

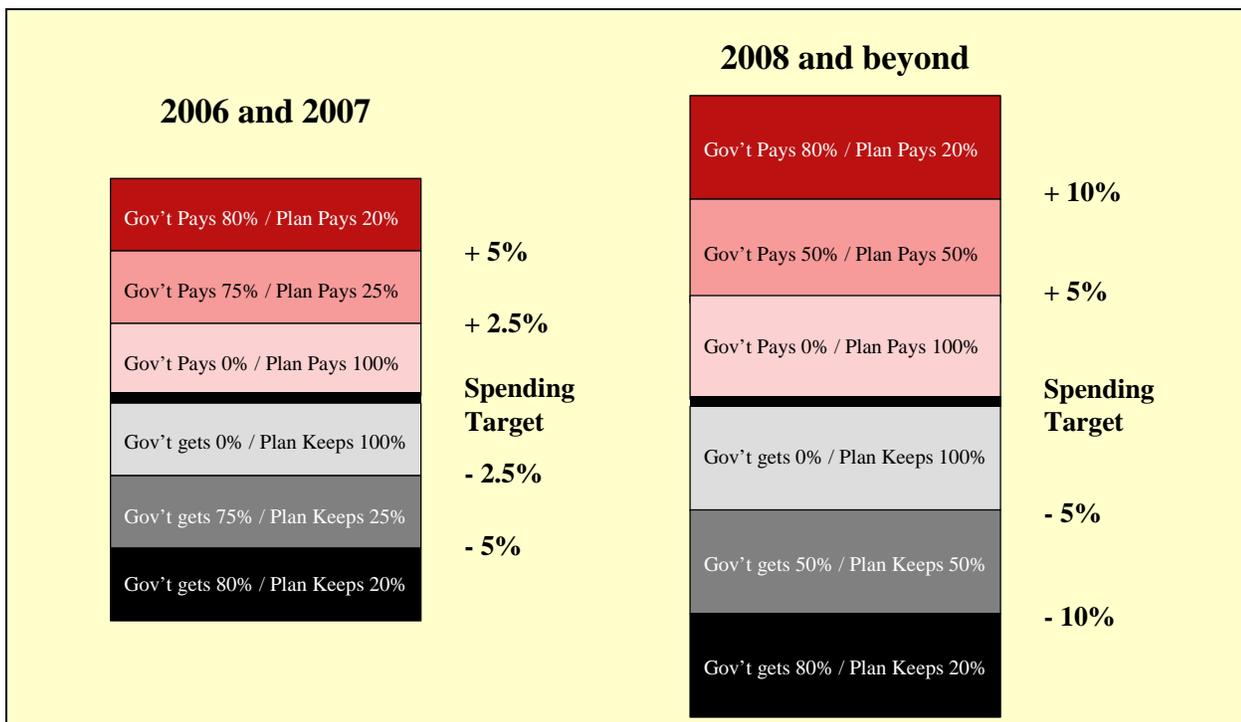


**BETTER BENEFITS – MORE CHOICES**

*Good News about the Medicare Prescription Drug, Improvement and Modernization Act of 2003!*

***The New Medicare Prescription Drug Benefit: Risk Corridors***

- ❖ Drug-only insurance is a new type of insurance plan offering, and many potential prescription drug plan (PDP) entrants do not have wide experience offering benefits to the Medicare population. Consequently, there is considerable uncertainty for plans about what their cost experience will be. To encourage plans to enter this new market, a system of risk corridors has been set up to protect plans and limit their potential losses if drug expenses for their enrollees come in much higher than expected.



- ❖ The risk corridors are described in the chart above. They protect plans more in 2006 and 2007, when the potential uncertainty is greatest, and then change in later years after plans have more experience with the program and the Medicare population.
- ❖ In 2006 and 2007, the plan is fully at risk for any costs up to 2.5 percent above the spending target. For costs between 2.5 percent and 5 percent above the target, the federal government will cover 75 percent, and the plans will cover the remaining 25 percent. Above 5 percent, the government will cover 80 percent of any losses and the plans will cover the remaining 20 percent. The risk corridors are symmetrical, so that if plan costs come in below the target amount, the government will share in the savings.
- ❖ In 2008 and beyond, the risk corridors will be widened. Plans will be at risk for the first 5 percent, covered for half of excess costs between 5 and 10 percent, and for 80 percent of costs above that. The Act also gives the Secretary discretion to widen the corridors further.