DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

Administrator
Washington, DC 20201

DEC - 1 2008

The Honorable Henry Waxman
Chairman
Committee on Oversight and Government Reform
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Thank you for your letter regarding the Centers for Medicare & Medicaid Services' (CMS) administration of the Medicare prescription drug benefit. In your letter, you questioned the appropriateness of drawing attention to the availability of lower cost plans in 2009 given the overall rise in premiums.

As your letter points out, we have highlighted in our outreach materials that 97 percent of Part D beneficiaries in stand alone plans will have access to a prescription drug plan in 2009 whose premiums would be the same or less than what they paid for coverage in 2008. We believe that providing beneficiaries with this important fact will encourage them to take action to explore their coverage options during this year's open enrollment period. We have repeatedly stated that some beneficiaries will see significant changes in their premiums and underscored the need to shop and compare in all of our public materials.

For this open enrollment season, our outreach and education effort is actively promoting the theme "Plans Change. You Change. Shop and Compare Now." Through the use of community and media events in each of the CMS regions, we are spreading the word about the need to shop and compare. Local trusted community resources, such as SHIPs and other partner organizations, are assisting us in reaching and counseling beneficiaries. We are promoting them in addition to Medicare's information resources, the 2009 *Medicare & You* Handbook, www.medicare.gov, and 1-800-MEDICARE.

In addition to your comments about our 2009 plan year communications, your letter also addressed several concerns with the increase in Part D premiums in 2009. Your letter identified administrative costs and Part D drug pricing as likely reasons for increased Part D premiums in 2009. However, the percentage attributable to administrative costs reported in bids for 2009 was largely unchanged from those reported in the 2008 bids. Drug prices for all payers do rise over time. However, the plan bids for 2009 do not show Part D pricing trends deviating from national averages. The six percent increase in 2009 Part D bids tracks closely to the national rate of inflation for drug expenditures. As described in more detail below, further increases to plan premiums resulted from a technical adjustment in the calculation of beneficiary premiums attributed to the phase out of a payment demonstration and from higher estimates of the costs associated with providing catastrophic coverage.

The Part D program is competitively based with subsidy and premium levels determined exclusively based on the bid submissions of Part D plan sponsors and the statutory formulas. To the extent that plan sponsors expect costs to increase from year to year, this will be reflected in their bids. The overall subsidy level is determined based on the national average of the plan cost projections, and plan-specific premiums are calculated based on the plan bid amount compared to the national average amount. As such, plans that have lower than the national average bid will have lower-than-average premiums and plans with higher bids will have higher premiums.

Finally, your letter requests that CMS provide analyses related to Part D premiums. Our responses to the information you requested in your letter are provided below:

1) All analyses prepared by or for CMS regarding the causes of increases in Part D premiums.

   As we said in connection with the August 14th benchmark announcement, the increase in 2009 premiums is primarily attributable to the plans' expected cost increases from 2008 to 2009 as reflected in their 2009 bids. Since most Part D plans project a higher cost in 2009 than in 2008, the national average bid amount for 2009 increases, with a particularly large increase associated with the expected reinsurance costs. As a result the 2009 premiums for most plans increase from the 2008 levels. In addition, the phase-out in 2009 of the "Medicare Demonstration to Limit Annual Changes in Part D Premiums due to Beneficiary Choice of Low-Cost Plans" contributed slightly to the premium increase. The following table shows a summary of the enrollment-weighted average values from the 2008 and 2009 bids.

Summary of Part D Bids

	2008	2009	Increase
Costs			
National Average Monthly Bid Amount	79.30	84.33	6.3%
Expected Reinsurance	27.68	34.73	25.5%
Total	106.98	119.06	11.3%
Funding			
Base Beneficiary Premium	27.28	30.36	11.3%
Direct Subsidy	52.02	53.97	3.7%
Expected Reinsurance	27.68	34.73	25.5%
Total	106.98	119.06	11.3%

Part D premiums are calculated from the submitted bids by applying the statutorily mandated formula. As noted in the summary above, while the national average bid amount has increased modestly from 2008 to 2009, the expected reinsurance costs

have increased 25.5 percent which causes the average premium to increase at a faster rate than the average bid.

2) All analyses prepared by or for CMS regarding the impacts of increases in Part D premiums on program enrollment, program costs and program beneficiaries.

   CMS' Office of the Actuary (OACT) projects Part D program enrollment and costs in the President's Budget and Mid-session Review budget exercises as well as in the Annual Report of the Medicare Board of Trustees (Trustees Report). The methods and assumptions, including those used to project enrollment and costs, are included in the Trustees Report (http://www.cms.hhs.gov/reportstrustfunds/downloads/tr2008.pdf).

   We have no formal analyses regarding the impact of increases in Part D premiums on program enrollment, costs, or beneficiaries. As explained in detail in the methods section of the Trustees Report, the enrollment and cost projection trends that are used in the model are based on demographic and prescription drug trend factors. The premiums are an output of the model rather than a dependent variable.

3) All estimates prepared by or for CMS of expected Part D premium increases for the years 2010 through 2012.

   The 2008 Trustees Report projects the average Part D standard premium to be $30, $32, and $34 for years 2010, 2011, and 2012, respectively.

CMS is committed to ensuring that people with Medicare have the information they need to make the best use of their Medicare benefits to help them stay healthy.

Sincerely,

Kerry Weems
Acting Administrator