PRICEWATERHOUSECOOPERS

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The Implications of Medicare Drug Benefits for PBMs and Retiree Health Benefit Plans

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Overview of Workshop

I. Review of Key Features of Part D Rx Benefit

II. What's "New" for PBMs?

III. Specific Examples of New Challenges for PBMs

- Responding to employer customers that currently offer retiree health benefits
- Coordinating with employment-based retiree health plans
- Administering HSAs

Key Features of Part D Rx Benefit

- Effective January 1, 2006
- Delivered through private plans
  - Employer-sponsored retiree plans
  - Stand-alone PDPs
  - Medicare Advantage PDPs
- Standard or actuarially equivalent coverage
- Federal subsidies
- Negotiated discounts and rebates not considered for Medicaid "best price" rule
- No new Medigap policies with Rx coverage may be sold after January 1, 2006

Key Features of Part D Rx Benefit (Cont.)

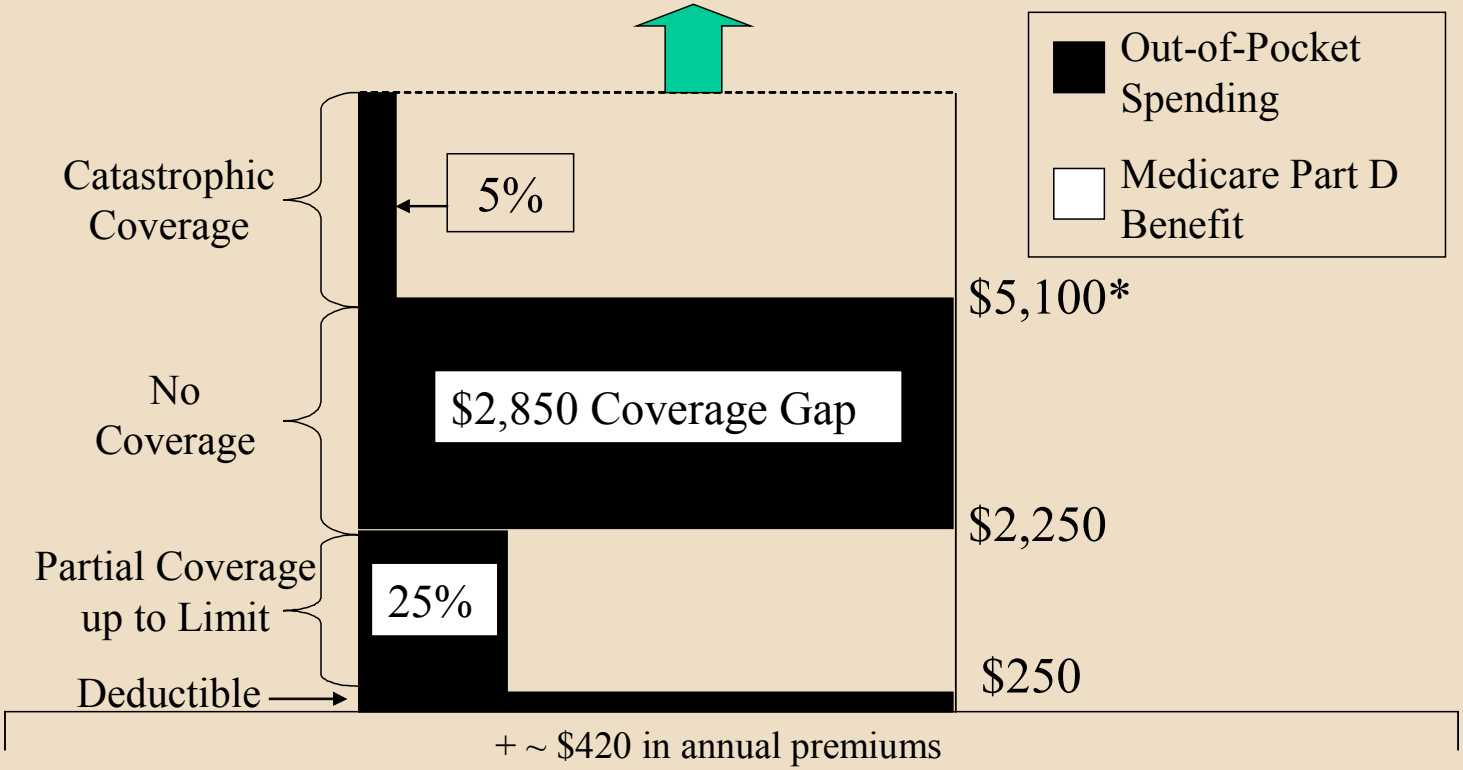
Standard Plan Provision	Charges 2006 (indexed)	% Paid by Retiree	% Paid by Plan	Max. Paid by Retiree	Max. Paid by Plan
Annual Deductible	$250	100%	0%	$250	$0
Coinsurance up to Initial Coverage Limit	$251-$2,250	25%	75%	$500	$1,500
Coverage Gap to Catastrophic Limit	$2,251-$5,100	100%	0%	$2,850	$0
Total Covered Expense up Limit				$3,600	$1,500
Above Catastrophic Limit*	>$5,100	5%**	95%	Unlimited	Unlimited

* After beneficiary's "true out-of-pocket" costs reach $3,600

** Greater of nominal co-payments or 5%

Key Features of Part D Rx Benefit (Cont.)

Out-of-Pocket Drug Spending for Medicare Beneficiaries in 2006



* Equivalent to $3,600 in out-of-pocket spending:
$3,600 = $250 (deductible) + $500 (25% cost-sharing on $2,000) + $2,850 (100% cost-sharing in the "gap").

Adapted from materials from The Henry J. Kaiser Family Foundation

Key Features of Part D Rx Benefit (Cont.)

Congressional Budget Office Estimates of the Indexed Cost-Sharing Provisions (November 20, 2003)

	2006	2007	2008	2009	2010	2011	2012	2013
Av. mo. premium ($)	35	37	41	43	47	49	54	58
Annual Deductible ($)	250	275	300	325	350	380	410	445
Initial Benefit Limit ($)								
Medicare	1,500	1,646	1,808	1,946	2,115	2,265	2,460	2,666
Individual	750	824	903	974	1,055	1,135	1,230	1,334
Total	2,250	2,470	2,710	2,920	3,179	3,400	3,690	4,000
Out-of-Pocket Threshold ($)	3,600	3,950	4,350	4,650	5,050	5,450	5,900	6,400
Individual	5,100	5,596	6,158	6,596	7,165	7,715	8,360	9,066
Total								

Key Features of Part D Rx Benefit (Cont.)

- Part D premium of about 25.5% of PDP plan costs
- (CBO estimates average of $35/mo. in 2006)
- Late enrollment penalty

What's New for PBMs?

Becoming or Administering a PDP

- Interacting with government
- Individual (vs. "group") distribution
- Insurance (vs. ASO)
- MA-PD

Serving Employer Customers that are Responding to Part D

- Responding to employers with retiree plans
- Coordinating PDPs with employment-based retiree plans

Interacting With Government

Federal

- Application/Certification
- Solvency requirements
- Rate applications
- Regulatory compliance and disclosure
- Audit

States

- Medicaid, other state programs
- State insurance departments?

Individual vs. Group

- Most experience with “Group”
- “Individual” is a different business
  - Individuals forming group for purpose *other than to purchase insurance* reduces selection risk; individuals know most about their own health
  - Sales, service, billing less efficient than “group”
  - 30% retention not uncommon (vs. <10% for group)
  - Pools of individuals are more diverse than employment-based populations

Insurance vs. ASO

- PBMs have limited experience underwriting insurance risk
- May not have insurance license(s); if so, have to meet federal solvency requirements
- Insured, individual Rx-only insurance not available in market prior to Part D
- Two principles of insurance:

1. *"We don't take risk – we help other people take risks"*

2. *"Don't let the aroma of premium overcome the stench of claims"*

-- former MetLife Group Executive

Responding to Employers with Retiree Plans

Rx options Employers may Pursue:

1. Provide “qualified” retiree benefit plan & receive direct subsidy
2. Provide wrap-around or supplemental Rx coverage
3. Rely on Part D coverage
4. Offer MA or MA-PD alone or as an option in addition to 1-3

1. Employer Provides "Qualified" Retiree Benefit Plan to Receive Direct Subsidy

Employer provides coverage that is at least actuarially equivalent to standard Medicare Rx coverage

Employer receives tax-exempt subsidy from Medicare

- Based on 28% of actual Rx claims between $250 and $5,000 (indexed)
- Includes costs paid by the plan and the individual
- ~$600 per retiree in 2006

Employer Considerations

- Impact of tax exemption on value of subsidy
- Impact on retiree contribution structure
- Impact on plan design

1. Employer Provides "Qualified" Retiree Benefit Plan to Receive Direct Subsidy

Implications for PBMs:

- Evaluate/offer "actuarially equivalent" benefit plan designs
- Segregate Part D eligible from non-eligible retirees
- Identify Part D enrolees
- Provide claims data for Rx claims between $250 and $5,000 – *net* of discounts, rebates, chargebacks – to CMS
- Collect/provide data re: "creditable" coverage information on retirees

2. Provide wrap-around or supplemental Rx coverage

Employer provides “wrap-around” or “fill in” design

- Retirees enroll in Part D
- Employer could pay all or a part of Part D premium (basic and/or supplemental)

Employer Considerations

- True out of pocket implications
- Regional variations in Part D coverage, premium
  - Within a region
  - Across regions

2. Provide wrap-around or supplemental Rx coverage

Implications for PBM

- May provide wrap-around/supplemental or Part D or both
- May be asked to help design employer plan
- Coordination of employer plan and Part D plan:
  - Customer service
  - Claims (more to come)

3. Rely on Part D Coverage

Have retirees enroll in a stand-alone PDP

- PDP may provide basic or supplemental coverage
- Employer could pay all or a part of Part D premium (basic and/or supplemental)

Employer Considerations

- Large out-of-pocket costs for retirees
- Regional variations in coverage, premium
  - Within a region
  - Across regions

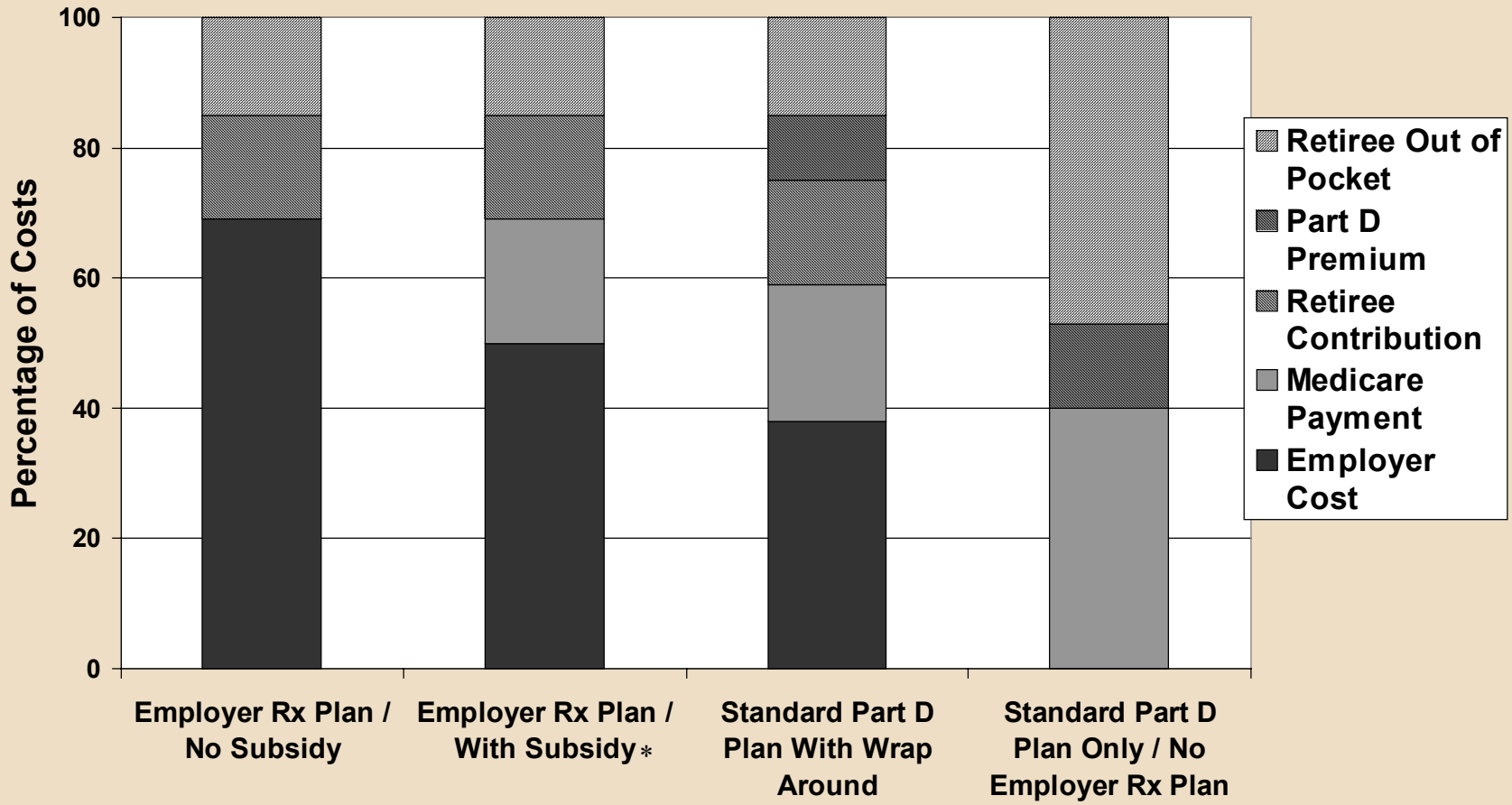
3. Rely on Part D Coverage

Implications for PBMs

- PDPs may negotiate group rates with employers
- Coordinate with retiree medical plan
- Impact on existing [active] relationship?

Summary of Cost Impacts for Employers

Illustrative Single Employer Plan Options



*Does not reflect tax exempt status of subsidy; all underlying plans assume same design and retiree contributions.

Coordinating with Part D

- Assume employer offers actuarially equivalent plan (80/20 w/$50 deduct.) through PBM
- Assume “standard” Part D Design, deductible met
- PBM may have to administer three methods of coordinating:

Cost to Employer	Method
Least	1. Carve Out
↕	2. Exclusion
Most	3. COB

Carve-out: $300 Prescription

Claim	$ 300
Employer Plan Would Have Paid	240
Retiree Would Have Paid	60
Part D Pays 75%	$ 225
Retiree Pays	60
Employer Plan Pays	15

Exclusion: $300 Prescription

Claim	$ 300
Part D Would Have Paid	225
Retiree Would Have Paid	75
Employer Plan Pays 80% of $75	$ 60
Retiree Pays	15
Part D Pays	225

COB: $300 Prescription

Claim	$ 300
Employer Plan Would Have Paid	240
Retiree Would Have Paid	60
Part D Pays	$ 225
Employer Plan Pays	75
Retiree Pays	0

Coordination Methods: Issues for PBMs

- Part D Plan may not be “standard”
  - How does PBM know if “Alternative Benefits” are paid?
  - How is “coordination” defined by employer plan?
- What if employer plan has a different discount from Part D plan?
- What if a prescription drug is covered by one plan and not the other?
- How, when will employers decide?
  - How, when will they make changes to plans?
  - What information will they need to help them?
- Will coordination information be available at point-of-sale?

Coordination Issues for PBMs in the world of "Anything That Ends In 'A'"

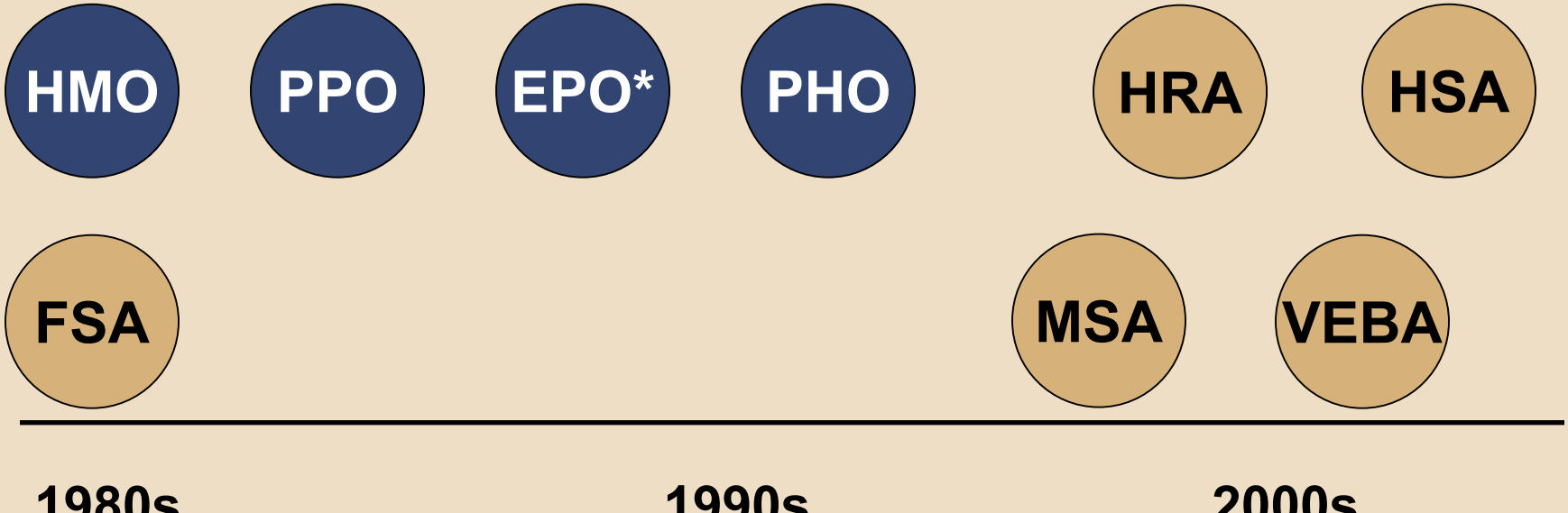
The HSA component of the Medicare reform law may accelerate a transformation from the world of

Anything that ends in "O"

to that of

Anything that ends in "A"

Transformation from Organizations to Accounts?



*ASO HMO

Account Characteristics

Attribute`	FSA	MSA	HRA	HSA	VEBA
Eligibility	Employees	Self-employed & small employer w/ HDHP	Current and Former Employees	Individual w/ HDHP–can contribute until Medicare eligible	Current and former employee
Deductible & OOP	NA	$1.7K/$3.35K $3.35K/$6.15K	Determined by Employer	$1K/$2K $5K$10K	NA
Account Type	Notional	Funded trust	Notional	Funded trust	Funded trust
Rollover	No	Yes	Yes	Yes	Yes
Portability	No	Yes	No	Yes	Either

Account Characteristics (continued)

Attribute`	FSA	MSA	HRA	HSA	VEBA
Funding Mechanism	Not Funded	Individual	Not Funded	Employer and/or individual	Employer and/or individual
Upon Termination	Not funded-credits may be used if COBRA is elected	Remain with individual	Typically revert to employer	Remain with individual	Employee (EE) funds remain with EE; EE may forfeit employer contributions
UBIT	NA	NA	NA	NA	Yes
Tax Paid on $ going in?	No	No	No	No	Employer-No Employee-Yes

Account Characteristics (continued)

Attribute`	FSA	MSA	HRA	HSA	VEBA
Tax on $ coming out for eligible expenses	No	No	No	No	No
Eligible Expenses	Qualified 213(d), COBRA	Qualified 213(d), Health Premium while receiving Unemploy-ment Comp., LTC Ins.	Qualified 213(d) – Wide Discretion	Qualified 213(d), Health Premium while receiving Unemployment Comp., Retiree Health, COBRA, LTC Ins., Medicare Premium – Not Med. Supp.	Qualified 213(d) – Wide Discretion

Integration with Accounts: Issues for PBMs

- Depends on which account is used
  - Regulatory guidance on sequencing of multiple accounts is open
- Treatment of Rx claims can differ widely
  - No “carve-out” permitted in HSA for HDHP
  - CDHC models may permit special treatment of Rx
- Integration of accounts and real-time point-of-sale processing now leading to debit card, other technologies

Summary

- PDP or MA-PDP will be a significantly new business(es) for most PBMs
  - "Individual" vs. "Group"
  - "Partnering" with government
  - Serving diverse populations, if standalone PDP
  - May wish to partner with more experienced organizations
- New challenges to serve employer customers
  - Support changing retiree plans
  - Coordination between retiree plans and Part D plans
- Gear up to interact with "accounts"

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Your worlds  Our people