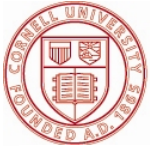


MEDICARE PART D RESEARCH FACTS

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Cornell University
College of Human Ecology

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Cornell University Resource Education
for Medicare Part D

FACT OR FALLACY ?

All insurance company plan sponsors are guaranteed to gain significant profits under Medicare Part D.

RECONCILING RISK

To participate in the Part D markets, Part D plan sponsors submit bids to CMS, stating their expected cost per beneficiary of providing coverage. Because the unique design of Part D was territory not previously explored by the insurance industry, mechanisms were set in place by the MMA to insulate plans from a large degree of profits and losses. Risk corridors were implemented to reduce plan fears of beneficiary adverse selection and thereby guarantee protection from excess losses. At the same time they deny plans the ability to keep substantial profits.

Under the risk corridor system, plans that have actual costs that exceed expected costs by a sufficiently large amount may receive additional payments from CMS to compensate for those losses. In the same way, if plans make larger than expected profits, the plans would have to return those profits to the government.

For plan years 2006 and 2007, the plans were responsible for all of the profits and losses within 2.5% of expected costs. If actual profits (or losses) are between 2.5% and 5% of projected, the plan must pay (or receive) 75% of the excess to the government. Amounts greater than 5% of projections have

a reconciliation factor of 80%.

After 2007, the risk corridors broaden so that the insurance plans assume more risk liability. For plan years 2008 - 2011, the risk corridor margins of actual versus expected profits (or losses) thresholds will be 5% and 10%. The payment adjustments will be 50% and 80%.

In October 2007, CMS announced that payment reconciliation has been completed for plan year 2006. The agency will collect \$4 billion from Part D sponsors due to lower than expected costs in the first plan year, including the application of risk sharing under the MMA.

It is expected that as plans gain further experience with Part D, future bid submissions will more accurately reflect actual costs. Accordingly, the final reconciliation of risk sharing is anticipated to be lower than it was during the initial undertaking.



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