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MEMO

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To: Pharmaceutical Care Management Association (PCMA)
From: David M. Liner, FSA, CERA, MAAA
Tracy A. Margiott, FSA, MAAA
Re: **Individual Medicare Part D Gain/Loss Margin Research**

The Pharmaceutical Care Management Association (PCMA) requested that we provide an overview of Medicare Part D program requirements and competitive dynamics related to plan sponsor gain/loss margin. Our discussion is based on the bid timeline, from submitting the bid to the financial reconciliation process.

Executive Summary

The following items are key program characteristics that affect gain/loss margin for Part D plan sponsors:

- **Prescription Drug Plan (PDP) Margin Requirement.** If the Part D sponsor's corporate margin requirement is based on its non-Medicare business, the Centers for Medicare & Medicaid Services (CMS) requires the projected aggregate Part D margin as a percentage of revenue to be within 1.5 percent of the Part D sponsor's corporate margin requirement.
- **Medicare Advantage Prescription Drug Plan (MA-PD) Margin Requirement.** CMS requires plan sponsors' projected Part D gain/loss margin be within 1.5% of the corresponding MA margin.
- **Low Income Benchmarks (LIBs).** CMS incentivizes basic PDP plans to submit a competitive bid through the LIB process. Plans that bid over the LIB may lose low-income auto-assigned members, while those that bid below the LIB may gain auto-assigned low-income members.
- **Actual vs. Expected Margin.** Plan sponsors report actual vs. expected margin for a 3-year period in the supporting documentation included in the initial bid submission. CMS desk reviewers rely on this comparison to evaluate proposed plan sponsor margin during the bid review process.
- **Desk Review / Bid Audit.** CMS contracts with independent third parties to review and audit bid submissions to evaluate compliance with bid requirements and applicable actuarial standards of practice.
- **Related-Party Arrangements.** CMS requires all Plan Sponsors in a related-party arrangement to demonstrate that the margin of the related party is reflected in the bid margin.

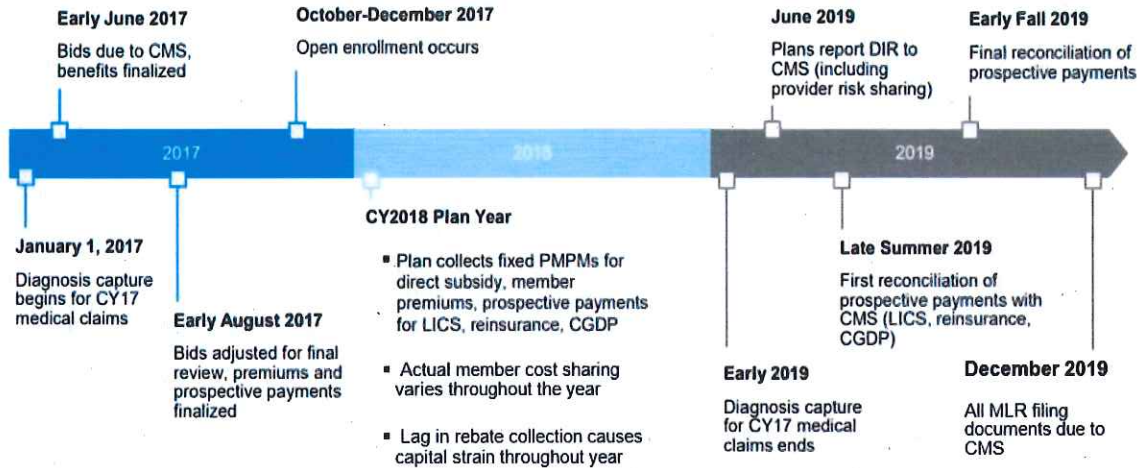
- **Risk Adjustment.** Plan profitability is affected by the direct subsidy, which is a risk-adjusted, capitated payment. Drug-level plan liability before risk adjustment may not be fully indicative of a plan's actual profit or loss for members taking a particular drug.
- **Risk Corridors.** Plan sponsors participate in the risk corridor program, which is a risk-sharing arrangement with CMS where a portion of gains or losses are shared with CMS. Unexpected windfalls that exceed 5% from a filed bid target amount, including higher-than-anticipated rebates, must be shared with CMS.
- **MLR Rebates.** Part D plan sponsors that do not meet 85% Medical Loss Ratio (MLR) requirements must remit funds back to CMS.
- **Reconciliation.** Part D subsidies, such as federal reinsurance, are reconciled after the end of the plan year using actual expense and revenue items.
- **Sequestration.** The monthly risk-adjusted direct subsidy that plans receive has been reduced by 2% for sequestration since 2013. Margin requirements apply before reflecting sequestration, and we observe that average projected margin did not increase in 2014 following this reduction.

Due to restrictions on margin in the Part D program, reductions in plan liability should be reflected in bids through reduced member premiums and/or enhanced benefits rather than as increases in plan profits. As an indicator, total Part D cost (defined as projected net plan liability and federal reinsurance) has increased by 0.6% annually between 2006 and 2016, below the 3.1% annual trend in prescription drug national health expenditures over the same time period. We believe this trend may indicate that innovations in the Part D program may have offset trends in Part D costs and may have been reflected in reduced member premiums.

Timeline of Key Part D Events

The timeline below illustrates the timing of key events applicable to a single Part D plan year.¹

Individual Part D Timeline



It is important to note the following about the timeline:

- The final risk-adjusted direct subsidy payment is based on actual risk scores during the plan year. The risk score diagnosis capture for plan year 2017 ends in early 2019 in the timeline above.
- A timing lag exists when incorporating actual to expected information into future bid development, due to the timing lag of the reconciliation calculations.
- The following items are dependent upon each other:
 - Federal Reinsurance: Dependent on final DIR, which is reported after year ends. For example, manufacturer rebates are typically paid quarterly with a quarter lag. The final reinsurance reconciliation occurs in early fall of 2019 on the timeline above.
 - Risk Corridors: Dependent on final federal reinsurance (which is also dependent on DIR). Occurs with final reconciliation in early fall of 2019 on timeline above.
 - MLR Rebates: Dependent on federal reinsurance, risk corridors, and final DIR. All filing documents are due in December following the plan year (December 2019 in calendar above), and any payments would be deducted two summers following the plan year (July 2020 in the timeline above).

¹ A risky prescription: Part D risk sharing arrangements. January 2018.

<<http://www.milliman.com/insight/2018/A-risky-prescription-Part-D-risk-sharing-arrangements/>>