

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard
Baltimore, Maryland 21244-1850



Center for Medicare
Medicare Plan Payment Group

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To: All Part D Plan Sponsors (Excluding PACE Organizations)

From: Cheri Rice, Acting Director, Medicare Plan Payment Group

Subject: Coverage Gap Discount Program Payment Process

On April 30, 2010, CMS issued guidance on the Coverage Gap Discount Program (CGDP), which included a high-level description of the payment process for Part D sponsors. The purpose of this memorandum is to provide detailed information on that payment process.

Under the CGDP, Part D sponsors will receive monthly prospective payments from CMS. These prospective payments provide cash flow to Part D sponsors for advancing the gap discounts at the point of sale. On a quarterly basis, CMS will invoice manufacturers for discounts provided by Part D sponsors. Manufacturers will remit payments for invoiced amounts directly to Part D sponsors. The prospective payments made to Part D sponsors will be reduced by the discount amounts invoiced to manufacturers. These offsets will ensure that Part D sponsors do not receive duplicate payments for discounts made available to their enrollees.

After the end of the contract year, during Part D Payment reconciliation for the CGDP, CMS will perform a cost-based reconciliation to ensure the Part D sponsor is paid dollar for dollar for gap discounts advanced at the point of sale, based on accepted Prescription Drug Event (PDE) data. After Part D payment reconciliation for CGDP, Part D sponsors may continue to report discounts to CMS for thirty-seven (37) months following the end of the benefit year. (Please see the December 17, 2010 HPMS memorandum entitled, “Part D Payment Reconciliation Reopening for 2006 and 2007 and Closing the Drug Data Processing System (DDPS) Database Three Years following the end of Each Contract Year”.) CMS will invoice manufacturers for these discounts and Part D sponsors will be paid through the quarterly manufacturer payments.

In each of the sections below, we provide detail on these payment activities as they occur chronologically.

Prospective Payments

CMS provides a monthly prospective Coverage Gap Discount payment based on the Contract of Record to Part D sponsors for non-low income subsidy eligible (non-LIS) beneficiaries who are not enrolled in an Employer Group Waiver Plan (EGWP) or a Program of the All Inclusive Care for the Elderly (PACE) organization. Please refer to the August 18, 2010 HPMS memorandum entitled, “Annual Release of the Part D National Average Bid Amount and other Part C & D Bid Related Information” for the calculation methodology of the 2011 prospective CGDP payments. For any benefit year, the prospective payments begin with the January monthly payment for the benefit year and end with the December monthly payment. Adjustments to a benefit year’s prospective payments continue to January of the following year. For benefit year 2011, the first prospective payment will be in the January 2011 monthly payment and the last payment containing adjustments to previously paid 2011 prospective payments will be in the January 2012 monthly payment. The prospective CGDP payment amounts will be found on the Monthly Membership Report (MMR). The August 30, 2010 HPMS memorandum entitled, “Announcement of November 2010 Software Release”, explains the changes to the MMR and other affected reports.

Point of Sale Processing and PDE Submission

Part D sponsors pay the Gap Discount at point-of-sale on behalf of the manufacturers so the beneficiary can immediately receive the out-of-pocket cost reduction. Part D sponsors receive electronic billing transactions from pharmacies when a beneficiary presents a prescription at the point of sale. When a non-LIS beneficiary is in the Coverage Gap and the prescription is for an applicable drug, Part D sponsors calculate the Gap Discount amounts as well as patient and plan cost-sharing amounts. The Part D sponsor returns the patient and plan cost-sharing amounts to the pharmacy. The plan cost-sharing amount paid to the pharmacy includes gap discount amounts and amounts for supplemental benefits in Enhanced Alternative plans. If the claim straddles benefit phases, plan cost sharing may include plan payments from adjoining benefit phases as well. Beginning in 2013, all Part D sponsors will begin to pay an increasing part of the drug cost for a CGDP claim consistent with Section 1860D-2(b)(2)(D) of the Social Security Act. As a result of this change, plan cost sharing returned to the pharmacy for a CGDP claim will also contain covered plan paid amounts that gradually reduce beneficiary cost sharing to approximately 25% by 2020. Following the final adjudication of the CGDP claim, Part D sponsors submit the Reported Gap Discount amount to CMS on the PDE record.

Manufacturer / Part D Sponsor Quarterly Invoice Process

CMS aggregates Gap Discount amounts reported on PDE data submitted during the quarter and validated by CMS and sends this information to Palmetto GBA, the Third Party Administrator (TPA) for the CGDP. (Additional information about CMS’ validation process is forthcoming.) The TPA is responsible for sending quarterly invoice reports to manufacturers and Part D sponsors simultaneously. Each benefit year will have six quarterly invoices that will be included in the annual CGDP reconciliation. The first quarterly invoice will include PDEs submitted and validated through March 31, 2011 and the last quarterly invoice included in the 2011 benefit year CGDP reconciliation will include PDEs submitted through the reconciliation cutoff date. CMS will continue to accept PDEs with gap discount amounts for 37 months following the end of the benefit year. After reconciliation Part D sponsors will receive invoiced amounts directly from

manufacturers during quarterly invoice processing. The schedule of quarterly invoices and reconciliation is included as Attachment A.

The Part D sponsor version of the quarterly invoice reporting is currently in draft and will be released as soon as it is finalized. These reports provide the Part D sponsor with information about individual CGDP PDEs and the invoiced amount due to the Part D sponsor from each manufacturer. Manufacturers are required to pay the invoiced amount in full, subject to the terms in the Manufacturer Agreement, to Part D sponsors within 38 days of report distribution.

In addition to generating and distributing the quarterly gap discount invoice reports, the TPA is also responsible for coordinating funds transfer between manufacturers and Part D sponsors and resolving any questions or disputes that arise in this process. The TPA will facilitate the exchange of Part D sponsor EFT information with the manufacturer community, thus reducing the administrative burden on both Part D sponsors and manufacturers alike. CMS intends to share Part D sponsor EFT information currently on file in the APPS system for the purpose of facilitating this funds transfer.

Once Manufacturers remit the invoiced amounts to Part D sponsors, there is a period of 5 days in which Part D sponsors must send a confirmation of payment receipt to the TPA. Manufacturers will also be sending a confirmation of payment made to the TPA during the same 5 day window. Please see the schedule in Attachment A referenced above which is based on the terms specified in the Manufacturer Agreement. Details of this confirmation notice will be forthcoming from the TPA. The TPA sends final payment confirmation statistics to CMS.

CMS Offset

On a quarterly basis, following the invoicing cycle, CMS offsets monthly prospective CGDP payments for discount amounts invoiced to manufacturers. The offset amount will appear as a negative adjustment to the next monthly prospective payment processed through APPS. When the APPS offset exceeds the prospective CGDP payments for that month, CMS will apply the offset to the Part D sponsor's total payment.

EGWPs will receive invoiced discount amounts from manufacturers. However, they will not receive prospective CGDP payments because they do not submit Part D bids. As a result, CMS will not apply offsets for invoiced discount amounts to the payments received by EGWPs.

Gap Discount Payment Reconciliation

As noted above, for each benefit year, CMS will conduct a cost-based reconciliation for the CGDP. Prospective payments are an estimate and Part D sponsors may experience actual CGDP costs greater than or less than the prospective payments. If the total CGDP prospective payments received are greater than or less than the actual gap discount amounts documented in PDEs, then CMS will reconcile the differences. Please see the examples below.

	Scenario 1 Prospective Payments are Less Than Actual Gap Discount Costs	Scenario 2 Prospective Payments are Greater Than Actual Gap Discount Costs
CGDP Prospective Payments Received by Plan	\$1,000	\$1,000
Actual CGDP amounts Plan pays throughout the year	\$1,750	\$250
Manufacturer reimbursement to plan	\$1,750	\$250
CMS Offset	\$1,750	\$250
CMS Owes Plan at CGDP Recon	\$750	\$0
Plan Owes CMS at CGDP Recon	\$0	\$750

The schedule for Coverage Gap Discount Reconciliation will be different from the existing Part D payment reconciliation schedule. It will begin after the sixth invoicing and payment processing cycle has been completed for the benefit year.

Similar to Low Income Cost Sharing Subsidy (LICS) reconciliation, Gap Discount reconciliation is cost-based. However, unlike LICS reconciliation, the CGDP reconciliation will be based on the submitting contract rather than the contract of record. Said another way, reconciliation of the Coverage Gap Discount amounts will be based on accepted and validated PDEs that the plan submitted regardless of whether the beneficiary was enrolled in the Part D sponsor's plan or not. This is similar to how CMS reconciles the Total Actual Plan-to-Plan (P2P) Non-covered Plan Paid Amount (NPP) Submitted by Enhanced Alternative (EA) Plan Amount. (Please see the HPMS guidance entitled "Payment Reconciliation System (PRS) Part D Payment Reconciliation Reports Updates" released on April 10, 2008.) CMS will calculate the CGDP reconciliation amount by taking the total actual CGDP amounts reported on PDEs minus the Prospective CGDP Payments. After the CGDP reconciliation, CMS will discontinue additional offsets. CMS will release further guidance on changes to the Part D payment reconciliation report layouts in the future.

Any further questions regarding the Coverage Gap Discount Program payment process should be directed to PDEJan2011@cms.hhs.gov. We are planning a webinar to be held in January in order to review this guidance interactively and to clarify any outstanding issues based on the questions we receive.

Attachment A – CGDP Quarterly Invoice Timeline for 2011 Benefit Year (Draft)

Quarter Number	PDE Reporting Period End	Quarterly Invoice Distribution	Invoice Paid by	Invoice Payment Confirmed by	Payment Month of APPS Offset	Disputes Submitted by	Disputes Resolved by
Q1*	3/31/2011	4/30/2011	6/8/2011	6/13/2011	8/2011	6/29/2011	8/28/2011
Q2*	6/30/2011	8/31/2011	10/9/2011	10/14/2011	12/2011	10/30/2011	12/29/2011
Q3*	9/30/2011	10/31/2011	12/9/2011	12/14/2011	2/2012	12/30/2011	2/28/2012
Q4*	12/31/2011	1/31/2012	3/9/2012	3/14/2012	5/2012	3/31/2012	5/30/2012
Q5*	3/31/2012	4/30/2012	6/18/2012	6/13/2012	8/2012	6/29/2012	8/28/2012
Q6*	6/30/2012	8/31/2012	10/9/2012	10/14/2012	12/2012	10/30/2012	12/29/2012
Q7	9/30/2012	10/31/2012	12/9/2012	12/14/2012		12/30/2012	2/28/2013
Q8	12/31/2012	1/31/2013	3/10/2013	3/15/2013		3/31/2013	5/30/2013
Q9	3/31/2013	4/30/2013	6/8/2013	6/13/2013		6/29/2013	8/28/2013
Q10	6/30/2013	8/31/2013	10/9/2013	10/14/2013		10/30/2013	12/29/2013
Q11	9/30/2013	10/31/2013	12/9/2013	12/14/2013		12/30/2012	2/28/2014
Q12	12/31/2013	1/31/2014	3/10/2014	3/15/2014		3/31/2014	5/30/2014
Q13	3/31/2014	4/30/2014	6/8/2014	6/13/2014		6/29/2014	8/28/2014

*CGDP PDEs included in invoices for Quarters 1 through 6 are subject to the annual CGDP payment reconciliation.