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Center for Beneficiary Choices
Medicare Plan Payment Group

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To: All Part D Plan Sponsors

From: Tom Hutchinson, Director
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Subject: Reporting Estimated Rebates Applied to the Point-of-Sale Price

Per section 1860D-2(d)(1)(B) of the Medicare Modernization Act and 42 CFR 423.100, the negotiated prices made available to Part D beneficiaries at the point of sale shall take into account negotiated price concessions for covered Part D drugs such as discounts and rebates which the Part D sponsor has elected to pass through to their enrollees at the point of sale, as well as any applicable dispensing fees. While several Part D sponsors include discounts in the negotiated prices made available to their enrollees in order to reduce beneficiary cost sharing, they are often unable to pass actual rebates through to their enrollees at the point of sale because rebates from drug manufacturers are typically awarded retrospectively based on market share or utilization. For this reason, Part D sponsors, who choose to make rebates available to their beneficiaries at the point of sale, may elect to apply a reasonable estimate of expected rebates, referred to as estimated rebates, to the negotiated price at the point of sale. Please note that Part D sponsors are not required to apply rebates or an estimate of expected rebates to the negotiated price at the point of sale. This guidance is only applicable for those Part D sponsors who elect to pass rebates through to their Part D enrollees at the point of sale.

As defined in 42 CFR 423.100, negotiated prices are “prices for covered Part D drugs” that “[a]re available to beneficiaries at the point of sale at network pharmacies” and that “[a]re reduced by those discounts, ... rebates, ...and direct or indirect remunerations that the Part D sponsor has elected to pass through to Part D enrollees at the point of sale” and “[i]nclude[] any dispensing fees.” Rebates which Part D sponsors elect to pass through to beneficiaries at the point of sale serve to reduce the negotiated price and, thus, the gross drug cost reported to CMS. Part D sponsors must use the reduced negotiated price to administer their plan(s). Specifically, the reduced negotiated price and gross drug cost must be used consistently to (i) calculate beneficiary cost-sharing, (ii) accumulate gross covered drug costs and advance the beneficiary through the benefit, (iii) calculate true out-of-pocket costs (TrOOP), (iv) report drug costs on the PDE record, (v) determine the low-income cost sharing subsidy amounts reported to CMS, and (vi) develop the Part D bid. Thus, any rebates applied at the point of sale reduce both plan liability and

beneficiary cost sharing by reducing the negotiated price used to administer the prescription drug benefit.

To ensure that the Prescription Drug Event (PDE) record accurately reflects the gross drug costs used to administer the prescription drug benefit, CMS is adding a new field to the PDE record for contract year 2008. Beginning in contract year 2008, Part D sponsors, who elect to pass estimated rebates through to their Part D enrollees at the point of sale, will be required to report these estimated rebates in a new field, "Estimated Rebate at POS". The addition of this field to the PDE record will help to ensure that the estimated rebates applied to the point of sale price are used appropriately to reduce the negotiated price, plan liability, and beneficiary cost sharing. Provided below is additional guidance regarding the reporting of these estimated rebates.

Coverage Year 2008 and Forward

Starting in contract year 2008, Part D sponsors must report the amount of any estimated rebates, which they have elected to apply at the point of sale to CMS in the Estimated Rebate at POS field. In addition, the gross drug cost reported to CMS on the PDE record must be net of the estimated rebates applied to the point-of-sale price. Specifically, these estimated rebates must be used to reduce all five cost fields: "Ingredient Cost", "Dispensing Fee Paid", "Amount Attributed to Sales Tax", "Gross Drug Cost Below the Out-of-Pocket Threshold"(GDCB) and Gross Drug Cost Above the Out-of-Pocket Threshold"(GDCA). The Part D sponsor must first use the estimated rebates applied at the point of sale to reduce the ingredient cost reported to CMS. If the estimated rebates applied to the point-of-sale price are greater than the total ingredient cost, any remaining estimated rebates must then be used to reduce the dispensing fee next and then finally the sales tax. The payments made by or on behalf of the beneficiary and plan paid amounts reported to CMS on the PDE record must be based on the reduced negotiated price and reflect the cost sharing established in the Plan Benefit Package (PBP). The examples provided below demonstrate how estimated rebates applied to the point-of-sale price should be reported to CMS on the PDE records.

For payment reconciliation, Part D sponsors will be required to report all applicable rebates for covered Part D drugs on the DIR Report for Payment Reconciliation, including the actual rebate amounts for the rebates which were estimated and applied at the point of sale. When determining the appropriate DIR amount for the calculation of allowable reinsurance costs and adjusted allowable risk corridor costs, CMS will subtract the amounts reported in the Estimated Rebate at POS field for covered Part D drugs from the total DIR amount (for covered Part D drugs) reported on the DIR Report For Payment Reconciliation. This will capture any difference between the estimated rebates and the actual rebates and ensure that only price concessions which were not already included in the gross covered drug costs reported to CMS are included in the DIR amount used to calculate allowable reinsurance costs and adjusted allowable risk corridor costs.

Coverage years 2006 and 2007

As stated previously, Part D sponsors who elect to apply estimated rebates to the point-of-sale price must use the negotiated price net of the estimated rebates to administer the

Part D benefit and calculate beneficiary cost sharing. However, for coverage years 2006 and 2007, Part D sponsors are required to report the gross drug cost prior to the application of these estimated rebate amounts on the PDE record instead of the gross drug cost net of these estimated rebates. Specifically, the gross drugs costs reported in the “Ingredient Cost Paid, Dispensing Fee Paid,” “Amount Attributed to Sales Tax,” “Gross Drug Cost Above the Out-of-Pocket Threshold (GDCA),” and “Gross Drug Cost Below the Out-of-Pocket Threshold (GDCB)” fields must be based on the gross drug costs prior to the application of any estimated rebates. Since there is no separate field on the PDE record for estimated rebates in contract years 2006 and 2007, Part D sponsors are required to report any estimated rebates applied to the negotiated price at the point of sale in either the Covered D Plan Paid Amount (CPP) field for covered Part D drugs or the Non-covered Plan Paid Amount (NPP) field for non-Part D covered drugs. For payment reconciliation, Part D sponsors will be required to report all applicable rebates for covered Part D drugs on the DIR Report for Payment Reconciliation including the actual rebate amounts for the rebates which were estimated and applied at the point of sale. The examples provided below demonstrate how estimated rebates applied at point of sale should be reported to CMS on PDE records for contract years 2006 and 2007.

Example 1:

A Part D beneficiary is enrolled in a defined standard plan and has year-to-date gross covered drug costs of \$1,000. The beneficiary is not eligible for the low-income subsidy and does not have additional prescription drug coverage through a third-party. The beneficiary purchases a covered Part D drug with a drug cost of \$150 (\$140 ingredient cost and \$10 dispensing fee). The Part D sponsor chooses to apply an estimated rebate of \$50 to the point-of-sale price. The actual rebate amount received by the Part D sponsor at the end of the coverage year is \$60 for this claim. The table below illustrates how the Part D sponsor would populate the following eight data elements on the PDE record for coverage years 2007 and 2008.

PDE Field Values for Example 1

| PDE Field | Amount Reported for Coverage Year 2007 | Amount Reported for Coverage Year 2008 |
|------------------------------|---|---|
| Ingredient Cost Paid | \$140 | \$90 |
| Dispensing Fee Paid | \$10 | \$10 |
| GDCB | \$150 | \$100 |
| GDCA | 0 | 0 |
| Patient Pay Amount | \$25 | \$25 |
| Covered D Plan Paid Amount | \$125 | \$75 |
| Non-Covered Plan Paid Amount | 0 | 0 |
| Estimated Rebate at POS | N/A | \$50 |

For both coverage years 2007 and 2008, the Part D sponsor uses a reduced negotiated price of \$100 (\$150- \$50 estimated rebate amount) to determine beneficiary cost sharing. However, the gross drug costs reported for coverage year 2007 are the drug costs prior to the application of the estimated rebates (\$150) and the gross drug costs reported for

coverage year 2008 will be net of the estimated rebates (\$100). Since this beneficiary is in the initial coverage period, the beneficiary pays 25% of the negotiated price (\$25) and the plan is responsible for 75% of the negotiated price (\$75) in both coverage years. For coverage year 2007, the Covered D Plan Paid Amount field includes both the \$75 plan liability and the estimated rebate amount (\$50) applied at the point-of-sale. However, for coverage year 2008, only the \$75 plan liability is included in the Covered D Plan Paid Amount field. The \$50 estimated rebate amount is reported in the Estimated Rebate at POS field instead. In both coverage years, the Part D sponsor reports the actual rebate amount of \$60 on the DIR Report for Payment Reconciliation.

Example 2:

A Part D beneficiary is enrolled in a defined standard plan, is not eligible for the low-income subsidy, and has year-to-date gross covered drug costs of \$2,600. The beneficiary does not have prescription drug coverage through a third-party. The beneficiary purchases a covered Part D drug with a drug cost of \$35 (\$20 ingredient cost, \$10 dispensing fee, and \$5 sales tax). The Part D sponsor chooses to apply an estimated rebate of \$25 at the point of sale. The actual rebate amount received by the Part D sponsor at the end of the year is \$20 for this claim. The table below illustrates how the Part D sponsor would populate the following nine data elements on the PDE for coverage years 2007 and 2008.

PDE Field Values for Example 2

| PDE Field | Amount Reported for Coverage Year 2007 | Amount Reported for Coverage Year 2008 |
|--------------------------------|---|---|
| Ingredient Cost Paid | \$20 | \$0 |
| Dispensing Fee Paid | \$10 | \$5 |
| Amount Attributed to Sales Tax | \$5 | \$5 |
| GDCB | \$35 | \$10 |
| GDCA | \$0 | \$0 |
| Patient Pay Amount | \$10 | \$10 |
| Covered D Plan Paid Amount | \$25 | \$0 |
| Non-Covered Plan Paid Amount | \$0 | \$0 |
| Estimated Rebate at POS | N/A | \$25 |

For both coverage years 2007 and 2008, the Part D sponsor uses the reduced negotiated price of \$10 (\$35- \$25 estimated rebate amount) to determine beneficiary cost sharing and administer the prescription drug benefit. However, the gross drug costs reported for coverage 2007 are the drug costs prior to the application of the estimated rebates and the gross drug costs reported for coverage year 2008 are net of the estimated rebates. For coverage year 2008, the estimated rebates are used to reduce the ingredient cost reported to \$0.00 before the remaining estimated rebates are applied to reduce the dispensing fee to \$5.00. Since this beneficiary is in the coverage gap phase of the prescription drug benefit, the beneficiary pays 100% of the negotiated price (\$10) and the plan is responsible for 0% of the negotiated price (\$0) in both coverage years. For coverage year 2007, the Covered D Plan Paid Amount field includes both the \$0 plan liability and the

estimated rebate amount (\$25) applied at the point-of-sale. For coverage year 2008, only the \$0 plan liability is reported in the Covered D Plan Paid Amount field. The \$25 estimated rebate amount is reported in the Estimated Rebate at POS field. In both coverage years, the Part D sponsor would report the actual rebate amount of \$20 on the DIR Report for Payment Reconciliation.

Example 3:

A Part D beneficiary is enrolled in an enhanced alternative (EA) plan that fills in the coverage gap and has tiered cost-sharing (\$10/\$20/\$30). The beneficiary is not eligible for the low-income subsidy and does not have prescription drug coverage through a third-party. In this example the beneficiary's year-to-date gross covered drug cost is \$3,000. The beneficiary purchases a covered Part D drug in Tier 3 that costs \$150 (\$140 ingredient cost and \$10 dispensing fee). The Part D sponsor chooses to apply an estimated rebate of \$50 at the point of sale. The actual rebate amount received by the Part D sponsor at the end of the year is \$60 for this claim. The table below illustrates how the Part D sponsor would populate the following eight data elements on the PDE for coverage years 2007 and 2008.

PDE Field Values for Example 3

| PDE Field | Amount Reported for Coverage Year 2007 | Amount Reported for Coverage Year 2008 |
|------------------------------|---|---|
| Ingredient Cost Paid | \$140 | \$90 |
| Dispensing Fee Paid | \$10 | \$10 |
| GDCB | \$150 | \$100 |
| GDCA | \$0 | \$0 |
| Patient Pay Amount | \$30 | \$30 |
| Covered D Plan Paid Amount | \$50 | \$0 |
| Non-Covered Plan Paid Amount | \$70 | \$70 |
| Estimated Rebate at POS | N/A | \$50 |

First, the Part D sponsor determines cost-sharing based on its own enhanced benefit design; the beneficiary pays \$30. For EA plans, the sponsor must map to the defined standard benefit in order to determine the covered D plan paid amount (CPP) and the non-covered plan paid amount (NPP). For both 2007 and 2008, Part D sponsors must use the gross drug cost net of the estimated rebate amount (\$100) when doing this mapping to determine the CPP and NPP. This claim would fall in the defined standard coverage gap so the mapped amount for CPP is \$0 and the Non-Covered Plan Paid Amount (NPP) is \$70. (For additional information about mapping see the CMS PDE Training Participant Guide located at <http://www.csscooperations.com/new/pdic/pdd-training/pdd-training.html>.) For coverage year 2007 plans also report Estimated Rebate at POS in the CPP field. In 2007 the mapped amount is \$0 and the Estimated Rebate is \$50 so the plan reports \$50 in CPP. For coverage year 2008, the Covered D Plan Paid Amount field reports only the mapped amount which is \$0. The \$70 NPP amount is the same in both years. In 2008, the \$50 estimated rebate amount is reported in the Estimated Rebate at POS field. In both coverage years, the Part D sponsor would report the actual rebate

amount of \$60 on the DIR Report for Payment Reconciliation.

Example 4:

A beneficiary who is enrolled in an enhanced alternative plan purchases a supplemental drug that costs \$150 (\$140 ingredient cost and \$10 dispensing fee) and pays a \$20 co-payment. The Part D sponsor chooses to apply an estimated rebate of \$50 at the point of sale. The actual rebate amount received by the Part D sponsor at the end of the year is \$60 for this claim. The table below illustrates how the Part D sponsor would populate the following eight data elements on the PDE for coverage years 2007 and 2008. (Please note that the Drug Coverage Status Code is 'E'.)

PDE Field Values for Example 4

| PDE Field | Amount Reported for Coverage Year 2007 | Amount Reported for Coverage Year 2008 |
|------------------------------|---|---|
| Ingredient Cost Paid | \$140 | \$90 |
| Dispensing Fee Paid | \$10 | \$10 |
| GDCB | \$0 | \$0 |
| GDCA | \$0 | \$0 |
| Patient Pay Amount | \$20 | \$20 |
| Covered D Plan Paid Amount | \$0 | \$0 |
| Non-Covered Plan Paid Amount | \$130 | \$80 |
| Estimated Rebate at POS | N/A | \$50 |

First, the Part D sponsor determines cost-sharing based on its own enhanced benefit design; the beneficiary co-payment which is \$20 for this drug, is reported in Patient Pay Amount. Since this claim is for a non-Part D covered drug, the entire plan paid amount is reported in the NPP field and \$0 is reported in the CPP field for both 2007 and 2008. For 2007, however, the estimated rebate amount of \$50 is also reported in the NPP field because the drug is a non-Part D covered drug. Thus, in 2007 the Part D sponsor would report a total of \$130 in the NPP field for this claim. For coverage year 2008, the NPP field would only include the plan paid amount (\$80). The \$50 estimated rebate amount is reported in the Estimated Rebate at POS field instead for coverage year 2008. In both coverage years, the actual rebate amount of \$60 is excluded from the DIR Report for Payment Reconciliation. The EA plan includes rebates for non-covered drugs in its accounting for the supplemental premium.

Further Information

If you have questions about this guidance, please contact Meghan Elrington at (410) 786-8675.