

Far reaching and immediate impacts of the MMA on MCOs and PBMs.

February 27, 2004

Introduction

Our speakers today include industry leadership with practical and applicable experience.

Speaker	Role	Presentation Sections
Mark Owen	Vice President & General Manager - Center for Healthy Aging, Medica	
Leslie Weitzman	Principle, Deloitte.	
Jack Scott	Senior Manager, Deloitte.	

Introduction – About Medica

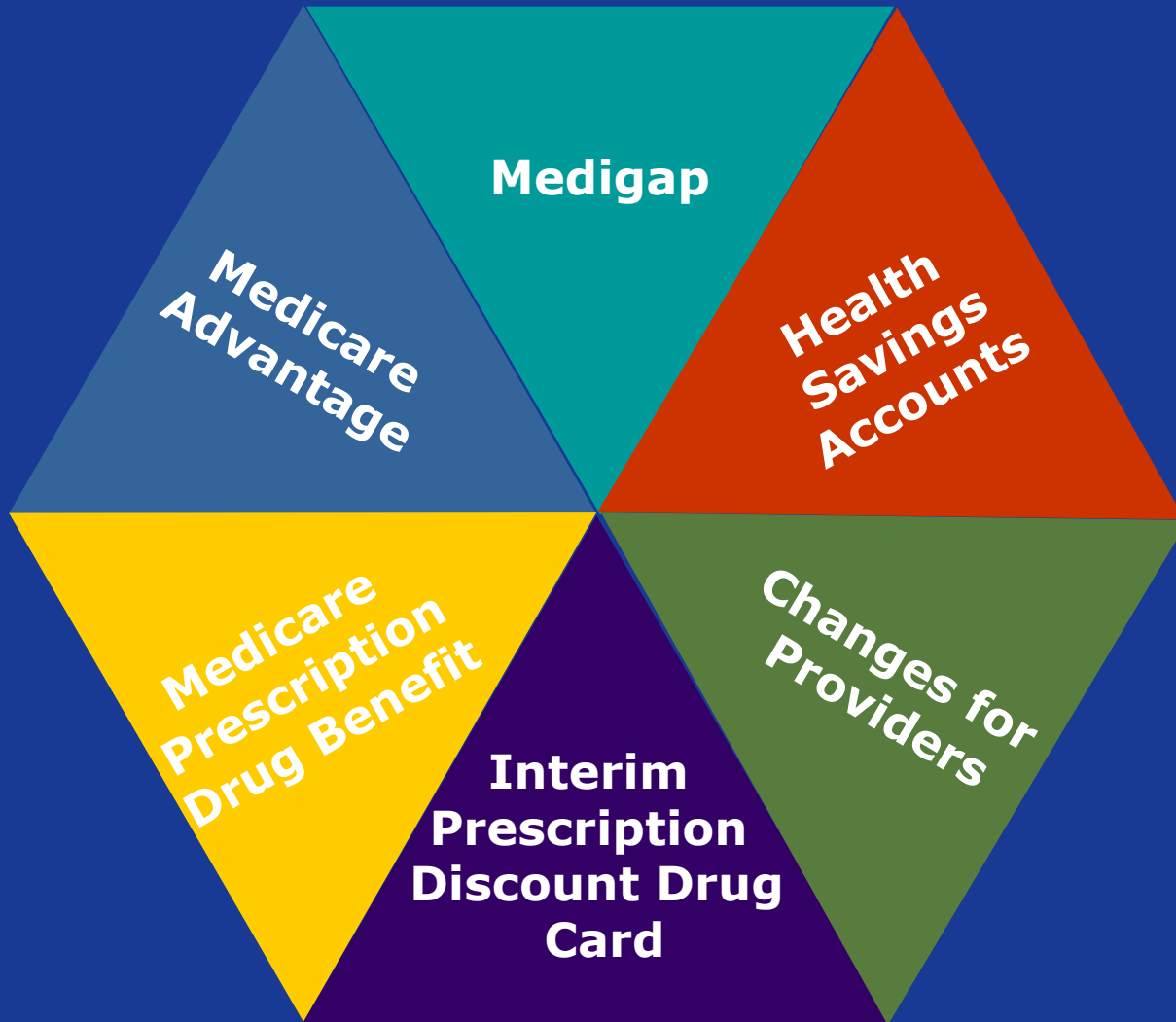
- Not-for-profit health plan organization (501c4)
- Offers preferred provider organization plans (PPO), primary care physician (PCP) and dental plans, and indemnity insurance - serving Medicare, Commercial and Commercial Markets
 - 2nd largest provider of health maintenance organization (HMO) options in Minnesota
- Serves more than 1.1 million members
- Represents over 10,000 employers in Upper Midwest
- Network includes:
 - Eight major health systems
 - 159 hospitals
 - More than 16,300 physicians and other health care professionals

- Served the Medicare Market since 1979
 - First HMO in Minnesota to participate in the a Medicare Risk Demonstration project
- Service Area includes Minnesota and parts of North Dakota, South Dakota, and Wisconsin
- Currently provides coverage to more than 37,000 Medicare members in various products:
 - Medicare Select Product
 - Medicare Cost Product
 - Dual Eligible Demonstration Product
 - MN High risk pool for Medicare beneficiaries

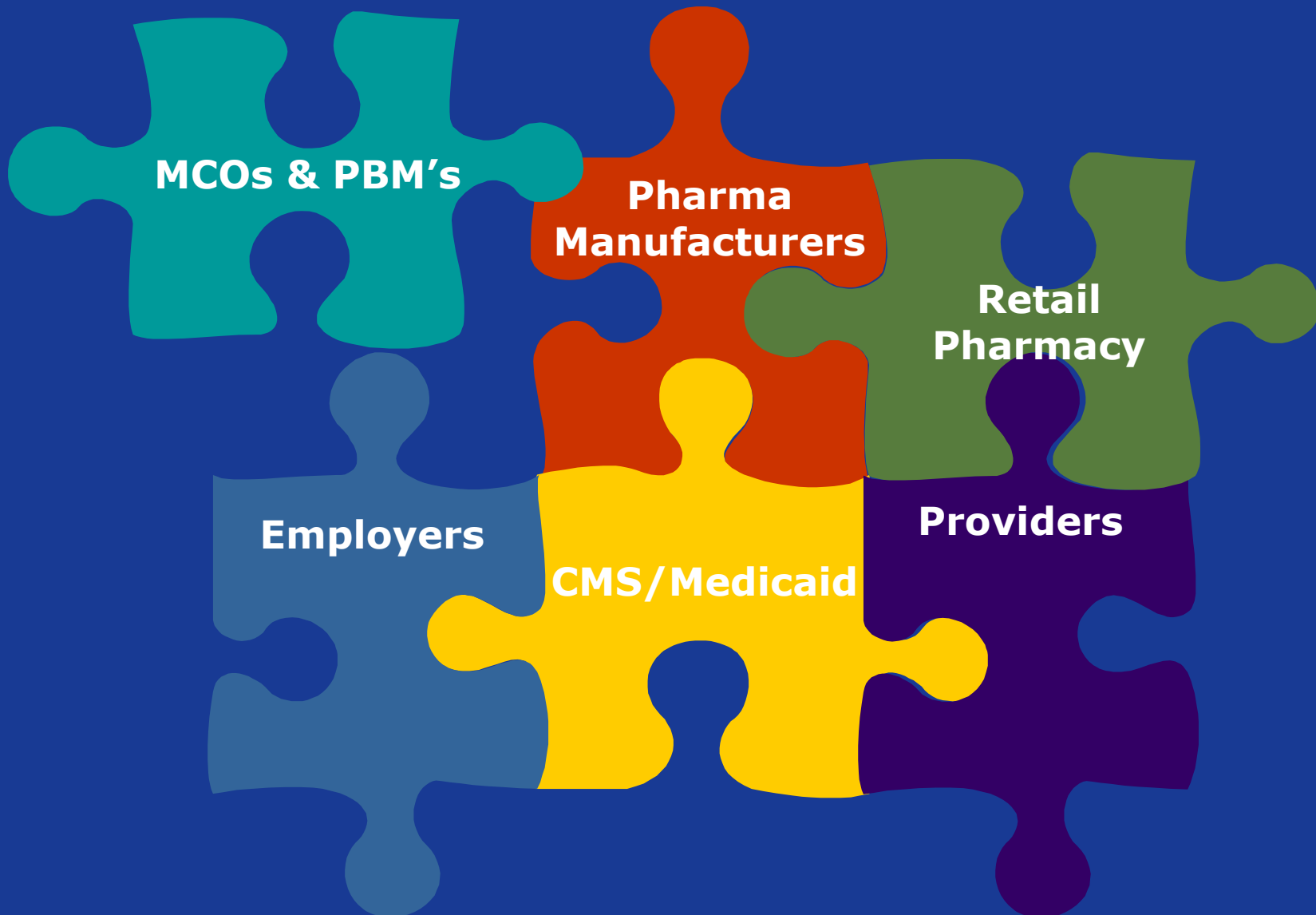
Introduction – Presentation Objectives

- ✓ Medicare Advantage - high level review
- ✓ Industry Implications
- ✓ Next Steps for MCOs and PBMs

Introduction - Key Components of MMA, Deloitte's perspective



Introduction - Key Components of MMA, Deloitte's perspective



Medicare Advantage



- **Formerly “Medicare + Choice”**
- **New money in '04 / plans will be allowed to enter/ re-enter**
- **Increases in '05**
- **Regional PPOs and Competitive bidding in '06**

Medicare Advantage



- **Beneficiaries may chose between MA local plans and MA regional plans**
- **MA local plans may be HMOs, PPOs, and PFFS plans;**
 - **No local PPO plans may enter the program in '06 and '07**
- **MA plan payments would be determined after comparing plan bids to benchmark rates**
 - **Risk Corridors established in '06 for regional plans**
- **MA regional plans would cover at least one entire region**
- **No limit on number of plans selected to serve a region**

Beginning in 2007, beneficiaries with incomes above \$80,000 (individual) & \$160,000 (family) pay higher Part B premiums (means test)

Medicare Advantage: 2006 and Beyond

- ACR process replaced in 2006 with competitive bidding



Above
Benchmark

Plans with bids above CCA non-drug monthly benchmark paid benchmark amount. The difference can be billed to the enrollee as a premium

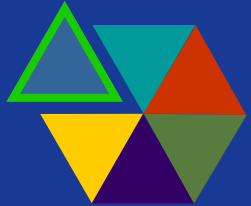
At Benchmark

Plans bidding at or above CCA non-drug monthly benchmark amount paid benchmark amount

Below
Benchmark

Plans bidding below benchmark paid bid amount plus 75% of difference between benchmark and bid

- Establishment of 6-year Comparative Cost Adjustment (CCA) demonstration program in 2010



- **Prescription Drug Benefit Requirements**
 - **All MA organizations required to offer at least one plan in each service area that provides prescription drug coverage**
 - **MA plans may offer supplemental prescription drug coverage**
 - **Reduction in annual deductible**
 - **Reduction in coinsurance**
 - **Increased initial coverage limit**
 - **Any combination of the three above**

Medicare Advantage:



Humana Inc.

Mike McAllister, CEO

...that the legislation has given Medicare+Choice "a long-term life expectancy," and that he expects the program will be a very good business going forward.

Source: Michael Crittenden, SNL Insurance Daily, 1/13/04

Oxford Health Plans

Charles Berg, CEO, and Kurt Thompson, CFO

...one of the company's planned initiatives is to expand its Medicare+Choice offering following the recent passage of Medicare legislation by Congress. Berg also said Oxford Health is an "enthusiastic participant" in the Medicare program, and...will file its reentry plans with the federal government in March, with enrollment beginning in May.

Industry Implications

Industry Implications



2004

Stabilization of Existing Program

New Name

Sweetened Payments

Indexed for inflation beginning in 2004

2006

Launch of Restructured Program

Regional PPO Options

Major Changes to Financing & Administration

Part D Rx Benefits

Health Plans: 2004 - Stabilization of Existing Program



- Last major reform had major unintended consequences: Medicare+Choice in '97



- Plan participation dropped from 346 in 1998 to 155 today

- Even before MMA, plan attrition abated



- Applications to CMS are increasing

- However, MMA supplies the most important component of further stabilization



- \$\$\$

Health Plans: 2006 Restructuring - Financing



- Competitive bidding brings twin challenges: developing reliable bid data and an optimal bidding strategy



- Some risks:
 - low enrollment
 - adverse selection
 - unintended rebates
 - financial surprises

- Risk corridors aren't stop-loss: they limit upside, too



- Will corridors be enough to coax the skittish into the pool?

- Other incentives (like stabilization funds) recognize continuing hurdles to health plan participation in rural/underserved areas



- Will the combination of payment and risk-limiting schemes be sufficient to reverse history?

Health Plans: 2006 Restructuring - Part D



- Health plans that want to play in A and B must play in D
- Health plans will face many new Rx requirements



- Through an integrated or separate drug plan



- Including benefit package standards and annual formulary lock-down

Health Plans: 2006 Restructuring - Part D



- Stakes are high for optimal benefit design and administration



- Adverse selection
- Quality of care
- Chronic condition management
- Medical costs
- Expanded rebate possibilities
- Member satisfaction
- Competitive positioning
- Marketing

- Compared to overall impact of new Medicare drug benefit, the termination of Medigap Rx coverage is not that significant a threat to Supplement market



- Plans H, I and J account for only about 8% of policies

Health Plans: 2006 Restructuring - Pharmacy Benefit Managers



- Big question:

Will PBMs get into the insurance business by entering the Medicare PDP marketplace in 2006?



- We anticipate hesitation
- More likely opportunity
 - Partnering arrangements
 - Particularly with Medicare Advantage plans
- True “insurance” risk has been avoided up till now... how will PBM’s react to the push toward PMPM risk?
- How will these changes affect PBM stock prices?

Health Plans: 2006 Restructuring - Pharmacy Benefit Managers



- Interesting opportunity: Fallback Plan



- Drug discount cards: A major opportunity for PBMs



- Plan D cost-plus opportunity similar to Part A intermediary and Part B carrier

- Plans will have to wait to see if there are minimum 2 plans competing before alternative will be considered.... Risk is they may lose an opportunity

- Sunset in 2005, but don't bet on those cards disappearing

- Congress has historically been much better at creating benefits than taking them away

Health Plans: 2006 Restructuring - Regional PPOs



- Congress giving strong push to regional PPOs



- Versus HMO and Supplement options
- Brand new offering
- Competitive marketplace and health plan opportunity
- But not yet well defined or understood

Health Plans: 2006 Restructuring - Regional PPOs



- Will local PPOs already in the Medicare game have a competitive leg up in 2006 and beyond?



- Health plans that believe so have near-term opportunity to develop or expand Medicare PPO

- Region-wide network demands may spur bidding alliances or contract arrangements between health plans



- Similar to TRICARE contract alliances

Next Steps

Short and Long term Strategic analysis of MA programs

–Strategic Planning & Implementation

- Continued / renewed participation
- Discount drug card (deadline 1/30/04)
- MA and drug benefit product design
- Supplemental benefits
- Formulary development and education
- Market penetration strategy

–Financial Planning

- Actuarial review of ACR
- Proforma P&Ls
- Break-even analysis
- Competitive bidding

Next Steps

–Operational Implementation

- Provision of Part A and Part B benefits
- MA organizational structure
- Dissemination of required information (negotiated prices/toll free number)
- Provider Network
- Compliance plan
- Grievance and appeals process
- Sales and marketing

–Revised Adjusted Community Rates (ACRs) and competitive bidding

–Penetration and market share strategies associated with Part D product offerings

- Drug Card launch
- Benefit design / Product development
- Formulary development

Next Steps

- Quality Improvement/Chronic Care Improvement
 - Design a QI program
 - Reduction in the likelihood of medication errors and adverse drug interactions
 - Improve drug use
- Disease Management programs
 - Medical Management
 - Increases in effectiveness associated with Part D product offerings
 - Cost of accredited requirements

Please feel free to contact us.

Speaker	Phone	E-mail
Mark Owen	952.992.3366	Mark.Owen@medica.com
Leslie Weitzman	312.946.2825	lweitzman@deloitte.com
Jack Scott	412.338.7785	jascott@deloitte.com

Deloitte.