

APPENDIX

SAMPLE CALCULATION

The sample calculation, enclosed in an excel spreadsheet, assumes the employer plan has a \$50 deductible and 20% retiree cost sharing. While actuaries will have the ability to review this plan and determine without further calculation that this plan is actuarially equivalent in the first prong, the sample calculation provides the mechanics to demonstrate this. Additionally, the employer plan is assumed to have a retiree premium share arrangement of 40%. However, with the excel spreadsheet, the user can vary the premium share arrangement to create some variations of the sample. In fact, most important plan parameters can be varied. This sample calculation mechanism is not automatically approved for creating actuarial attestations. The actuary must be able to create an opinion that the attestation meets all applicable actuarial standards, including the appropriateness of data and tools used in the calculation, and as set forth in the guidance.

The spreadsheet contains 3 tabs in addition to the Medicare pricing data previously released on October 8, 2004 (Tables 1-4). The Summary Sheet contains all of the parameters utilized in the actuarial equivalence and subsidy calculations. The Working Sheet contains the actuarial calculations on the probability distribution (Table 4) described above. These calculations include: the value of the Medicare Standard Plan (in component pieces, the first layer and the second, catastrophic layer), the value of the subsidy payment, and a detailed calculation demonstrating the calculation of the “Medicare Supplemental Adjustment Value.” The detailed calculation assumes that the employer plan would pursue a “carve-out” approach to integrating with Medicare Part D, whereby the retiree cost-sharing would be calculated as if there were no primary plan, and then the employer plan calculates their cost as the difference between (1) the sum of the retiree cost and the Medicare benefit and (2) the eligible expense.

All claim cost calculations are performed in the Summary Sheet and posted to the “AE Test” tab to demonstrate the mathematics involved in calculating the two prongs described above.

Notice that all of the formulas are intact in the excel spreadsheet, which will allow for maximum clarity in understanding the mathematics involved in the calculations, specifically the “Medicare Supplemental Adjustment Value.”