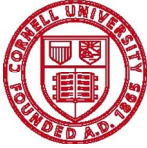


MEDICARE PART D RESEARCH FACTS

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CUR_xED

**Cornell University Resource Education
for Medicare Part D
COLLEGE OF HUMAN ECOLOGY**

FACT OR FALLACY ?

Insurance companies are in a position to realize enormous profits and losses with Medicare Part D.

WHO PAYS FOR PART D?

In setting up institutional relationships with insurers, CMS has included several features to reduce fears of adverse selection and realization of excessive incentives. These include reinsurance, risk corridors, and risk adjustment.

For each enrollment year, plans submit bids to CMS that represent the monthly premium for that plan. Insurance plans have an incentive to offer the lowest bids possible to CMS if they aim to attract beneficiaries with lower premiums. Based on the national average monthly bid, a fixed dollar direct subsidy is paid prospectively to the insurer, accounting for risk adjustments such as age, sex, disability, and the presence of certain chronic conditions. The premium paid by the beneficiary is estimated to be about 27% of the of the total cost of premiums.

The second mechanism to limit insurance risk is the risk corridor system. Under this system, plans that have actual costs that exceed their expected costs by a sufficiently large amount may receive additional payments to compensate for those losses. In the same way, if plans make larger than expected profits, the plans return those extra profits to the government.

For 2006 and 2007, the plans will be responsible for all profits and losses within a

band of 2.5% from their expected costs. If the actual costs differ with the expected costs by more than 5%, the government will pay 80% of the amount that exceeds 5% in losses, or receive 80% of the amount that exceeds 5% in profits. Within the corridors of 2.5% and 5%, the reconciliation is 75% of the difference from the expected costs.

The reinsurance feature of Part D involves the coverage in the catastrophic coverage zone, where the beneficiary pays a 5% co-payment. Of the remaining 95% of drug costs in this zone, 15% is paid by the insurance company and CMS is responsible for the remaining 80%.

CMS's total subsidy to Part D through reinsurance and the prospective direct subsidy, on average, comes to 74.5% of the total cost of providing this new coverage.



CUR_xED Cornell University Resource Education for Medicare Part D

www.CURxED.human.cornell.edu/

email: [CURxED @cornell.edu](mailto:CURxED@cornell.edu)

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