DATE: August 13, 2007

NOTE TO: Medicare Advantage Organizations, Medicare Prescription Drug Plan Sponsors, and Other Interested Parties

SUBJECT: Release of the 2008 Part D National Average Monthly Bid Amount, the Medicare Part D Base Beneficiary Premium, the Part D Regional Low-Income Premium Subsidy Amounts, and the Medicare Advantage Regional Benchmarks

We are releasing the Medicare Part D national average monthly bid amount for 2008 and the associated base beneficiary premium. We are also announcing the Part D regional low-income premium subsidy amounts applicable in 2008. Finally, we are releasing the final Medicare Advantage (MA) regional benchmarks for 2008. Below we describe the determination of these amounts. The regional low-income subsidy amounts and the regional MA benchmarks can be downloaded from the CMS web site at:

http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/RSD/list.asp#TopOfPage

Part D National Average Monthly Bid Amount

In accordance with section 1860D-13(a)(4) of the Social Security Act ("the Act"), codified in 42 CFR §423.279, as modified by the "Medicare Demonstration to Limit Annual Changes in Part D Premiums Due to Beneficiary Choice of Low-Cost Plans," described below, CMS has calculated the national average monthly bid amount for 2008. For each coverage year, CMS computes the national average monthly bid amount from the applicable Part D plan bid submissions in order to calculate the base beneficiary premium, as provided in 42 CFR §423.286(c).

The national average monthly bid amount is a weighted average of the standardized bid amounts for each prescription drug plan and for each MA-PD plan described in section 1851(a)(2)(A)(i) of the Act. The calculation does not include bids submitted by MSA plans, MA private fee-for-service plans, specialized MA plans for special needs individuals, PACE programs under section 1894, any "fallback" prescription drug plans, and plans established through reasonable cost reimbursement contracts under section 1876(h) of the Act.

When the demonstration program cited above is completed, the national average monthly bid amount will be a weighted average, with the weight for each plan bid equal to a percentage with the numerator equal to the number of Part D eligible individuals enrolled in the plan in the reference month (as defined in 42 CFR §422.258(c)(1)) and the denominator equal to the total number of Part D eligible individuals enrolled in the reference month in all applicable Part D plans.

In 2006, under section 1860D-13(a)(4)(B)(ii), CMS assigned equal weighting to PDP sponsors and assigned MA-PD plans included in the national average monthly bid amount a weight based on their prior MA enrollments on March 31, 2005. New MA-PD plans were assigned zero weight. In 2007, CMS began conducting a transition from the 2006 method of calculating the national average monthly bid amount to the weighted-average method based on actual plan enrollments as specified in section 1860D-13(a)(4). This transition is performed under the

Secretary's authority to carry out a demonstration in 42 U.S.C. §1395b-1(a)(1)(A), which is expressly made applicable to Part D in section 1860D-42(b).

Under the "Medicare Demonstration to Limit Annual Changes in Part D Premiums Due to Beneficiary Choice of Low-Cost Plans," as approved on August 14, 2006, the national average monthly bid amount will be a composite of (i) a weighted average calculated using the 2006 weighting methodology and (ii) a weighted average calculated based on actual plan enrollments. In 2007, 80 percent of the national average monthly bid amount was based on the 2006 averaging methodology and 20 percent was based on the enrollment-weighted average. In 2008, 40 percent of the national average monthly bid amount will be based on the 2006 averaging methodology and 60 percent will be based on the enrollment-weighted average. For determining the enrollment-weighted average bid, Part D enrollees (in stand-alone prescription drug plans and in Medicare Advantage drug plans) from the reference month of June 2007 are used.

The national average monthly bid amount for 2008 is $80.52.

Part D Base Beneficiary Premium

In accordance with section 1860D-13(a) of the Act, codified in 42 CFR §423.286, Part D beneficiary premiums are calculated as the base beneficiary premium adjusted by the following factors: (i) the difference between the plan's standardized bid amount and the national average monthly bid amount; (ii) an increase for any supplemental premium; (iii) an increase for any late enrollment penalty; (iv) a decrease for Medicare Advantage Prescription Drug Plans (MA-PDs) that apply MA A/B rebates to buy down the Part D premium; and (v) elimination or decrease with the application of the low-income premium subsidy.

The base beneficiary premium is equal to the product of the beneficiary premium percentage and the national average monthly bid amount. The beneficiary premium percentage ("applicable percentage") is a fraction, with a numerator of 25.5 percent and a denominator that is 100 percent minus a percentage equal to (i) the total reinsurance payments that CMS estimates will be paid for the coverage year, divided by (ii) that amount plus the total payments that CMS estimates will be paid to Part D plans based on the standardized bid amount during the year, taking into account amounts paid by both CMS and enrollees.

The Part D base beneficiary premium for 2008 is $27.93.[1]

Part D Regional Low-Income Premium Subsidy Amounts

In accordance with section 1860D-14(b) of the Act, codified in 42 CFR §423.780, full low-income subsidy individuals are entitled to a premium subsidy equal to 100 percent of the premium subsidy amount. The premium subsidy amount for a regional Part D plan is equal to the lesser of the following two amounts:

---

[1] As noted above, the actual Part D premiums paid by individual beneficiaries equal the base beneficiary premium adjusted by a number of factors. In practice, premiums vary significantly from one Part D plan to another and seldom equal the base beneficiary premium.

- The plan's monthly Part D beneficiary premium for basic prescription drug coverage (or the portion of the plan's monthly Part D beneficiary premium attributable to basic prescription drug coverage for a Part D plan that has enhanced alternative coverage).

- The greater of the low-income benchmark premium amount for a PDP region or the lowest monthly beneficiary premium for a prescription drug plan that offers basic prescription drug coverage in the PDP region.

When the demonstration program cited below is completed, the regional low-income benchmark premium amount for a PDP region will be a weighted average of the monthly beneficiary premiums for basic prescription drug coverage. The weight for each PDP and MA-PD plan will be equal to a percentage—the numerator being equal to the number of Part D eligible individuals enrolled in the plan in the reference month and the denominator equal to the total number of Part D eligible individuals enrolled in all PDP and MA-PD plans (but not including PACE, private fee-for-service plans, MSA plans, or section 1876 cost plans) in a Part D region in the reference month.

In 2006, CMS assigned equal weighting to PDP sponsors and assigned MA-PD plans a weight based on prior enrollment (as of March 31, 2005). New MA-PD plans were assigned a zero weight. PACE, private fee-for-service plans, and section 1876 cost plans were not included. Under the Secretary's authority to carry out a demonstration in 42 U.S.C. §1395b-1(a)(1)(A), which was expressly made applicable to Part D in section 1860D-42(b), CMS calculated the regional low-income benchmark premium amounts for contract year 2007 using the same weighting methodology applied in 2006—i.e., all PDP bids were weighted equally, and MA-PD bids received weights based on plan enrollments. For 2008, CMS is conducting a transition from the 2006 method of calculating the regional low-income benchmark amounts to the weighted-average method based on actual plan enrollments. During the transition, the regional low-income benchmark amount will be a composite of (i) a weighted average calculated using the 2006 weighting methodology and (ii) a weighted average calculated based on actual plan enrollments for both PDPs and MA-PD plans. In 2008, 50 percent of the regional low-income benchmark amount will be based on the 2006 averaging methodology and 50 percent will be based on the enrollment-weighted average. For determining the enrollment-weighted average bid, Part D enrollees (in stand-alone prescription drug plans and in Medicare Advantage drug plans) from the reference month of June 2007 are used.

In accordance with section 1860D-14, as modified by the "Medicare Demonstration to Transition Enrollment of Low Income Subsidy Beneficiaries" (approved on August 15, 2006), CMS has determined the regional low-income premium subsidy amounts for 2008. The regional low-income premium subsidy amount for each PDP region is the greater of the low-income benchmark premium amount for the PDP region or the lowest monthly beneficiary premium for a prescription drug plan that offers basic prescription drug coverage in the PDP region. These amounts are provided in a spreadsheet called "PartDLowIncomePremiumSubsidyAmounts2008-final.csv" which can be accessed on the CMS website through the following path:

CMS Home > Medicare > Health Plans > Medicare Advantage - Rates & Statistics > Ratebooks & Supporting Data > 2008 > Regional rates and benchmarks

A direct link to the Ratebooks & Supporting Data page is:

http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/RSD/list.asp#TopOfPage

MA Regional Benchmarks

Per section 1858(f)(2), the standardized benchmark for each MA region is a blend of two components: (i) a statutory component consisting of the weighted average of the county capitation rates across the region; and (ii) a competitive, or plan-bid, component consisting of the weighted average of all of the standardized A/B bids for regional MA plans in the region. (Such regional MA plan bids relate to the benefits covered under Parts A and B of Medicare.) The two components are then blended for each region, with the statutory component reflecting the national market share of traditional Medicare and the regional MA plan-bid component reflecting the market share of all MA organizations in the Medicare population nationally. In other words, the weights used to combine the statutory and competitive components of the benchmark are the same for all regions and equal the national enrollment percentages for traditional Medicare and all MA plans. For 2008, the national weights applied to the statutory and plan-bid components are 82.9 percent and 17.1 percent, respectively.

The separate weighted-average statutory component and weighted-average competitive component in each region are determined based on the following weights:

- The weighting for the statutory component is based on all MA eligible individuals in the region—i.e., all Medicare beneficiaries who are either in the traditional, fee-for-service Medicare program or enrolled in MA plans and who are entitled to benefits under Part A and enrolled in Part B.

- The weighting for the plan-bid component is based on the enrollment in regional MA plans in the region for the reference month of June 2007. (That is, the weight for each plan's bid is based on the plan's market share in the region.)

The statutory and plan-bid components, and the MA regional standardized benchmarks, for 21 of the 26 MA regions[2] are in a file labeled "MARegionalRate2008-final.csv" which can be accessed on the CMS website through the following path:

CMS Home > Medicare > Health Plans > Medicare Advantage - Rates & Statistics > Ratebooks & Supporting Data > 2008 > Regional rates and benchmarks

The direct link to the Ratebooks & Supporting Data page is:

http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/RSD/list.asp#TopOfPage

[2] In the remaining five MA regions, there are no regional MA plans.

Questions on the Part D national average monthly bid amount, the Part D base beneficiary premium, the Part D regional low-income premium subsidy amounts, and the MA regional benchmarks can be directed to me at (410) 786-2328.

/s/
Paul Spitalnic, A.S.A., M.A.A.A.
Director
Parts C & D Actuarial Group
Office of the Actuary
Centers for Medicare & Medicaid Services