

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'

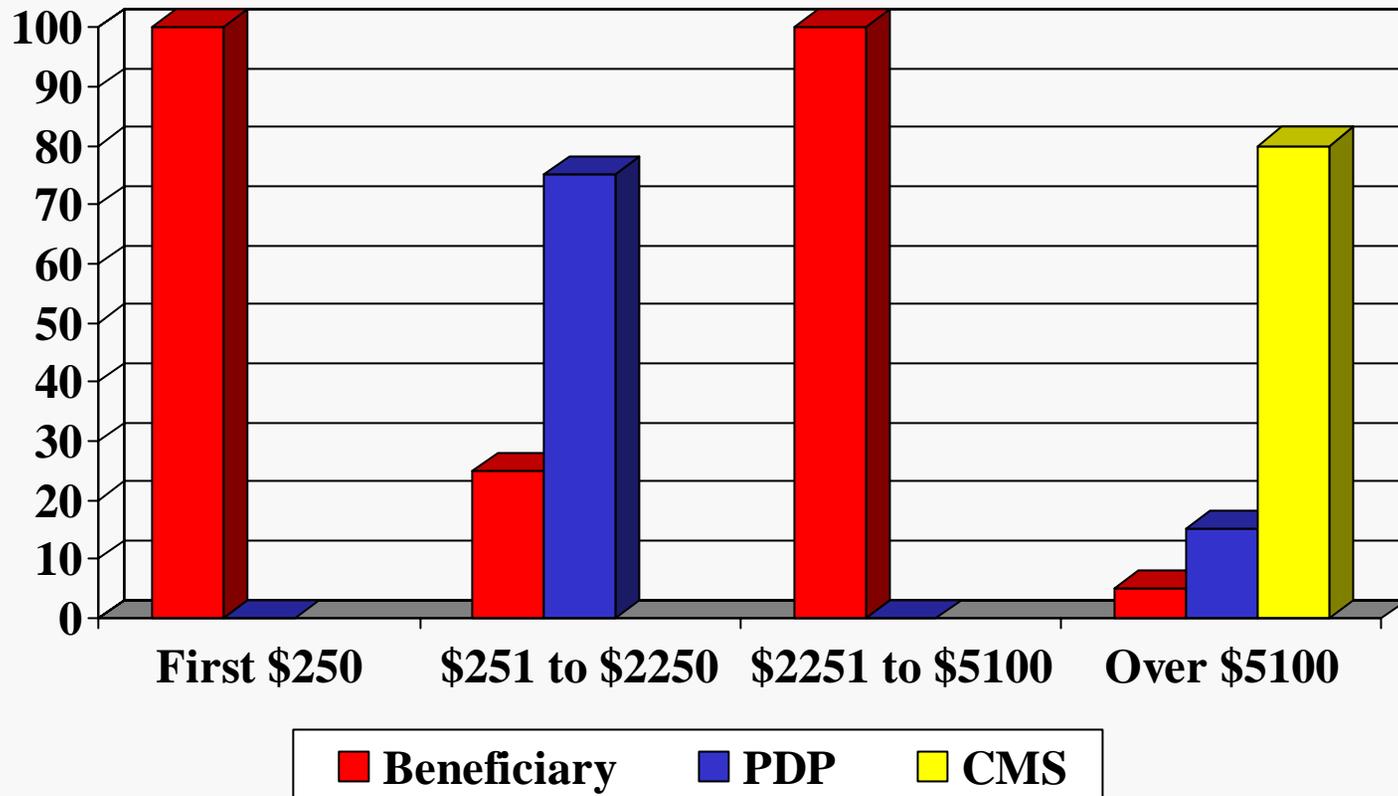
80% paid by CMS

5% paid by beneficiary (or \$ co-pay)

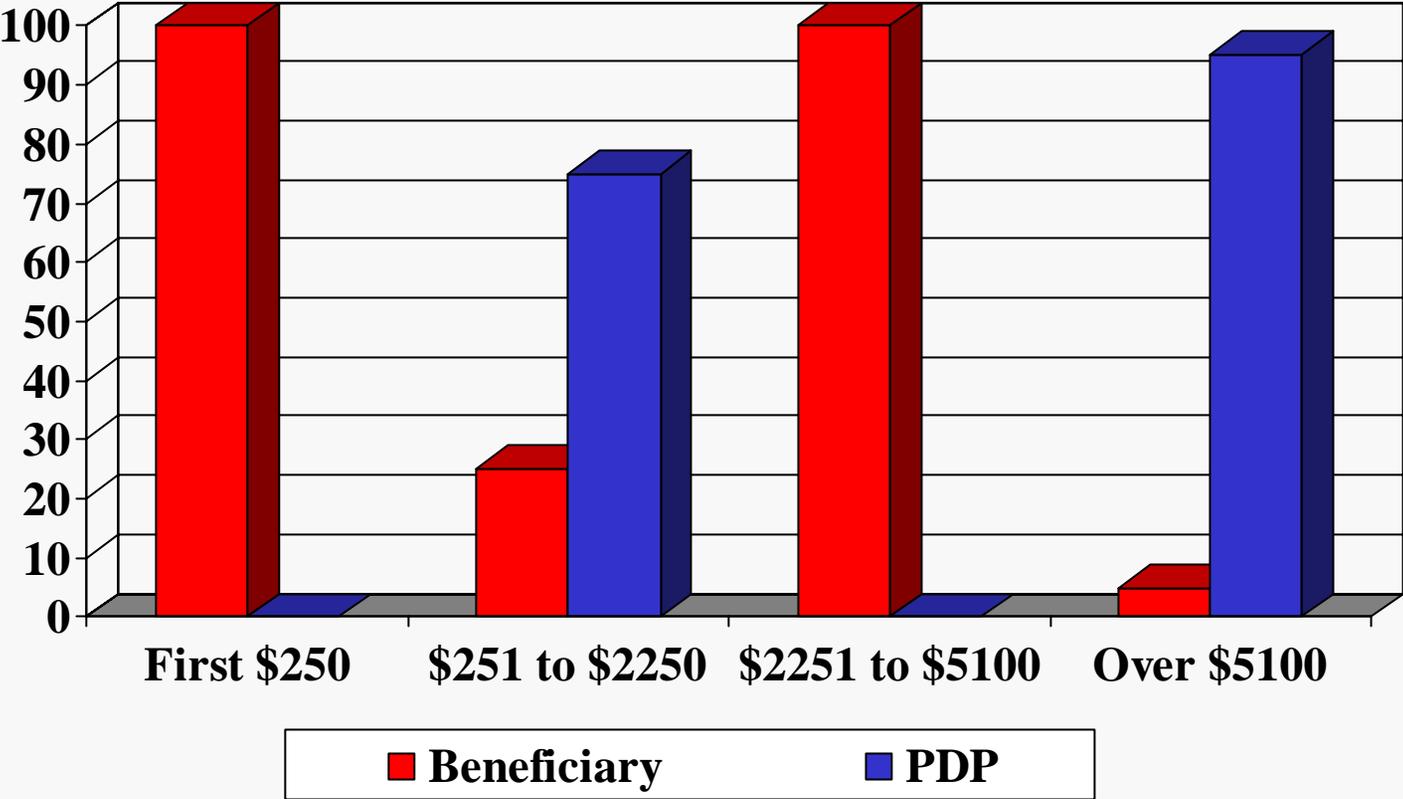
15% paid by PDP (or balance)



# Benefit Structure – PDPs with Reinsurance Subsidy



# 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

X

Potential Maximum Claims (6)

= up to \$150,000



# Key Items – Risk Transfer Categories

<u>Category</u>	<u>Comp MM</u>	<u>Medicare Part D</u>
0	No RT	No RT to CMS*
1	Contractual Fees	Risk Corridor Protection only
2	Bonuses/Withholds	Reinsurance Subsidy only*
3	Capitation	Risk Corridor and Reinsurance Subsidy
4	Salaried Providers	N/A

\* 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

