Sharing Process

- Calculate target amount.
- Calculate risk corridor thresholds.
- Determine adjusted allowable risk corridor costs.
- Compare costs to thresholds and determine risk sharing amount.

# Risk Sharing

- Target Amount (Prospective Risk Payments Based on Bid)

$$\begin{array}{r}
 \text{Reconciled Direct Subsidy} \\
 + \text{Part D Basic Premium Amount (MMR\#67)} \\
 + \text{Rebate for Part D Basic Premium Reduction (MMR\#66)} \\
 - \text{Administrative Cost} \\
 \hline
 \text{Target Amount}
 \end{array}$$

# Risk Sharing

- Allowable Adjusted Risk Corridor Costs-AARCC (Actual Cost)

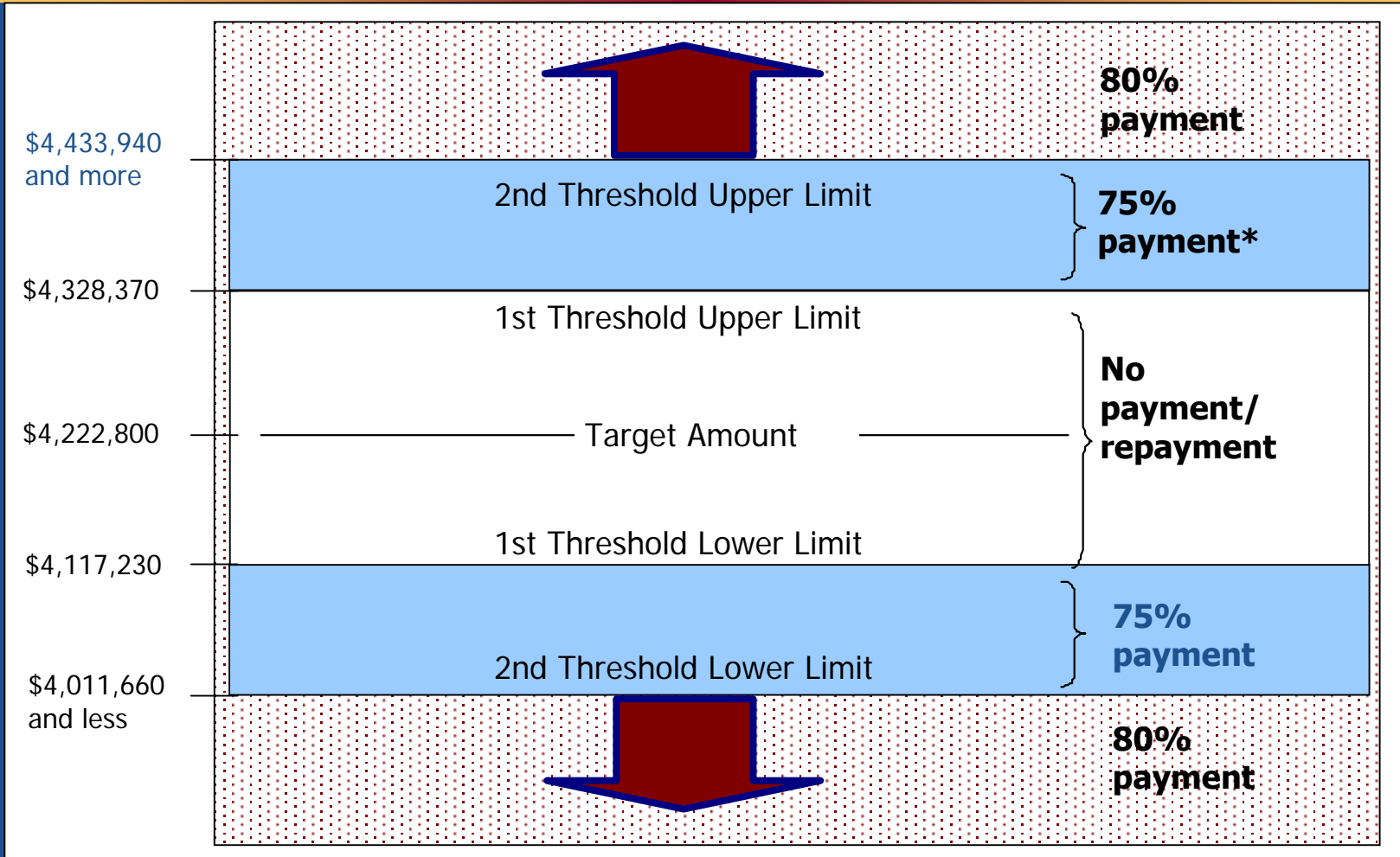
Covered Plan Paid Amount

- Induced Utilization
- Reinsurance Subsidy
- DIR

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AARCC

# 2006 Risk Corridor Example



\*75% rate will change to 90% if certain circumstances are met

# Data Oversight

- Effective data oversight is continuous, timely, and thorough.
- Data oversight has four aspects:
  - Monitor prospective payments.
  - Track enrollment and LICS eligibility data.
  - Ensure that submitted PDE data are accurate and consistent with plan data at the beneficiary and plan summary level.
  - Ensure that CMS summary reports are consistent with the plans understanding of the data.

# Summary

- CMS uses data from multiple systems to compute reconciliation.
- All data for reconciliation is available to Part D sponsors well prior to reconciliation.
- Reconciliation is program wide, and all plans must be reconciled simultaneously.
- Data submissions must be timely.
- CMS and sponsors must work together to ensure that data are complete and accurate throughout 2006 for reconciliation to proceed on schedule in 2007.



# Part D Payment and Reconciliation

## Questions and Answers