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TO: Medicare Prescription Drug Plan (PDP) Sponsors

FROM: Cynthia G. Tudor, Ph.D., Director, Medicare Drug Benefit Group

DATE: September 1, 2006

SUBJECT: Impact of Change of Ownership on Re-Assignment of Low Income Subsidy Eligible Beneficiaries

On August 15, 2006, the Centers for Medicare & Medicaid Services (CMS) announced the low income premium benchmarks for each of the prescription drug plan (PDP) regions. This fall, CMS will conduct automatic initial enrollment and reassignment of low-income subsidy (LIS) eligible, including full benefit dual eligible (FBDE), beneficiaries into those plans with premiums at or below the 2007 regional benchmarks and that meet the critical requirements for sponsors receiving auto enrollments stated in CMS' August 31, 2006, HPMS memorandum. Sponsors that received automatic enrollments during 2006 will retain those enrollees for 2007 in those plans where the bid is within the "de minimis" (i.e., \$2.00) range.

In some cases, PDP sponsors that received automatic enrollments in 2006 failed to bid within the de minimis range in some or all regions in which they will operate for 2007. LIS beneficiaries currently enrolled in those plans will shortly be reassigned by CMS into at-or-below-the-benchmark premium plans for 2007. If any of these sponsors are now pursuing the sale of their PDP line of business to another sponsor that is qualified for 2007 (including meeting the critical requirements for sponsors receiving auto enrollments stated in CMS' August 31, 2006 HPMS memorandum) to receive LIS reassignments in the affected region, such a transaction would have to be reviewed and approved by CMS according to the change of ownership requirements of Subpart L of the Part D regulation.

Sponsors contemplating the sale of their PDP business must notify CMS before September 11, 2006, of their intention to complete such a transaction. On or very shortly after that date, sponsors should be prepared to discuss with CMS the details of the proposed transaction so that CMS can advise sponsors on the novation process, required documentation, and deadlines as they would apply to your transaction. This transaction will need to be completed within a very tight timeframe in order to be reflected in CMS' reassignment process. CMS will keep all such discussions strictly confidential to the maximum extent possible and permitted by law.

CMS can make no guarantees that any sponsor's proposed transaction can be approved and executed within the operational deadlines created by, among other things, systems requirements, beneficiary notification requirements, and beneficiary plan election rights, associated with the reassignment process. We will advise you during our discussion of your proposal of the likelihood of your proposed transaction meeting our requirements.

Interested sponsors should send a brief e-mail message to Scott Nelson (Scott.Nelson2@cms.hhs.gov) on or before September 11, 2006. The message should identify your PDP sponsor contract number and a point of contact in your organization for the transaction. He will contact you immediately to begin discussions about this process. If you have any questions, please contact Mr. Nelson at 410-786-1038.