

Medicare Part D, Year Two: Challenges and Opportunities



John Gorman
November 10, 2006

Today's Agenda

- The Part D enrollment picture and what it means
- The competitive landscape and how it will change
- The outlook for employer group retiree markets
- The Road Ahead
- Conclusions and Q&A

Medicare Parts C and D Enrollment Report: October 2006

Current Contract Summary:	Number of Contracts	MA Only Enrollees	Drug Plan Enrollees	Total Enrollees
Total "Prepaid" Contracts (1)	513	1,015,065	6,596,135	7,611,200
Local CCPs	367	453,581	5,616,737	6,070,318
PFFS	25	306,032	519,999	826,031
Demos	31	3,165	202,142	205,307
1876 Cost	28	159,320	158,254	317,574
1833 Cost (HCPP)	15	85,642		85,642
PACE	36		12,406	12,406
Regional PPOs	11	7,325	86,597	93,922
Total PDPs	91			16,557,864
Employer/Union Only Direct Contract PDP	10		118,023	118,023
All Other PDP (1)	81		16,439,841	16,439,841
TOTAL	604			24,169,064

Includes:
 • 550,000 SNP
 • 330,000 Local PPO



Source: Medicare Advantage, Cost, PACE, Demo, and Prescription Drug Plans Coverage Enrollment – Monthly Summary Report. CMS, October 1, 2006.

Total Medicare Beneficiaries with Drug Coverage

DESCRIPTION	NUMBER (MILLIONS)
Drug Coverage from Medicare or Former Employer	
Stand-alone Prescription Drug Plan (PDP)*	16.3
Medicare Advantage with Prescription Drugs (MA-PDP)**	7.48
Medicare Retiree Drug Subsidy (RDS)	6.9
FEHB Retiree Coverage	1.6
TRICARE Retiree Coverage	1.86
TOTAL	34.14
Additional Sources of Creditable Drug Coverage	
Veterans Administration	3.2
Indian Health Service Coverage	0.1
Active Workers with Medicare Secondary Payor	2.0
Other Retiree Coverage, Not Enrolled in RDS	0.5
TOTAL	5.8

23.9M

Nearly 40 million beneficiaries with some form of creditable coverage

* Stand-Alone PDP includes 2.2 million enrollees receiving the low income subsidy (LIS).
 ** Medicare Advantage includes 940,000 enrollees receiving the LIS, of whom 490,000 are full Medicare-Medicaid beneficiaries.



Source: Medicare Drug Coverage Enrollment Data
 As of September 1, 2006

Competition is Intensifying in Medicare...

PDPs

- 17 national PDPs in 2007, up from 10 in 2006.
 - Continuing: Aetna Inc., Caremark Rx (Silverscript) Inc., CIGNA Corp., Coventry Health Care Inc. (Coventry and First Health), Humana, Medco Health Solutions Inc., Member Health Inc., UnitedHealthGroup (United and AARP), WellCare, and WellPoint Inc (Blue MedicareRx and UniCare).
 - New nationals : ENVISIONRX PLUS Inc., Express Scripts (SAMAScript) Inc., Health Net Inc., Long Drug Stores Corp.(RxAmerica), NewQuest Health Solutions LLC, NMHC Systems Inc., and Torchmark Corp.
- Average cost of coverage will drop again in 2007: around \$22 per month. 83% of current enrollees will have a cheaper option in 2007.
- The average bid in 2007 is lower than in 2006 for many of the plans.
- PDPs are expanding formularies (2007: 13% more drugs than in 2006), eliminating pre-authorizations, offering more donut hole coverage.
- Less than 5% of dual eligibles will need to be reassigned.

Competition is Intensifying in Medicare... MA-PDs

	2007	2006
Total Number of MA Plans	3791	3195
Total Number of MA Contracts	615	522
Total Number of MA Applications	133	67
Total Number of Service Area Expansions	111	7
Total Number of Special Needs Plans	470	272
MA Plans Offering \$0 Premium Part D	45%	52%
Plans Offering \$0 Premium MA-only Plan	53%	52%
MA Plans with \$0 Premium for Parts C and D	34%	34%

“Execution Risk” Observation #1: “Perfect Storm” for Sales in Year Two

- Beneficiaries are overwhelmingly happy: most sales will be “steals”
- Compressed selling season
 - 12 months of selling in 4.5 months now going forward
- Blitz began October 1
 - Far more plans ready to launch with approved materials
- New CMS enrollment policy
 - Front-loads enrollment to November 15, not December 31 as in 2005-2006
- *Environment ripe for abuses.*



Beneficiary Satisfaction Surveys

- US Chamber of Commerce, April 25, 2006:
 - 84% of enrollees satisfied with coverage
 - 52% enjoying significant cost savings
 - 85% of enrollees say plans cover the medicine they need
- Kaiser Family Foundation, July 27, 2006:
 - More than 8 out of 10 enrollees satisfied with drug plan
 - Nearly 2 out of 10 experienced major problem
- AARP, April 12, 2006:
 - 8 out of 10 enrollees satisfied
 - Of those with drug coverage previously, 63% indicated that their Medicare drug plan is either better than or as good as before
- AHIP, March 13, 2006:
 - 9 out of 10 Medicare dual eligibles have experienced no problems



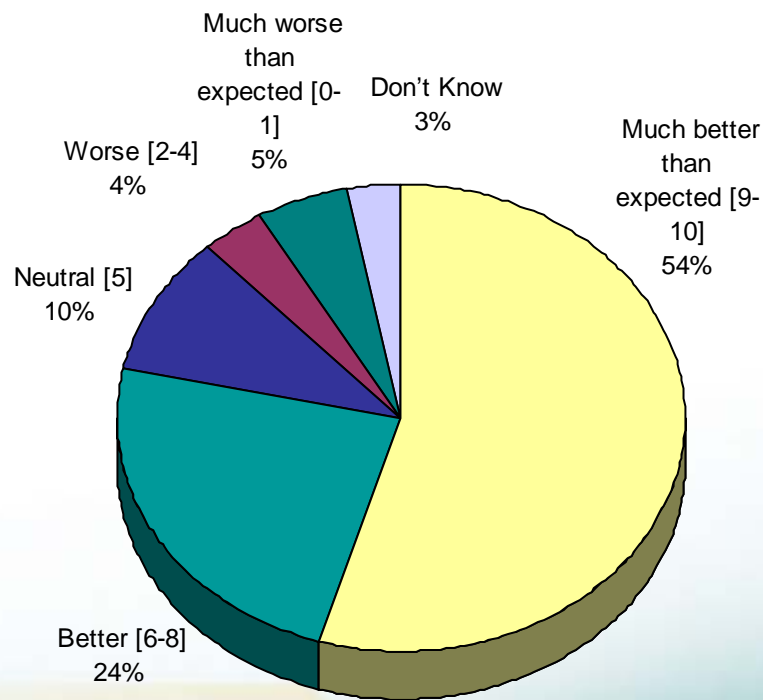
Sources:

1. Testimony of CMS Administrator McClellan to the House Subcommittee on Health, Committee on Ways and Means, May 3, 2006.
2. Seniors' Early Experiences with Their Medicare Drug Plans. Kaiser Family Foundation survey.

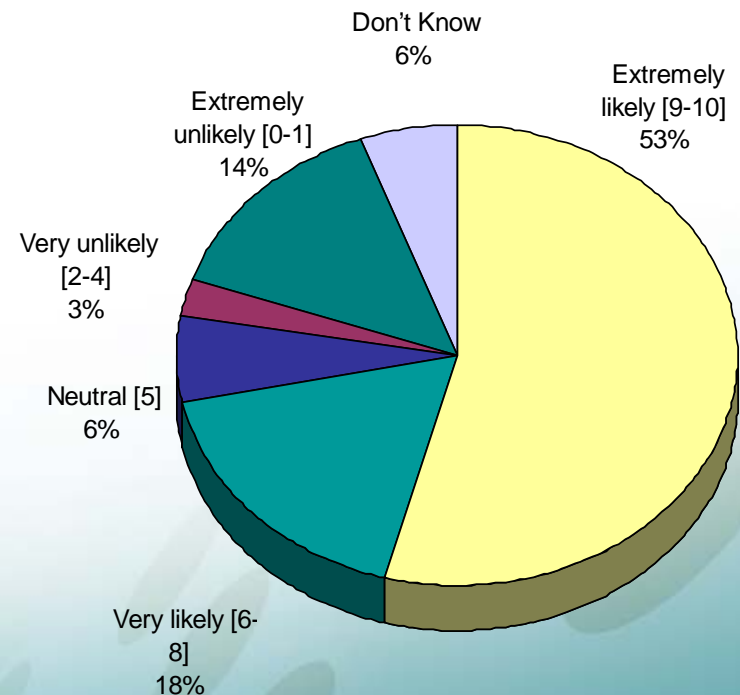
July 27, 2006

For Over 75% Of Respondents, Plans Are Meeting Expectations And Most Respondents Intend To Recommend Their Plan To Others

New Drug Plan Has Met my Expectations



Likelihood to Recommend Current Prescription Plan to Others



Q20. How has your new drug plan performed in meeting your expectations, on a 0 to 10 scale where 0 means much worse than expected and 10 means much better than expected? (n=999)



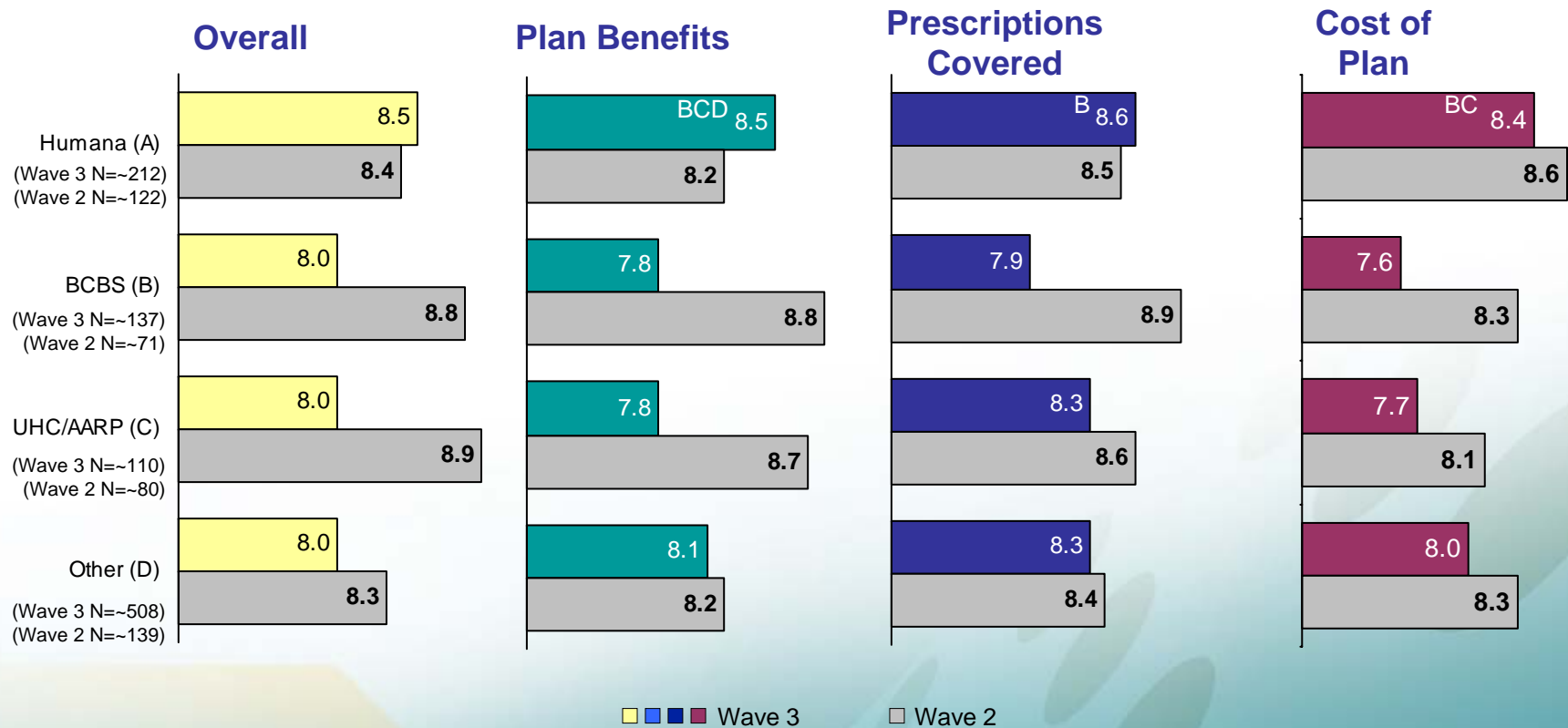
Q21. How likely are you to recommend your current prescription drug plan to a friend or family member, on a 0 to 10 scale where 0 means very unlikely and 10 means very likely? (n=994)

Source: Market Strategies Wave 3 Survey, September 2006.

Copyright © 2006, Gorman Health Group, LLC. Copying, reproducing, or distributing without prior permission is strictly prohibited

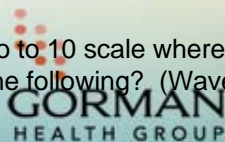
Humana Is Outperforming Other Major Plans

Satisfaction With Prescription Plan Top 3 Plan Providers



Q19, Q22a-c. On a zero to 10 scale where zero means completely dissatisfied and 10 means completely satisfied, how satisfied are you with the following? (Wave 2 questions PSQ1a-d)

A/B/C/D denote significant differences at the 95% confidence level.

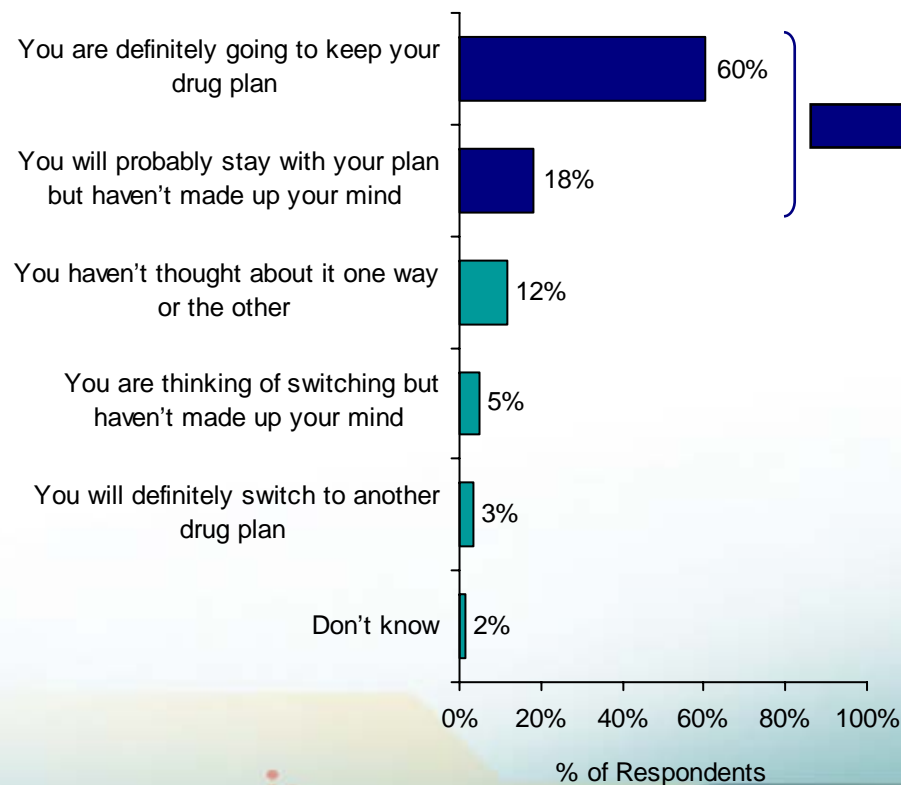


Source: Market Strategies Wave 3 Survey, September 2006.

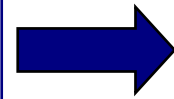
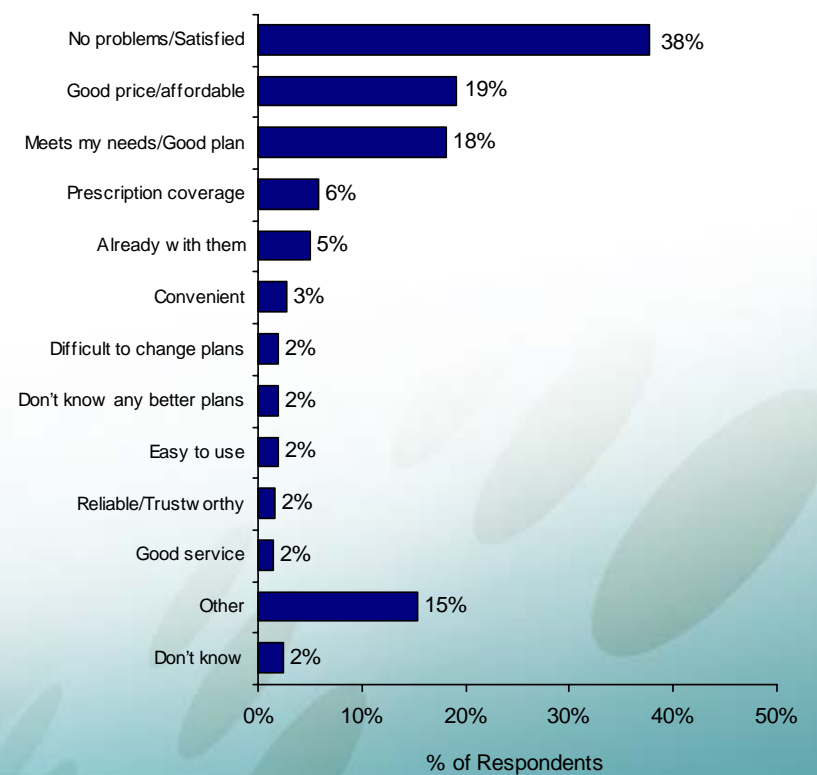
Copyright © 2006, Gorman Health Group, LLC. Copying, reproducing, or distributing without prior permission is strictly prohibited

No Problems, Meeting Needs, And Affordability Are Leading Reasons For Keeping A Plan

Likelihood of Keeping Current Prescription Plan



Reasons for Staying With Current Prescription Plan



Q15. How likely are you to keep your current prescription drug plan? I'm going to read some statements, tell me which one you agree with the most. (n=958)

Q17. Why are you planning to stay with your current drug plan? (n=750)

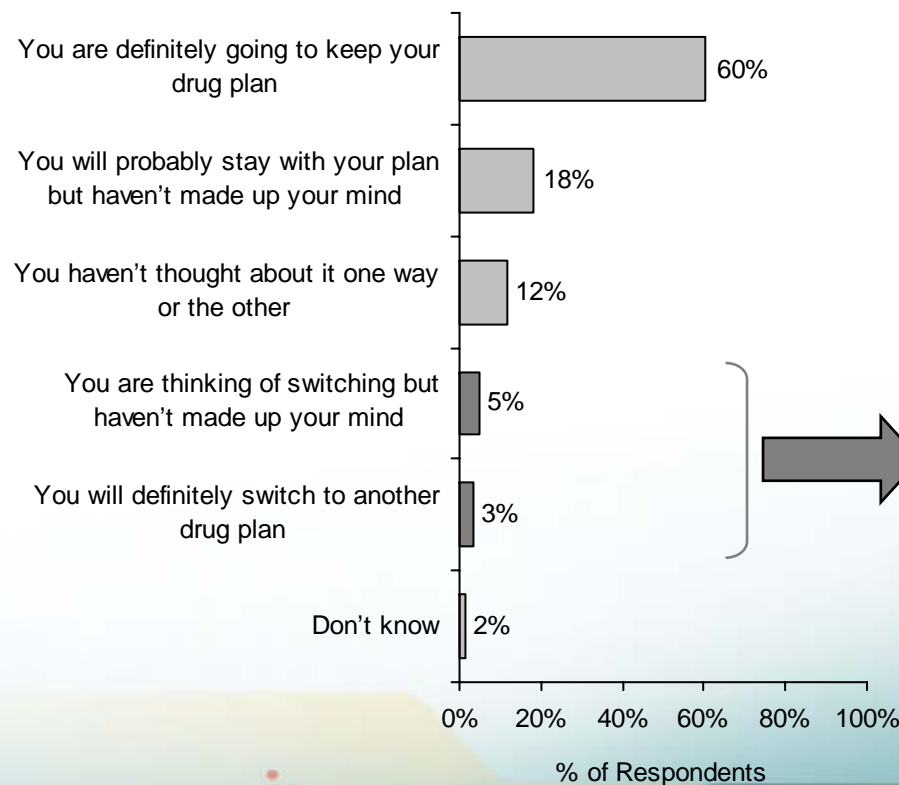


Source: Market Strategies Wave 3 Survey, September 2006.

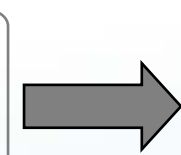
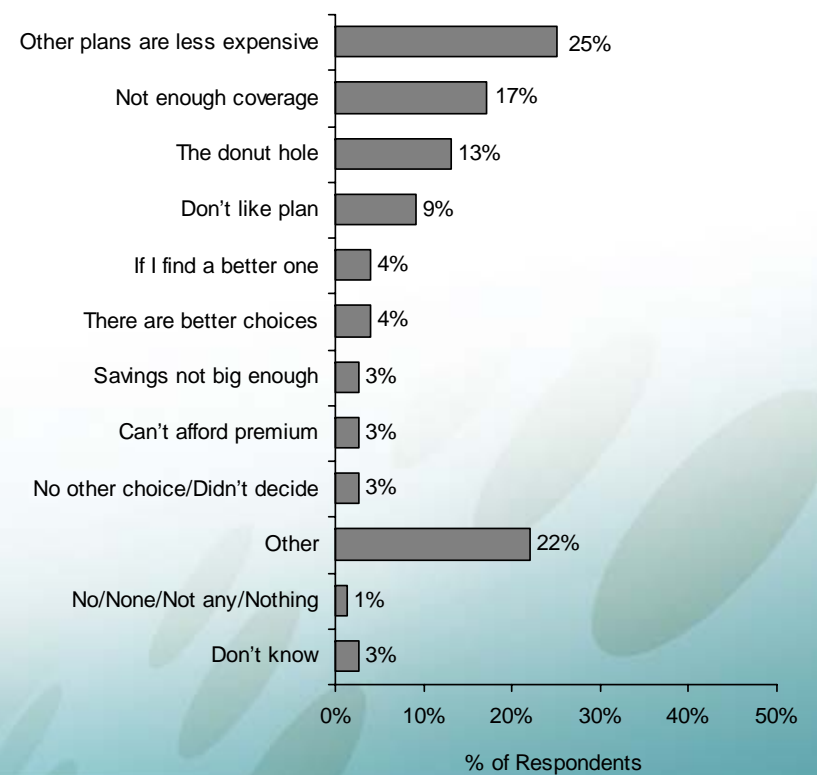
Copyright © 2006, Gorman Health Group, LLC. Copying, reproducing, or distributing without prior permission is strictly prohibited

Affordability, Lack Of Coverage, And Donut Hole Leading Reasons Cited For Discontent

Likelihood of Keeping Current Prescription Plan

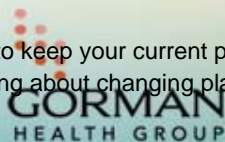


Reasons for Changing Current Prescription Plan



Q15. How likely are you to keep your current prescription drug plan? I'm going to read some statements, tell me which one you agree with the most. (n=958)

Q16. Why are you thinking about changing plans? (n=76)



Source: Market Strategies Wave 3 Survey, September 2006.

Copyright © 2006, Gorman Health Group, LLC. Copying, reproducing, or distributing without prior permission is strictly prohibited

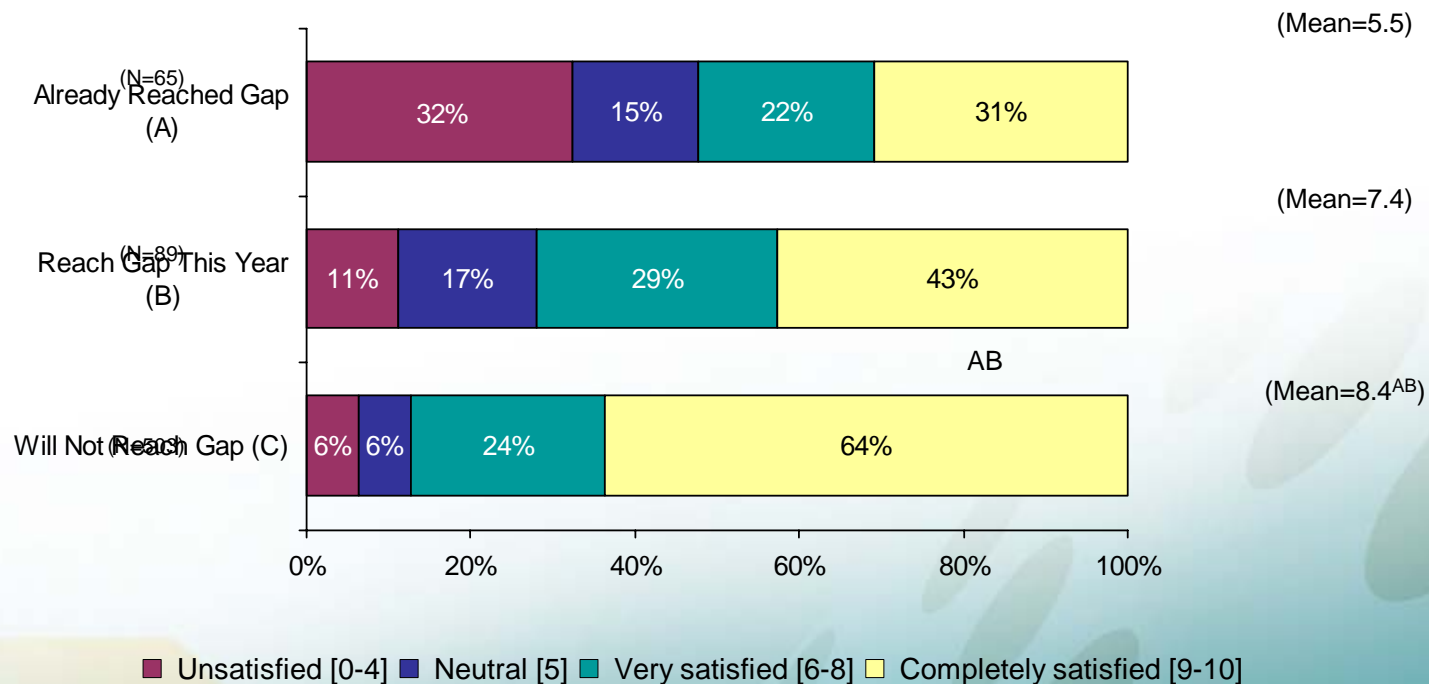
PDP Members in the “Donut Hole” as of July 2006

Percentage of enrollees in stand-alone Medicare PDPs who reached the coverage gap as of June 30, 2006. Sample includes national and regional plans.

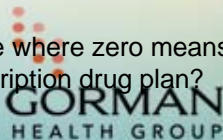
Sponsor	Percent In Coverage Gap	Total Enrollees
UnitedHealth Group	10%	4.5 mil.
Humana	10%	3.5 mil.
MemberHealth	10%-15%	964,300
WellCare	13%	901,000
WellPoint	17%	1.1 mil.
Health Net	18%	288,000
Universal American Financial Corp.	20%	445,000

Respondents Who Hit The Gap Or Expected To Were More Likely To Be Dissatisfied

Satisfaction With Prescription Drug Plan By Coverage Gap Status



Q19. On a 0 to 10 scale where zero means completely dissatisfied and 10 means completely satisfied, how satisfied are you with your prescription drug plan?



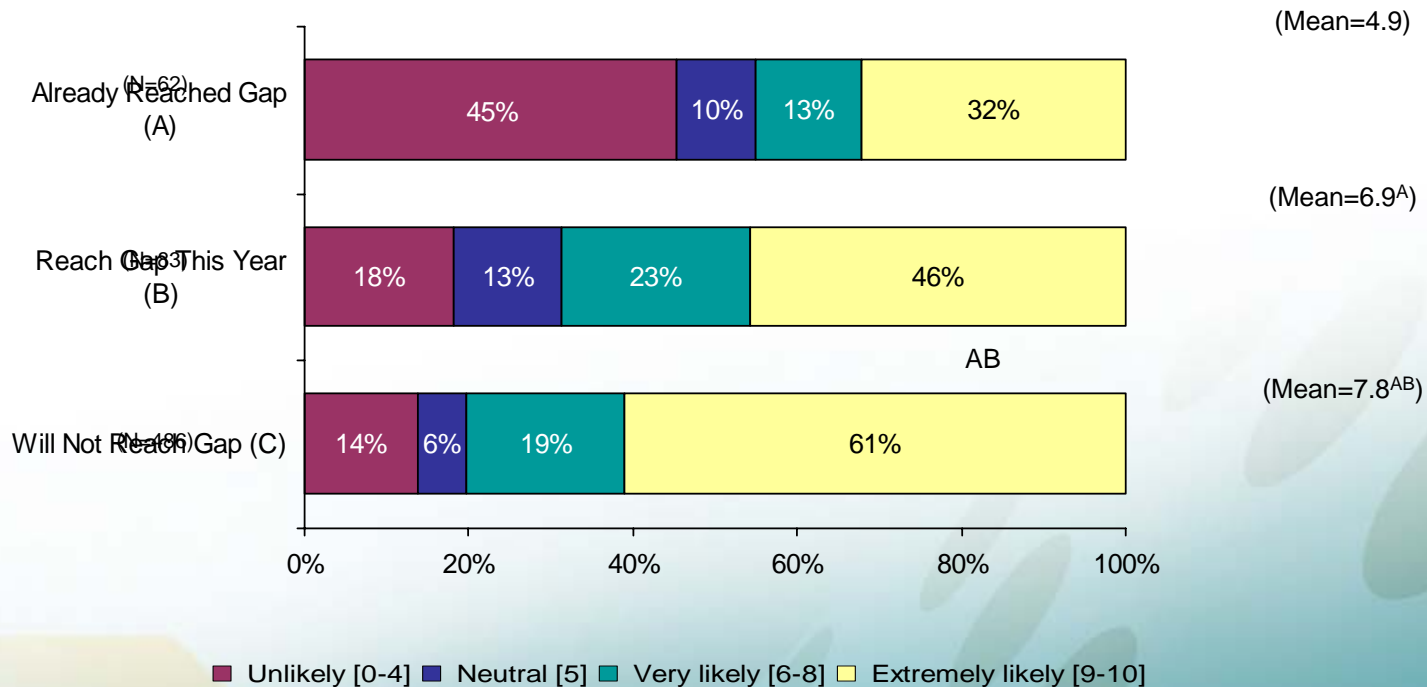
A/B/C/D denote significant differences at the 95% confidence level.

Source: Market Strategies Wave 3 Survey, September 2006.

Copyright © 2006, Gorman Health Group, LLC. Copying, reproducing, or distributing without prior permission is strictly prohibited

Nearly Half Of Those Who Hit The Gap Are Unlikely To Recommend Their Drug Plan

Likelihood to Recommend Drug Plan By Coverage Gap Status



Q21. How likely are you to recommend your prescription drug plan to a friend or family member, on a zero to 10 scale where zero means very unlikely and 10 means very likely?

A/B/C/D denote significant differences at the 95% confidence level.

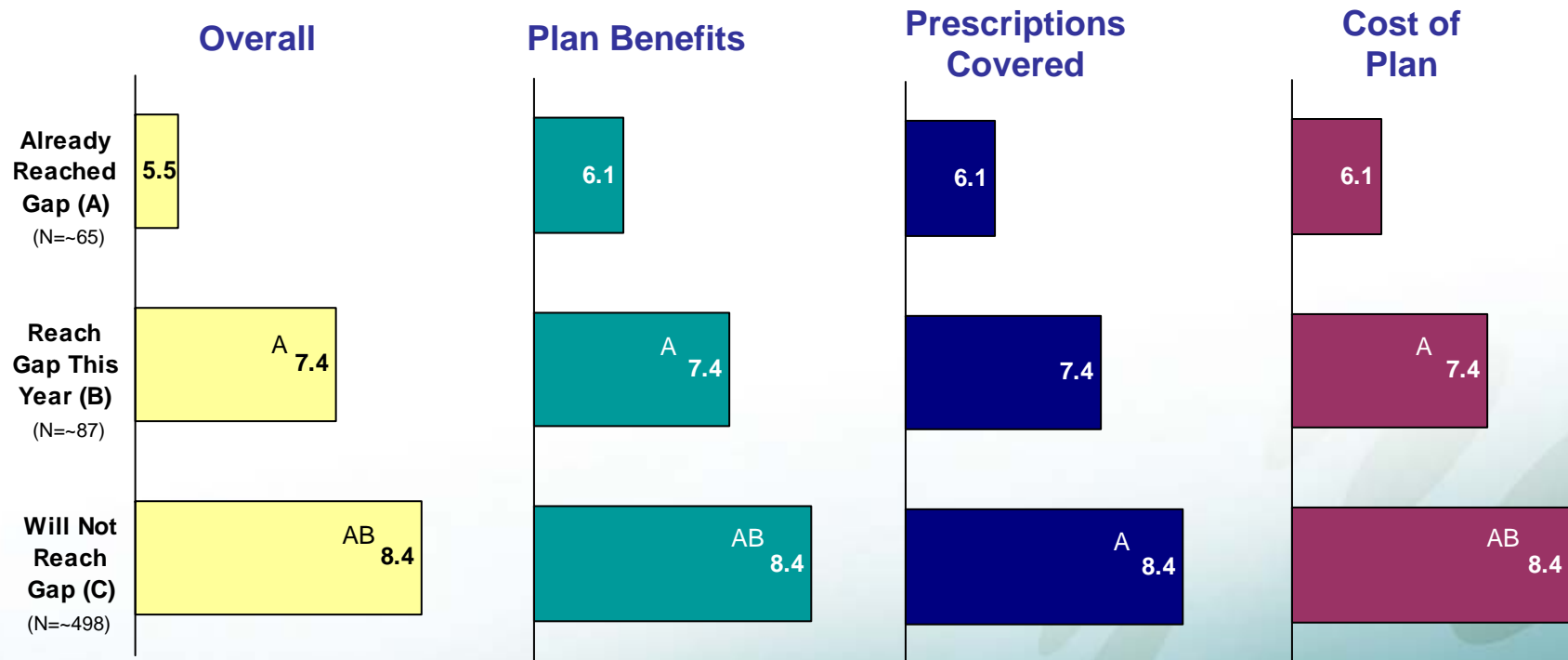


Source: Market Strategies Wave 3 Survey, September 2006.

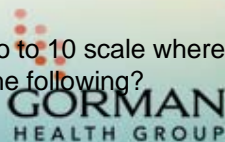
Copyright © 2006, Gorman Health Group, LLC. Copying, reproducing, or distributing without prior permission is strictly prohibited

Experience Reaching The Gap And The Expectation Of Hitting It Impacts Negatively On Multiple Measures Of Satisfaction

Satisfaction With Prescription Plan By Coverage Gap Status



Q19, Q22a-c. On a zero to 10 scale where zero means completely dissatisfied and 10 means completely satisfied, how satisfied are you with the following?



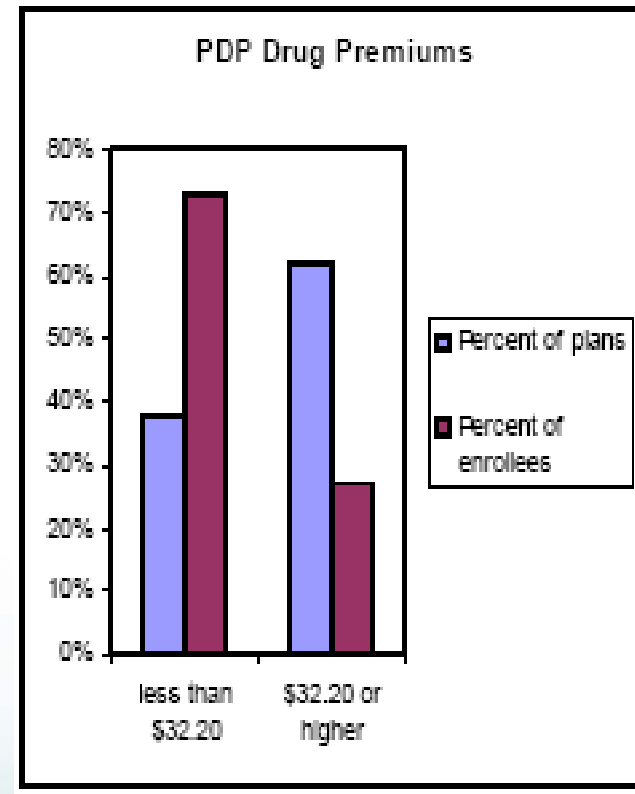
A/B/C/D denote significant differences at the 95% confidence level.

Source: Market Strategies Wave 3 Survey, September 2006.

Copyright © 2006, Gorman Health Group, LLC. Copying, reproducing, or distributing without prior permission is strictly prohibited

Percent of Plans and Enrollees by Premium

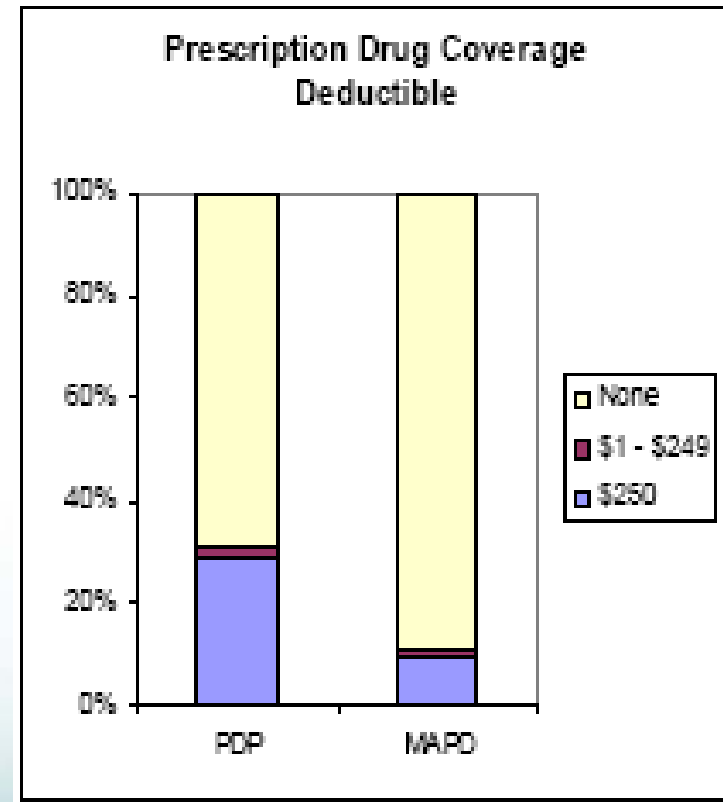
- Premiums:
 - PDPs: \$1.87 - \$104.89
 - Part D portion of the MA-PD total premium: \$0 - \$147.12
- Majority of enrollees chose plans with premiums below national average
 - 38% of PDPs offered plans < \$32.20
 - 73% of enrollees in one of these plans
- Beneficiaries place high priority on premium when selecting a plan



- Note: \$32.20 is the 2006 national average premium, after excluding the full-benefit dual eligible beneficiaries.

Percent of Enrollment by Deductible Amount

- Approx. 69% of PDP and ~90% MA-PD enrollees chose a plan with no Part D deductible
- Only 2% of PDP enrollees selected plans with a deductible between \$1 and \$249
- 29% of enrollment was in plans with a \$250 deductible



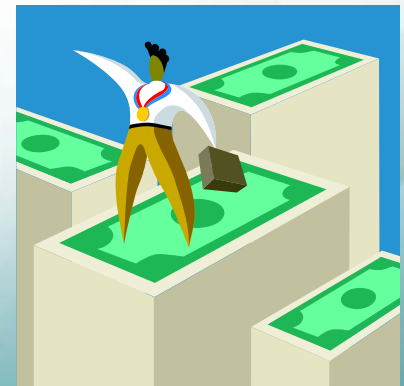
Part D Premiums and Benchmarks for 2006-2007

Competitive bidding is working to hold down costs to beneficiaries and the government...



The Winning Benefit Design for Part D in 2007

- Monthly premium less than \$22
- No deductible
- At least generic coverage through the donut hole
- 3-5 tier formulary
- 13% more compounds on formulary
- ***If benefits/pricing are noncompetitive, must excel at service***



“Execution Risk” Observation #2: This is a Product Design and Service Fight

- Price and coverage are biggest market indicators.
- Donut hole has largest impact on satisfaction and therefore retention.
- Brand doesn’t count for as much as you think it does.
- Beneficiaries equate quality with the absence of problems.
 - Operations that directly “touch” beneficiaries matter – a lot.
 - Sales
 - Enrollment
 - Premium Billing
 - Experience at Point of Service
 - PBM core functions: step therapy, generic substitution, mail order, etc.
 - PAs, Appeals, Grievances, Exceptions
 - Customer Service



Medicare PDPs by Total Enrollment in Parent Organization (as of 9/1/06)

PARENT ORGANIZATION	# ENROLLED (AS OF 9/1/06)	% OF TOTAL (AS OF 9/1/06)	CHANGE IN # ENROLLED (9/1/06 vs. 8/1/06)	CHANGE IN % OF TOTAL (9/1/06 vs. 8/1/06)
UHC – PacifiCare*	4,488,574	27.3%	35,003	-0.3%
Humana Inc.	3,471,864	21.1%	45,678	-0.1%
Wellpoint, Inc.*	1,131,545	6.9%	12,033	Unchanged
Member Health, Inc.*	976,892	5.9%	2,530	-0.1%
WellCare Health Plans, Inc.*	910,930	5.5%	2,883	-0.1%
Coventry Health Care Inc.*	689,512	4.2%	16,364	Unchanged
Universal American Financial Corp.	445,312	2.7%	3,147	Unchanged
Medco Health Solutions, Inc.*	417,295	2.5%	433	-0.1%
Caremark, Inc.*	415,495	2.5%	1,477	-0.1%
Wellmark, Inc.	336,924	2.0%	1,131	-0.1%
Aetna Inc.*	309,818	1.9%	6,821	Unchanged
Health Care Service Corporation	309,330	1.9%	348	Unchanged
Health Net, Inc.	290,202	1.8%	1,189	Unchanged
Longs Drug Stores Corporation	211,427	1.3%	1,304	Unchanged
Torchmark Corporation	197,451	1.2%	-1,517	Unchanged
Sierra Health Services, Inc	183,290	1.1%	939	Unchanged
CIGNA*	181,264	1.1%	-363	Unchanged
QCC Insurance Company	179,202	1.1%	292	Unchanged
Blue Cross Blue Shield of Michigan	167,875	1.0%	-224	Unchanged
Total Other	1,125,041	6.8%	46,391	+0.8%
GRAND TOTAL	16,439,243	100.0%	175,859	

* Indicates national contracts.

- Enrollment as of Sept. 1, 2006 payment; includes 117, 699 enrollees in employer/union only direct contract PDPs.



MA-PDs by Total Enrollment in Parent Organization

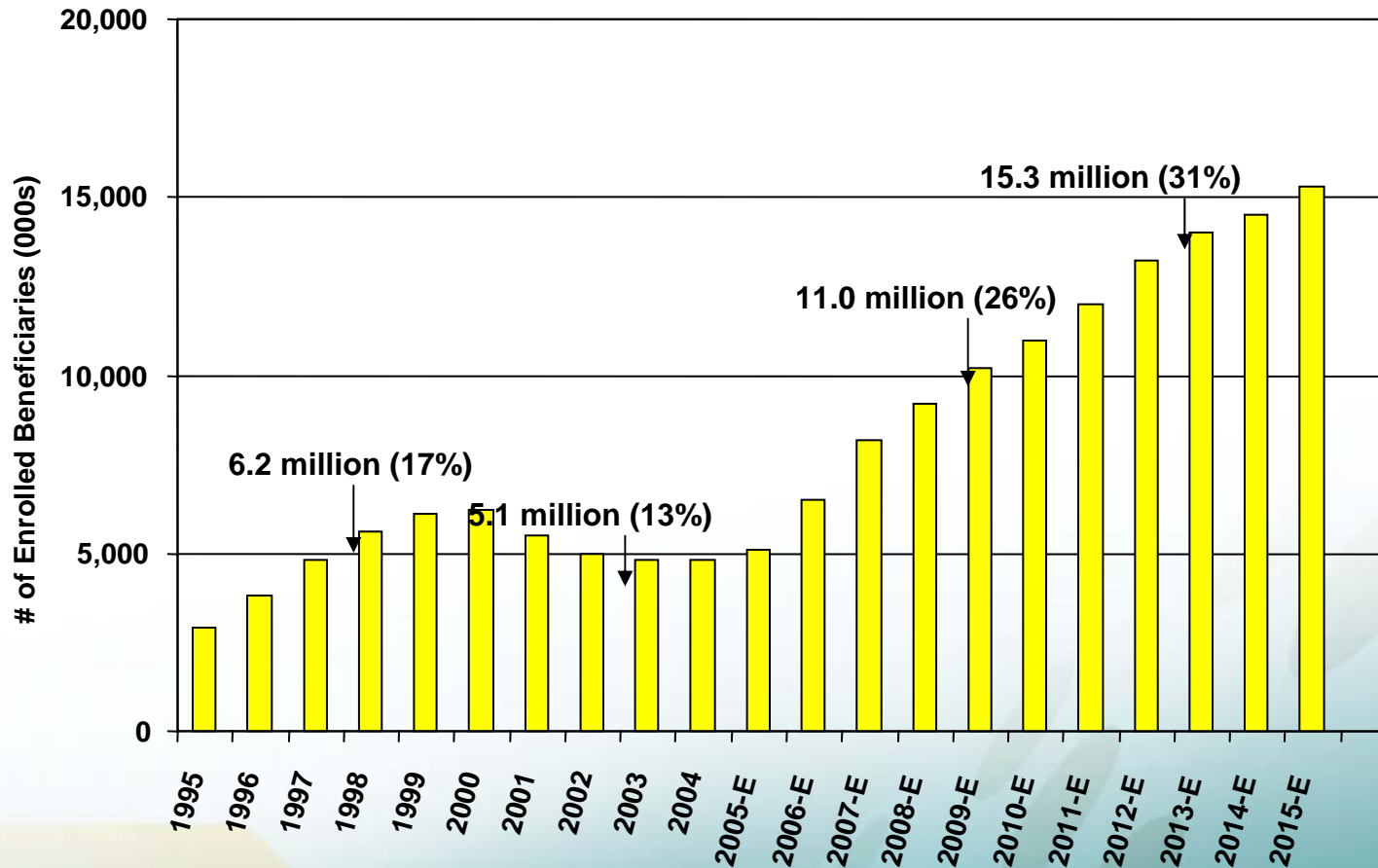
PARENT ORGANIZATION	# ENROLLED	% OF TOTAL
UHC – PacifiCare	1,179,700	20%
Kaiser Permanente	821,500	14%
Humana Inc.	792,500	13%
Highmark, Inc.	226,400	4%
Health Net, Inc.	167,400	3%
Wellpoint, Inc.	133,800	2%
Independence Blue Cross	121,500	2%
HIP, Health Plan of New York	119,800	2%
MMM Healthcare	117,900	2%
Aetna Inc.	99,700	2%
NewQuest Health Solutions, LLC	97,800	2%
SCAN Health Plan, Inc.	83,100	1%
Coventry Health Care Inc.	78,000	1%
WellCare Health Plans Inc.	70,800	1%
Empire HealthChoice Assurance, Inc.	61,400	1%
Total Other	1,752,000	30%
GRAND TOTAL	5,923,300	100%

- Enrollment counts include beneficiaries with May 1, 2006 effective dates
- For MA plans that offer Part D and MA-only options within a contract, the enrollment figure represents total enrollment across all the Part D-offering PDPs
- Enrollees in employer group health plans are included

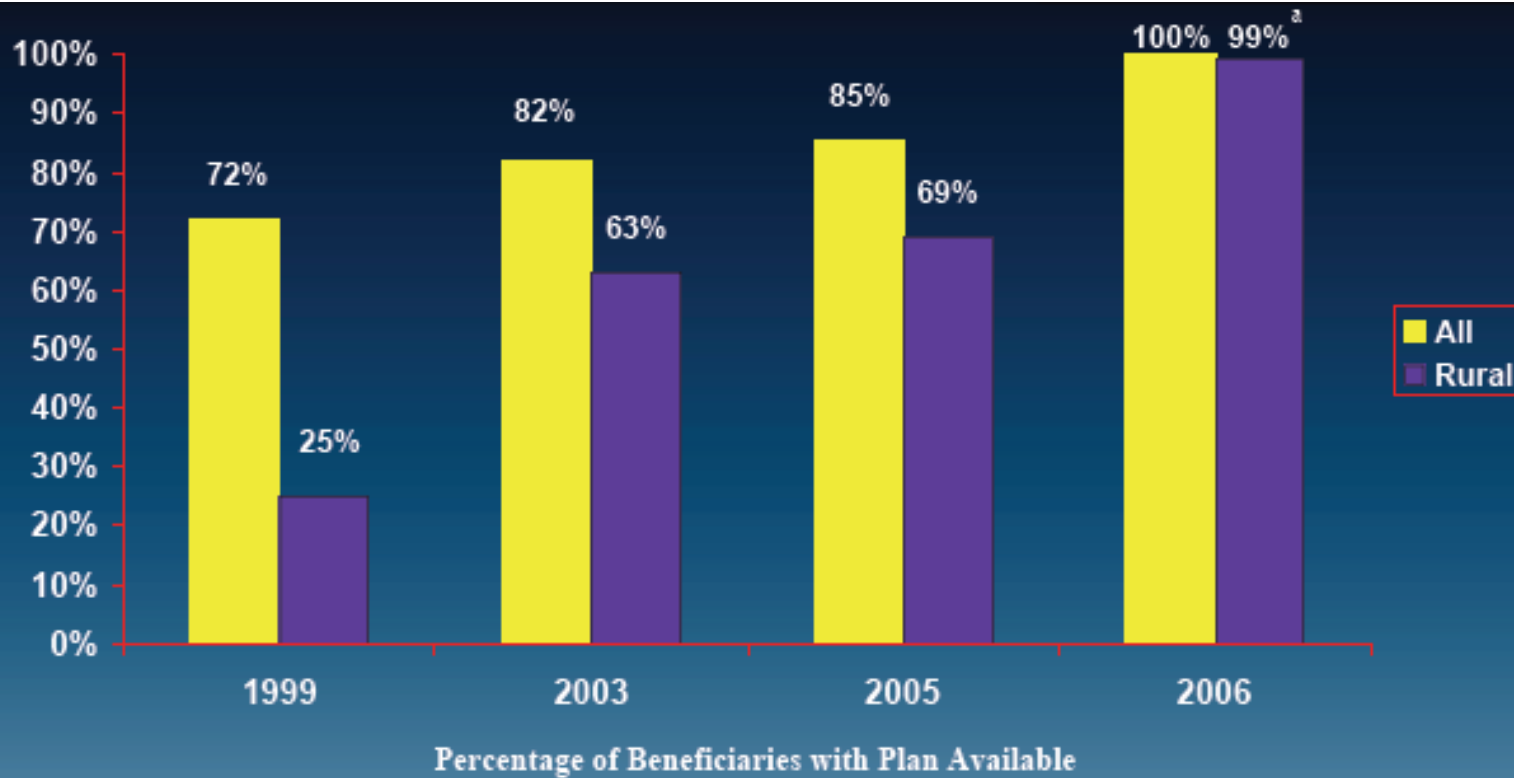


Source: Medicare Part D enrollment data, as of April 27, 2006.

CMS Expects MA Enrollment to Triple



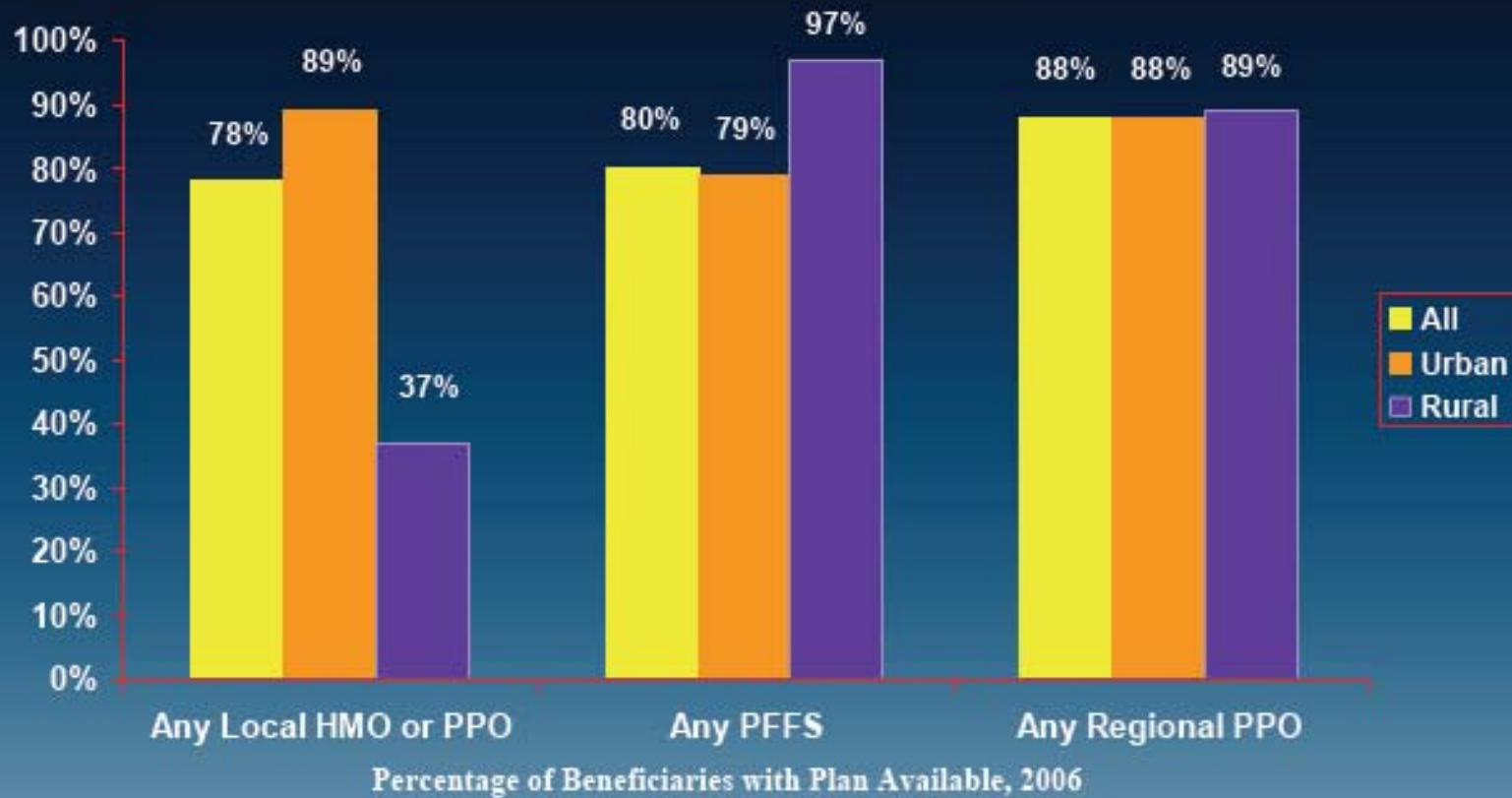
More Beneficiaries Have MA Plans Available



Source: MPR Analysis of CMS Data for The Kaiser Family Foundation for March of each year.

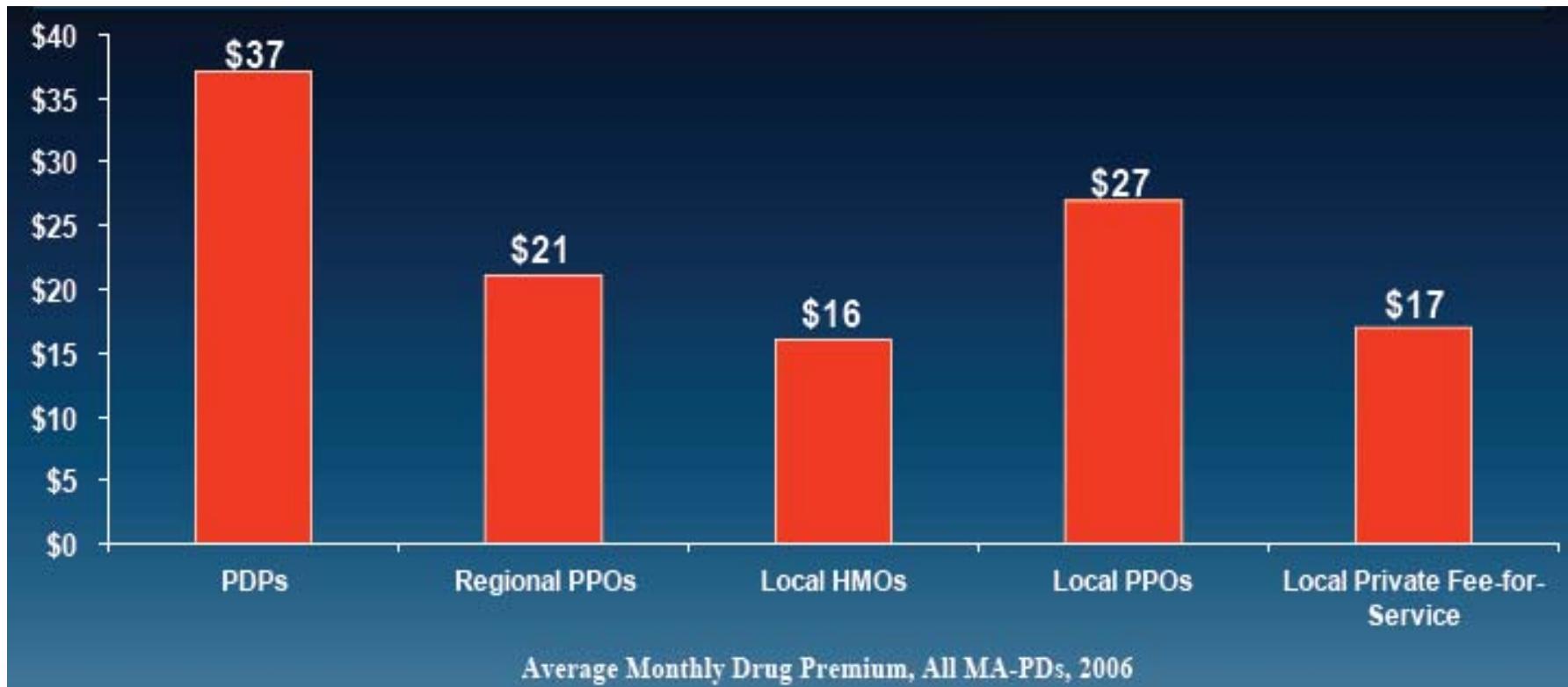
^aExceptions are in Alaska and parts of New England.

Increase in Availability Mostly Due to PFFS, R-PPOs, Especially Rural



Source: MPR Analysis of CMS Data for Kaiser Family Foundation

MA-PDs Offer a Competitive Alternative to PDPs in 2006



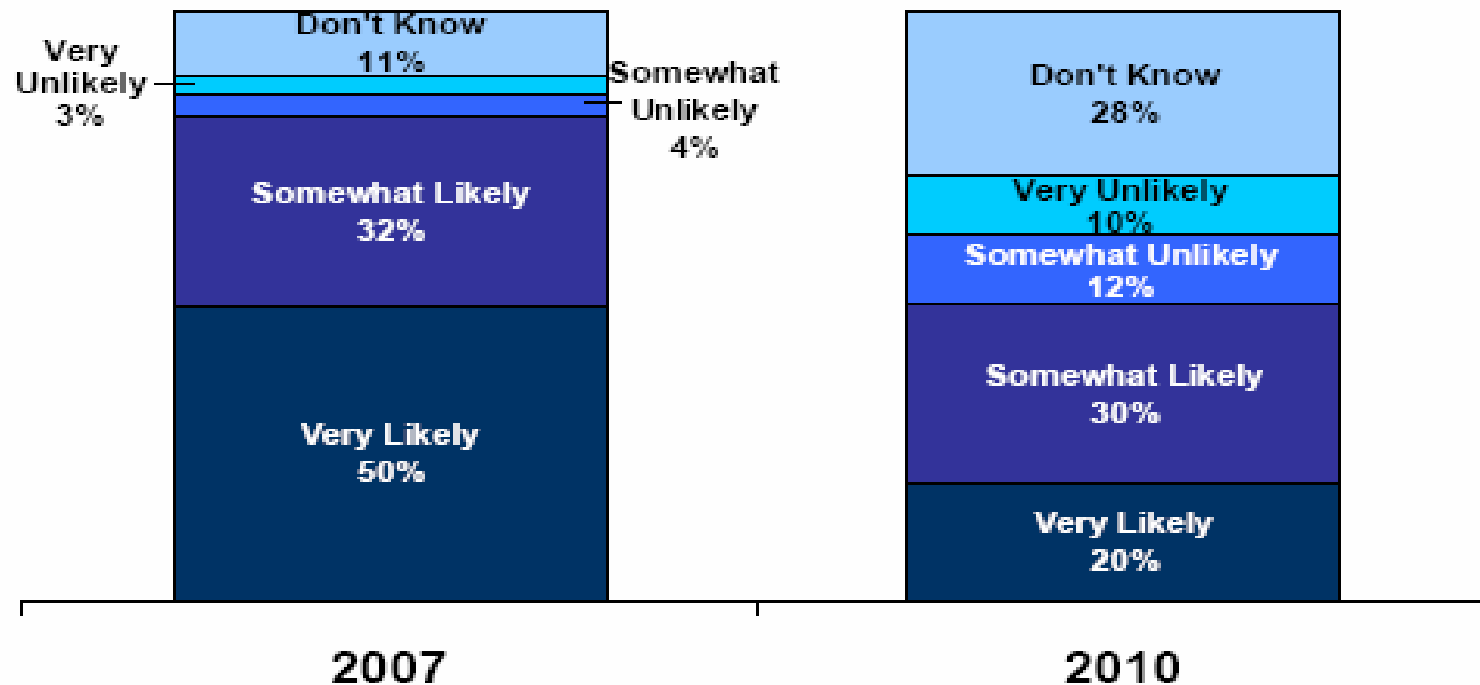
Source: MPR analysis of CMS's November Landscape file for the Kaiser Family Foundation.

Employer Choice - 2007

Exhibit 19

Likelihood of Continuing Drug Benefits and Accepting Employer Subsidy in 2007 and 2010

Among Employers Taking the Subsidy in 2006



Note: Data are for firms maintaining drug benefits and accepting the employer subsidy in 2006. Based on responses from private-sector firms with 1,000 or more employees offering retiree health benefits.
SOURCE: KaiserHewitt 2005 Survey on Retiree Health Benefits, December 2005.

2007 Group Market Expectations

- For 2007 and beyond, expect a shift to Part D, intensifying in 2008
 - 35% of employers plan to eliminate all health benefits for retirees who enrolls in PDPs over next 5 years¹
- Most employers likely to continue taking federal subsidy in 2007; wait another year before deciding whether to try another option²
- Public sector employers, labor unions, and tax exempt/nonprofit organizations will move first
- Employers divided on which saves more \$\$:²
 - 40% chose exiting retiree medical benefits entirely
 - 39% preferred federal subsidy
- *This is the largest source of pure organic growth for Part D plans.*



Sources:

1. Watson Wyatt Worldwide 2006 Survey on Retiree Health Benefits. June 28, 2006.
2. Medco and Caremark reports at Goldman Sachs healthcare conf. June 2006.

“Majors” Influencing Beneficiary Choice in 2006

MA Sponsor	Any Product	R-PPO	HMO	Local PPO	PFFS
All Sponsors	100%	88%	72%	60%	80%
Humana	69%	61%	9%	18%	69%
Kaiser	14% ^a	0%	11%	0%	0%
PacifiCare	48%	0%	16%	0%	39%
United Healthcare	36%	14%	21%	15%	5%
BCBS Affiliate	69%	23%	36%	27%	8%

Percent of Beneficiaries with Product Available, 2006

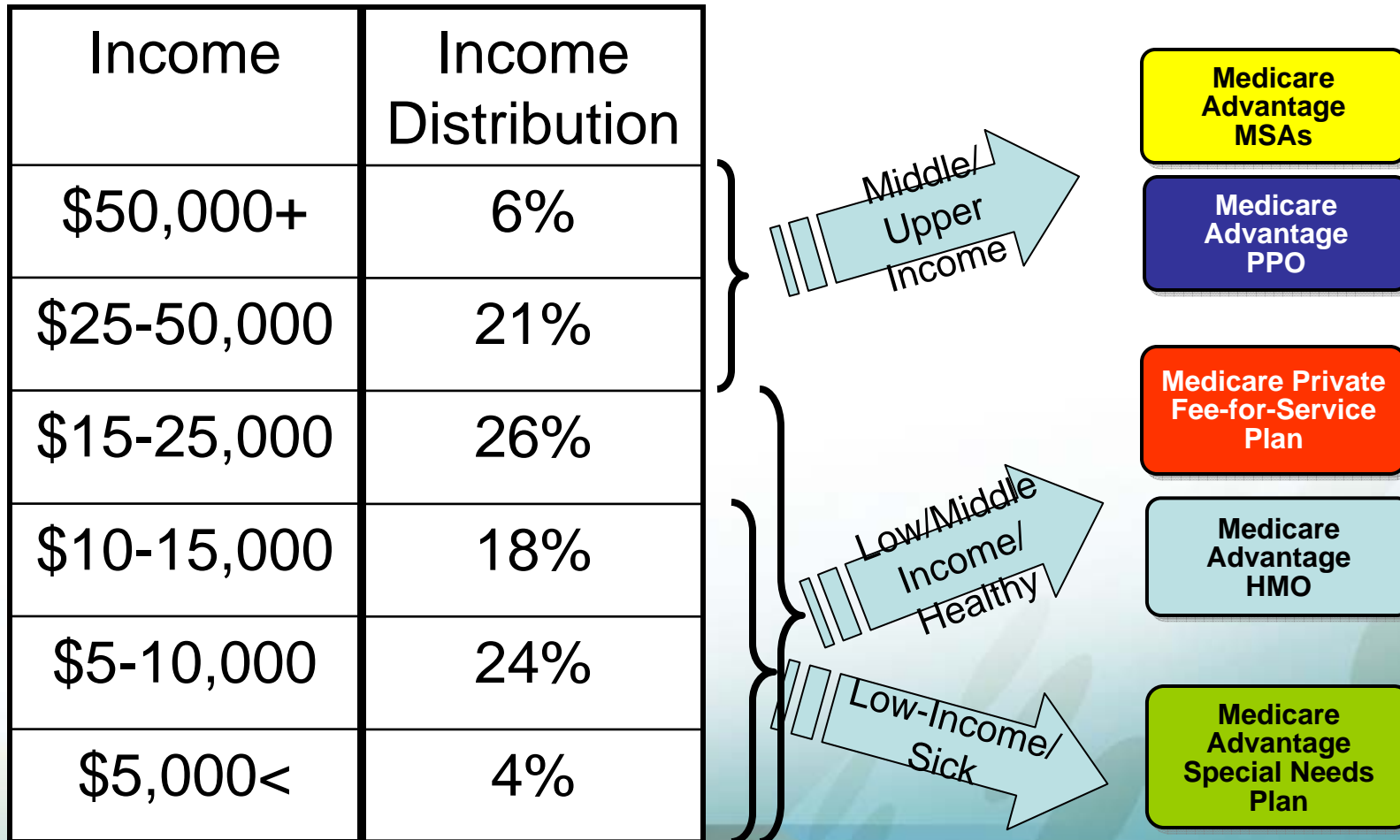
Source: MPR Analysis of CMS's November 2005 Landscape file for The Kaiser Family Foundation.

^aIncludes cost contract enrollees.

The Distribution Channel Factor

- Medicare plans increasingly outsourcing sales and marketing functions to GAs due to “lock-in”
- Agents are making \$60-80 per PDP sale, \$400-500 per MA sale
- By 2008, Part D implementation will be largely complete
- Agents will be looking for next opportunity: rolling Medigap/PDP customers into MAs
- *This “threat” can be a decisive opportunity for Blues organizations, which often have market-leading agent relationships*

The Emerging Segmentation of the Medicare Market



The MSA Landscape for 2007

Plan Name	Key Benefit Design	Service Area
<p>American Progressive – Demo MSA Plan</p>	<ul style="list-style-type: none"> •\$4,000 deductible •\$4,800 OOP Max •20% cost sharing after deductible is met up to OOP max •No optional supplemental benefits offered •Some coverage of preventive services before deductible is met. •Deposit made at the beginning of the year 	<ul style="list-style-type: none"> •States of New York & Pennsylvania for individual market •All 50 states for employer group market
<p>Blue Cross of California - Regular MSA Plan</p>	<ul style="list-style-type: none"> •The following deductibles: \$2,500, \$3,500 and \$4,500 •The employer group product has a deductible of \$4,500 •No cost-sharing after the deductible is met •No optional supplemental benefits offered •No coverage of preventive services before deductible is met •Deposit made at the beginning of the year 	<p>State of California for individual and employer group markets</p>
<p>Unicare Life and Health Insurance - Regular MSA Plan</p>	<ul style="list-style-type: none"> •The following deductibles: \$2,500, \$3,500 and \$4,500 •The employer group product has a deductible of \$4,500 •No cost-sharing after the deductible is met •No optional supplemental benefits offered •No coverage of preventive services before deductible is met •Deposit made at the beginning of the year 	<p>All States except the following for individual and employer group markets: California, Colorado, Georgia, Indiana, Kentucky, Maine, Missouri, Nevada, New Hampshire, Ohio, Virginia, Wisconsin</p>

“Execution Risk” Observation #3: This Ain’t Your Daddy’s Medicare Advantage Program

- Can’t be a one-trick pony in this environment. Segmentation of the market necessitates multiple product portfolio.
- Medigap and PDPs are no longer growth markets.
- Must give supplement (and PDP) purchasers a reason to move...or stay.
 - Better to have migration between product lines than outside of the company.
- Need serious group retiree strategy – groups are leading source of pure organic growth in Medicare now.

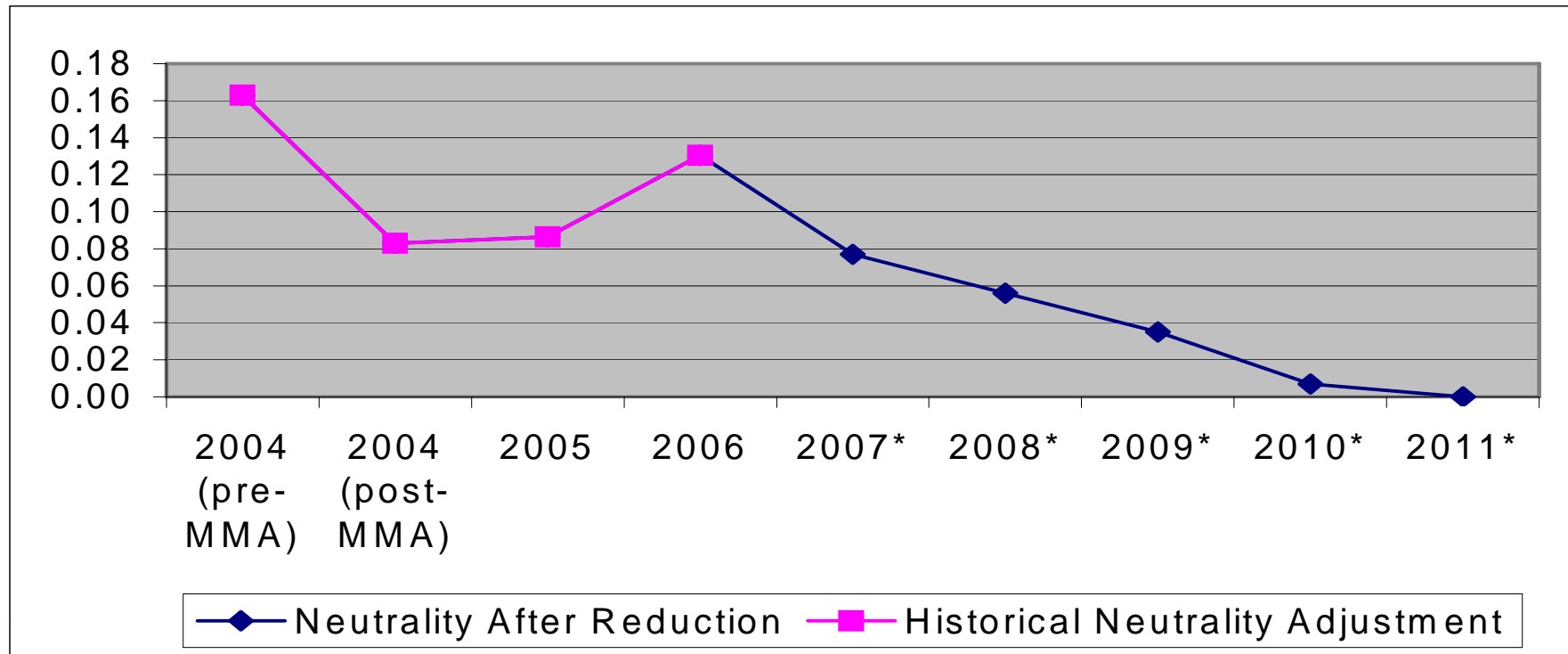


The Road Ahead: Risk Adjustment and Retention



Risk Adjustment is the #1 Strategic Priority for MA Plans...

Phase-Out of the Budget Neutrality Factor in MA Risk Adjustment



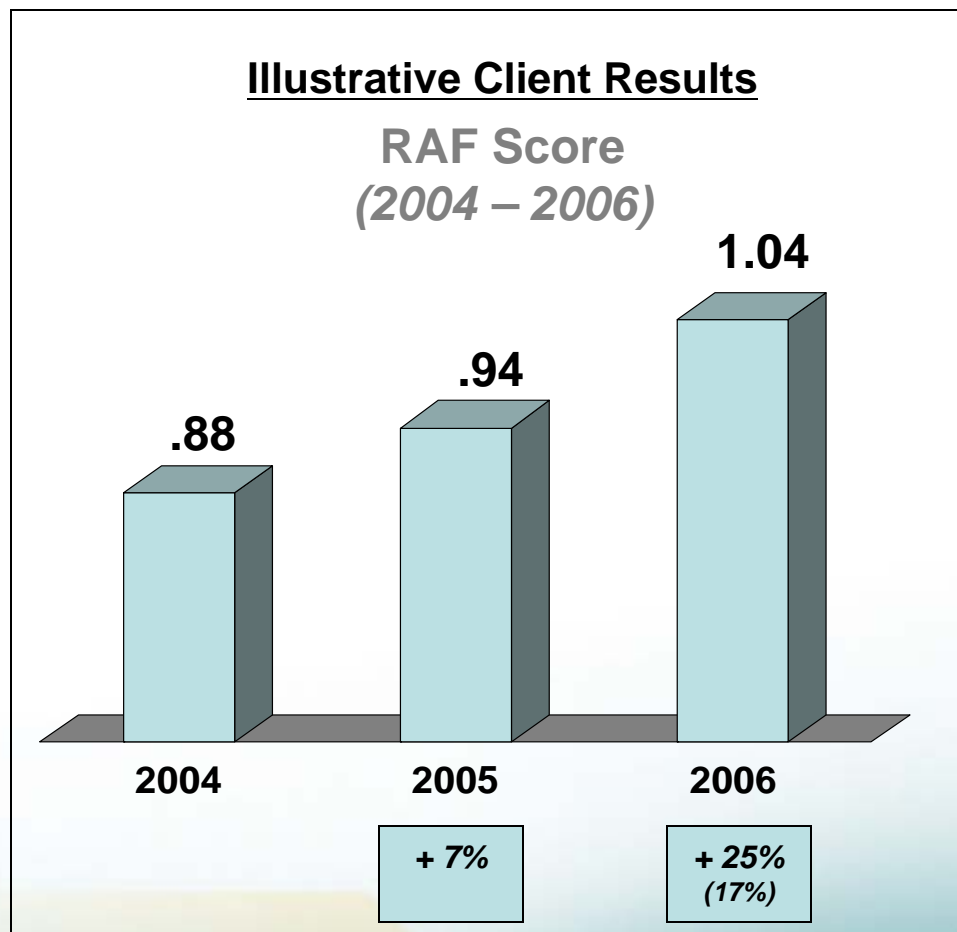
- 55% of value in 2007
- 40% of value in 2008
- 25% of value in 2009
- 5% of value in 2010
- 0% of value in 2011 (**eliminated after 2010**)

Impact vs. 2006 Benchmark

(In constant dollars, assumes no intervention or change in membership composition)

Reduction to BNA	Reduction vs. 2006 Benchmark
2006: -0.0%	0.0%
2007: -45%	-5.2%
2008: -60%	-6.9%
2009: -75%	-8.7%
2010: -95%	-11.0%
2011: -100%	-11.5%

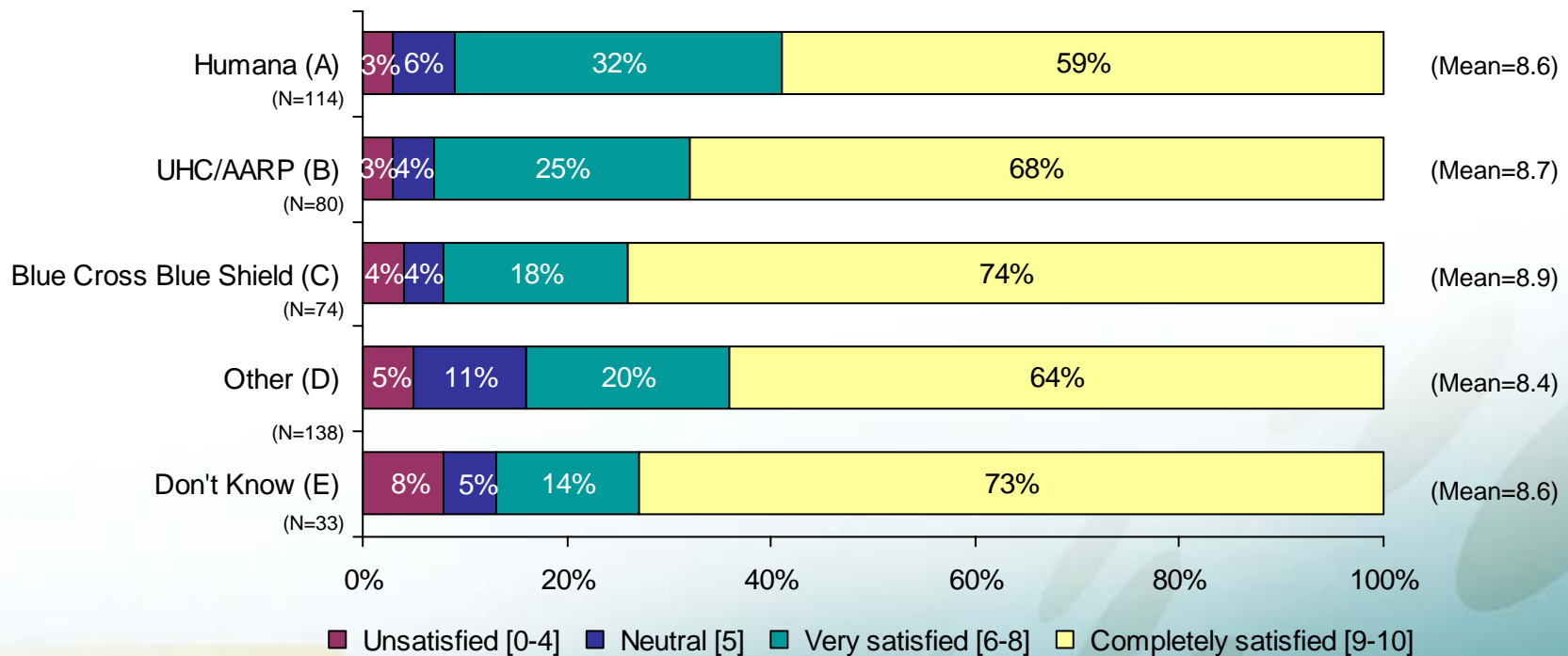
Practical Success Requirements for HCC Management



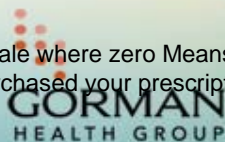
- Retrospective chart reviews to capture un-billed codes captured in chart notes
- Prospective provider education / program development to ensure that high-risk members are:
 - Regularly seen by their PCP
 - Completely evaluated when seen
 - Completely and accurately coded
- Multi-year focus
- Understand that this is a Quality Management program

Beneficiaries in each company seem to be satisfied with the companies they've chosen...even when they don't know who their plan is...

**Satisfaction With Company
Enrolled by Top 3 Plan Providers**



EQ8q. On a zero to 10 scale where zero Means completely dissatisfied and 10 Means completely satisfied, how satisfied are you with the company you purchased your prescription drug plan from?



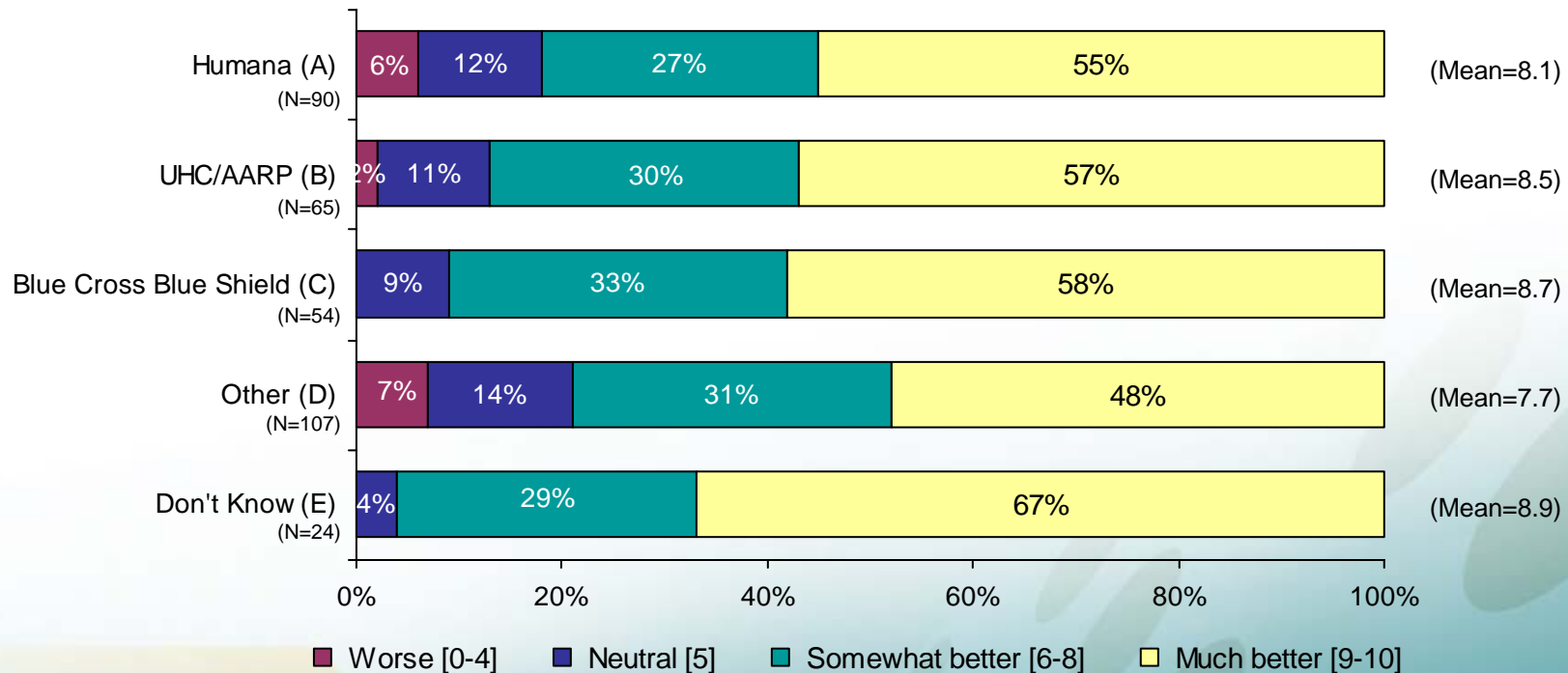
A/B/C/D/E denote significant differences at the 95% confidence level.

Source: Market Strategies Wave 2 Survey, June 2006.

Copyright © 2006, Gorman Health Group, LLC. Copying, reproducing, or distributing without prior permission is strictly prohibited

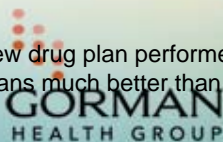
A majority of the enrolled see their company meeting or exceeding their expectations...even when they don't know who their plan is...

New Drug Plan Meeting Expectations Enrolled by Top 3 Plan Providers



RXQ13. How has your new drug plan performed in meeting your expectations, on a zero to 10 scale where zero Means much worse than expected and 10 Means much better than expected?

A/B/C/D/E denote significant differences at the 95% confidence level.



Source: Market Strategies Wave 2 Survey, June 2006.

Copyright © 2006, Gorman Health Group, LLC. Copying, reproducing, or distributing without prior permission is strictly prohibited

Preservation Strategy

*Premium Loss Associated with Member Defection – A Hypothetical Example**

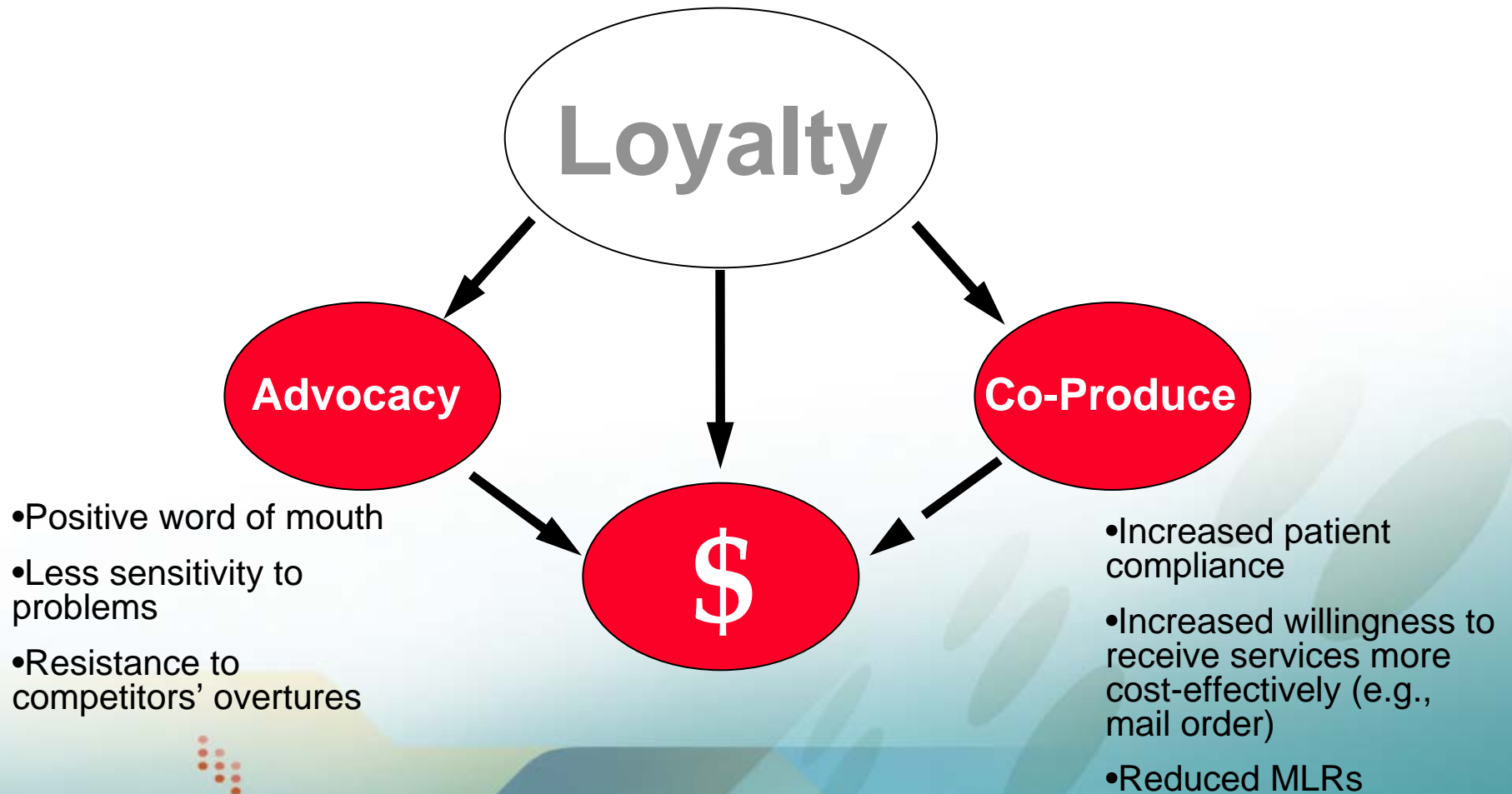
<i>Members</i>	400,000
<i>Member Months</i>	4,800,000
<i>PMPM</i>	\$100
<i>Total Premium Revenue</i>	\$480,000,000
<i>Disenrollment Rate</i>	14%
<i>Cost of Defection</i>	\$67,200,000



*=Does not account for lost acquisition, orientation or connection costs, or intangibles such as negative word of mouth or duress on provider network from churning.

Copyright © 2006, Gorman Health Group, LLC. Copying, reproducing, or distributing without prior permission is strictly prohibited

A Beneficiary Loyalty Construct



Preservation Strategy

- Formulary evaluation
 - Where is the formulary weak vs. competition where membership is greatest?
- VIP customer service
 - Trained, ideally dedicated, customer service reps
 - Scripting
 - Q & A document
 - Proactive vs. reactive
 - Emphasis on “whole member”, e.g., assistance with social support programs
 - Pays for itself via reduced 800 number volume

Our Conclusions: “Execution Risk” Going Forward

- Sales and Marketing

- **Compressed selling season**
- **Blitz begins October 1**
- **Most sales will be “steals”**
- **New CMS enrollment policy**
- **Environment ripe for abuses**

- Service Model/Retention

- **Service central to retention**
- **Brand not counting for much**

- Benefit Design

- **Majors trade share for margin**
- **Premiums will jump in 2008**
- **Emphasis on multi-products**

- Revenue Management

- **HCCs #1 priority for MAOs**
- **Enrollment clean-up**
- **Part D reconciliations**

- Cost Management

- **Part C: complex case mgt.**
- **Part D: generics, specialty Rx**

- Compliance

- **CMS grace period is over**
- **Audits begin Q4**

- Consolidation

- **Shakeout begins Q2 2007**

Strategic Considerations

- Risk adjustment in Medicare Advantage goes to 100% in 2007.
- De facto cuts to MA reimbursements in 2007; abates somewhat in 2008.
- Movement into Special Needs Plans
- Movement of Employer Group Retirees to Medicare Part D begins in 2007
 - Unions, nonprofits, & public sector employers will lead the way
- Moratorium on Local PPOs lifted in 2008
- MSAs coming to Medicare in 2007
- Late entrants arriving as industry begins consolidating.



Keys to Long-Term Viability of MA-PDs

- Revenue management:
 - Sales execution in compressed open enrollment environment
 - Risk adjustment goes to 100% in 2007
 - MA-PDs leaving \$80-120 PMPM on table in 2006
 - Raising risk scores is only offset against reimbursement reductions
 - Enrollment and Prescription Drug Event reconciliations
- Cost management:
 - MLRs: Complex case management capability
 - S&GA:
 - “virtual health plan”: outsource to specialty vendors
 - Leverage commercial/Medigap distribution networks, provider marketing
 - Member retention: 5-7x cheaper to retain than replace
 - Drug benefit management, especially generic substitution, mail order, specialty pharma

Applications for 2008: Process and Timelines

- **Financial feasibility analysis**
- **Focus groups to test the benefit design for the products with beneficiaries, providers, and brokers;**
- **Operations assessment and gap analysis of current operations vs. product business and compliance requirements;**
- **Decision meeting on product benefit design and business plan development**
- **Notice of Intent to CMS December 1, 2006**
- **Applications submitted March 2007**
- **Formulary applications (if applicable) mid-April 2007**
- **Bids by June 4, 2007**
- **Marketing begins October 2007**

How to Reach Us

Gorman Health Group, LLC

www.gormanhealthgroup.com

2176 Wisconsin Avenue, N.W.,
Washington, D.C. 20007

Phone: 202.364.8283

jgorman@gormanhealthgroup.com

