



Medicare: How Does it Work?

Structure and Financing of Part C and Part D

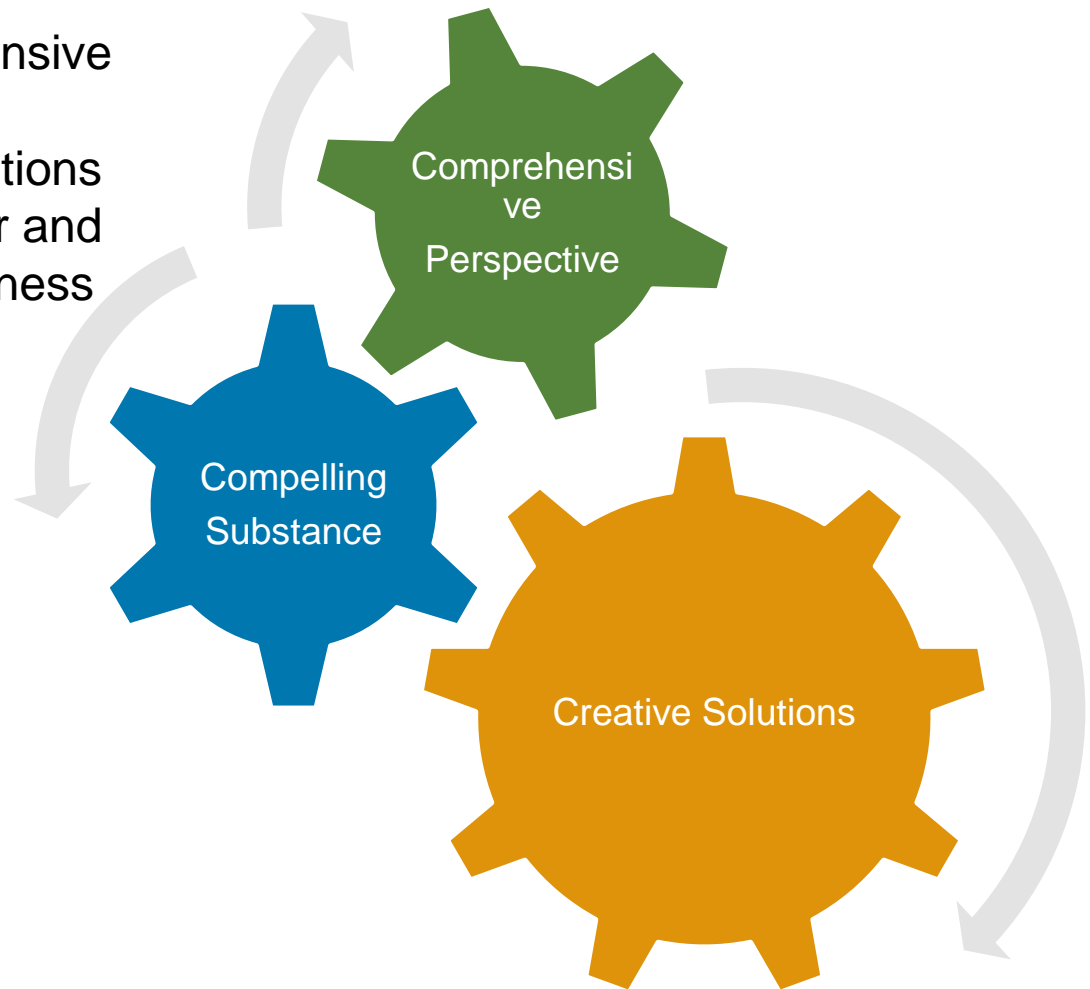
July 24, 2013

Avalere Health LLC

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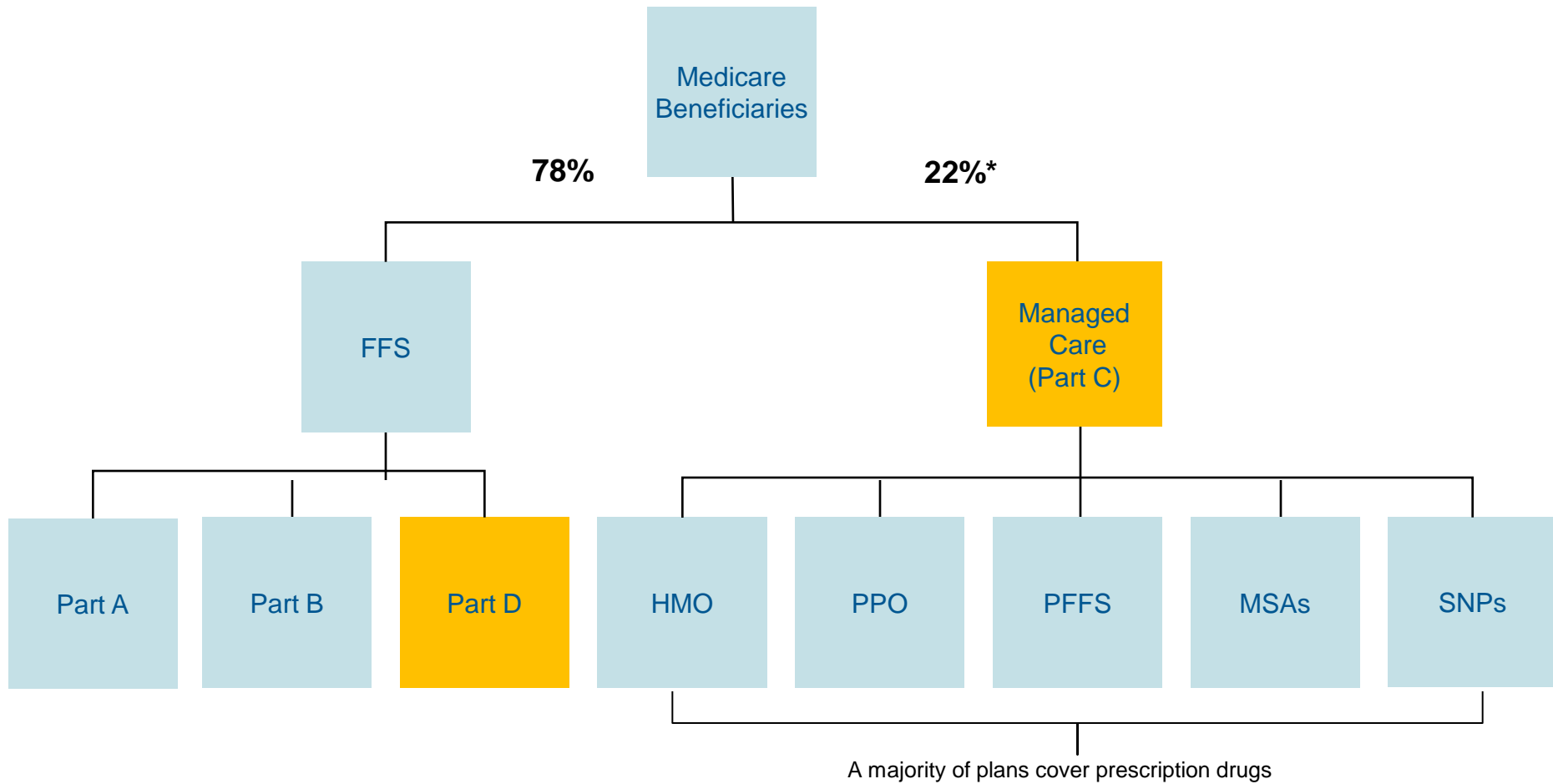
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Medicare Consists of Four Programs

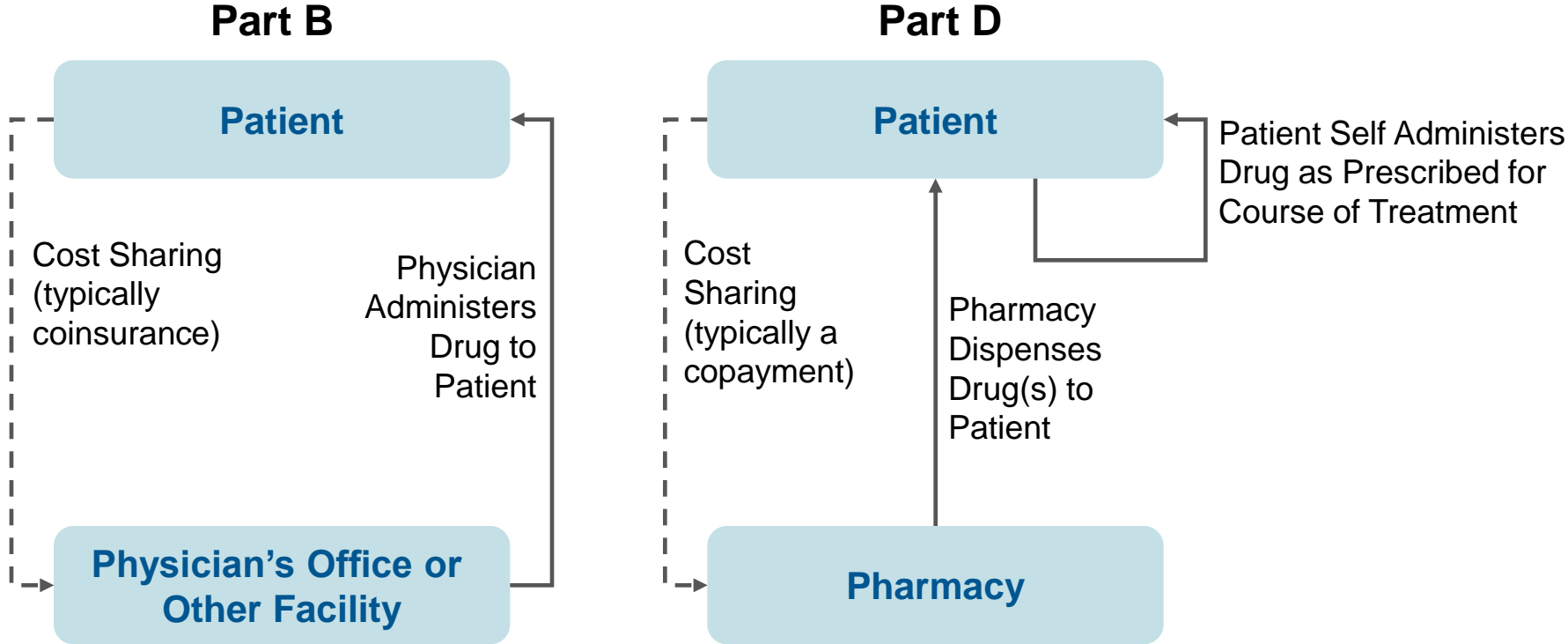
Program	Funding	Coverage
Part A: Hospital Insurance Program (Entitlement)	Federal Hospital Insurance Trust Fund	<ul style="list-style-type: none"> Hospital inpatient, skilled nursing facility (SNF), and some home health care <p><i>All Medicare beneficiaries are enrolled in Part A</i></p>
Part B: Medical Insurance (Voluntary; Opt Out)	Federal Supplementary Medical Insurance Trust Fund; General Revenue; Beneficiary Premiums	<ul style="list-style-type: none"> Fee-for-service (FFS) payment for physician services including physician-administered drugs, hospital outpatient care, laboratory services, durable medical equipment, some home health care, outpatient mental health services, and physical, occupational, and speech therapy services <p><i>Over 95% of beneficiaries are enrolled in Part B</i></p>
Part C: Managed Care (Medicare Advantage (MA)) (Voluntary; Opt In)	Payments to Managed Care Plans from Medicare Trust Funds; Beneficiary Premiums	<ul style="list-style-type: none"> Part A and B services listed above (plus supplemental coverage that varies by plan) <p><i>Approximately 22% of beneficiaries are enrolled in Part C</i></p>
Part D: Prescription Drug (Voluntary; Opt In)	Increased Payments to Medicare Trust Fund; Beneficiary Premiums	<ul style="list-style-type: none"> Outpatient prescription drug benefit <p><i>Approximately 60% of beneficiaries are enrolled in Part D</i></p>

Medicare Beneficiaries Have Two Options for Accessing Benefits



*Kaiser Family Foundation Medicare Brief “Medicare Advantage in 2009 Fact Sheet”, stating there are 10.2 million beneficiaries currently enrolled.

Drugs Can Be Covered Under Part B or Part D in Medicare

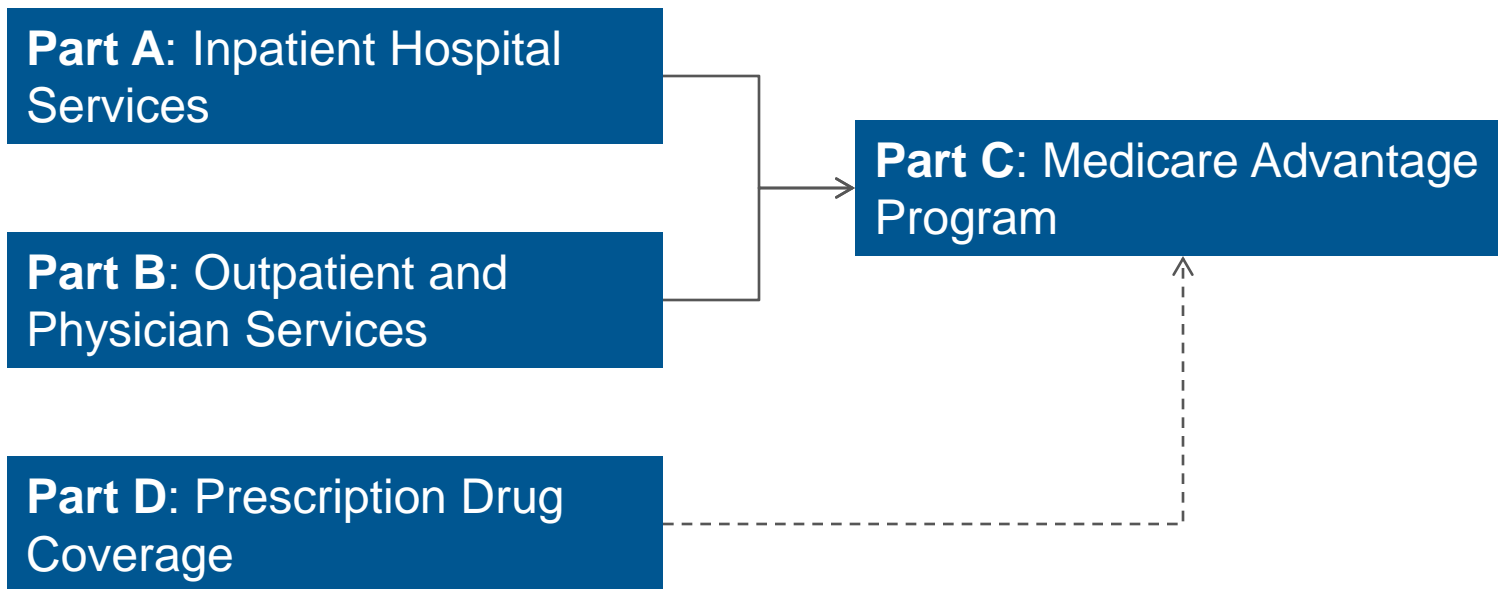


Flow of Funds - - - - ->

Flow of Prescription Drugs - - - - ->



The MA Program Combines Traditional Parts A and B Benefits, and May Also Include Part D



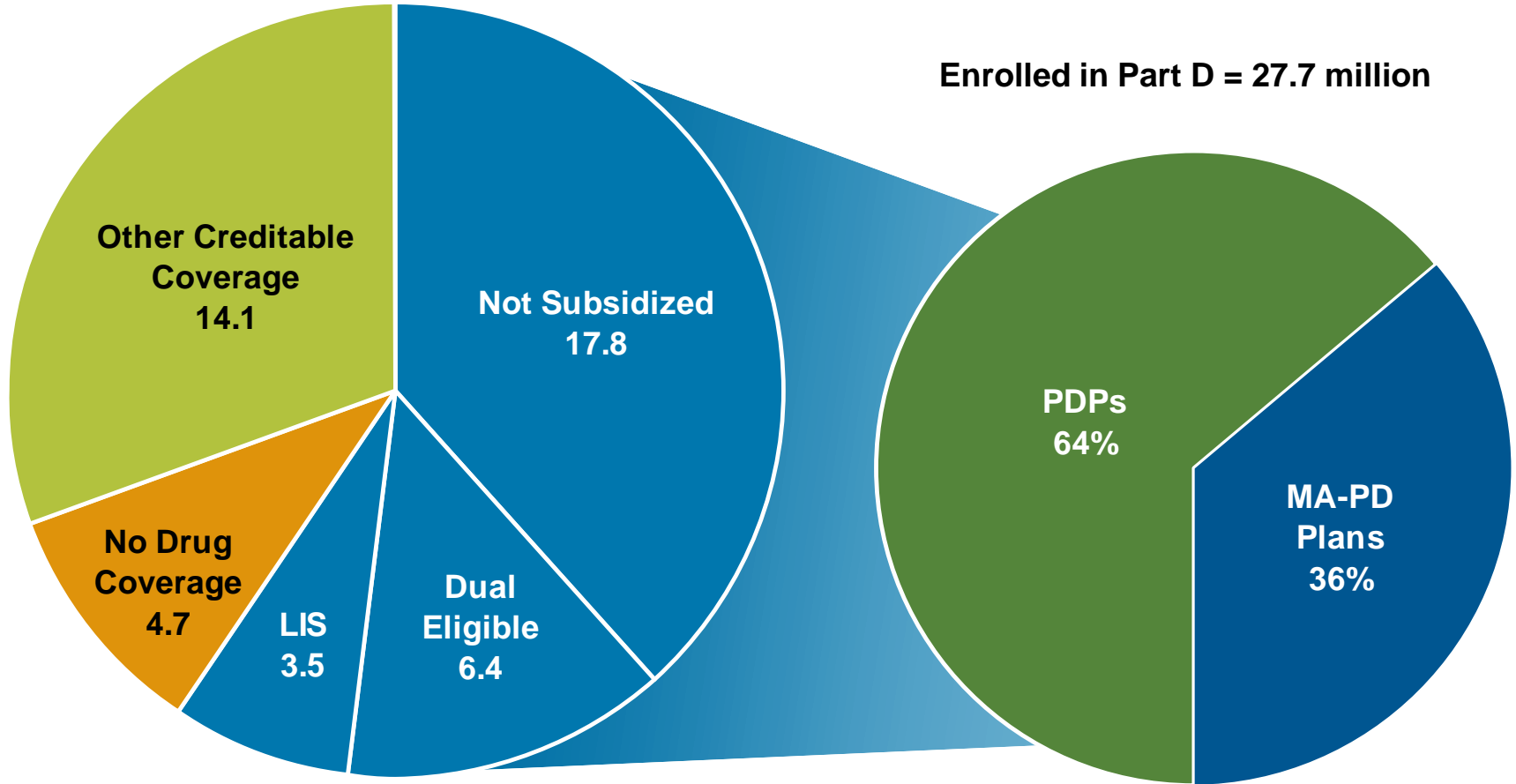
Note: Solid lines indicate services that must be covered in Medicare Advantage; dotted line indicates optional services.

Financial Responsibilities Among Payers and Beneficiaries Vary by Benefit Option

	Part A and Part B	Part C	Part D
CMS	Pays providers based on set payment rates	Pays a fixed monthly amount per beneficiary to companies offering MA Plans	Pays a fixed monthly amount per beneficiary to Part D plans
State Medicaid Agencies	Pay providers for dual eligibles' cost sharing and non-Medicare covered items	Varies; may pay MA plans a monthly capitation amount or pay providers as under FFS	N/A
Private Insurers	<u>Medigap Plans:</u> <ul style="list-style-type: none"> Receive premiums from Medigap policy holders Pay facilities and providers according to plan benefits 	<u>MA Plans:</u> <ul style="list-style-type: none"> Receive a fixed monthly amount from CMS and premiums from enrollees Pay facilities and providers according to plan benefits 	<u>Part D Plans:</u> <ul style="list-style-type: none"> Receive a fixed monthly amount from CMS and premiums from enrollees Pay pharmacists for drugs dispensed
Providers and Pharmacists	Receive set payments from CMS	Receive payments from plans, as negotiated	<ul style="list-style-type: none"> Receive payments from plans, as negotiated
Beneficiaries	<ul style="list-style-type: none"> Pay a deductible and cost sharing for covered services and supplies May pay a Medigap policy premium 	<ul style="list-style-type: none"> Pay premium to private insurers (varies by plan) Pay cost sharing to providers (varies by plan) 	<ul style="list-style-type: none"> Pay premium to Part D plan (varies by plan) Pay cost sharing to pharmacists (varies by plan)

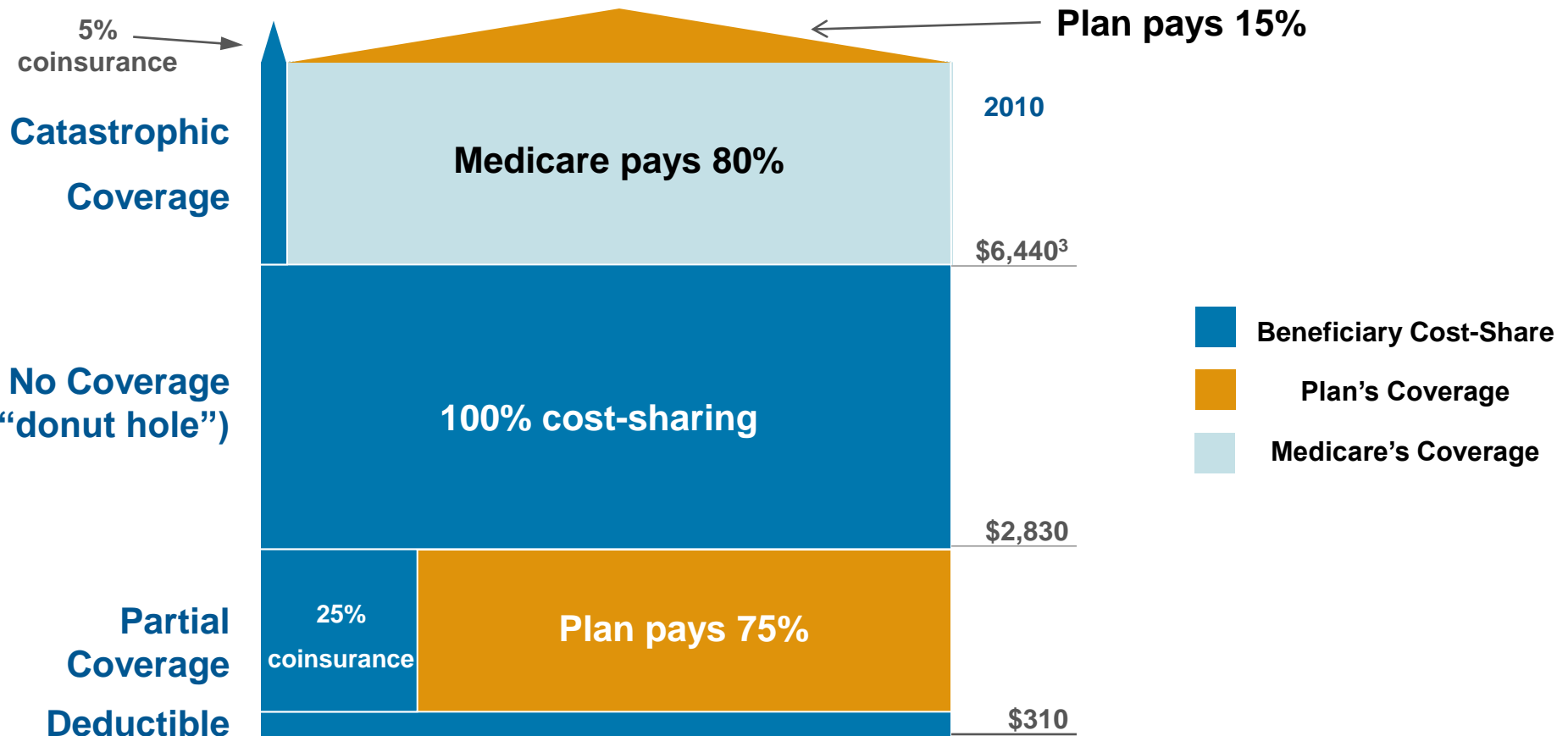
Approximately 60 Percent of Medicare Beneficiaries Are Covered Under Part D

Total Medicare Population = 46.5 million



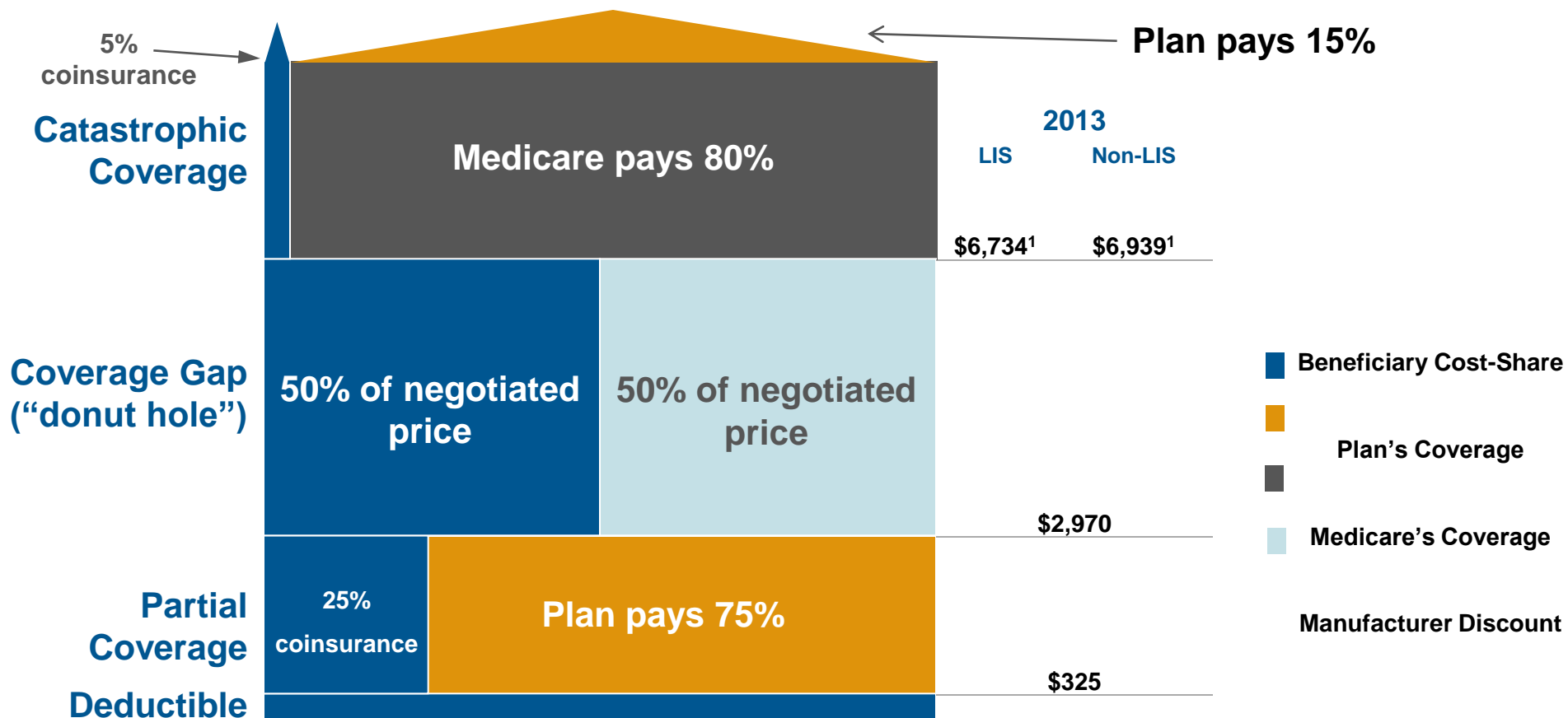
Source: Avalere Health analysis of CMS data from March 2010. Dual Eligible total includes CMS deemed full-benefit duals only; CMS deemed-MSP and SSI Recipients and other LIS-eligible beneficiaries are included in "LIS." Total for MA-PD Plans includes other managed care plans with prescription drug coverage (e.g., PACE, Cost plans).

The Medicare Modernization Act Outlined the Standard Part D Benefit Design



¹Equivalent to \$4,550 in out-of-pocket spending

However, the ACA Modified the Standard Benefit Design with the Coverage Gap Discount Program Effective 2011



LIS and Non-LIS beneficiaries may have different total Part D spending when they reach the catastrophic threshold

1) Equivalent to \$4,750 in out-of-pocket spending; Once the beneficiary reaches catastrophic coverage, he or she pays the greater of 5% coinsurance, or \$2.50 for generic drugs and \$6.30 for brand-named drugs. Since LIS beneficiaries have no coverage gap and are not eligible for the Coverage Gap Discount Program, they will reach the catastrophic limit sooner than non-LIS beneficiaries.

Part D Beneficiaries With Higher Incomes Will Pay More in Premiums

- Since 2007, Medicare Part B has required higher-income beneficiaries to pay higher premiums. Similar rules will apply to Part D beneficiaries starting in 2011
- Based on Part B's experience, about 5 percent of beneficiaries will be affected
- The table below illustrates how premiums would have increased in 2012 for individuals who pay the base beneficiary premium

Modified Adjusted Gross Income		2012 Example	
Single	Married Couple	Monthly Premium Increase	Total Monthly Premium
\$85,000 or less	\$170,000 or less	n/a	\$31.08
\$85,000 - \$107,000	\$170,000 - \$214,000	\$11.60	\$42.68
\$107,000 - \$160,000	\$214,000 - \$320,000	\$29.90	\$60.98
\$160,000 - \$214,000	\$320,000 - \$428,000	\$48.10	\$79.18
\$214,000 or more	\$428,000 or more	\$66.40	\$97.48

Source: 2012 Social Security/SSI/Medicare Information, accessed at <http://www.ssa.gov/legislation/2012factsheet.pdf>



Beneficiaries May Choose from Several Types of MA Plans

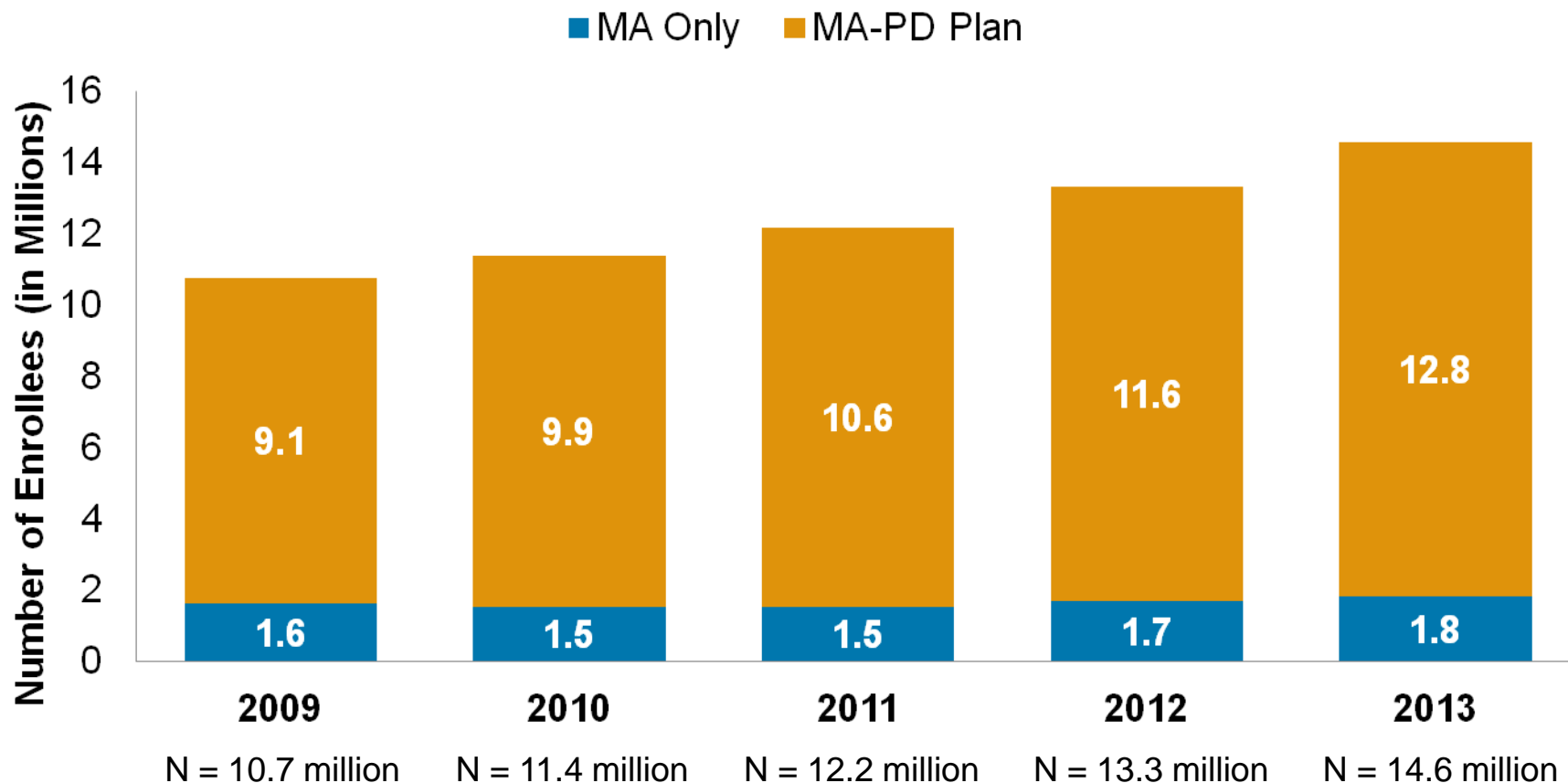
HMO	PPO	PFFS	SNP
<ul style="list-style-type: none"> ▪ Defined network of providers ▪ Referral system through primary care physician ▪ May require prior authorization before beneficiaries seek care ▪ May offer Part D product** 	<ul style="list-style-type: none"> ▪ Network-based plan ▪ Open access to any Medicare-participating provider ▪ Higher out-of-pocket costs for services rendered outside of network ▪ May offer Part D product** 	<ul style="list-style-type: none"> ▪ Provider networks required in certain areas,* though beneficiaries are not required to seek care in-network ▪ Private plan option without restrictive managed care features ▪ May not require prior authorization ▪ Part D offering is optional 	<ul style="list-style-type: none"> ▪ Coordinated care plan with enrollment limited to beneficiaries with special needs ▪ Special needs individuals include: dually eligible beneficiaries, institutionalized beneficiaries and those beneficiaries with select chronic conditions ▪ Required to offer Part D product

*The Medicare Improvements for Patients and Providers Act of 2008 requires PFFS plans to establish networks beginning in 2011 in counties where multiple network plans are currently available.

**An HMO or PPO contract must offer Part D in at least one plan, but other plans under the same contract may be MA-only.

Enrollment in Medicare Advantage Continues to Grow at a Steady Pace, Despite Transition to New Payment System

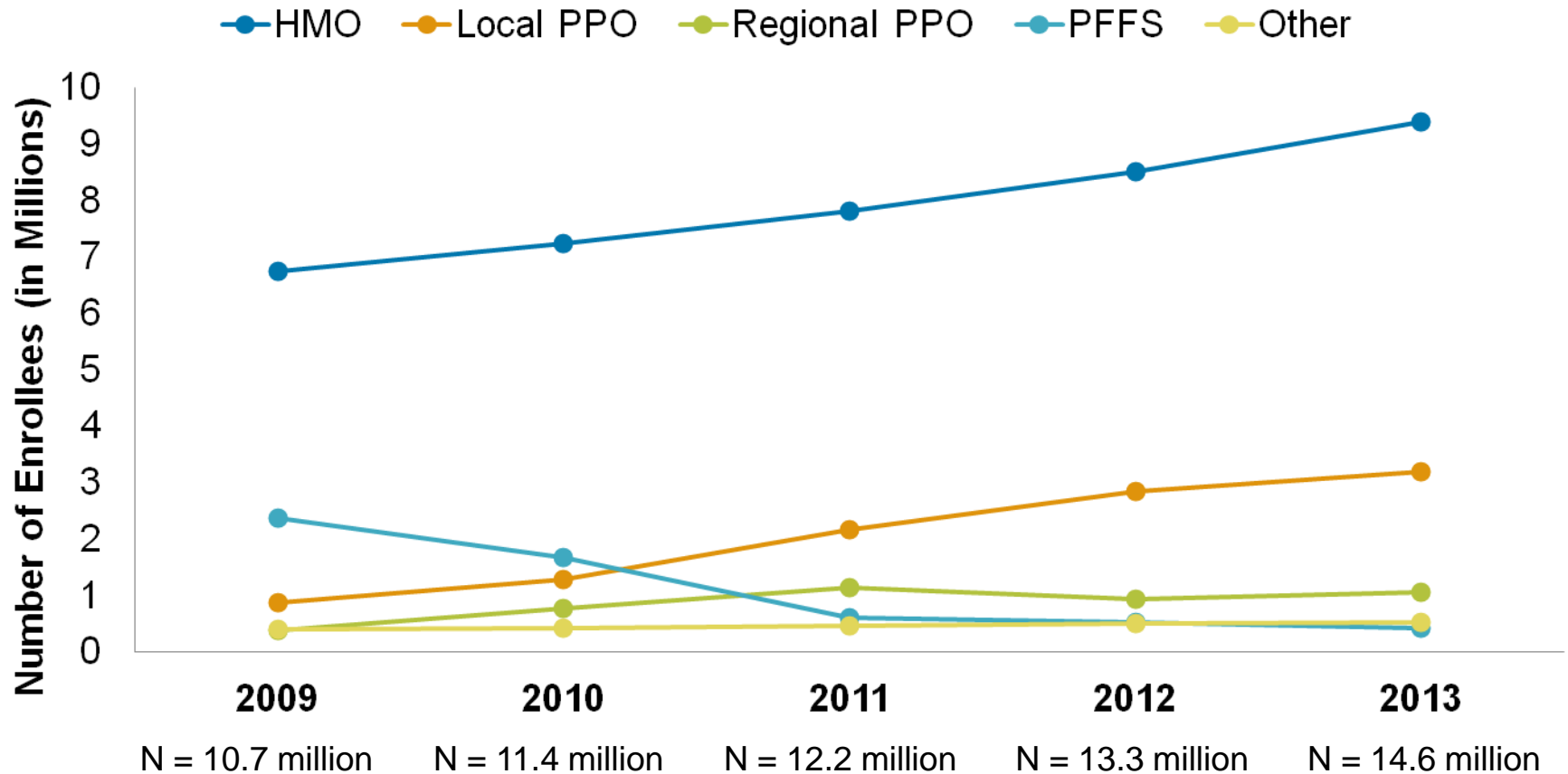
Medicare Advantage Enrollment, 2009-2013



Source: Avalere Health analysis using enrollment data released by the Centers for Medicare & Medicaid Services in February 2009 (reflecting January 2009 enrollment), February 2010 (reflecting January 2010 enrollment), February 2011 (reflecting January 2011 enrollment), February 2012 (reflecting January 2012 enrollment), and February 2013 (reflecting January 2013 enrollment). Excludes lives in plans with fewer than 10 enrollees. Figures are rounded and may not add to totals. Data includes enrollment in employer plans and the territories.

HMO and Local PPO Plan Enrollment Continues to Grow

Medicare Advantage Enrollment by Plan Type, 2009–2013

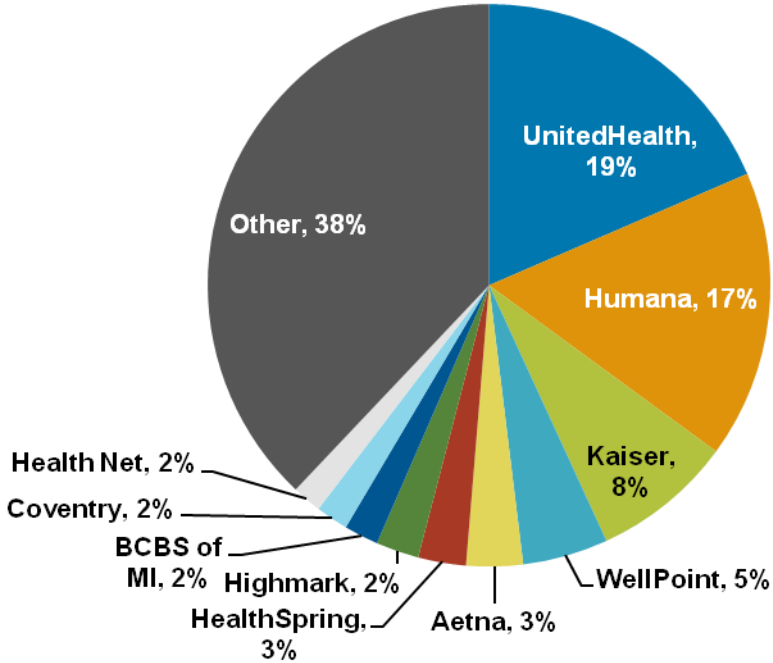


Source: Avalere Health analysis using enrollment data released by the Centers for Medicare & Medicaid Services in February 2009 (reflecting January 2009 enrollment), February 2010 (reflecting January 2010 enrollment), February 2011 (reflecting January 2011 enrollment), February 2012 (reflecting January 2012 enrollment), and February 2013 (reflecting January 2013 enrollment). Excludes lives in plans with fewer than 10 enrollees. Figures are rounded and may not add to totals. Data includes enrollment in employer plans and the territories.

UnitedHealth, Humana, and Kaiser Continue to Provide MA Benefits to Over 40 Percent of All MA Enrollees

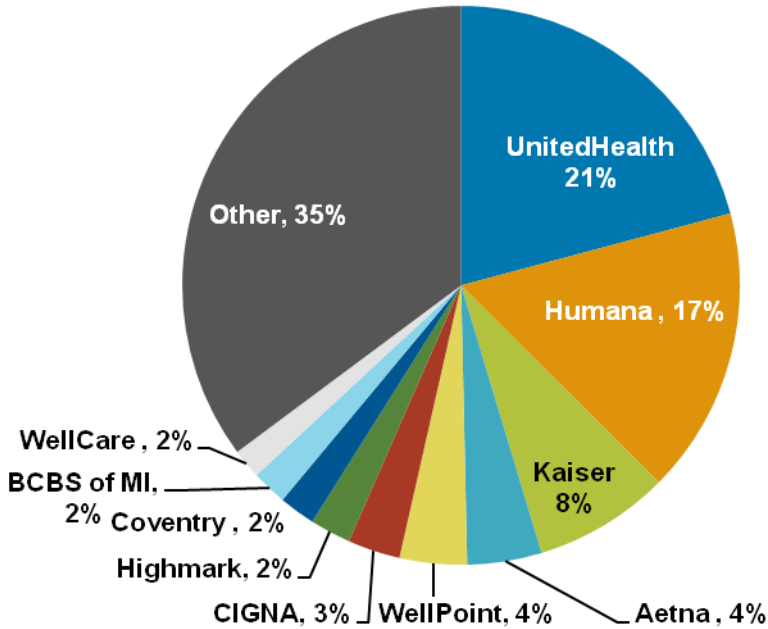
Parent Organizations by Percent of Total Medicare Advantage Enrollment, 2012-2013

2012



N = 13.3 million

2013



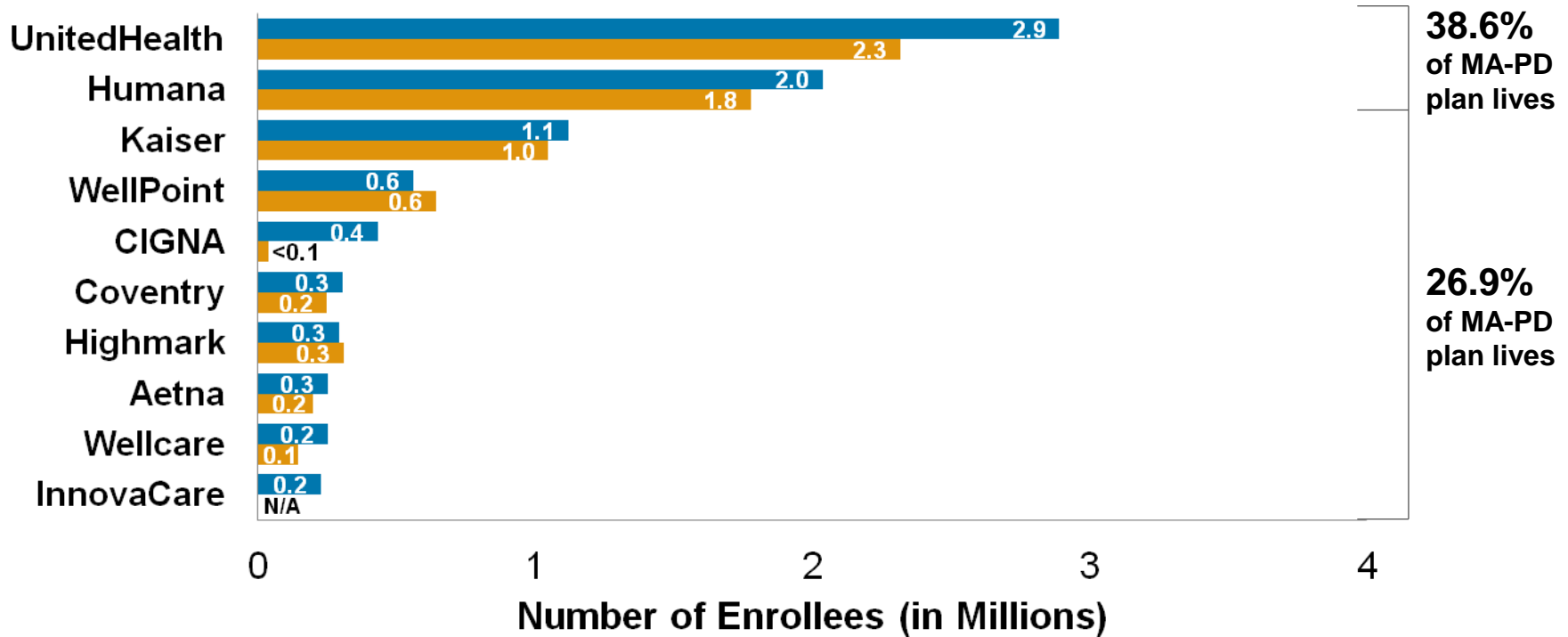
N = 14.6 million

Source: Avalere Health analysis using enrollment data released by the Centers for Medicare & Medicaid Services in February 2012 (reflecting January 2012 enrollment) and February 2013 (reflecting January 2013). Figures are rounded and may not add to totals. Data includes enrollment in employer plans and the territories.

Top MA Sponsors Increased Enrollment and Strengthened Market Leader Positions in 2013

Enrollment of Top 10 MA-PD Plan* Parent Organizations, 2012-2013

■ 2013 ■ 2012



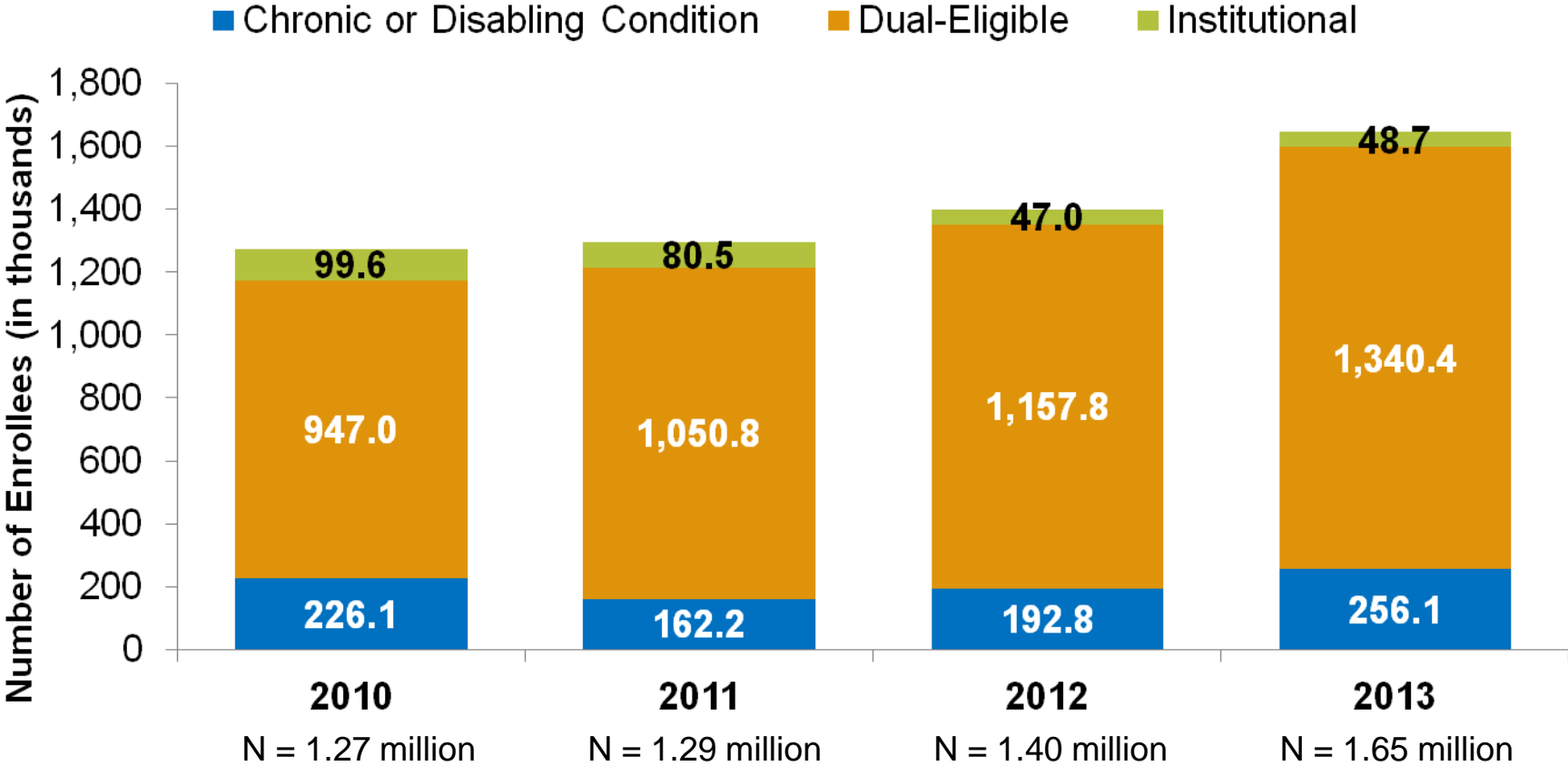
Source: Avalere Health analysis using enrollment data released by the Centers for Medicare & Medicaid Services in February 2012 (reflecting enrollment accepted as of January 2012) and in February 2013 (reflecting enrollment accepted as of January 2013).

*Includes Special Needs Plans (SNPs); excludes Medicare Advantage plans that do not offer drug coverage. Data includes enrollment in employer plans and the territories. Figures are rounded and may not reflect exact totals.



Dual-Eligible Special Needs Plans (SNPs) Continue to Grow

SNP Enrollment by SNP Type, 2010-2013



Source: SNP Comprehensive Report released by the Centers for Medicare & Medicaid Services in February 2013.

Questions and More Information

Reginald D. Williams II

Avalere Health

1350 Connecticut Ave NW

Suite 900

Washington, DC 20036

202.207.3685 (tel)

rwilliams@avalerehealth.net