American Academy of Actuaries
Medicare Part D Subgroup

Medicare Part D
Prescription Drug Coverage
2006 RBC Changes

Capital Adequacy Task Force
NAIC Fall National Meeting - New Orleans

9/10/2005
Topics

• Reasons for Changes to RBC Formulas
• Benefit Structure for Medicare Part D
• Risks Transferred to CMS
• RBC Formula Changes Proposed
• Accounting Rules Assumed
Reasons for Changes to RBC Formulas

• Medicare Modernization Act
• Part D Benefits Effective 1/1/2006
• Private Insurance with Government “Reinsurance”
• Plan Sponsors – PDPs – MA-PD
• RBC Changes for PDPs with Stand-Alone Prescription Drug Benefits
Benefit Structure - PDPs

1. $250 Deductible [2006 Values]
   Coverage of any portion is Supplemental benefits

Note: The benefit structure in these next several slides is the one in MMA. A PDP may use “actuarially equivalent coverage.”
Benefit Structure - PDPs

1. $250 Deductible
2. Next $2,000 – 75% paid by PDP
   – 25% paid by Beneficiary
   – PDP may use $ co-pays instead of coinsurance
Benefit Structure - PDPs

1. $250 Deductible
2. Next $2,000 – 75% paid by PDP
   – 25% paid by Beneficiary
3. Next $2,850 – 100% paid by Beneficiary
   (called ‘Coverage Gap’ – any benefits
   paid by PDP increase the Out-of-Pocket
   Limit)
Benefit Structure - PDPs

1. $250 Deductible
2. Next $2,000 – 75% paid by PDP
   – 25% paid by Beneficiary
3. Next $2,850 – 100% paid by Beneficiary
4. Over $5,100 – Catastrophic Portion subject to ‘Reinsurance Coverage’
   80% paid by CMS
   5% paid by beneficiary (or $ co-pay)
   15% paid by PDP (or balance)
Benefit Structure – PDPs with Reinsurance Subsidy

- First $250
- $251 to $2250
- $2251 to $5100
- Over $5100

Red: Beneficiary  Blue: PDP  Yellow: CMS
Benefit Structure – PDPs with Part D Payment Demonstration
Benefit Structure – PDPs

Other Aspects

• Low Income Subsidy (cost sharing portion) – CMS pays for all or portion of deductible and coins.
• Low Income Subsidy (premium portion) – CMS pays for all or portion of premium.
• Employer Plans – CMS pays a subsidy to employer based on actuarial equivalence.
• Supplemental Benefits (within a PDP’s plan) – CMS does not subsidize
Risks Transferred to CMS

• Benefits over $5100 (Catastrophic coverage) – called “reinsurance protection.”
  • PDPs have option to accept capitation under Payment Demonstration Project in lieu of reinsurance subsidy based on actual claims.
• Low Income Subsidy (cost sharing portion) – since not assumed in premium calculations
• Risk Corridor Protection – based on annual loss ratio
RBC Formula Changes Proposed

• Effective with 2006 Formulas
• Changes to Lines/Columns and Instructions – proposed September, 2005
• Factors – proposed December, 2005
• What is Covered – What is Not Covered
• Key Items
What is Covered

- PDP Part D Plans with Risk Corridor Protection
  - Premiums for Part D Standard Plan Coverage (or actuarially equivalent coverage)
  - Capitation for Payment Demonstration Project
  - Premiums for Supplemental Benefits (likely to have a different factor)
  - Low Income Subsidy (premium portion)
What is Not Covered

• PDP Coverage of Employer Plans with CMS subsidy to employer (no Risk Corridor Protection)

• Stand-Alone Prescription Drug Coverage other than Medicare Part D Coverage.
Key Items

• RBC calculated like Comprehensive Major Med
  ➢ Tiered Factors X
  ➢ Premium X \ Incurred Claims
  ➢ Loss Ratio X /

➢ Net Risk Factor (reduction for risks transferred – like existing managed care factors)

= Exposure Based RBC
Key Items

- RBC calculated like Comprehensive Major Med
  - Exposure Based RBC
  - or
  - Maximum Retained Risk RBC

Maximum Retained Amount or $25,000

\[ \times \]

Potential Maximum Claims (6)

= up to $150,000
<table>
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<th>Category</th>
<th>Comp MM</th>
<th>Medicare Part D</th>
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<td>No RT</td>
<td>No RT to CMS*</td>
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* Not available in 2006 RBC Formulas

Part D has no adjustments for other managed care credits.
Accounting Rules

- Reinsurance Subsidy – treated as Uninsured Plan
- Low Income Subsidy (cost sharing portion) – treated as Uninsured Plan
- Premiums for Standard Benefit* [Beneficiary Premium (standard benefit portion), Direct Subsidy, Low Income Subsidy (premium portion) and Risk Corridor Payments] – treated as Retrospectively Rated Plan
- Beneficiary Premium (supplemental benefits portion) – treated as regular premium

*or actuarially equivalent
Accounting Rules

• Employer Coverage
  ➢ If employer retains risk – Uninsured Plan
  ➢ If PDP accepts risk – Premium treated as “Other Health” for RBC purposes.
Questions