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BIDDING PROCESS USING COMPETITIVE MARKET FORCES FOR LOW-COST, HIGH-QUALITY DRUG PLANS

The Medicare Modernization Act (MMA) and the proposed rule rely on market competition to keep quality high and costs low for Medicare beneficiaries and the American taxpayer. To ensure that beneficiaries have access to both prescription drug plans – if they wish to remain in traditional fee-for-service Medicare – and Medicare Advantage plans – if they wish to receive all of their health care services through one plan – the plans will be paid based on competitive bids for the region or county.

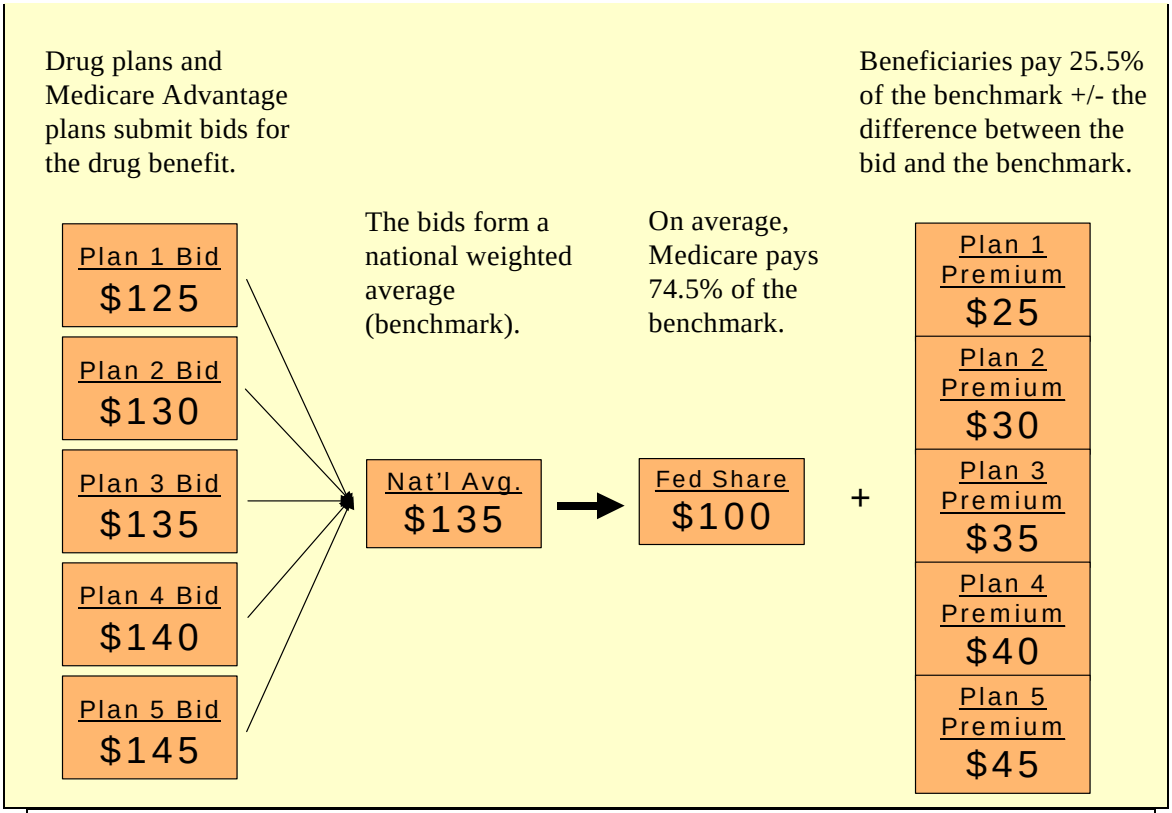
Bidding for the Prescription Drug Benefit

Beneficiary premiums for the new drug benefit will be determined through a competitive bidding process. The premiums are expected to average in the range of $35 dollars per month in 2006. The specific premium for each plan will be determined by its bid.

By law, and as reflected in the proposed rule, all prescription drug plans and Medicare Advantage plans will submit a bid for the cost of providing the drug benefit in the service area to a typical beneficiary. The typical beneficiary will be a statistical average of age and health status for the nation. The Centers for Medicare & Medicaid Services (CMS) will review the bids, and the portion of all the approved bids related to basic benefits will be compiled into a national weighted average, which serves as a benchmark for purposes of setting premiums. The weights will be the plans' enrollment shares in the prior year. For the first year of the program, CMS has proposed a system to impute weights.

The premium for each plan's drug benefit will be 25.5 percent of the benchmark, plus or minus any difference between the benchmark and the plan's bid.

Illustration of Competitive Bidding in the New Medicare Drug Benefit



Note: This illustration is slightly simplified and liberally rounded. It assumes equal enrollment weight on each of the five plans and bids for basic benefits only. Technically, an adjustment factor modifies the beneficiary premium percentage to account for reinsurance payments, which are not included in the plan bid amount. However, the purpose of that adjustment factor is to ensure that, on average, the premium represents on average 25.5 percent of the total cost of the benefit, including reinsurance, which is reflected in the graphic.

Other factors will affect the premium that each beneficiary pays.

- If the beneficiary qualifies for low-income assistance, the premium will be reduced on a sliding scale, or eliminated entirely, depending on the beneficiary's income and assets.

- If a beneficiary receives drug coverage through a Medicare Advantage plan, the basic drug premium may be reduced or eliminated as a result of the application of plan rebates.

- If the beneficiary does not enroll in the new drug benefit at the first opportunity, and does not maintain creditable coverage, then a late enrollment penalty may apply.

- If the beneficiary chooses a plan that features supplemental coverage over and above the standard drug benefit, a supplemental premium may apply. In the case of drug plans, enrollees pay the full cost of supplemental coverage. In the case of Medicare Advantage plans, the supplemental premium may be reduced or eliminated as a result of the application of rebates.

Comments on the proposed regulations will be accepted until October 4, 2004. Comments should be submitted to the Centers for Medicare & Medicaid Services at www.cms.hhs.gov/regulations/ecommentsT