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### MEMORANDUM

TO: All Part D Plan Sponsors

FROM: Gary Bailey, Deputy Director

RE: Plan-to-Plan Reconciliation

DATE: March 31, 2006

In an effort to reimburse Medicare prescription drug plans for drug costs incurred on behalf of Medicare beneficiaries who may have switched plans or otherwise may not have been appropriately enrolled in a plan during the first days of the program, CMS today is implementing a temporary reconciliation process.

Working closely with representatives from pharmacies, Part D plan sponsors, industry trade associations and the National Council for Prescription Drug Programs, CMS has developed a process for plan-to-plan reconciliation that will temporarily replace the current industry re-adjudication processes. This reconciliation process will involve the following steps:

1. Transfer-Out plans (the plans from which the beneficiary disenrolled) will submit event level reconciliation Prescription Drug Event (PDE) records to CMS to document the services provided to affected beneficiaries.
2. CMS's Drug Data Processing System (DDPS) will process the files performing receipt, control and record-level editing, and return a PDE response file to the submitting plan with the results of the processing.
3. DDPS will send Monthly Summary Reports on these transactions to both Transfer-Out and Transfer-In plans (the plans that end up with the beneficiary enrollment for the period) reporting summary amounts that can be used to identify amounts owed to Transfer-In plans.
4. Transfer-In plans will be required to coordinate benefits with Transfer-Out plans through this process under requirements established by CMS in accordance with section 423.464(a), and to make payments to Transfer-Out plans on the basis of the covered-plan-paid and low-income cost-sharing subsidy amounts reported on the DDPS Monthly Summary Reports with respect to transferred enrollees.
5. The alignment of the plan-to-plan reconciliation process with plan formulary transition periods ensures that all drug costs included in the Summary Reports are for covered Part D drugs with respect to each Transfer-In plan.

6. The dollar amounts on the Summary PDEs will be used in the year-end reconciliation calculations for the Transfer-In plan. The dollar amounts on the Summary PDEs will be used in the year-end reconciliation calculations for the Transfer-In plan. All reimbursements and any drug rebates received by the Transfer-Out plan will be reported by that plan as an offset to its allowable costs during the coverage year reconciliation process.

CMS is currently processing the identification of affected beneficiaries and notifying the Transfer-Out and Transfer-In plans. CMS should begin receiving and processing the reconciliation PDEs this summer once required systems changes are made and complete instructions to plans have been issued. In the meantime, through this CMS-mandated reconciliation process, Transfer-Out plans (including the Point-of-Sale Facilitated Enrollment Contractor) are assured of receiving reimbursement for covered services erroneously paid for affected beneficiaries and Transfer-In plans are on notice of potential outstanding incurred but not reported liabilities owed Transfer Out plans.

If you have any questions about this issue, please contact your account manager. Thank you for your continued assistance with the implementation of the Part D benefit.