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## INSTRUCTIONS FOR COMPLETING THE PRESCRIPTION DRUG PLAN BID PRICING TOOL FOR CONTRACT YEAR 2027

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## I. INTRODUCTION

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### BACKGROUND

Part D sponsors, that is, Prescription Drug Plans (PDPs) and Medicare Advantage Prescription Drug Plans (MA-PDs), must submit a separate bid to the Centers for Medicare & Medicaid Services (CMS) for each prescription drug plan that they intend to offer Medicare beneficiaries. This requirement includes Part D plans without a corresponding Medicare Advantage (MA) plan, such as Section 1876 cost plans, Section 1833 cost plans, and Programs of All-Inclusive Care for the Elderly (PACE) plans.

Note that a Medicare Advantage Organization (MAO) may offer private fee-for-service (PFFS) and Religious Fraternal Benefit PFFS plans without Part D coverage. However, if an MAO offers, in a given MA service area, at least one benefit plan of any other plan type, at least one benefit plan in such service area must include Part D coverage.

Organizations must submit the information via the CMS Health Plan Management System (HPMS) in the CMS-approved electronic format—the Prescription Drug Bid Pricing Tool (BPT).

Each bid submission must include an actuarial certification and supporting documentation as described in Appendix A and Appendix B, respectively.

The submitted bids will be subject to review and audit by CMS or by any person or organization that CMS designates. As part of the review and audit process, CMS or its representative may request additional documentation supporting the information contained in the BPT. Organizations must be prepared to provide this information in a timely manner.

These bid instructions provide details on the bid submission elements required by 42 CFR 423.265.

### DOCUMENT OVERVIEW

This document contains general pricing considerations and detailed instructions for completing the BPT. The contents of each section are as follows:

- Section I, “Introduction”: contains a list of key changes from the CY2026 BPT and provides sources of information that can be accessed for assistance during the bid submission process.
- Section II, “Pricing Considerations”: contains guidance for preparing bids and presenting pricing results in the BPT.
- Section III, “Data Entry and Formulas”: contains directions for completing the seven worksheets in the BPT and explains the formulas for calculated cells.
- Section IV, Appendices A through E: contains requirements for Actuarial Certification (Appendix A), Supporting Documentation (Appendix B), Calculation of National Average Monthly Bid Amount (Appendix C), Calculation of Low-Income Benchmark Premium Amounts (Appendix D), and Trending Risk Scores (Appendix E).

**NEW FOR CONTRACT YEAR 2027 (CY2027)**

- Removal of the VBID-D indicator cell from Section I on Worksheet 1.
- Addition of the BAL-D indicator cell to Section I on Worksheet 1.
- Replacement of the Total Non-LI Brand Discount Amount entry with the Manufacturer Discount Amount entry in cell M60 of Worksheet 1 (which was simultaneously activated and relocated from Section III on Worksheet 1).
- Activation of the Medicare Prescription Payment Plan (M3P) cell in Section IV on Worksheet 1.
- Removal of the Maximum Base Beneficiary Premium cell from Section III on Worksheet 7.

**BIDDING RESOURCES**

The following resources provide information on CY2027 bidding:

- The CY2027 Advance Notice and Announcement are available at <https://www.cms.gov/medicare/payment/medicare-advantage-rates-statistics/announcements-and-documents>.
- The Actuarial Bid Training is available at <https://www.cms.gov/medicare/payment/medicare-advantage-rates-statistics/actuarial-bid-training>.
- For questions about the BPT, e-mail the CMS Office of the Actuary (OACT) at [actuarial-bids@cms.hhs.gov](mailto:actuarial-bids@cms.hhs.gov).
- OACT will host weekly technical user group calls regarding actuarial aspects of the CY2027 bidding process. The conference calls will include live Question and Answer sessions with CMS actuaries. For call-in information, see the OACT memorandum with the subject line “Actuarial User Group Calls” released via HPMS.
- For technical questions about the BPT, BPT Batch Tools, HPMS, or the upload process, refer to the following resources:
  - The BPT Technical Instructions, located in HPMS, under HPMS Home > Plan Bids > Bid Submission > CY2027 > Documentation > BPT Technical Instructions.
  - The *Bid Submission User’s Manual*, also available in HPMS, under HPMS Home > Plan Bids > Bid Submission > CY2027 > Documentation > Bid User’s Manual.
  - HPMS Help Desk: 1-800-220-2028 or [hpms@cms.hhs.gov](mailto:hpms@cms.hhs.gov).
- For information about benefits, see the *Medicare Prescription Drug Benefit Manual* located at <https://www.cms.gov/Regulations-and-Guidance/Guidance/Manuals/Internet-Only-Manuals-IOMs-Items/CMS050485>.

## II. PRICING CONSIDERATIONS

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### BIDDING/PRICING APPROACH

By statute, the bid must represent the revenue requirement of the expected population. Therefore, in most circumstances, Part D sponsors must use credible bid-specific experience in the development of projected allowed costs. This approach does not preclude Part D sponsors from reaching specific benefit and premium goals; the gain/loss margin guidance allows sufficient flexibility to achieve pricing targets provided that the overall gain/loss margin meets the requirements in the guidance and that anti-competitive practices are not used.

It is important to note the distinction between reporting base period experience data in Worksheet 1 and projecting credible data for pricing. Base period experience must be reported at the plan level if the plan existed in CY2025, regardless of the level of enrollment. This experience must also be projected in Worksheet 2 and assigned an appropriate level of credibility by the certifying actuary. Data may be aggregated for determining manual rates to blend with partially credible projected experience rates or to account for significant changes in enrollment from the base period to the contract year.

### SPECIFIC TOPICS

| Topic                                  | Page | Topic                             | Page |
|----------------------------------------|------|-----------------------------------|------|
| Actuarial Equivalence                  | 6    | PBM Pricing                       | 17   |
| Base Period Experience                 | 7    | Related-Party Arrangements        | 17   |
| Credibility                            | 10   | Risk Score Development for CY2027 | 17   |
| Direct and Indirect Remuneration (DIR) | 12   | Sequestration                     | 19   |
| Enrollment                             | 12   | Supporting Documentation          | 19   |
| Gain/Loss Margin                       | 13   | Types of Part D-Covered Drugs     | 19   |
| Non-Benefit Expenses                   | 15   |                                   |      |

#### Actuarial Equivalence

Actuarial equivalence must be demonstrated for plan benefit types other than Defined Standard (DS).

When the plan benefit type is Actuarially Equivalent (AE), one test must be satisfied on Worksheet 4, Section IV, line 16 to demonstrate actuarial equivalence:

- The average coinsurance percentage for amounts between the deductible and catastrophic threshold must be actuarially equivalent to 25 percent.

When the plan benefit type is Basic Alternative (BA) or Enhanced Alternative (EA), four tests must be satisfied to demonstrate actuarial equivalence on Worksheet 5, Section VI, lines 1 through 4:

- The value of total coverage is at least actuarially equivalent to DS coverage.
- The alternative unsubsidized value of coverage is no less than the DS unsubsidized value of coverage.

- The average alternative benefits for beneficiaries with allowed drug costs at the catastrophic threshold are not less than the average DS benefits at the catastrophic threshold.
- The deductible is not greater than the DS deductible.

**Base Period Experience**

The experience data must be based on a calendar year 2025 incurred period with at least 30 days of paid claim run-out; 2-3 months of paid claim run-out is preferable. Further, the enrollment data for the Part D bid in an MA-PD plan must reflect the same underlying population as that for the corresponding MA bid.

Worksheet 1 must be completed with data for the plan ID. Note that these data—

- Must be submitted in Worksheet 1 for any plans with experience data for 2025, regardless of the level of enrollment.
- Must reconcile in an auditable manner to the plan-level Prescription Drug Event (PDE) data submitted to CMS for payment and reconciliation and the Part D sponsor's audited financial statements.
- Must include accepted PDEs, rejected PDEs that are expected to be accepted by CMS upon resubmission, adjustments for Plan-to-Plan (P2P) transactions and, if appropriate, transfer of over-the-counter (OTC) drug data from the base period experience to the non-benefit expense component. The impacts of each of these considerations must be quantifiable and must not be included in the completion factor.
- Must be reported without adjustment. Adjustments may be made in Worksheet 2, Sections II and III to accommodate population, benefit design or other changes from the base period to the contract period.
- May be reported in aggregate for multiple plans in accordance with the requirements described in the "Data Aggregation" subsection of this pricing consideration. Each contract-plan-segment ID must be identified in Worksheet 1, Section II, line 5.
- Must be provided for plans acquired by the Part D sponsor.
- May not be used to aggregate data from multiple plans in order to achieve credibility.
- May be reported on Worksheet 1 of more than one BPT when plans are aggregated, in accordance with the requirements described in the "Data Aggregation" subsection of this pricing consideration.

***Data Aggregation***

The requirements for reporting base period data for crosswalks and enrollment shifts depend on—

- How enrollment changes are processed.
  - In these Instructions, the term "formal crosswalk" refers to the crosswalk process submitted in HPMS for plan consolidations (that is, consolidated renewals), whereby members are automatically moved from one plan to another (that is, to one plan only). Without an HPMS crosswalk in place, members are disenrolled from the terminating plan and must actively select to enroll in a new plan of their choosing.

- Medicare Advantage and Prescription Drug (MARx) enrollment transactions are used to automatically move members from one plan to more than one plan, for example, when the service area of one or more plans is redefined.
- For more information about crosswalks, see the May 15, 2019 memorandum released via HPMS titled “Process for Requesting an HPMS Crosswalk Exception for Contract Year 2020.”

The requirements for reporting base period data for crosswalks and enrollment shifts are described below.

### ✓ **Rule 1 – Crosswalks**

Base period data for more than one CY2025 contract number-plan ID must be aggregated and reported on Worksheet 1 of the plan into which the members are crosswalked only in the following circumstances:

- When two or more plans are consolidated and the members are crosswalked into an existing or new plan under a formal crosswalk.

Rule 1 applies when members are crosswalked within the same contract and when members are crosswalked between contracts in accord with limited exceptions described in CMS annual renewal and non-renewal guidance.

### ✓ **Rule 2 – Enrollment Shifts**

Base period data for more than one contract number-plan ID cannot be aggregated and reported on Worksheet 1 in the following circumstances:

- When an existing member chooses to enroll in different plans.
- When enrollment changes do not involve a crosswalk whether or not a plan is terminated.

### ✓ **Rule 3 – Partial Experience**

Base period experience must be reported in total at the plan level for every contract-plan ID; do not include partial plan experience on Worksheet 1.

### ✓ **Rule 4 – Two-Year Perspective**

Members may be crosswalked each contract year. For BPT reporting purposes, the actuary must consider the crosswalks from the base period to the contract year (that is, from CY2025 to CY2026 and from CY2026 to CY2027).

#### **Example 1: Formal Crosswalk**

A Part D sponsor offers plans 001, 002 and 003 in CY2025 and CY2026 and offers plans 002 and 003 in CY2027. Plan 001 is consolidated and the membership is formally crosswalked into plan 003 for CY2027 in accord with the limited exceptions described in CMS annual renewal and non-renewal guidance. Base period experience must be reported on Worksheet 1 of the CY2027 BPT as follows:

- For plan 002, report aggregate base period experience for plan 002 (Rule 1 and Rule 3).

- For plan 003, report base period experience for plans 001 and 003 (Rule 1 and Rule 3).

**Example 2: Formal Crosswalk and Enrollment Shift**

A Part D sponsor offers plans 001, 002 and 003 in CY2025 and CY2026 and offers plan 003 and new plan 004 in CY2027. Plan 001 is consolidated and the membership is formally crosswalked into plan 003 for CY2027 as submitted in HPMS. Plan 002 is terminated for CY2027 and the certifying actuary expects the membership in plan 002 to enroll evenly between plans 003 and 004; however, there is no formal crosswalk or approved crosswalk exception in place. Base period experience must be reported on Worksheet 1 of the CY2027 BPT as follows:

- For plan 003, report base period experience for plans 001 and 003 (Rule 1 and Rule 3).
- For plan 004, do not report base period experience (Rule 2). Data aggregation is not allowed.

**Example 3: Crosswalks in Successive Years**

A Part D sponsor offers plan 001 with 100 beneficiaries and plan 002 in CY2025. In CY2026, 50 beneficiaries stayed in plan 001 and 50 beneficiaries were crosswalked into plan 002 via MARx enrollment transactions. In CY2027, 25 beneficiaries stayed in plan 001 and 25 beneficiaries were crosswalked into plan 002 via MARx enrollment transactions. Base period experience must be reported on Worksheet 1 of the CY2027 BPT as follows:

- For plan 001, report base period experience for plan 001 (Rule 3).
- For plan 002, report base period experience for plans 001 and 002 (Rule 1, Rule 3, and Rule 4).

**PDE Mapping**

A mapping of PDE fields to required BPT inputs is provided in the following table.

**Mapping of Prescription Drug Events to Part D Claims Experience  
in Worksheet 1, Section III**

| Column | Field Name                                       | PDE Reference Information                                                                                                                                                                                                                    |
|--------|--------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (f)    | Total Number of Scripts                          | Count # of PDEs where (Ingredient Cost + Dispensing Fee + Sales Tax + Vaccine Administration Fee) >= Zero                                                                                                                                    |
| (g)    | Total Allowed Dollars                            | $\Sigma$ (Ingredient Cost + Dispensing Fee + Sales Tax + Vaccine Administration Fee)                                                                                                                                                         |
| (i)    | Average Paid Amount per Member                   | $\Sigma$ [Covered Plan Paid Amount (CPP) + Non-Covered Plan Paid Amount (NPP) + Low-Income Cost Sharing (LICS)] $\div$ Members                                                                                                               |
| (j)    | Average Cost Sharing per Member                  | $\Sigma$ [Patient Pay Amount + Other TrOOP Amount + Patient Liability Reduction due to other Payer Amount (PLRO)] $\div$ Members                                                                                                             |
| (k)    | Supplemental Cost Share Reduction per Member     | $\Sigma$ [Non-Covered Plan Paid Amount (NPP)] $\div$ Members                                                                                                                                                                                 |
| (l)    | Reimbursement for LIS per Member                 | $\Sigma$ [Low-Income Cost Share (LICS)] $\div$ Members                                                                                                                                                                                       |
| (m)    | Reimbursement for Federal Reinsurance per Member | $\{$ [Gross Covered Drug Cost Above Out-of-Pocket Threshold (GDCA) with Catastrophic Codes A or C] $\times$ 0.4 for non-applicable drugs (Drug Status Indicator = 2) or 0.2 for applicable drugs (Drug Status Indicator = 1)] $\div$ Members |

When using PDE data, actuaries must be familiar with the process by which the PDE transactions are developed from claims data and with the timing of the adjustment and deletion processes to ensure that the final transaction is accurately summarized. This process includes, but is not limited to, consideration of rejected PDEs that are expected to be accepted by CMS upon resubmission, adjustments for Plan-to-Plan transactions and, if appropriate, transfer of over-the-counter drug data from the base period experience to the non-benefit expense component. It is important to note that a PDE maps to one script throughout the BPT regardless of the number of days for which the prescription is dispensed.

**Credibility**

CMS does not permit adjustments to the credibility percentages on Worksheet 2 for the purpose of modifying the manual rate. For example, do not adjust the credibility percentages in the BPT as an equivalent alternative to removing the base period experience from the manual rate development.

## PRICING CONSIDERATIONS

The following credibility guidance in this section is provided as a resource to certifying actuaries, not as a requirement.

Information on the development of CMS guidelines for full credibility can be found at <https://www.cms.gov/Medicare/Health-Plans/MedicareAdvtgSpecRateStats/Bid-Pricing-Tools-and-Instructions-Items/BidGuidance>.

### ***Claims Credibility***

This section pertains to the credibility percentages on Worksheet 2.

CMS has established Part D credibility guidelines as summarized in the following table:

| Subject Experience | Exposure Required for Full Credibility | CMS Formula for Partial Credibility          |
|--------------------|----------------------------------------|----------------------------------------------|
| Allowed Costs      | 60,000 member months                   | $\sqrt{\frac{\text{member months}}{60,000}}$ |

### ***Risk Score Credibility***

This section pertains to the credibility of risk scores based on the CMS preferred methodology. CMS has not developed credibility guidelines for risk scores based on alternate approaches.

CMS has established Part D credibility guidelines as summarized in the following table:

| Subject Experience                                                          | Exposure Required for Full Credibility | CMS Formula for Partial Credibility                 |
|-----------------------------------------------------------------------------|----------------------------------------|-----------------------------------------------------|
| Estimated Part D risk scores for development of 2027 bids as posted on HPMS | 125 beneficiaries                      | $\sqrt{\frac{\text{number of beneficiaries}}{125}}$ |
| Beneficiary-level file to support 2027 Part D bids as distributed by CMS    | 1,500 member months                    | $\sqrt{\frac{\text{member months}}{1,500}}$         |

### ***Overriding the CMS Formulas for Partial Credibility***

The following guideline is applicable only to the CMS claims and risk score credibility formulas presented above; such guideline may not be suitable for any alternative credibility formula. If the CMS formula for partial credibility is applied and the resulting credibility is—

- Less than or equal to 20 percent, then the actuary may override the computed credibility with 0 percent credibility.
- Greater than or equal to 90 percent, then the actuary may override the computed credibility with 100 percent credibility.

Information on why it is inappropriate to use blended risk scores to adjust manual claims experience can be found at <https://www.cms.gov/Medicare/Health-Plans/MedicareAdvtgSpecRateStats/Bid-Pricing-Tools-and-Instructions-Items/BidGuidance>.

**Direct and Indirect Remuneration (DIR)**

Part D sponsors must include all expected amounts included in the net covered DIR that CMS calculates for the Part D reconciliation process under “Rebates” in the BPT. The DIR reported under “Rebates” represents the Part D sponsors’ best estimate of all DIR categories and amounts that will be included in net covered DIR under CMS calculations for the Part D payment reconciliation process for the respective contract year. The development of the DIR amounts must be consistent with the development of projected costs.

***Definition of Direct and Indirect Remuneration***

Per 42 CFR Section 423.308, direct and indirect remuneration (DIR) comprises any and all rebates, subsidies, or other price concessions from any source (including manufacturers, pharmacies, enrollees, or any other person or entity) that serve to decrease the costs incurred by the Part D sponsor (whether directly or indirectly) for the Part D drug. DIR includes discounts, charge-backs, average percentage rebates, cash discounts, free goods contingent on a purchase agreement, up-front payments, coupons, goods in kind, free or reduced-price services, grants, or other price concessions or similar benefits.

DIR also includes price concessions from pharmaceutical manufacturers for purchases under the Medicare prescription drug benefit that are received by subcontractors of Part D sponsors, such as pharmacy benefit managers (PBMs), even if the price concessions are retained in lieu of higher service fees. CMS must assume that if a PBM retains a portion of the manufacturer rebates that it negotiates on behalf of a Part D sponsor, the direct payment that the PBM receives from the sponsor for its services will be less, since the sponsor will have received a price concession from the PBM. This price concession is a retained rebate and thus must be reported as DIR for payment purposes.

In accordance with CMS guidance, Part D sponsors may enter into risk-sharing arrangements with entities other than CMS by sharing risk around the cost of the drug as reflected in claims data. Any gains or losses that the Part D sponsor may experience as a result of these risk-sharing arrangements also constitute DIR that must be reported to CMS. As with other types of DIR, the value can be negative.

Generic dispensing incentive payments, and any adjustments to generic dispensing incentive payments made to pharmacies after the point-of-sale dispensing event, are also considered DIR. Please note that generic dispensing incentive payments made to the pharmacy at the point-of-sale are part of the dispensing fee reported on the PDE record and therefore are not included in the “DIR Report for Payment Reconciliation”.

**Enrollment**

The projected enrollment for the Part D bid in an MA-PD plan must be consistent with that for the corresponding MA bid and must reflect the same underlying population.

### **Gain/Loss Margin**

Gain/loss margin refers to the additional revenue requirement beyond benefit expenses and non-benefit expenses.

By statute, the bid must represent the revenue requirement of the expected population; therefore, the gain/loss margin requirements must be met with the gain/loss margin entered in the BPT.

Do not combine the gain/loss margins for the Medicare Advantage (MA) and Part D components of MA-PD bids to satisfy these Instructions.

Do not combine the gain/loss margins for bids in segmented plans to satisfy these Instructions.

See the “Instructions for Completing the Medicare Advantage Bid Pricing Tool for Contract Year 2027” for gain/loss margin requirements that are specific to MA bids.

The gain/loss margin entered in the BPT must be determined in connection with other CMS instructions such as Total Beneficiary Cost (TBC). If there is a conflict between satisfying gain/loss margin requirements and other CMS instructions, flexibility will be given to the gain/loss margin requirements only to the extent necessary to meet the other CMS instructions. Such conflicts with the gain/loss margin requirements must be disclosed, fully explained and supported. An exception must be approved by CMS.

Gain/loss margin requirements apply at two levels—the bid level and the aggregate level—and both sets of requirements must be met in the initial bid submission and upon bid resubmission or withdrawal.

### **Definitions**

In the BPT and these Instructions, the term—

- “Aggregate Part D gain/loss margin” refers to the projected enrollment-weighted average BPT PMPM gain/loss margin applicable to either (i) Part D plans without corresponding MA plans or (ii) MA-PD plans.

### **Bid-Level Requirements**

The gain/loss margin entered in the BPT is allocated to basic coverage and supplemental coverage based on the distribution of total prescription drug costs between these two types of coverage.

There is flexibility in setting the gain/loss margin at the bid level provided that—

- The bid offers benefit value in relation to the gain/loss margin level;
- Anti-competitive practices are not used; and
- All aggregate-level gain/loss margin requirements described below are met.

The bid-level requirements below do not apply to Part D BPTs that have a corresponding MA BPT; rather, these requirements apply only to Part D BPTs with the following Plan Type Codes: PDP, PACE, 1876 Cost, and 1833 Cost.

#### **✓ Benefit Value**

The bid must provide benefit value in relation to the gain/loss margin level.

For a bid with a high gain/loss margin, consideration must be given to premium changes that can be made in CY2027 to reduce gain/loss margin.

✓ **Anti-Competitive Practices**

Anti-competitive practices will not be accepted. For example, significantly low or negative gain/loss margin for plans that have substantial enrollment and stable experience, or “bait and switch” approaches to specific plan gain/loss margin buildup, will be rejected, absent sufficient support that such pricing is consistent with these Instructions.

**Aggregate-Level Requirements**

✓ **Year-to-Year Consistency**

Although actual gain/loss margin may vary from year to year, CMS expects certifying actuaries to price bids such that actual aggregate Part D gain/loss margin as a percentage of revenue over the long term is consistent with the gain/loss margin assumptions used for pricing. This requirement applies separately for (i) Part D plans without corresponding MA plans and (ii) MA-PD plans.

✓ **Requirements for Part D Plans without Corresponding MA Plans**

This requirement applies only to Part D BPTs with the following Plan Type Codes: PDP, PACE, 1876 Cost, and 1833 Cost.

For Part D bids, the aggregate Part D gain/loss margin as a percentage of revenue must be calculated at the parent organization level and it must be disclosed. If such margin is less than 0 percent or greater than 5.5 percent, then this condition must be fully explained and supported, and it must be approved by CMS for CY2027.

✓ **MA-PD Gain/Loss Margin Requirements**

This requirement applies only to Part D BPTs that have a corresponding MA BPT. There are two options for setting the Part D gain/loss margin of MA-PD bids. Only one option may be used per parent organization.

**Option A:** Set the Part D gain/loss margins at the bid level. Specifically, an MA-PD sponsor must—

- Set the Part D gain/loss margin for a plan as a percentage of revenue within 1.5 percent of the gain/loss margin for the MA component of the same MA-PD bid, and
- Apply this method consistently for all MA-PD bids submitted by the MAO.

**Option B:** Set the Part D gain/loss margins at the aggregate level. Specifically, an MA-PD sponsor must—

- Set the Part D gain/loss margins as a percentage of revenue equal for all plans, and
- Set the aggregate Part D gain/loss margin as a percentage of revenue within 1.5 percent of the aggregate MA gain/loss margin for all MA-PD bids. Do not include MA-only bids.

**Exclusions**

Non-insurance revenues pertaining to investments and fee-based activities designed to influence state or federal legislation such as the cost of lobbying activities cannot be reflected in the bid. See the announcement about lobbying activities released via an HPMS memorandum dated October 16, 2009.

**Non-Benefit Expenses**

Non-benefit expenses consist of all of the bid-specific administrative and other non-benefit costs incurred in the operation of the Medicare Prescription Drug Plan. Therefore, any allocation of non-benefit expenses to the Part D bid (whether performed at the bid level or at a broader level) must take into consideration both the differences between the Part D bid and other bids and the impact on the non-benefit costs of the Part D bid.

The non-benefit expenses must be entered separately on the BPT for the following categories:

- Sales & Marketing
  - Examples include, but are not limited to the cost of—
    - Marketing materials.
    - Commissions.
    - Enrollment packages.
    - Identification cards.
    - Salaries of sales and marketing staff.
- Direct Administration
  - Examples include, but are not limited to—
    - Customer service.
    - Billing and enrollment.
    - Claims administration.
    - True out-of-pocket (TrOOP) administration.
    - Pharmacy benefit management administration, which includes all of the costs for performing call center, claims, formulary management, network development and rebate management functions incurred by the plan or through a subcontractor.
    - Manufacturer Discount Program administration.
    - Medicare Part D user fees, which are \$TBD per-member per-year (PMPY) or \$TBD (PMPM) on a national basis for CY2027. The COB user fee will be collected at a monthly rate of \$TBD PMPM for the first 9 months of the coverage year.
    - Part D National Medicare Education Campaign (NMEC) user fees. CMS collects NMEC user fees based on a percentage of revenue; however, the BPT entry is a PMPM equivalent value consistent with the calculation of other BPT values. Part D sponsors may use the CMS estimate, which is the monthly rate of \$TBD PMPM on a national basis for CY2027 or develop an alternative estimate that is consistently applied to all plans in the contract—for example, the Part D sponsor's historical amount relative to the CMS annual national estimate.
    - Uncollected enrollee premium.

- Uncollected cost sharing, which includes plan liability resulting from cost sharing not recovered in state-to-plan or plan-to-plan transactions.
- Medication therapy management programs.
- Disease management functions such as patient education and disease monitoring.
- Over-the-counter drugs.
- Indirect Administration
  - Examples include, but are not limited to, functions that may be considered “corporate services,” such as—
    - The position of CEO.
    - Accounting operations.
    - Actuarial services.
    - Legal services.
    - Human resources.
- Net Cost of Private Reinsurance (that is, reinsurance premium less projected reinsurance recoveries; however, for quota share reinsurance, the net cost of private reinsurance must be entered as \$0).
- Uncollected Cost Sharing Payments from the Medicare Prescription Payment Plan. This entry must not include any other types of bad debt. This entry must also not include any administrative costs incurred from administering the Medicare Prescription Payment Plan.

All non-benefit expenses must be reported using appropriate, generally accepted accounting principles (GAAP). For example, acquisition expenses and capital expenditures must be deferred and amortized according to the relevant GAAP standards (to the extent that is consistent with the organization’s standard accounting practices, if not subject to GAAP). Also, acquisition expenses (sales and marketing) must be deferred and amortized in a manner consistent with the revenue stream anticipated on behalf of the newly enrolled members. Guidance on GAAP standards is promulgated by the Financial Accounting Standards Board (FASB). Of particular applicability is FASB’s Statement of Financial Accounting No. 60, *Accounting and Reporting by Insurance Enterprises*.

Costs not pertaining to administrative activities must be excluded from non-benefit expenses. Such costs include income taxes, changes in statutory surplus, investment expenses and the cost of lobbying activities. See the “Gain/Loss Margin” pricing consideration for more information.

Start-up costs that are not considered capital expenditures under GAAP are reported as follows:

- Expenditures for tangible assets (for example, a new computer system) must be capitalized and amortized according to relevant GAAP principles.
- Expenditures for non-tangible assets (for example, salaries and benefits) must be reported in a manner consistent with the organization’s internal accounting practices and the reporting of similar expenditures in other lines of business.

Non-benefit expenses that are solely attributable to MA or Part D must be reported only on the corresponding MA or Part D BPT.

Non-benefit expenses that are common to the MA and Part D components of MA-PD bids must be allocated proportionately between the Medicare Advantage and Part D BPTs.

When Medicare benefits are funded by an outside source such as a state Medicaid program, non-benefit expenses must be allocated proportionately between the Medicare revenue and the other revenue source.

### **PBM Pricing**

For CY2027, Part D sponsors must develop their Part D bids using the pass-through price or negotiated amount paid to the dispensing provider at the point-of-sale as the basis for drug costs. For Part D sponsors that are contracted with a PBM, the following provisions apply: (i) when contracted under a lock-in pricing approach, the administrative expense component of the bid must reflect the expected difference between the lock-in price, or amount negotiated with the PBM, and the pass-through price (this difference is referred to as the risk premium or PBM spread); and (ii) when the PBM retains a portion of the rebates, the administrative expense component of the bid must include these costs.

### **Related-Party Arrangements**

The related-party requirements apply to all Part D sponsors entering into any type of arrangement with or receiving services from, an entity that has a different tax identification number than that of the Part D sponsor but is associated with the Part D sponsor by any form of common, privately held ownership, control or investment, including any arrangement in which the Part D sponsor does business with a related-party entity through a contract with one or more unrelated parties, such as a pharmacy benefit manager.

CMS requires all Part D sponsors to disclose whether or not they are in a business arrangement with a related party. Part D sponsors in such an arrangement must (i) enter related-party expenses on lines 1 and 2 of Section VII of Worksheet 2, and (ii) provide additional documentation for each related party in accord with the requirements in Appendix B.

### **Risk Score Development for CY2027**

The projected CY2027 risk score must—

- Be based on the data sources and their respective weights, as specified in the resources listed below in the Risk Adjustment Information Sources section.
- Reflect the expected risk score trend at the bid level.
- Be appropriate for the expected population.
- Be adjusted for CY2027 normalization.

### ***Risk Score Calculation Approaches***

There are two methods for calculating the projected risk score: the preferred approach and the alternate approach.

- The preferred approach is to start with either the beneficiary or plan-level data files provided by CMS, which contain the calculated risk scores using the CY2027 payment model on 12 months of 2025 membership or the July 2025 enrollees, respectively.

- The alternate approach allows new plans or plans with significant population changes to use a different starting point for estimating their contract year risk score.

For both approaches, explicit adjustments for the following factors are required:

- Run-out of diagnosis data from all sources, including differences in the final cutoff date for data submission.
- Bid-specific coding trend.
- Changes in bid population.
- Impact of any improvements to operational and submission process for diagnosis data sources.
- Other appropriate factors.

For an alternate approach, Part D sponsors must consider the following additional adjustments:

- Conversion to risk model-specific unblended risk scores.
  - If the starting risk scores are blended scores, then Part D sponsors must produce unblended risk scores before the conversion to raw risk scores.
- Conversion to a raw risk score.
  - When starting from a data source with normalized risk scores, such as the MMR, Part D sponsors must consider a conversion to raw (unnormalized) scores before making other adjustments.
- Impact of lagged versus non-lagged diagnosis data.
  - If the starting risk scores are based on lagged diagnosis data, as is the case for initial risk scores, Part D sponsors must transition the scores from lagged to non-lagged risk scores.
- Seasonality.
  - If the starting risk score is based on membership that is other than the July cohort or a full calendar-year cohort, then Part D sponsors must make an adjustment for enrollment seasonality.
- Risk model change.
  - This includes the use of a different model in the data source versus the projection year and differences in the diagnoses included in each model.
- Impact of changes to diagnosis data sources and weights between the time period of the data source and the contract year. Examples of the use of this factor include adjustments for—
  - The transition of starting risk scores based on MMR data from incomplete to final diagnosis data.
  - An estimate of the impact of the final risk score reconciliation.

Once projected to the contract year, the risk scores must reflect the CY2027 Part D normalization factor. Note that if a raw (unnormalized) risk score associated with a different model calibration year is being normalized, the CY2027 Part D normalization factor is not the appropriate normalization factor.

### ***Risk Adjustment Information Sources***

The following resources provide information on the development of projected CY2027 risk scores:

- The CY2027 Advance Notice and Announcement found at <https://www.cms.gov/medicare/payment/medicare-advantage-rates-statistics/announcements-and-documents>.
- Bid-level data and technical notes available after the publication of the CY2027 Announcement through the “Risk Adjustment” link on the HPMS Home page.
- Beneficiary-level files and technical notes sent to MAOs electronically after the publication of the CY2027 Announcement.
- Additional information found—
  - At the “Risk Adjustment” link at <https://www.cms.gov/medicare/payment/medicare-advantage-rates-statistics/risk-adjustment>.
  - At the “Ratebooks & Supporting Data” link at <https://www.cms.gov/medicare/payment/medicare-advantage-rates-statistics/ratebooks-supporting-data>.
  - At <https://www.csscooperations.com/>, including slides from Risk Adjustment User Group Calls.

### ***Other Considerations***

See the “Credibility” pricing consideration for more information about the projection of risk scores.

See Appendix E for more information about trending Part D risk scores.

### **Sequestration**

Pricing assumptions must consistently reflect the effect of sequestration.

### **Supporting Documentation**

In addition to the BPT and actuarial certification, organizations must submit supporting documentation for every bid. See Appendix B for a description of the supporting documentation requirements, including content, quality and timing.

### **Types of Part D-Covered Drugs**

#### ***Brand Drugs***

Brand drugs consist of (i) single-source drugs with no generic equivalent that were FDA-approved under an original new drug application (NDA) and (ii) innovator multi-source drugs that were originally marketed under an original NDA and that now have generic equivalents.

***Preferred/Non-Preferred Brand Drugs***

Brand drugs that are placed in the most favorable position on the formulary in comparison to other similar brand drugs should be allocated to the preferred brand drug category. Brand drugs that are positioned in a less favorable position on the formulary should be allocated to the non-preferred brand category in the BPT.

***Generic Drugs***

Non-innovator multi-source drugs are generic drugs.

***Specialty Drugs***

Specialty drugs are reported separately only when a plan utilizes designated Specialty tiering in the formulary and PBP in accord with CMS guidelines. CMS guidelines require that cost sharing associated with that tier be limited to 25 percent in the initial coverage range when the plan has the standard deductible, which is \$TBD for CY2027. When the plan has a decreased deductible or no deductible, then actuarially equivalent coinsurance is permitted.

When designated Specialty tiering is used, all drugs classified as specialty-tier drugs on the plan formulary must be reported by point-of-sale (retail or mail order as defined by the PBP) in Worksheets 2 and 6 of the BPT. The drugs in the Specialty tiers must not be sorted by type of drug status and must not be reported as a component of the generic, preferred brand and non-preferred brand drugs in the non-Specialty tiers.

When designated Specialty drug tiering is not used in the formulary and PBP, Specialty drugs must be sorted by generic, preferred brand and non-preferred brand status and must be reported in these categories by point-of-sale (retail or mail order as defined by the PBP). In this situation, the Specialty categories in Worksheets 2 and 6 are not completed.

### III. DATA ENTRY AND FORMULAS

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This section includes line-by-line instructions for completing the Part D BPT. It also describes the formulas for calculated cells.

#### **PRESCRIPTION DRUG**

To complete the Part D bid form, Part D sponsors must provide a series of data entries on the appropriate BPT worksheets. The number of inputs depends on the type of plan being offered and the length of time it has had a contract with CMS, among other factors.

The Part D bid form is organized as outlined below:

- Worksheet 1 – Rx Base Period Experience
- Worksheet 2 – Rx PDP Projection of Allowed/Non-Benefit
- Worksheet 3 – Rx Contract Period Projection for Defined Standard Coverage
- Worksheet 4 – Rx Standard Coverage with Actuarially Equivalent Cost Sharing
- Worksheet 5 – Rx Alternative Coverage
- Worksheet 6 – Rx Script Projections for Defined Standard, Actuarially Equivalent or Alternative Coverage
- Worksheet 7 – Summary of Key Bid Elements

All Part D sponsors must complete Section I of Worksheet 1; completion of subsequent sections of the BPT is based on the plan benefit type being offered. The worksheets and sections that must be completed for each plan benefit type are defined below.

#### **Defined Standard Coverage**

##### ✓ **Worksheet 1**

For all plans, complete Section I; for plans with claims experience in CY2025, complete all sections.

##### ✓ **Worksheet 2**

For plans with fully credible claims experience in CY2025, complete Sections II and III; column o of Section IV; and Sections V, VII, and VIII. For plans with partially credible claims experience in CY2025, complete all sections. For new plans in CY2026 and CY2027, complete Sections IV, V, VII, and VIII.

##### ✓ **Worksheet 3**

Complete all sections for all plans.

##### ✓ **Worksheet 6**

Complete columns f, g, and h for all plans.

##### ✓ **Worksheet 7**

Complete all sections for all plans.

**Actuarially Equivalent Coverage**✓ **Worksheet 1**

For all plans, complete Section I; for plans with claims experience in CY2025, complete all sections.

✓ **Worksheet 2**

For plans with fully credible claims experience in CY2025, complete Sections II and III; column o of Section IV; and Sections V, VII, and VIII. For plans with partially credible claims experience in CY2025, complete all sections. For new plans in CY2026 and CY2027, complete Sections IV, V, VII, and VIII.

✓ **Worksheet 3**

Complete all sections for all plans.

✓ **Worksheet 4**

Complete all sections for all plans.

✓ **Worksheet 6**

Complete all columns for all plans.

✓ **Worksheet 7**

Complete all sections for all plans.

**Basic and Enhanced Alternative Coverage**✓ **Worksheet 1**

For all plans, complete Section I; for plans with claims experience in CY2025, complete all sections.

✓ **Worksheet 2**

For plans with fully credible claims experience in CY2025, complete Sections II, III, column o of Section IV; and Sections V, VII, and VIII; for plans with partially credible claims experience in CY2025, complete all sections. For new plans for CY2026 and CY2027, complete Sections IV, V, VII, and VIII.

✓ **Worksheet 3**

Complete all sections for all plans.

✓ **Worksheet 5**

Complete all columns for all plans.

✓ **Worksheet 6**

Complete all columns for all plans.

✓ **Worksheet 7**

Complete all sections for all plans.

**Data Entry**

Do not leave a field blank to indicate a zero amount. If zero is the intended value, then enter a “0” in the cell.

## **PD WORKSHEET 1 – RX BASE PERIOD EXPERIENCE**

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Worksheet 1 contains general information about the plan and summarizes the base period Rx experience. Specifically, Section I collects general information about the plan that is displayed on all Part D BPT worksheets; Section II collects base period background information; Section III summarizes the base period Rx experience; Sections IV and V summarize components of the base period non-benefit expense and premium revenue, respectively; Section VI collects base period Inflation Reduction Act (IRA) drug experience; Section VII is an Income Statement Summary; and Section VIII collects DIR #10 Experience.

Section I must be fully completed for all plans. (Note that some fields may be pre-populated by the PBP software.) Sections II through VIII must be completed for all plans with experience data for 2025 regardless of the level of enrollment.

### **SECTION I – GENERAL INFORMATION**

The fields of Section I have been formatted as the “General” format in Excel to support the link functionality to other spreadsheets. Therefore, certain numeric fields, such as Plan ID, Segment ID and Region Number, must be entered as text—that is, using a preceding apostrophe—and must include any leading zeroes.

#### **Line 1 – Contract Number**

Enter the contract number for the plan. The designation begins with a capital letter H (local plan), R (regional Preferred Provider Organization plan), or S (Prescription Drug Plan) and includes four Arabic numerals (for example, H9999, R9999, S9999). Include all leading zeroes (for example, H0001).

#### **Line 2 – Plan ID**

The plan ID and corresponding contract number form a unique identifier for the PBP being priced in the bid form. Plan IDs contain three Arabic numerals. This field must be entered as a text input and must include any leading zeroes.

#### **Line 3 – Segment ID**

If the bid is for a “service area segment” of a local plan, enter the segment ID. This field must be entered as a text input and must include any leading zeroes.

#### **Line 4 – Contract Year**

The cell is pre-populated with the calendar year to which the contract applies.

#### **Line 5 – Organization Name**

Enter the organization’s legal entity name. This information also appears in HPMS and in the PBP.

**Line 6 – SNP**

If the plan is a Special Needs Plan (SNP), enter “Y”. Otherwise, enter “N”.

**Line 7 – Plan Name**

Enter the name of the PBP. This information also appears in HPMS.

**Line 8 – Plan Type**

Enter the type of Part D plan. The valid options are listed in the table below.

| Type of Plan                                                         | Plan Type Code        |
|----------------------------------------------------------------------|-----------------------|
| <b>Local Coordinated Care Plans:</b>                                 |                       |
| Health Maintenance Organization (HMO)                                | HMO                   |
| Religious Fraternal Benefit HMO                                      | RFB HMO               |
| Religious Fraternal Benefit HMO with a Point-of-Service (POS) Option | RFB HMO POS           |
| HMO with a POS Option                                                | HMO POS               |
| Provider-Sponsored Organization (PSO) with a State License           | PSO State License     |
| Religious Fraternal Benefit with a State License                     | RFB PSO State License |
| Preferred Provider Organization (PPO)                                | LPPO                  |
| Religious Fraternal Benefit PPO                                      | RFB LPPO              |
| <b>Regional Coordinated Care Plan:</b>                               |                       |
| Regional Preferred Provider Organization (RPPO)                      | RPPO                  |
| <b>Private Fee-for-Service Plans:</b>                                |                       |
| Private Fee-for-Service Plan (PFFS)                                  | PFFS                  |
| Religious Fraternal Benefit PFFS                                     | RFB PFFS              |
| <b>Prescription Drug Plans:</b>                                      |                       |
| Medicare Prescription Drug Plan (PDP)                                | PDP                   |
| Fallback Plan                                                        | Fallback              |
| <b>Demonstration Plans:</b>                                          |                       |
| National PACE                                                        | PACE                  |
| <b>Cost Plans:</b>                                                   |                       |
| 1876 Cost                                                            | 1876 Cost             |
| 1833 Cost                                                            | 1833 Cost             |

**Line 9 – Enrollee Type**

If the plan covers enrollees eligible for both Part A and Part B of Medicare, enter “A/B”. If the plan covers enrollees eligible for Part B only, enter “Part B Only”. When the plan type is “PDP” or “Fallback,” then the enrollee type cell is white and locked; no input is required.

**Line 10 – BAL-D**

If the plan is participating in the Better Approaches to Lifestyle and Nutrition for Comprehensive hEalth (BALANCE) Model, enter “Y”. Otherwise, enter “N”.

**Line 11 – PD Region**

When the plan type is “PDP,” enter the region number of the region the plan will cover. This field must be entered as a text input and must include any leading zeroes.

The valid entries are shown in the following table:

| Region | Description                                          | Region | Description                                                                |
|--------|------------------------------------------------------|--------|----------------------------------------------------------------------------|
| 01     | Maine and New Hampshire                              | 21     | Louisiana                                                                  |
| 02     | Connecticut, Massachusetts, Rhode Island and Vermont | 22     | Texas                                                                      |
| 03     | New York                                             | 23     | Oklahoma                                                                   |
| 04     | New Jersey                                           | 24     | Kansas                                                                     |
| 05     | Delaware, District of Columbia and Maryland          | 25     | Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota and Wyoming |
| 06     | Pennsylvania and West Virginia                       | 26     | New Mexico                                                                 |
| 07     | Virginia                                             | 27     | Colorado                                                                   |
| 08     | North Carolina                                       | 28     | Arizona                                                                    |
| 09     | South Carolina                                       | 29     | Nevada                                                                     |
| 10     | Georgia                                              | 30     | Oregon and Washington                                                      |
| 11     | Florida                                              | 31     | Idaho and Utah                                                             |
| 12     | Alabama and Tennessee                                | 32     | California                                                                 |
| 13     | Michigan                                             | 33     | Hawaii                                                                     |
| 14     | Ohio                                                 | 34     | Alaska                                                                     |
| 15     | Indiana and Kentucky                                 | 35     | American Samoa                                                             |
| 16     | Wisconsin                                            | 36     | Guam                                                                       |
| 17     | Illinois                                             | 37     | Northern Mariana Islands                                                   |
| 18     | Missouri                                             | 38     | Puerto Rico                                                                |
| 19     | Arkansas                                             | 39     | Virgin Islands                                                             |
| 20     | Mississippi                                          |        |                                                                            |

**Line 12 – Plan Benefit Type**

Enter the plan benefit type that identifies the type of coverage in the PBP. The valid options are “DS” for Defined Standard, “AE” for Actuarially Equivalent, “BA” for Basic Alternative and “EA” for Enhanced Alternative.

**Line 13 – SNP Type**

If the plan is a SNP as indicated by “Y” on line 6, then enter the type of SNP. The valid options are “Institutional,” “Dual-Eligible” and “Chronic or Disabling Condition.” The selection must agree with the option identified in the MA BPT.

**SECTION II – BASE PERIOD BACKGROUND INFORMATION**

**Line 1 – Time Period Definition**

CMS requires base experience data to be based on claims incurred in calendar year 2025 and at least 30 days of paid claims run-out; 2–3 months of paid claim run-out is preferable.

**Line 2a – Total Member Months**

The value is calculated automatically in the BPT from section III, line 5, column e.

**Line 2b – LIS Member Months**

Enter the number of low-income subsidy (LIS) member months represented in the base period experience based on CMS eligibility records.

**Line 3a – Risk Score**

The value is calculated automatically in the BPT from line items in section II.

**Line 3b – LIS Risk Score**

Enter the final average risk score for the LIS population represented in the base period data using the Part D risk model that was used for payment year 2025. This risk score must incorporate the normalization factors and an estimate of the final reconciliation.

Actuaries may use as a starting point risk scores calculated with the model used for 2025, which are included in the beneficiary-level files sent to Part D sponsors electronically after the publication of the CY2027 Announcement.

**Line 3c – NLI Risk Score**

Enter the final average risk score for the NLI population represented in the base period data using the Part D risk model that was used for payment year 2025. This risk score must incorporate the normalization factors and an estimate of the final reconciliation.

Actuaries may use as a starting point risk scores calculated with the model used for 2025, which are included in the beneficiary-level files sent to Part D sponsors electronically after the publication of the CY2027 Announcement.

**Line 4 – Completion Factor**

Enter the factor used to adjust the paid data to an incurred basis. The base period data must represent the best estimate of incurred claims for the time period, including any unpaid claims as of the “paid through” date.

**Line 5 – Mapping**

Enter in the first column the contract-plan-segment ID (in the format H####-###-###) of each plan for which base period data is required by these Instructions to be reported in Section III. Cell K12 is automatically populated with the contract number, plan, and segment ID in cells D5, D6, and D7; the contract-plan-segment ID in cell K12 can be overwritten if there is no base period data for that plan. When base period data for more than eight plans is entered in Section III, (i) enter in cells K12:K15 and M12:M14 the contract-plan-segment IDs of the plans with the greatest number of member months; (ii) enter “all other” in cell M15 and (iii) list in supporting documentation the contract-plan-segment IDs and member months of all plans in the “all other” category.

Enter the corresponding number of member months in the second column.

### SECTION III – PART D CLAIMS EXPERIENCE

Lines 1 through 9 include experience relating to Part D-covered drugs only. Lines 10 through 12 include experience for drugs that are covered by the plan but are not Part D-covered drugs at the time they are dispensed.

#### Lines 1 through 4:

✓ **Column d – Number of Members**

Enter the number of members that were in the claim interval defined for each line. Do not include estimates for claims for which the Part D plan is the secondary payer.

If the member's allowed claims were \$0, the member must be reported in Line 1. If the member's allowed claims exceeded \$0, but the member was not an applicable beneficiary for the Discount Program, the member must be reported in Line 2. If the member was an applicable beneficiary for the Discount Program, but the member's TrOOP costs did not exceed the out-of-pocket limit, the member must be reported in Line 3. If the member's TrOOP costs exceeded the out-of-pocket limit, the member must be reported in Line 4.

✓ **Column e – Member Months**

Enter for each line the number of member months associated with the number of members in column d.

✓ **Column f – Total Number of Scripts**

Enter for each line the number of prescriptions filled for Part D-covered drugs for the members in column d.

✓ **Column g – Total Allowed Dollars**

Enter for each line the total allowed dollars for the prescriptions filled for the members in column d. Total allowed dollars are defined as ingredient cost plus dispensing fee, plus sales tax where applicable, plus the vaccine administration fees, prior to the application of any rebates recovered after the point-of-sale.

✓ **Column h – Average Allowed Amount per Member**

The value is calculated automatically in the BPT as column g divided by column d for each line.

✓ **Column i – Average Paid Amount per Member**

Enter the result of dividing the total dollars paid by the plan for the members in column d by the number of members in column d. Total paid dollars are defined as basic and supplemental payments for Part D-covered drugs and are not net of rebates, low-income subsidy payments, or federal reinsurance.

✓ **Column j – Average Cost Sharing per Member**

Enter for each line the average cost sharing per member for Part D-covered drugs for the members in column d.

✓ **Column k – Supplemental Cost Sharing Reduction per Member**

Enter for each line the average value of supplemental cost sharing per member for Part D-covered drugs for members in column d.

✓ **Column l – Reimbursement for Low-Income Cost Sharing Subsidy per Member**

Enter for each line the average low-income cost sharing subsidy amount received and receivable for the members in column d.

✓ **Column m – Reimbursement for Federal Reinsurance per Member**

Enter for each line the average federal reinsurance amount received and receivable for the members in column d.

✓ **Column n – Net Plan Responsibility per Member**

The value is calculated automatically in the BPT as column i minus the sum of columns k through m for each line.

**Line 5, columns d through n – Subtotal**

The values are calculated automatically in the BPT using values from lines 1 through 4 for each column.

**Line 6 – PMPM Values**

✓ **Columns g, i, k, l and m**

These values are calculated automatically in the BPT as the column total shown in line 5 for each column, converted to a PMPM value using values from line 5, columns d and e.

✓ **Column n**

The value is calculated automatically in the BPT as column i minus columns k through m.

**Line 7 – Minus Rebates**

✓ **Column g**

Enter the total amount of rebates received as of the “Paid through” date in Section II and expected to be received for the claims in lines 1 through 4. Total rebates are all direct and indirect remuneration included in the Net Part D Covered DIR amount used in the Part D reconciliation. This amount excludes amounts for Estimated Remuneration at Point-of-Sale Amount (ERPOSA). See the “Direct and Indirect Remuneration (DIR)” pricing consideration for more information.

Report the rebates at the PBP level. If the Part D sponsor does not receive rebates at the PBP level, then an allocation methodology may be used. The methodology used for reporting rebates must be substantiated in the supporting documentation that is uploaded into HPMS with the initial bid submission.

✓ **Column i**

The value is calculated automatically in the BPT as column g divided by line 5, column e.

✓ **Column m**

Enter the amount of rebates attributable to the federal reinsurance amount in line 5.

✓ **Column n**

The value is calculated automatically in the BPT as column i minus column m.

**Line 8 – Plus Part D as Secondary**

✓ **Column g**

Enter the total plan liability for Part D-covered drugs for which the Part D plan is the secondary payer. The term “total plan liability” is defined as CPP plus NPP minus either 40 percent (for non-applicable drugs) or 20 percent (for applicable drugs) of either GDCA or GDCA minus PLRO as appropriate.

✓ **Column i**

The value is calculated automatically in the BPT as column g divided by line 5, column e.

✓ **Column n**

The value is carried from column i.

**Line 9 – Net Average Paid Amount PMPM**

✓ **Column i**

The value is calculated automatically in the BPT as line 6 minus line 7 plus line 8.

✓ **Column k through m**

The values are calculated automatically in the BPT as line 6 minus line 7 plus line 8.

✓ **Column n**

The value is calculated automatically in the BPT as column i minus columns k through m.

**Line 10 – Non-Covered Supplemental Drugs**

✓ **Column g**

Enter the total plan paid amount for prescription drugs that are covered by the plan but are not Part D-covered drugs.

✓ **Column i**

The value is calculated automatically in the BPT as column g divided by line 5, column e.

**Line 11 – Rebates on Supplemental Drugs**

✓ **Column g**

Enter the total amount of rebates received as of the “Paid through” date in Section II and expected to be received for the claims in line 10. Total rebates are all direct and indirect remuneration included in the Net Part D Covered DIR amount used in the Part D reconciliation. This amount excludes amounts for ERPOSA. See the “Direct and Indirect Remuneration (DIR)” pricing consideration for more information.

Report the rebates at the PBP level. If the Part D sponsor does not receive rebates at the PBP level, then an allocation methodology may be used. The methodology used for reporting rebates must be substantiated in the supporting documentation that is uploaded into HPMS with the initial bid submission.

✓ **Column i**

The value is calculated automatically in the BPT as column g divided by line 5, column e.

**Line 12, columns i and n – Net PMPM on Supplemental Drugs**

The value in column i is calculated automatically in the BPT as line 10 minus line 11 and is carried to column n.

**SECTION IV – PMPM NON-BENEFIT EXPENSES**

Section IV summarizes all administrative expenses associated with the operation of the prescription drug plan in the base period, including any expenses that were offset by direct or indirect remuneration.

**Lines 1 through 4, column g – Total**

Enter the sales and marketing, direct administration, indirect administration and net cost of private reinsurance average PMPM amounts for total coverage in lines 1 through 4, respectively. Include uncollected enrollee premium, uncollected cost sharing and OTC drugs in direct administration.

**Line 5, column g – Total**

Enter the uncollected cost sharing payments associated with the Medicare Prescription Payment Plan (M3P). Exclude all other types of bad debt and all administrative costs incurred from administering the M3P.

**Line 6, column g – Total Non-Benefit Expenses**

The value is calculated automatically in the BPT as the sum of lines 1 through 5.

**SECTION V – PMPM PREMIUM REVENUE**

Section V summarizes the components of premium revenue of the prescription drug plan for the base period.

**Lines 1 through 3, column e – Basic**

Enter the CMS Part D direct subsidy payment, low-income premium subsidy and member premium average PMPM amounts for basic coverage in lines 1 through 3, respectively. The direct subsidy amount must account for the final risk-adjusted reconciliation payment for CY2025, which will be received in mid-2026 and include the impact of sequestration and PACE add-on, if applicable.

**Line 3, column f – Supplemental**

Enter in line 3 the member premium average PMPM amount for supplemental coverage.

**Lines 1 through 3, column g – Total**

The values are calculated automatically in the BPT as the sum of columns e and f.

**Line 4 – Total Premium**

The values are calculated automatically in the BPT as the sum of lines 1 through 3.

**SECTION VI – IRA PART D DRUG EXPERIENCE**

Section VI summarizes components of IRA Part D Drug costs for the base period.

**Line 1, columns e through g – Maximum Fair Price Drugs**

This section is not applicable for CY2027 BPTs.

**SECTION VII – PMPM INCOME STATEMENT SUMMARY**

Section VII is a summary of the prescription drug plan's income, including the amount of MA rebate allocable to Part D when applicable, for the base period.

**Lines 1 through 9, column m**

Enter in line 4 the average PMPM amount of the MA rebate dollars, including the impact of sequestration, used to buy down the Part D premium. The values in lines 1 through 3 and lines 5 through 9 are carried from other sections in Worksheet 1 or are calculated automatically in the BPT as sums or differences in column m.

**Manufacturer Discount Amount**

Enter in cell M60 the total manufacturer discount amount for the base period, which is reported in the "Reported Manufacturer Discount" field on the PDEs.

**SECTION VIII – DIR #10 EXPERIENCE**

Section VIII summarizes the DIR #10 (Risk-Sharing Arrangement Payments and Adjustments) dollars for the base period.

**Line 1, column k – Total Dollars**

Enter the total dollars for DIR #10 for the base period. Experience in this section is a subset of that entered in Section III, line 7, column g, and may be positive or negative depending on the direction of the payment. For example, if the payment was made from the plan sponsor to the provider the amount would be negative, whereas if the payment was made from the provider to the plan sponsor the amount would be positive.

## PD WORKSHEET 2 – RX PDP PROJECTION OF ALLOWED/NON-BENEFIT

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Worksheet 2 projects the base period experience to the contract year, blending with a manual rate when the base period experience is not fully credible, by point-of-sale (retail or mail order as defined by the PBP) and type of drug. Specifically, Section I displays general information about the plan; Sections II and III summarize the base period and contract period utilization per 1,000 members and allowed costs per script, as well as the components of utilization and cost trends; Section IV blends the projected allowed costs with a manual rate based on the plan's credibility; Section V summarizes the components of non-benefit expenses and gain/loss margin in the contract period; Section VI calculates the ratios of claims, non-benefit expenses and gain/loss margin to the total basic bid; Section VII summarizes related-party costs; and Section VIII collects the DIR #10 projection.

### SECTION I – GENERAL INFORMATION

This section displays the information entered on Worksheet 1, Section I.

### SECTION II – UTILIZATION FOR COVERED PART D DRUGS

#### Lines 1 through 9 – Base Period

##### ✓ Column e – Number of Scripts/1000

Enter for each line the number of prescriptions that were filled in the base period, expressed as annual prescriptions per 1,000 members, by point-of-sale (retail or mail order as defined by the PBP) and type of drug (generic, preferred brand, non-preferred brand or Specialty). The Maximum Fair Price Drugs are defined as those drugs which were selected for negotiation for initial price applicability for CY2027. Do not include the number of scripts per 1,000 members for the Maximum Fair Price Drugs in lines 1-8. Instead, include this number in line 9.

##### ✓ Column f – Allowed per Script

Enter the average allowed amount per script by type of script filled in the base period for each line. The term “allowed amount” is defined as the ingredient cost plus the dispensing fee, plus state sales tax where applicable, plus the vaccine administration fee, prior to the application of any rebates recovered after the point-of-sale. The Maximum Fair Price Drugs are defined as those drugs which were selected for negotiation for initial price applicability for CY2027. Do not include the average allowed amount per script for the Maximum Fair Price Drugs in lines 1-8. Instead, include this amount in line 9.

##### ✓ Column g – PMPM Allowed

The value is calculated automatically in the BPT as column e times column f divided by 12,000 for each line.

**Lines 1 through 9 – Components of Utilization Change**

✓ **Column h – Trend in Scripts/1,000**

Enter the utilization trend factor by type of script to project scripts/1,000 to the contract period for each line.

✓ **Column i – Formulary Change**

Enter the factor that represents the impact on utilization of changes in the formulary, including the addition, deletion or reclassification of drugs by type of script for each line.

✓ **Column j – Risk Change**

Enter the factor that represents the impact on utilization of the covered population's change in risk from the base period to the contract period by type of script for each line.

✓ **Column k – Induced Utilization**

Enter the factor that adjusts for the utilization difference between the base period type of benefit plan (AE, BA or EA) and a DS plan by type of script for each line.

✓ **Column l – Other Change**

Enter the factor that represents the impact on utilization of any differences between the base period and contract period not included in the other components of utilization change, columns h through k, by type of script for each line.

Utilization changes due to the price reduction for Maximum Fair Price Drugs must be included in this column.

✓ **Column m – Total Utilization Change**

The value is calculated automatically in the BPT as the product of columns h through l for each line.

**Lines 1 through 9, column n – Projected Scripts/1000**

The value is calculated automatically in the BPT as the product of columns e and m for each line.

**Lines 1 through 9, column o – Covariance**

The value is calculated automatically in the BPT as projected allowed PMPM divided by the product of base period allowed PMPM, total utilization change and total unit cost change for each line.

**Lines 10 through 15, columns e through o**

The values are calculated automatically in the BPT using information entered on lines 1 through 9 for each column.

**SECTION III – COST FOR COVERED PART D DRUGS****Lines 1 through 9 – Components of Unit Cost Change**✓ **Column e – Inflation Trend**

Enter the factor that represents the impact on cost between the base period and contract period because of changes in drug prices by type of script for each line.

The price reduction for Maximum Fair Price Drugs must be included in this column.

✓ **Column f – Discount Change**

Enter the factor that represents the impact on cost between the base period and contract period because of changes in point-of-sale network pricing, including discounts off of average wholesale price (AWP) and dispensing fees, by type of script for each line.

✓ **Column g – Formulary Change**

Enter the factor that represents the impact on cost because of changes in the formulary, including the addition, deletion or reclassification of drugs by type of script for each line.

✓ **Column h – Other Change**

Enter the factor that represents the impact on cost of any differences between the base period and contract period not included in the other components of unit cost change, columns e through g, by type of script for each line.

✓ **Column i – Total Unit Cost Change**

The value is calculated automatically in the BPT as the product of columns e through h by type of script for each line.

**Lines 1 through 9, column j – Projected Unit Cost**

The value is calculated automatically in the BPT as the product of base period allowed per script times total unit cost change for each line.

**Lines 1 through 9, column k – Projected Allowed PMPM**

The value is calculated automatically in the BPT as scripts/1,000 times projected unit cost divided by 12,000 for each line.

**Lines 10 through 15, columns e through k**

The values are calculated automatically in the BPT using information entered on lines 1 through 9 for each column.

**SECTION IV – PROJECTED ALLOWED PMPM****Lines 1 through 9**✓ **Column l – Manual Utilization/1,000**

When the base period experience is not fully credible, enter the projected utilization per 1,000 members, based on a manual rate, by type of script for each line. The Maximum Fair Price Drugs are defined as those drugs which were selected for negotiation for initial price applicability for CY2027. Do not include the manual utilization per 1,000 members for the Maximum Fair Price Drugs in lines 1-8. Instead, include this number in line 9.

✓ **Column m – Manual Unit Cost**

When the base period experience is not fully credible, enter the projected unit cost per script, based on a manual rate, by type of script for each line. The Maximum Fair Price Drugs are defined as those drugs which were selected for negotiation for initial price applicability for CY2027. Do not include the manual unit cost per script for the Maximum Fair Price Drugs in lines 1-8. Instead, include this amount in line 9.

✓ **Column n – Manual Rate PMPM**

The value is calculated automatically in the BPT as column l times column m divided by 12,000 by type of script for each line.

✓ **Column o – Credibility**

Enter the credibility percentage by point-of-sale and type of drug that is applied to the projected PMPM allowed amount in Section III and blended with the PMPM manual rate in Section IV to calculate the blended PMPM allowed amount for each line. The credibility must be greater than or equal to 0 percent and less than or equal to 100 percent.

✓ **Column p – Blended Allowed PMPM**

The value is calculated automatically in the BPT as the sum of (column o times column k) and [(1 minus column o) times column n] for each line.

**Lines 10 through 15, columns l through p**

The values are calculated automatically in the BPT using information entered on lines 1 through 9 for each column. Cell O57, “CMS Guideline Credibility” is calculated automatically in the BPT as the square root of total member months from Worksheet 1 divided by 60,000, not to exceed 100 percent.

**SECTION V – PMPM NON-BENEFIT EXPENSE AND GAIN/LOSS MARGIN**

Section V summarizes components of the contract period non-benefit expenses and gain/loss margin.

**Lines 1 through 4**

✓ **Column e – Projected Expenses**

Enter the projected non-benefit expense by component for each line.

**Line 5 – Uncollected Cost Sharing Payments M3P**

✓ **Column e – Projected Expenses**

Enter the uncollected cost sharing payments associated with the M3P. Exclude all other types of bad debt and all administrative costs incurred from administering the M3P.

**Lines 6 through 8, column e – Non-Benefit Expenses**

The values are calculated automatically in the BPT using values from lines 1 through 5 and using values from Worksheet 5.

**Lines 9 through 10, column e – Gain/Loss Margin**

The values are calculated automatically in the BPT using values from Worksheets 2 and 5.

**Line 11 – Total Gain/Loss Margin**

Enter the estimated PMPM amount of gain or loss projected during the contract period.

**SECTION VI – PERCENTAGE OF REVENUE**

Section VI summarizes the components of the total basic bid amount and calculates the ratios of claims, non-benefit expenses and gain/loss margin to the total basic bid.

**Lines 1 through 3, column j**

The values are calculated automatically in the BPT using values from Worksheets 2, 3, 4, and 5.

**Line 4, column j**

The value is calculated automatically in the BPT as the sum of lines 1 through 3.

**Lines 5a through 5c, column j**

The values are calculated automatically in the BPT as percentages of the total basic bid.

**SECTION VII – RELATED PARTY**

Section VII summarizes the components of related party.

**Line 1, column n – Related-Party Allowed Cost PMPM**

Enter the best estimate of the plan sponsor's total allowed PMPM cost for the sum of the following:

- 1) All related-party pharmacy services in the bid, and

- 2) Services that are provided by entities with the same tax identification number and that are reported in the bid.

This entry should be based on the plan benefit. For defined standard plans, the related-party allowed cost PMPM should be based on the defined standard benefit. For alternative benefit plans, these costs should be based on the alternative benefit.

**Line 2, column n – Related-Party Non-Benefit Expense PMPM**

Enter the best estimate of the plan sponsor's total PMPM cost for all related-party non-benefit expenses reported in the bid. This entry should be based on the plan benefit. For defined standard plans, the related-party non-benefit expense PMPM should be based on the defined standard benefit. For alternative benefit plans, these costs should be based on the alternative benefit.

**SECTION VIII – DIR #10 PROJECTION**

Section VIII summarizes the DIR #10 (Risk-Sharing Arrangement Payments and Adjustments) PMPM for the projection period.

**Line 1, column n – Projected PMPM**

Enter the PMPM for DIR #10 for the projection period. This entry should be based on the plan benefit. For defined standard plans, this amount should be based on the defined standard benefit. For alternative benefit plans, the amount should be based on the alternative benefit. The amount entered in this section is a subset of the total rebate amount entered elsewhere in the BPT and may be positive or negative depending on the direction of the payment. For example, if the payment was made from the plan sponsor to the provider the amount would be negative, whereas if the payment was made from the provider to the plan sponsor the amount would be positive.

## **PD WORKSHEET 3 – RX CONTRACT PERIOD PROJECTION FOR DEFINED STANDARD COVERAGE**

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Worksheet 3 develops the defined standard bid amount. Specifically, Section I displays general information about the plan; Section II collects contract period information; Section III summarizes the contract period Rx projection; Sections IV collects information pertaining to IRA Part D drug projection; and Section V summarizes components of the defined standard bid amount.

Sections II through V must be completed by all plans.

### **SECTION I – GENERAL INFORMATION**

This section displays the information entered on Worksheet 1, Section I.

### **SECTION II – PROJECTION DATA**

#### **Line 1 – Projected Total Member Months**

The value is carried from Section III, line 5, column e. For an MA-PD, Part D projected member months are the sum of projected member months for MA, ESRD and hospice members.

##### ✓ **Line 1a – Projected Low-Income Subsidy (LIS) Member Months**

Enter the estimated number of member months for enrollees who will qualify for and obtain LIS status in the contract period.

##### ✓ **Line 1b – Projected non-LIS Member Months**

The value is calculated automatically in the BPT as projected total member months minus projected low-income subsidy member months.

#### **Line 2 – Projected Average Risk Score**

The value is calculated based on the risk scores entered in lines 2a and 2b.

##### ✓ **Line 2a – Projected LIS Risk Score**

Enter the estimated average Rx risk score for the enrollees who will qualify for and obtain LIS status in the contract period.

##### ✓ **Line 2b – Projected NLI Risk Score**

Enter the estimated average Rx risk score for the non-LIS population.

### **SECTION III – PART D COVERED DRUG CLAIMS**

The entries in this section must reflect the risk score entered in Section II, line 2.

**Lines 1 through 4**

✓ **Column d – Number of Members**

Enter the number of members expected to be in the claim interval defined for each line. Do not include estimates for claims for which the Part D plan is the secondary payer.

If the member's allowed claims are \$0, the member must be reported in Line 1. If the member's allowed claims exceed \$0, but the member is not an applicable beneficiary for the Discount Program, the member must be reported in Line 2. If the member is an applicable beneficiary for the Discount Program, but the member's TrOOP costs do not exceed the out-of-pocket limit, the member must be reported in Line 3. If the member's TrOOP costs exceed the out-of-pocket limit, the member must be reported in Line 4.

✓ **Column e – Member Months**

Enter the number of member months that are expected in the contract period that are associated with the number of members in column d for each line.

✓ **Column h – Average Amount Allowed PMPM**

The value is calculated automatically in the BPT as column g divided by projected member months for each line.

✓ **Column n – Plan Liability PMPM**

The value is calculated automatically in the BPT as column h minus the sum of columns k through m for each line.

**Lines 2 through 4**

✓ **Column f – Number of Scripts**

Enter the estimated total number of prescriptions expected to be filled for Part D-covered drugs for the members in column d for each line.

✓ **Column g – Projected Allowed Amount**

Enter the estimated total allowed dollars for prescriptions expected to be filled for Part D-covered drugs for the members in column d for each line. Total allowed dollars must reflect the price paid to the dispensing provider at the point-of-sale and must be net of point-of-sale rebates and price concessions (e.g. ERPOSA).

✓ **Column i – Cost Sharing**

The value is calculated automatically in the BPT as the sum of columns k through l for each line.

✓ **Column k – PMPM Deductible**

Enter the projected PMPM value of the deductible for the members in column d for each line. Insulins are not subject to the deductible. As such, insulin costs must not be included in this column.

✓ **Column i – Other Cost Sharing PMPM**

Enter the projected PMPM value of the 25 percent cost sharing between the deductible and catastrophic limit for the members in column d for each line. Insulin cost sharing must be included in this column.

✓ **Column o – Federal LICS PMPM**

Enter the projected amount of low-income cost sharing subsidy that will be received for the members in column d who are LIS-eligible divided by the total projected member months entered in Section II, line 1 for each line.

**Line 4, column m – Federal Reinsurance PMPM**

Enter the projected amount of federal reinsurance that will be received for the members in column d divided by the total projected member months in Section II, line 1 for each line.

**Line 5 – Subtotal**

The value is calculated automatically in the BPT using values from lines 1 through 4 for each column.

**Line 6 – Minus Rebates**

✓ **Column g**

Enter the total amount of rebates expected to be received for the claims in lines 1 through 4. Total rebates include all direct and indirect remuneration received after the point-of-sale transaction. Point-of-sale rebates reported in “Column g – Projected Allowed Amount” are not reported here (e.g. ERPOSA).

Report the rebates at the PBP level. If the Part D sponsor does not receive rebates at the PBP level, then an allocation methodology may be used. The methodology used for reporting rebates and all other types of DIR must be substantiated in the supporting documentation that is uploaded into HPMS with the initial bid submission.

✓ **Column h**

The value is calculated automatically in the BPT as column g divided by line 5, column e.

✓ **Column m**

Enter the estimated amount of rebates allocated to federal reinsurance.

✓ **Column n**

The value is calculated automatically in the BPT as column h minus column m.

**Line 7 – Plus Part D as Secondary**

✓ **Column g**

Enter, as a positive value, the projected total plan cost (CPP + NPP) for Part D-covered drugs for which the Part D plan is the secondary payer.

✓ **Column h**

The value is calculated automatically in the BPT as column g divided by line 5, column e.

✓ **Column m**

Enter, as a positive value, the projected PMPM plan liability for Part D-covered drugs attributable to federal reinsurance for which the Part D plan is the secondary payer.

✓ **Column n**

The value is calculated automatically in the BPT as column h minus column m.

**Line 8, column n – Minus Manufacturer Discount**

The value is calculated automatically in the BPT using values from Worksheets 3 and 6.

**Line 9, columns g through o – Total**

The values are calculated automatically in the BPT using values from lines 5 through 8 for each column.

**SECTION IV – IRA PART D DRUG PROJECTION**

Section IV summarizes components of IRA Part D Drug costs for the contract period.

**Line 1, columns d through f – Maximum Fair Price Drugs**

The Maximum Fair Price Drugs are defined as those drugs which were selected for negotiation for initial price applicability for CY2027.

Enter the total number of scripts, total allowed dollars, and total cost sharing for the Maximum Fair Price Drugs for the projection period in these cells. This entry should be based on the defined standard benefit. The amounts entered in this section are a subset of those entered in Section III.

**SECTION V – DEFINED STANDARD COVERAGE BID DEVELOPMENT**

Section V summarizes the components of the defined standard bid amount.

**Lines 1 through 5, columns k and l**

The values are calculated automatically in the BPT using values in Worksheets 2 and 3.

## **PD WORKSHEET 4 – RX STANDARD COVERAGE WITH ACTUARIALLY EQUIVALENT COST SHARING**

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Worksheet 4 must be completed when the plan benefit type is Actuarially Equivalent (AE). The test that must be satisfied to demonstrate actuarial equivalence is:

- The average coinsurance percentage for amounts between the deductible and the catastrophic threshold must be actuarially equivalent to 25 percent.

### **CONSIDERATIONS FOR ACTUARIALLY EQUIVALENT COVERAGE**

Although the average cost sharing between the deductible and catastrophic threshold must be 25 percent for an AE plan, it is expected that the cost sharing will be restructured to encourage more efficient drug use through tiered copays and/or coinsurance. As compared to DS plans, AE plans generally have higher generic, preferred brand, and mail service utilization and lower non-preferred brand utilization.

Part D sponsors must model the differences between the AE benefit and the DS benefit by making adjustments in utilization and average allowed amounts by type of drug and point-of-sale (retail or mail order as defined by the PBP) in Worksheet 6. The distribution of utilization between generic and brand, and between retail and mail, must be reasonable given the proposed benefit. Significant changes to the benefit are expected to result in meaningful differences in utilization when compared to the DS bid.

### **SECTION I – GENERAL INFORMATION**

This section displays the information entered on Worksheet 1, Section I.

### **SECTION II – PROJECTION DATA**

This section displays the information entered on Worksheet 3, Section II.

### **SECTION III – DEVELOPMENT OF BID FOR DEFINED STANDARD COVERAGE**

This section displays information from Worksheet 3, Sections III and V.

### **SECTION IV – DEVELOPMENT OF BID COMPONENTS AND TEST FOR ACTUARIAL EQUIVALENCE**

**Lines 1 through 14, columns e, i and l**

The values are carried from other worksheets in the BPT.

#### **Line 15 – Rebates**

##### **✓ Column i**

Enter the estimated amount of rebates allocated to federal reinsurance.

✓ **Column I**

Enter the estimated total amount of rebates expected to be received by the plan.

**Line 16 – Test for Actuarial Equivalence**

The actuarial equivalence test is applied to certain values in Section IV to determine whether the proposed benefit plan qualifies as standard coverage with actuarially equivalent cost sharing.

**SECTION V – STANDARD COVERAGE BID DEVELOPMENT WITH ACTUARIALLY EQUIVALENT COST SHARING**

**Lines 1 through 5**

The values are calculated automatically in the BPT from values in Section IV and from values on Worksheet 3. The amounts in the first column are calculated based on the plan's risk score, while the amounts in the second column are based on a 1.00 risk score.

**Line 6 – Gross Federal Reinsurance**

Enter the projected average gross federal reinsurance PMPM for the risk score of the expected population.

**Line 7 – LIS**

Enter the projected average low-income cost sharing PMPM subsidy for the risk score of the expected population.

## **PD WORKSHEET 5 – RX ALTERNATIVE COVERAGE**

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Worksheet 5 must be completed when the plan benefit type is Basic Alternative (BA) or Enhanced Alternative (EA). The four tests that must be satisfied to demonstrate actuarial equivalence are as follows:

- The value of total coverage is at least actuarially equivalent to DS coverage.
- The alternative unsubsidized value of coverage is no less than the DS unsubsidized value of coverage.
- The average alternative benefits for beneficiaries with allowed drug costs at the catastrophic threshold are not less than the average DS benefits at the catastrophic threshold.
- The deductible is not greater than the DS deductible.

### **CONSIDERATIONS FOR BASIC ALTERNATIVE AND ENHANCED ALTERNATIVE COVERAGE**

Although the average cost sharing between the deductible and catastrophic threshold must be 25 percent for a BA and less than or equal to 25 percent for an EA plan, it is expected that the cost sharing will be restructured to encourage more efficient drug use through tiered copays and/or coinsurance. As compared to DS plans, BA and EA plans generally have higher generic, preferred brand and mail service utilization and lower non-preferred brand utilization.

Part D sponsors must model the differences between the BA or EA benefit and the DS benefit by making adjustments in utilization and average allowed amounts by type of drug and point-of-sale (retail or mail order as defined by the PBP) in Worksheet 6. The distribution of utilization between generic and brand, and between retail and mail, must be reasonable given the proposed benefit. Significant changes to the benefit are expected to result in meaningful differences in utilization when compared to the DS bid.

BA and EA plans may reduce the value of the deductible. Since the value of coverage up to the catastrophic threshold must remain the same relative to the DS, a supplemental premium will result unless the cost of the additional coverage is offset by savings in catastrophic coverage.

### **SECTION I – GENERAL INFORMATION**

This section displays the information entered on Worksheet 1, Section I.

### **SECTION II – PROJECTION DATA**

This section displays the information entered on Worksheet 3, Section II.

### **SECTION III – DEVELOPMENT OF BID FOR DEFINED STANDARD COVERAGE**

This section displays the information from Worksheet 3, Sections III and V.

## SECTION IV – DEVELOPMENT OF BID COMPONENTS

### Lines 1 through 3

✓ **Columns f, g and m**

The values are carried from Worksheet 3 in the BPT.

✓ **Columns i and o**

The values are calculated automatically in the BPT as column f plus column g.

### Type of Deductible

Select in cell I33 the type of deductible consistent with the description in the PBP for the alternative coverage. The valid options are: “no deductible”, “applies to all tiers” or “applies to some tiers”.

### Alternative Coverage Deductible Amount

Enter in cell I34 the alternative coverage deductible amount consistent with the amount in the PBP. Plans with a non-uniform deductible must also enter their deductible amount in this cell.

### Lines 4 through 21

The values in columns f through o include Part D-covered drugs only; the values in column q include non-Part D-covered drugs only. The values are carried from other worksheets or are calculated automatically in the BPT, with the exception of the following, which must be entered:

✓ **Line 15, column m – Federal Reinsurance**

Enter the projected average gross federal reinsurance PMPM for the risk score of the expected population.

✓ **Line 17, column m – Minus Rebates**

Enter the estimated amount of rebates allocated to federal reinsurance.

✓ **Line 17, column o – Minus Rebates**

Enter the estimated total rebates PMPM expected to be received for Part D-covered drugs.

✓ **Line 17, column q – Minus Rebates**

Enter the estimated total rebates PMPM expected to be received for non-Part D-covered drugs.

✓ **Line 19, columns m, o and q – Plus Part D as Secondary**

Enter, as a positive value, the projected plan liability PMPM for which the Part D plan is the secondary payer for reinsurance-eligible Part D-covered drugs, Part D-covered drugs and non-Part D-covered drugs in columns m, o, and q, respectively.

## **SECTION V – DEVELOPMENT OF ACTUARIAL EQUIVALENCE TEST**

### **Lines 1 through 8**

The values are calculated automatically in the BPT from values in Section IV. The amounts in the first column are calculated based on the plan's risk score, while the amounts in the second column are based on a 1.00 risk score.

### **Line 9 – LIS**

Enter the projected average low-income cost sharing PMPM subsidy for the risk score of the expected population.

## **SECTION VI – TESTS FOR ALTERNATIVE COVERAGE**

This section applies the four actuarial equivalence tests to certain values in Sections III through V to determine whether the proposed benefit plan qualifies as alternative coverage.

## **SECTION VII – DEVELOPMENT OF SUPPLEMENTAL PREMIUM**

### **Lines 1 through 5 and 8**

The values are calculated automatically in the BPT from values in Worksheet 5.

### **Line 6 – Additional Non-Benefit Expenses**

The value is carried from Worksheet 2.

### **Line 7 – Additional Gain/Loss Margin**

The value is carried from Worksheet 2.

## **SECTION VIII – DEVELOPMENT OF INDUCED UTILIZATION ADJUSTMENT**

This section summarizes the additional costs of DS coverage with respect to the enhanced alternative plan with supplemental benefits and is used to adjust allowable costs for risk corridor payments.

### **Line 2 – Impact of Alternative Utilization on Standard Benefit**

Enter the additional costs for Part D-covered drugs under a DS plan in the first column if the utilization of the EA plan was used to price the DS coverage in the bid. The adjustment applies to the EA plan type only and must be a positive value.

## **PD WORKSHEET 6 – RX SCRIPT PROJECTIONS FOR DEFINED STANDARD, ACTUARIALLY EQUIVALENT OR ALTERNATIVE COVERAGE**

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Worksheet 6 summarizes drug utilization and costs by type of drug and point-of-sale (retail or mail order as defined by the PBP) in different distributions of drug spending. In addition, Worksheet 6 illustrates the underlying assumptions used in the demonstration of the actuarial equivalence tests in Worksheets 4 and 5. Section II collects data in a manner that supports an actuarial comparison of the proposed AE, BA or EA plan benefit type to DS coverage.

### **CONSIDERATIONS**

Although this worksheet is not a detailed model of the cost sharing structure of the AE, BA or EA plan design, the impact of tiered cost sharing and benefit management programs on utilization must be clearly demonstrated. The distribution of utilization between generic and brand, and between retail and mail, must be reasonable given the proposed benefit. Significant changes to the alternative benefit are expected to result in meaningful differences in utilization when compared to the DS bid. Part D sponsors must model the impact of the alternative benefit compared to the DS by making adjustments in utilization and average script pricing in Worksheet 6. The distributions must be based on the intervals defined for DS coverage. For purposes of modeling the alternative coverage, members must be reported in the claims interval in which they were reported under DS coverage even though their total drug spend may be different because of the impact of the alternative benefits. For example, lines 1 through 10 must reflect the utilization for the AE, BA or EA plan for members expected to have allowed costs less than or equal to the catastrophic threshold. In other words, the amounts summarized in columns i, j and k must be based on the same members represented in columns f, g, and h of each line.

Insulins and vaccines are not subject to the deductible. As such, insulin and vaccine costs must not be included in the Claims Subject to Deductible lines on Worksheet 6.

TrOOP-eligible costs for drugs not subject to the DS deductible, specifically covered insulin products, as well as TrOOP-eligible costs for drugs not subject to a non-DS plan deductible or drugs subject to a reduced deductible under non-DS plans, all count towards a beneficiary's satisfaction of the DS deductible. These costs must be considered when determining where members and their costs are reported on Worksheet 6.

For claims which straddle multiple coverage phases, the script count and dollars must be prorated and allocated into the appropriate phases.

### **SECTION I – GENERAL INFORMATION**

This section displays the information entered on Worksheet 1, Section I.

## SECTION II – PROJECTIONS FOR EQUIVALENCE TESTS

Data are collected for four levels of allowed costs on lines 1 through 40. The distribution of the population and Part D covered drug claims reported on Worksheet 3 must be used in completing this section. Columns f through h must be completed for all plans based on DS coverage; columns i through k must be completed when the plan benefit type is AE, BA or EA based on the alternative coverage. In developing the cost sharing values in columns h and k, do not model the impact of the deductible and LIS subsidy. To model column h, use the cost sharing structure of the DS plan; to model column k, use the cost sharing structure of the alternative (AE, BA or EA) plan.

### Lines 1 through 10 – Population Not Exceeding the Catastrophic Threshold

All utilization for members with projected total allowed costs less than or equal to the catastrophic threshold must be reported on these lines.

#### ✓ Columns f through h – Defined Standard Coverage

Enter the projected total number of scripts, total allowed dollars, and total standard cost sharing for the population identified in Worksheet 3, Section III, cells D22 plus D23, using the cost sharing structure of the DS plan by point-of-sale (retail or mail order as defined by the PBP) and type of drug in columns f, g, and h, respectively, for each line. Calculate the cost sharing as if there were no deductible and LIS subsidy. Exclude claims subject to the deductible, which are reported in line 12. Exclude insulins and vaccines in lines 1 through 8. Report insulins and vaccines in lines 9 and 10.

#### ✓ Columns i through k – Actuarially Equivalent or Alternative Benefits

When the plan benefit type is AE, BA or EA, enter the projected total number of scripts, total allowed dollars and total cost sharing for the population identified in Worksheet 3, Section III, cells D22 plus D23, using the cost sharing structure of the AE, BA or EA plan by point-of-sale (retail or mail order as defined by the PBP) and type of drug in columns i, j and k, respectively, for each line. Calculate the cost sharing as if there were no deductible and LIS subsidy. These values include changes to utilization patterns based on the difference between DS coverage and the proposed alternative coverage. Exclude claims subject to the deductible, which are reported in line 12. Exclude insulins and vaccines in lines 1 through 8. Report insulins and vaccines in lines 9 and 10. Exclude costs above the catastrophic threshold in lines 1 through 10. Report any costs above the catastrophic threshold in line 39.

### Line 11, columns f through k – Total

The values are calculated automatically in the BPT as the sum of lines 1 through 10 for each column.

### Line 12, columns f, g, i and j – Claims Subject to Deductible (<=Catastrophic Threshold)

For the population with allowed costs less than or equal to the catastrophic threshold, enter the number of scripts that are subject to the deductible in columns f and i.

For the population with allowed costs less than or equal to the catastrophic threshold, enter allowed costs that are subject to the deductible in columns g and j.

**Line 13, columns g and j – Manufacturer Discount (<=Catastrophic Threshold)**

For the population with allowed costs less than or equal to the catastrophic threshold, enter the manufacturer discount in columns g and j.

This line must also include the subsidy for selected drugs for the population with allowed costs less than or equal to the catastrophic threshold. The subsidy for selected drugs is the ten percent subsidy paid by CMS in the initial coverage phase for selected drugs. Federal reinsurance for selected drugs is not included in this amount and should be treated similarly to other federal reinsurance in the BPT.

**Lines 14 through 23 – Population Exceeding the Catastrophic Threshold**

All utilization for members with projected total allowed costs greater than the catastrophic threshold must be reported on these lines.

✓ **Columns f through h – Defined Standard Coverage**

Enter the projected total number of scripts, total allowed dollars, and total standard cost sharing for the population identified in Worksheet 3, Section III, cell D24, using the cost sharing structure of the DS plan by point-of-sale and type of drug in columns f, g and h, respectively, for each line. Calculate the cost sharing as if there were no deductible and LIS subsidy. Exclude claims subject to the deductible, which are reported in line 25. Exclude insulins and vaccines in lines 14 through 21. Report insulins and vaccines in lines 22 and 23.

✓ **Columns i through k – Actuarially Equivalent or Alternative Benefits**

When the plan benefit type is AE, BA or EA, enter the projected total number of scripts, total allowed dollars and total cost sharing for the population identified in Worksheet 3, Section III, cell D24, using the cost sharing structure of the AE, BA or EA plan by point-of-sale and type of drug in columns i, j and k, respectively, for each line. Calculate the cost sharing as if there were no deductible and LIS subsidy. These values include changes to utilization patterns based on the difference between DS coverage and the proposed alternative coverage. Exclude claims subject to the deductible, which are reported in line 25. Exclude insulins and vaccines in lines 14 through 21. Report insulins and vaccines in lines 22 and 23.

**Line 24, columns f through k – Total**

The values are calculated automatically in the BPT as the sum of lines 14 through 23 for each column.

**Line 25, columns f, g, i and j – Claims Subject to Deductible (>Catastrophic Threshold)**

For the population with allowed costs greater than the catastrophic threshold, enter the number of scripts that are subject to the deductible in columns f and i.

For the population with allowed costs greater than the catastrophic threshold, enter allowed costs that are subject to the deductible in columns g and j.

**Line 26, columns g and j – Manufacturer Discount (>Catastrophic Threshold)**

For the population with allowed costs greater than the catastrophic threshold, enter the manufacturer discount in columns g and j.

This line must also include the subsidy for selected drugs for the population with allowed costs greater than the catastrophic threshold. The subsidy for selected drugs is the ten percent subsidy paid by CMS in the initial coverage phase for selected drugs. Federal reinsurance for selected drugs is not included in this amount and should be treated similarly to other federal reinsurance in the BPT.

**Lines 27 through 36 – Amounts Allocated up to the Catastrophic Threshold for the Population Exceeding the Catastrophic Threshold**

All utilization for total allowed costs up to the catastrophic threshold for members with projected total allowed costs greater than the catastrophic threshold must be reported on these lines. These amounts are a subset of the amounts reported in lines 14 through 23.

✓ **Columns f through h – Defined Standard Coverage**

Enter the projected total number of scripts, total allowed dollars, and total standard cost sharing, for amounts allocated up to the catastrophic threshold, for the population identified in Worksheet 3, Section III, cell D24, using the cost sharing structure of the DS plan by point-of-sale and type of drug, in columns f, g and h, respectively, for each line. Calculate the cost sharing as if there were no deductible and LIS subsidy. Exclude claims subject to the deductible, which are reported in line 25. Exclude insulins and vaccines in lines 27 through 34. Report insulins and vaccines in lines 35 and 36.

✓ **Columns i through k – Actuarially Equivalent or Alternative Benefits**

When the plan benefit type is AE, BA or EA, enter the projected total number of scripts, total allowed dollars and total cost sharing, for amounts allocated up to the catastrophic threshold, for the population identified in Worksheet 3, Section III, cell D24, using the cost sharing structure of the AE, BA or EA plan by point-of-sale and type of drug, in columns i, j and k, respectively, for each line. Calculate the cost sharing as if there were no deductible and LIS subsidy. These values include changes to utilization patterns based on the difference between DS coverage and the proposed alternative coverage. Exclude claims subject to the deductible, which are reported in line 25. Exclude insulins and vaccines in lines 27 through 34. Report insulins and vaccines in lines 35 and 36. Exclude costs above the catastrophic threshold in lines 27 through 36. Report any costs above the catastrophic threshold in line 39.

**Line 37, columns f through k – Total**

The values are calculated automatically in the BPT as the sum of lines 27 through 36 for each column.

**Line 38, columns g and j – Manufacturer Discount (Amounts Allocated up to the Catastrophic Threshold for the Population Exceeding the Catastrophic Threshold)**

The value for column g is calculated automatically in the BPT as the difference between line 26 and line 40.

When the plan benefit type is AE, BA or EA, enter the manufacturer discount for amounts allocated up to the catastrophic threshold, for the population with allowed costs greater than the catastrophic threshold, in column j.

This line must also include the subsidy for selected drugs for the population with allowed costs greater than the catastrophic threshold. The subsidy for selected drugs is the ten percent subsidy paid by CMS in the initial coverage phase for selected drugs. Federal reinsurance for selected drugs is not included in this amount and should be treated similarly to other federal reinsurance in the BPT.

**Line 39, columns f, g, i and j – Amounts Allocated over the Catastrophic Coverage**

The values in columns f and g are calculated automatically as the difference between line 24 and line 37.

When the benefit plan type is AE, BA, or EA, enter all scripts and costs greater than the catastrophic threshold in columns i and j, respectively.

**Line 40, columns g and j – Manufacturer Discount (Amounts Allocated over the Catastrophic Threshold)**

The manufacture discount for total allowed costs over the catastrophic threshold for members with projected total allowed costs greater than the catastrophic threshold must be reported on this line.

**Line 41, columns i through k – Non-Part D-Covered Drugs - All Spending**

When the plan benefit type is EA and the plan covers non-Part D drugs, enter the projected total number of scripts, total allowed dollars and total cost sharing, for the population identified in Worksheet 3, Section III, using the cost sharing structure of the EA plan by point-of-sale and type of drug, in columns i, j and k, respectively, for each line.

**SUBSIDY FOR SELECTED DRUGS**

The subsidy for selected drugs is the ten percent subsidy paid by CMS in the initial coverage phase for selected drugs. Federal reinsurance for selected drugs is not included in this amount and should be treated similarly to other federal reinsurance in the BPT.

When the plan benefit type is DS, enter the defined standard total dollars for the subsidy for selected drugs.

When the plan benefit type is AE, BA or EA, enter the defined standard total dollars for the subsidy for selected drugs and enter the alternative total dollars for the subsidy for selected drugs.

## **PD WORKSHEET 7 – SUMMARY OF KEY BID ELEMENTS**

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Worksheet 7 summarizes key payment-related components of the bid and the Part D sponsor's estimate of the national average monthly bid amount and calculates premiums.

### **SECTION I – GENERAL INFORMATION**

This section displays the information entered on Worksheet 1, Section I.

### **SECTION II – 2027 DEFINED STANDARD BENEFIT PARAMETERS**

#### **Line 1 – Deductible**

The cell is pre-populated with the deductible for the DS plan benefit type.

#### **Line 2 – Out-of-Pocket Limit**

The cell is pre-populated with the OOP for the DS plan benefit type.

### **SECTION III – SUMMARY OF KEY BID ELEMENTS**

#### **Line 1 – Standardized Part D Bid**

The value is carried from other worksheets in the BPT based on the plan benefit type (DS, AE, BA or EA).

#### **Line 2 – National Average Monthly Bid Amount (NAMBA)**

Enter the Part D sponsor's estimate of the NAMBA at the time of bid submission. The final NAMBA for CY2027 will be calculated and published by CMS after the initial June bid submission.

The NAMBA estimate must be equal for all plans under a single organization.

#### **Line 3 – Base Beneficiary Premium (BBP)**

Enter the Part D sponsor's estimate of the BBP. The NAMBA, basic Part D A/B rebate allocation reported on the MA BPT for MA plans and BBP will determine the plan's basic Part D target premium. This value must be less than or equal to a six percent increase over the prior year's BBP.

**Lines 4 and 5 – Basic Part D Premium (prior to A/B rebate allocation)**

The values are calculated automatically in the BPT. Line 5 is calculated as line 1 minus line 2 plus line 3. Line 5 reflects the value of the basic Part D premium from line 4 after the rounding rule selected on line 13 of this section has been applied. The basic Part D premium, before and after the rounding rule is applied, will be updated based on the final NAMBA and BBP that are calculated and published by CMS after the initial June bid submission.

The total Part D premium (Worksheet 7, line 5 plus Worksheet 7, line 7) must be greater than or equal to zero.

**Lines 6 and 7 – Supplemental Part D Premium (prior to A/B rebate allocation)**

The values are calculated automatically in the BPT when supplemental benefits are offered. Line 6 is carried from Worksheet 5 of the BPT. Line 7 reflects the value of the supplemental Part D premium from line 6 after the rounding rule selected on line 13 of this section has been applied.

The total Part D premium (Worksheet 7, line 5 plus Worksheet 7, line 7) must be greater than or equal to zero.

**Line 8 – Prospective Federal Reinsurance (Non-Standardized)**

The value is carried from other worksheets in the BPT based on the plan benefit type (DS, AE, BA or EA).

**Line 9 – Prospective Low-income Cost Sharing Subsidy (Non-Standardized)**

The value is carried from other worksheets in the BPT based on the plan benefit type (DS, AE, BA or EA).

**Line 10 – Target Amount Adjustment (Allowed Costs as a Ratio of Bid)**

The target adjustment is the allowed costs percentage of the bid and it is used in calculating the target amount for risk corridor payments. The value is calculated as—

$[(1.00 - \text{administration cost percentage}) \times (\text{total direct subsidy payments} + \text{total beneficiary premiums related to the standardized bid amount})]$

**Line 11 – Manufacturer Discount Amount (exclusive of Selected Drug Subsidy)**

The value is carried from Worksheet 6 of the BPT.

**Line 12 – Selected Drug Subsidy Amount**

The value is carried from Worksheet 6 of the BPT.

**Line 13 – Rounding Rule**

Select the option from the drop-down box that corresponds to the preferred method for rounding the Part D premium. The valid options are \$0.10 and \$0.50. MA-PD plans are required to round to the nearest \$0.10; PDP plans are permitted to round to either the nearest \$0.10 or the nearest \$0.50.

**SECTION IV – PART D BID PRICING TOOL CONTACTS AND DATE PREPARED**

Part D sponsors must identify three persons as plan bid contact, Part D certifying actuary and Part D additional actuarial BPT contact. However, the Part D sponsor may designate a centralized mailbox as the e-mail for any of the three contacts.

The Part D certifying actuary and Part D additional actuarial BPT contact must be readily available and authorized to discuss the development of the pricing of the bid.

In this section, enter the name, phone number and e-mail information for all three contacts; credentials are a required input for the certifying actuary. For the phone number, enter all ten digits consecutively without parentheses or dashes. Do not leave any part of this section blank.

Section IV also contains a field labeled “Date Prepared.” This field is populated with a date/time stamp during BPT finalization.

**SECTION V – WORKING MODEL TEXT BOX**

This section contains multiple cells that may be used by bid preparers to enter internal notes—for example, to facilitate communication between BPT and PBP preparers or to track internal version schemes.

Section V will be deleted from the finalized file and therefore will not be uploaded to HPMS. Bid preparers must not enter information in this section meant to be communicated to CMS or to CMS reviewers, as CMS will not have access to it. Section V will not be deleted from the working file or the backup file during finalization.

## **IV. APPENDICES**

### **APPENDIX A – ACTUARIAL CERTIFICATION**

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#### **GENERAL**

CMS requires an actuarial certification to accompany every bid submitted to HPMS. If a certification is not submitted via the HPMS certification module, the bid will not be considered for CMS review and approval. Every Part D BPT requires a certification. Likewise, every MA BPT requires a certification.

A qualified actuary who is a member of the American Academy of Actuaries (MAAA) must complete the certification. The objective of obtaining an actuarial certification is to place greater responsibility on the actuary's professional judgment and to hold that person accountable for the reasonableness of the assumptions and projections.

#### **Certification Module**

The certification module contains the following features:

- Standardized required language.
- The ability to append free-form text language to the required standardized language.
- A summary of key information from the submitted bids.
- Links to additional information regarding the bid package, such as the PBP, BPT and supporting documentation.
- The ability to certify multiple bids/contracts.
- The ability to print and save the submitted certification.

An initial actuarial certification must be submitted via the HPMS certification module in June. The actuary must also certify the final bid (that is pending CMS approval) via the certification module in August following the CMS publication of the Part D national average monthly bid amount, the Part D base beneficiary premium, the Part D regional low-income premium subsidy amounts and the MA regional benchmarks. Actuaries are not required to certify every intermittent resubmission throughout the bid review process, but they may do so if they wish. Note that in the event that the PBP changes after the final bid is certified, the bid that is uploaded into HPMS with the revised PBP must be recertified whether or not the BPT changes.

Material changes to the certification language (after the initial June certification submission) are not allowed without prior written permission from the CMS Office of the Actuary.

Multiple actuaries may be assigned to one contract to perform the certifications. For example, a consulting actuary may certify the Part D portion of a bid, while an internal plan staff actuary may certify the MA portion of the bid. Also, one actuary may certify plan Hxxxx-001, while a different actuary may certify plan Hxxxx-002. The instructions contained in this appendix must be followed by all certifying actuaries.

Additional information regarding the actuarial certification process (including technical instructions for completing the HPMS certification module) will be included in an initial actuarial certification deadline memorandum released via HPMS.

Detailed instructions regarding how to apply for access to the certification module are released via an HPMS memorandum regarding consultant access or electronic signature access to HPMS.

### Required Certification Elements

The certification module contains the following information as part of the standardized language:

- The certifying actuary's name/user ID and the date, "stamped" when completed.
- Declaration that the actuary submitting the certification is a member of the American Academy of Actuaries (MAAA). As such, the actuary is familiar with the requirements for preparing Medicare Advantage and Prescription Drug bid submissions and meets the Academy's qualification standards for doing so.
- The specific contract number, plan ID and segment ID of the bid(s) being certified.
- The contract year of the bid(s) contained in the certification.
- Indication of whether the certification applies to the MA bid(s), the PD (Part D) bid(s) or both.
- Attestation that the bid(s) are in compliance with the applicable laws,<sup>1</sup> rules,<sup>2</sup> CY2027 bid instructions and current CMS guidance.
- Attestation that, in accordance with Federal law, the bid(s) are based on the "average revenue requirements in the payment area for a Medicare Advantage/Prescription Drug enrollee with a national average risk profile."
- Attestation that the data and assumptions used in the development of the bid(s) are reasonable for the plan's benefit package (PBP).
- Attestation that the bid(s) were prepared in compliance with the current standards of practice, as promulgated by the Actuarial Standards Board of the American Academy of Actuaries.<sup>3</sup>

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<sup>1</sup> Social Security Act sections 1851 through 1859; and Social Security Act sections 1860D-1 through 1860D-42.

<sup>2</sup> 42 CFR Parts 400, 403, 411, 417, 422, and 423

<sup>3</sup> Emphasis is placed on, but not limited to, the following Actuarial Standards of Practice (ASOPs):

- ASOP No. 5, *Incurred Health and Disability Claims*
- ASOP No. 8, *Regulatory Filings for Health Benefits, Accident and Health Insurance, and Entities Providing Health Benefits (Revised)*
- ASOP No. 23, *Data Quality*
- ASOP No. 25, *Credibility Procedures*
- ASOP No. 41, *Actuarial Communications*
- ASOP No. 45, *The Use of Health Status Based Risk Adjustment Methodologies*

## APPENDIX B – SUPPORTING DOCUMENTATION

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### GENERAL

In addition to the BPT and actuarial certification, Part D sponsors must provide CMS with supporting documentation for every bid, as described in these Instructions.

Unless otherwise noted, Part D sponsors must upload to HPMS all required supporting documentation at the time of the initial June bid submission. Additional supporting documentation must be made available to CMS auditors and reviewers upon request, and for CMS reviewers, within 48 hours of the request, as required by these Instructions. Part D sponsors must upload supporting documentation consistent with the final certified bid.

Additional information not listed by number in this appendix may be requested by CMS reviewers and auditors at any point during bid desk review or a CMS audit.

Supporting documentation requirements apply regardless of the source of the assumption, whether it was developed by the actuary, the Part D sponsor or a third party. If the actuary relied upon others for certain bid data and/or assumptions, those individuals are subject to the same documentation requirements. The actuary must provide all substantiation pertaining to the bid as required in this appendix, even if it was prepared by others or is based on reliance.

In preparing supporting documentation, the actuary must consider ASOP No. 41, *Actuarial Communications*. In accordance with Section 3.2, “Actuarial Report,” the materials provided must be written “with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary’s work.”

All data submitted as part of the bid process are subject to review and audit by CMS or by any person or organization that CMS designates. Certifying actuaries and additional Part D BPT actuarial contacts must be available to respond to inquiries from CMS reviewers regarding the submitted bids.

Supporting documentation must—

- Be clearly labeled and easily understood by CMS reviewers.
- Explain the rationale for the assumptions, including quantitative support and details, rather than just provide narrative descriptions of assumptions.
- Describe bid-specific variations in addition to the overall pricing assumption or methodology.
- Match the values entered in the current BPT and tie to the PBP.
- Include Excel spreadsheets with working formulas, rather than pdf files, and a narrative explanation of the inputs and the calculations and their components.
- Clearly identify if it is related to MA, Part D or both.
- Clearly identify the bid(s) relating to the support. At a minimum, the contract number and organization name must appear on the first page. Specific plan numbers must be included where appropriate, such as on the first page, in a separate chart or as an attachment.
- Include a hard-coded date.

- Include the contract-plan ID (or organization name) and brief description in the beginning of the file name.

Acceptable forms of supporting documentation include, but are not limited to, the following items:

- Meeting minutes that include comprehensive documentation of discussions related to bid development.
- A complete description of data sources—for example, a report’s official name/title, file name, date obtained, source file, the precise name of any published tables used, etc.
- Intermediate calculations showing each step taken to calculate an assumption.
- A summary of contractual terms of administrative services arrangements.
- A business plan.

Supporting documentation that is not acceptable or that may result in a request for additional information includes, but is not limited to, the following items:

- Materials that are accessible only through a secure server link that requires a password.
- A reference to the supporting documentation for another plan, such as “the same as for plan Hxxxx-xxx,” and not the documentation itself. The supporting documentation for a bid must be self-contained.
- Excel spreadsheets with a vague explanation or no explanation of the bid-specific inputs and calculations.
- Excel spreadsheets with data that cannot be directly traced back to data entered in the BPT.
- PDF files with the “copy” function disabled.
- A statement that the source of a pricing assumption is “professional judgment” with no additional explanation of the data points underlying the assumptions—for example, supporting factors, studies or public information.
- Living worksheets that are overwritten with current data. Supporting documentation must include the version of the worksheet that was used in bid preparation.
- Information obtained after the bids are submitted.
- A statement that a pricing assumption or methodology is assumed acceptable based on its inclusion in a bid that was approved by CMS in a prior contract year. Data, assumptions, methodologies and projections must be determined to be reasonable and appropriate for the current bid, independent of bid filings in previous years.

## **SUBMITTING SUPPORTING DOCUMENTATION**

Supporting materials must be in electronic format (for example, Microsoft Excel, Microsoft Word, or Adobe Acrobat) and must be uploaded to HPMS. CMS will not accept paper copies of supporting documentation. Note that multiple substantiation files can be submitted to HPMS at one time by using “zip” files, which compress multiple files into one (.zip file extension).

Also note that although one file can be uploaded to multiple plans in HPMS, documentation must not be uploaded to plans to which it does not pertain. Similarly, it is not acceptable to

upload to multiple plans materials specific to a Part D plan, an MA bid or another contract number.

More requirements about the upload of substantiation files are located in HPMS in the “Notes” section, under HPMS Home > (Plan Bids) Bid Submission > CY2027 > (Upload) Substantiation > Next.

**Cover Sheet**

To expedite the bid review process, Part D sponsors must upload a cover sheet that lists all of the supporting documentation that is uploaded or provided with the bid form. The filename must include the phrase “cover sheet.” A cover sheet is required for each upload of substantiation.

The cover sheet must include detailed information for each support item—such as the filename and the location within the file, if applicable—and must clearly identify the bids for which such support item applies and whether the substantiation is related to MA, Part D, or both.

Note that some documentation requirements apply to every bid (for example, every bid contains a risk score assumption), while other documentation requirements apply only to bids that contain certain assumptions (for example, manual rate documentation applies only if a bid’s projection is based on manual rates). For documentation categories that apply to a subset of bids that contain a specified assumption, the cover sheet must not refer to a “range” of contract number-plan IDs (such as “plans 001 – 030” or “all plans under contract Hxxxx”). For these items, the cover sheet must contain the exact contract number-plan IDs (contract/plan) to which the documentation applies.

For subsequent substantiation uploads, the cover sheet must summarize the additional documents uploaded at that time (that is, the cover sheet must not be maintained as a cumulative list). The subsequent cover sheets must also contain the exact contract number-plan IDs rather than a “range” of contract number-plan IDs.

Sample check lists and cover sheets for the initial June bid submission, and for subsequent substantiation uploads, are provided at the end of this appendix.

**Timing**

Part D sponsors and certifying actuaries must prepare all supporting documentation at the time of the initial June bid submission so that it is immediately available to CMS and reviewers at initial bid submission or readily available upon request as explained below.

- The “Initial June Bid Submission” section of Appendix B describes supporting documentation materials that Part D sponsors must upload to HPMS with the initial June bid submission.
- The “Upon Request by CMS Reviewers” section of Appendix B describes materials that Part D sponsors and certifying actuaries must provide within 48 hours of request by CMS reviewers and upload to HPMS prior to the final actuarial certification.
- When a BPT is resubmitted, the Part D sponsor must upload a summary of changes, including the cause and effect of each revision, authorized by CMS or CMS reviewers. If multiple BPTs are resubmitted at the same time, the supporting documentation must include a mapping of specific bid changes and contract number-plan IDs.

- Sample BPTs are not to be uploaded to HPMS.
- Prior to the final actuarial certification—
  - Part D sponsors and certifying actuaries must revise supporting documentation consistent with the final certified bid and must upload any additional information or materials provided during bid desk review to support the bid. Specifically—
    - All supporting documentation items listed under the “Initial June Bid Submission” section of Appendix B that were required with the initial bid and continue to be required with the final bid must be revised and uploaded consistent with the final certified bid. In addition, if issues were discovered with these items during bid desk review, support must be revised to address these issues. Please note that only items that changed from initial bid to final bid must be uploaded again.
    - All supporting documentation items listed under the “Initial June Bid Submission” section of Appendix B that were not applicable to the initial bid, but are applicable to the final bid must be uploaded. For example, if the gain/loss margin as a percentage of revenue at the bid level exceeds 11.5% in the final submission, Appendix B.8.6 must be uploaded even when the gain/loss margin as a percentage of revenue at the bid level did not exceed 11.5% in the initial submission.
    - All supporting documentation items listed under the “Upon Request by CMS Reviewers” section of Appendix B that were requested by the bid desk reviewer must be revised and uploaded consistent with the final certified bid.
  - CMS expects revised supporting documentation to have the same file name as the original substantiation file except for a different date or a word such as “revised.”

### Initial June Bid Submission

The following documentation requirements apply to all bids (as all bids contain these assumptions):

1. A cover sheet outlining the documentation files, as described above.
2. A product narrative that offers relevant information about plan design, the product positioning in the market (such as high/low), enrollment shifts, changes in service area, type of coverage, contractual arrangements, marketing approach and any other pertinent information that would help expedite the bid review.
3. A document titled “Related-Party Declaration” that states whether or not the Part D sponsor is in a related-party arrangement in the base period and/or the projection period.
4. Support for the effect of sequestration on the bid, including a detailed qualitative and quantitative description of how sequestration is reflected in pricing assumptions.
5. Support for the claims credibility assumptions (Worksheet 2), including—
  - 5.1. A statement of the credibility methodology used—for example, CMS guidelines.
  - 5.2. An actuarial report of the credibility procedure used if it varies from CMS guidelines.
6. A quantitative mapping in a spreadsheet format of allowed costs, effective cost sharing and script counts from the formulary tiers to type-of-drug and point-of-sale (retail or mail order as defined by the PBP) categories used in pricing (Worksheets 2, 6). The required elements include—

- 6.1. The PBP description of the deductible and copay/coinsurance structure by days supply, point-of-sale and claims interval.
- 6.2. Allowed costs, effective cost sharing and script counts by formulary tier within each claims interval based on the cost sharing structure specified in the PBP, including days supply and point-of-sale.
- 6.3. A quantitative description of the distribution of the allowed costs, effective cost sharing and script counts by formulary tier to each of the categories on Worksheet 6.
- 6.4. A quantitative description of the development of the total scripts, allowed dollars, and cost sharing for insulins and vaccines for the projection period.
- 6.5. A quantitative description of the development of the Manufacturer Discount PMPM for both LI and NLI members for the projection period.
- 6.6. A quantitative description of the development of the rebates attributable to federal reinsurance on Worksheets 3, 4, and 5 including the distribution of applicable and non-applicable reinsurance allocations.
- 6.7. A quantitative description of the development of the subsidy for selected drugs on Worksheet 6.
7. Support for non-benefit expense assumptions (Worksheet 2). The required elements include—
  - 7.1. A reconciliation of the base period non-benefit expenses reported in Worksheet 1 of the BPT to auditable material such as corporate financials and plan-level operational data.
  - 7.2. A description of the expenses included in each non-benefit expense category in the BPT.
    - 7.2.1. For the “Net Cost of Private Reinsurance” category, disclose whether or not there is reinsurance. For reinsurance, even if the net cost of private reinsurance is entered as \$0, the required elements include the type of reinsurance and applicable benefits, attachments points, maximums, ceding commissions, and other information pertinent to the reinsurance coverage.
  - 7.3. Detailed support for the development of projected non-benefit expenses. The required elements include—
    - 7.3.1. A description of the methodology used to develop non-benefit expenses.
    - 7.3.2. An analysis that demonstrates the development of each line item using relevant data, assumptions, contracts, financial information, business plans and other experience.
    - 7.3.3. A description of the relationship between the non-benefit expense line items reported in the BPT and auditable material such as corporate financials and plan-level operational data.
8. Justification of the Part D gain/loss margin (Worksheet 2). The required elements include—

- 8.1. For a Part D plan without a corresponding Medicare Advantage plan, disclosure of the aggregate Part D gain/loss margin at the time of the initial bid submission.
- 8.2. For a Part D plan without a corresponding Medicare Advantage plan, support for the aggregate Part D gain/loss margin if the aggregate Part D gain/loss margin as a percentage of revenue is below 0 percent or above 5.5 percent. The required elements include—
  - 8.2.1. A description of the reasons supporting aggregate Part D gain/loss margin.
  - 8.2.2. An aggregate-margin numeric (non-PDF) business plan showing the current bid submission and next year. The required elements include—
    - a. Projected member months, risk scores, CMS revenue, Part D premium, claims expense, non-benefit expenses, and gain/loss margin.
    - b. Projected gain/loss margin as a percentage of revenue from the previous year's business plan(s), if applicable.
- 8.3. A demonstration of consistency between the projected and the actual aggregate Part D gain/loss margins as a percentage of revenue over the long term. This requirement applies separately for (i) Part D plans without corresponding MA plans and (ii) MA-PD plans. Include an explanation of how that knowledge was incorporated into the current bid submission, if the gain/loss margins have been inconsistent historically.
- 8.4. A detailed justification of the need for flexibility in the gain/loss margin requirements in order to satisfy other CMS instructions such as Total Beneficiary Cost (TBC).
- 8.5. For a Part D plan without corresponding Medicare Advantage plans, support for how the aggregate Part D gain/loss margin does not jeopardize financial solvency, if the aggregate Part D gain/loss margin is negative. Quantify the projected aggregate loss and demonstrate numerically that this loss does not jeopardize financial solvency.
- 8.6. For a Part D plan without a corresponding Medicare Advantage plan, justification of benefit value in relation to the gain/loss margin, if the gain/loss margin as a percentage of revenue at the bid level is greater than 11.5 percent, or if the gain/loss margin as a percentage of revenue at the bid level is less than -10 percent and the bid has existed since CY2023. The required elements include—
  - 8.6.1. A comparison of premiums for CY2027 and CY2026, if applicable. Include the Part D basic premium and Part D supplemental premium.
- 8.7. For an MA-PD plan, a description of the approach for setting the Part D gain/loss margin in relation to the MA gain/loss margin.
9. Detailed support for the development of projected risk scores (Worksheet 3). The required elements include—
  - 9.1. A detailed description and corresponding numerical demonstration of the methodology used to develop projected CY2027 Part D risk scores, including the impact of the assumed mix between low-income subsidy (LIS) and non-LIS populations.
  - 9.2. A description of, and the rationale for choosing, the source data for the development of the projected CY2027 Part D risk scores, including—
    - 9.2.1. Identification of the source of the starting risk score and, if the CMS-provided risk scores were not used, an explanation of why the alternative source was appropriate.

- 9.2.2. For an alternative approach, identification of the years used, the population incorporated and any data points used as a basis for developing the CY2027 risk score.
- 9.3. A description of the methodology used to derive each projection factor, including—
  - 9.3.1. A summary of the consideration for using or not using the projection factor; a description of and the rationale for choosing the source data; and the data points used in the derivation of the projection factor.
  - 9.3.2. For the bid-specific coding trend, a statement about the risk score years utilized, the number of years used and whether the scores are normalized or raw.
- 9.4. A statement about the consistency between the development of the projected risk scores for the plan population and the development of projected prescription drug expenses.
- 9.5. For an alternate approach, a demonstration that the method used is consistent with the preferred development approach in these Instructions, including an explanation of why such method is more appropriate than the CMS preferred approach.
- 9.6. A statement of the credibility approach used—for example, CMS guidelines.
- 9.7. A description of the credibility methodology used if it varies from CMS guidelines.

The following documentation requirements apply to all bids that contain these specified assumptions:

- 10. Support for the development of the base period data (Worksheet 1).
  - 10.1. Detailed qualitative and quantitative support for the development of the base period experience, including allowed cost, reinsurance and LICS. The required elements include—
    - 10.1.1. Description of the source data, such as a list of the CMS return files that were used in the compilation of the PDEs.
    - 10.1.2. Information regarding the base period member months, if more than eight bids constitute the base period experience.
    - 10.1.3. Any applicable adjustments, stated as absolute values or percentages, to the source data, including considerations for—
      - a. Accepted PDEs.
      - b. Rejected PDEs expected to be accepted by CMS upon resubmission.
      - c. P2P transactions.
      - d. Transfer of OTC drug data from the base period experience to the non-benefit expense component.
  - 10.2. Reconciliation of base period experience to the Part D sponsor's audited financial statements and bid-level operational data (Worksheet 1). The data are to be reported on an incurred, rather than an accounting or GAAP, basis, including claims paid, unloaded claim reserves, non-benefit expenses and revenues. Because the results reflect an experience period versus an accounting period, the data need not be based on an audited GAAP financial basis.
  - 10.3. Crosswalk information regarding data aggregation (Worksheet 1). The required elements include—

- 10.3.1. A list of all bids that are involved in approved crosswalks for CY2026 and proposed crosswalks for CY2027 and that are considered for base period data aggregation.
- 10.3.2. A statement of the intention to submit a crosswalk exception for CY2027, if applicable.
- 10.4. Detailed qualitative and quantitative support for the development of the rebates and all other types of direct and indirect remuneration (DIR) (Worksheets 1 and 3).
- 11. Detailed qualitative and quantitative support of the development of each trend projection factor (Worksheet 2). The required elements include—
  - 11.1. A description of the source data, including the data’s relevance to the Part D plan and the mix between LIS and non-LIS populations.
  - 11.2. A summary of the Part D sponsor’s historical trends including—
    - 11.2.1. The percentage trends.
    - 11.2.2. A description of the methodology used to analyze the data.
    - 11.2.3. The numeric calculations.
  - 11.3. Any applicable adjustments to the source data, such as considerations for—
    - 11.3.1. The Part D sponsor’s experience.
    - 11.3.2. PBM reports and contracts.
    - 11.3.3. Industry and/or internal studies.
    - 11.3.4. Formulary analysis.
    - 11.3.5. Benefit design analysis.
    - 11.3.6. Bid-specific circumstances.
    - 11.3.7. LIS and non-LIS populations.
- 12. Detailed support for the data and methodology used in the development of appropriate manual rates for the expected population (Worksheet 2). The required elements include—
  - 12.1. A description of the source data, including, but not limited to, the data’s relevance to the Part D bid, incurred dates, and the exposure (expressed in member months) that was used to develop the manual rate.
  - 12.2. An analysis justifying the reasonableness of the Part D manual rate, if the manual rate is based on experience of less than 60,000 member months of exposure.
  - 12.3. Any applicable adjustments to the source data, such as—
    - 12.3.1. Methodologies and factors used to reflect differences between the underlying population and that expected of the Part D plan;
    - 12.3.2. Methodologies and factors used to adjust for differences in plan design between the source data and the Part D plan; and
    - 12.3.3. Approach and factors applied to account for incomplete claim run-out, formulary differences and/or expenditures that are not reflected in the source data.
  - 12.4. Data and methodology used to project the data from the incurred period to CY2027.
  - 12.5. The distribution of member months, allowable costs, and scripts by benefit phase for the contract year.
  - 12.6. All other applicable factors and/or adjustments.
- 13. A Part D sponsor in a related-party arrangement must provide the following:

- 13.1. Declaration of every related-party arrangement in the base period and projection period.
- 13.2. Disclosure of all services provided in every related-party arrangement in the base period and projection period.
- 13.3. A summary that explains the relationship of the parties involved and common ownership, control and investment in the base period and projection period.
- 13.4. If the ratio of the total related-party expenses on Worksheet 2 (cell N61 plus cell N62) to total blended allowed PMPM on Worksheet 2 (cell P56) plus total non-benefit expenses Worksheet 2 (cell E67) is greater than 30 percent, provide a summary of the contractual terms for the five largest related parties declared in the projection period, including a description of the services provided and money exchanged in the projection period. The five largest related-party relationships are to be determined by their share in the total related-party expenses on Worksheet 2 (cell N61 plus cell N62).
- 13.5. If the ratio of the total related-party expenses on Worksheet 2 (cell N61 plus cell N62) to total blended allowed PMPM on Worksheet 2 (cell P56) plus total non-benefit expenses Worksheet 2 (cell E67) is greater than 30 percent, provide items 13.5.1 and 13.5.2 for the five largest related parties declared in the projection period. The five largest related-party relationships are to be determined by their share in the total related-party expenses on Worksheet 2 (cell N61 plus cell N62).
  - 13.5.1. The PMPM cost of services or benefits consistent with the contractual arrangement and the number of member months eligible for the contract, and
  - 13.5.2. A comparison for each contractual arrangement to the cost of the services or benefits in the absence of a related party or to actual cost. Acceptable forms of comparison are as follows:
    - a. Actual Cost Method for Administrative Services  
Show the actual cost of the non-benefit services provided by the related party excluding the gain/loss margin of the related party and provide a qualitative and quantitative summary of the development of the related party's expenses to provide the administrative services.
    - b. Actual Cost for Benefit Costs  
Show the actual cost of the related party to provide the benefit services excluding the gain/loss margin of the related party and provide a qualitative and quantitative summary of the development of the related party's expenses to provide the benefit services.
    - c. Market Comparison through Part D Sponsor Method  
Demonstrate through analysis and contract terms, that the fee associated with the benefit or administrative services from the Part D sponsor's related-party arrangement is comparable to the fee for providing the same service to a Medicare population in an arrangement between the Part D Sponsor and an unrelated entity.
    - d. Market Comparison through Related-Party Method  
Demonstrate through analysis and contract terms, that the fee associated with the benefit or administrative services from the Part D sponsor's related-party arrangement is comparable to the fee for providing the same

service to a Medicare population in an arrangement between the Part D sponsor's related party and an unrelated entity.

e. Alternative Comparison

If the Part D sponsor is not able to meet the requirements of 13.5.2a through 13.5.2d, the Part D sponsor must show a comparison for administrative services or benefit costs as outlined in 13.8 or 13.9 even if the fees associated with the arrangement are not within 5 percent of the comparison.

- 13.6. A Part D sponsor that chooses the Actual Cost Method for Administrative Services must provide a qualitative and quantitative summary of the development of the expenses for the related party to provide the administrative services, excluding the gain/loss margin of the related party, compared to the cost in the bid.
- 13.7. A Part D sponsor that chooses the Actual Cost Method for Benefit Costs must—
  - 13.7.1. Provide a qualitative and quantitative analysis of the development of the related party's gain/loss margin reflected in the benefit costs, in which the related party's gain/loss margin is defined as the allowed amount of the related party entered in the BPT less the cost of purchasing pharmaceuticals and dispensing prescriptions. The gain/loss margin must be reconcilable to the related party's audited financial statements.
  - 13.7.2. Provide the related party's gain/loss margin as (i) the allowed amount of the related party entered in the BPT less the cost of purchasing pharmaceuticals and dispensing prescriptions divided by the total member months in the BPT and (ii) the allowed amount of the related party entered in the BPT less the cost of pharmaceuticals and dispensing prescriptions divided by the allowed amount of the related party.
- 13.8. A Part D sponsor that chooses the Market Comparison through Part D Sponsor Method must—
  - 13.8.1. Provide an analysis that clearly explains the terms of each contract in the comparison and how the financial results are not significantly different from those that are achieved in the absence of the related-party relationship.
  - 13.8.2. Show that results of pricing at least two quarters of the Part D plan's experience through the related-party and unrelated-party contracts are within plus or minus 5 percent.
  - 13.8.3. Show that both contracts in the comparison are associated with sufficient costs to be considered valid contracts.
- 13.9. A Part D sponsor that chooses the Market Comparison through Related-Party Method must—
  - 13.9.1. Provide an analysis that clearly explains the terms of each contract in the comparison and how the financial results are not significantly different from those that are achieved in the absence of the related-party relationship.
  - 13.9.2. Show that results of pricing at least two quarters of the Part D plan's experience through the related-party and unrelated-party contracts are within plus or minus 5 percent.
  - 13.9.3. Show that both contracts in the comparison are associated with sufficient costs to be considered valid contracts.

- 13.9.4. Provide a signed attestation from the related party stating that the actual contracts will be available for review upon request by CMS.
- 13.10. The following requirements apply to support for a related party:
  - 13.10.1. Benefit and administrative services must be supported in a separate and independent demonstration for all methods used.
  - 13.10.2. Only one method may be used to support the benefit or administrative component of each related-party arrangement.
  - 13.10.3. Two arrangements under comparison are recognized as comparable when the terms are identical.
  - 13.10.4. When demonstrating that the fees for each service for a related-party and unrelated-party arrangement are within 5 percent, all of the services in the related-party arrangement must also be included in the unrelated-party arrangement. The unrelated-party arrangement may also include services that are not in the related-party arrangement but that are similar to those services.
  - 13.10.5. When demonstrating that results from the same utilization priced through a related party and unrelated-party arrangement are comparable, all of the services in the related-party arrangement must also be included in the unrelated-party arrangement. The unrelated-party arrangement may also include services that are not in the related-party arrangement but that are similar to those services.
- 13.11. When a Part D sponsor has an arrangement for benefit services within their tax ID number and does not submit bid data that matches the reporting of these internal transactions in their financial statements, then the plan sponsor must submit supporting documentation—required by Appendix B, items 13.1 to 13.10—that explains and compares how these costs are reflected in the bid versus the Part D sponsor’s financial statements.
14. The input sheet(s) for the pricing model used in the development of the bid.
15. An explanation of and detailed support for how CY2026 bid audit findings and compliance issues were corrected in the current bid for the same plan. To the extent that an issue applies to other plans in the same contract or parent organization, the documentation for the audited plan must describe how the bids for all plans are treated consistently regarding that issue.
16. Support for reliance on information supplied by others that—
  - 16.1. Identifies the source(s) of the information—for example, name, position, company, date;
  - 16.2. Identifies the information relied upon;
  - 16.3. States the extent of the reliance—for example, whether or not checks as to reasonableness have been applied; and
  - 16.4. Indicates to which plan(s) the reliance information applies.
 See the sample format at the end of this appendix.
17. Detailed support for the development of the Part D sponsor’s estimate of the NAMBA in line 2 of Worksheet 7.
18. Detailed quantitative support for the development of the induced utilization factor (Worksheet 5).

19. – 33. For future use

#### **Upon Request by CMS Reviewers**

It is not required that the items below be uploaded with the initial June bid submission, but they must be prepared at that time in order to be readily available for CMS reviewers upon request. If substantiation is requested by CMS reviewers, it must be provided by the certifying actuary or additional Part D BPT contact within 48 hours. These materials will be reviewed at audit:

34. Support for how the pricing of the bid is not anti-competitive, including a comparison of the bid benefits and premium to the benefits and premium of competitors.
35. Copies of related-party contracts.
36. A letter supporting any information upon which the certifying actuary relied, if applicable. This letter must be signed by the person (source) who provided the information.
37. An explanation of how certain findings from the Office of Financial Management (OFM) audit were addressed in the current bid.
38. For a Part D plan without a corresponding Medicare Advantage plan, justification of benefit value in relation to the gain/loss margin, if the gain/loss margin as a percentage of revenue at the bid level is less than or equal to 11.5 percent. The required elements include the elements listed in 8.6.
39. For the projected bid values listed below, an analysis of the relationship between bid level actual and projected experience for CY2023, CY2024 and CY2025, including an explanation of how that knowledge was incorporated into the current bid submission.
  - 39.1. Total Non-Benefit Expenses, Worksheet 2, cell E67.
  - 39.2. Projected Average Risk Score, Worksheet 3, cell H11.
  - 39.3. Total Blended Allowed Cost, Worksheet 2, cell P56.
40. For an MA-PD plan, if the MA and Part D enrollment differ after taking into account hospice and ESRD enrollees, justification that base period and projected enrollment in the corresponding MA and Part D bids reflect the same underlying population (Worksheets 1 and 3).
41. A detailed breakout of “Claims subject to the deductible” listed in line 12 and line 25 of Worksheet 6. This documentation should include the details underlying all values in lines 12 and 25 and be set up similarly to the way in which the breakouts for “Claims Not Subject to the Deductible” are set up in lines 1-10 and 14-23.

**PART D CHECKLIST FOR REQUIRED SUPPORTING DOCUMENTATION**

| <b>Initial June Bid Submission – Required for All Bids</b>                                                                                                              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 Cover sheet                                                                                                                                                           |
| 2 Product narrative                                                                                                                                                     |
| 3 Related-party declaration                                                                                                                                             |
| 4 Sequestration assumptions                                                                                                                                             |
| 5 Claims credibility assumption                                                                                                                                         |
| 6 Mapping of allowed costs, script counts and cost sharing in formulary tiers to type-of-drug and point-of-sale (retail or mail order as defined by the PBP) categories |
| 7 Non-benefit expenses                                                                                                                                                  |
| 8 Gain/loss margin                                                                                                                                                      |
| 9 Projected risk scores                                                                                                                                                 |

| <b>Initial June Bid Submission – Required for All Bids with Specified Assumptions</b> |
|---------------------------------------------------------------------------------------|
| 10 Base period experience and projections                                             |
| 11 Trend projection factor development                                                |
| 12 Manual rate development                                                            |
| 13 Related-party arrangements                                                         |
| 14 Input sheet(s) for pricing model                                                   |
| 15 Bid audit results and compliance issues                                            |
| 16 Reliance information                                                               |
| 17 NAMBA support                                                                      |
| 18 Induced utilization factor development                                             |
| 19 – 33 Not applicable                                                                |

| <b>Upon Request by CMS Reviewers</b> |
|--------------------------------------|
| 34 Bid not anti-competitive          |
| 35 Related-party contracts           |
| 36 Reliance letter                   |
| 37 OFM audit results                 |
| 38 Benefit value/margin              |
| 39 Actual to Projected               |
| 40 MA-PD enrollment                  |
| 41 Claims subject to deductible      |

**SAMPLE SUPPORTING DOCUMENTATION****SAMPLE PD Cover Sheets****Part D Cover Sheet #1 - CY2027 Initial Bid Submission****Organization Name:** Health One**Contract(s):** Hxxxx, Hyyyy and Szzzz**Date:** June 1, 2026

| <b>Documentation Requirement</b> | <b>Specific Bid(s) or N/A</b> | <b>File Name</b>       | <b>Location within File (if applicable)</b> | <b>Applies to: MA, Part D, or Both</b> |
|----------------------------------|-------------------------------|------------------------|---------------------------------------------|----------------------------------------|
| 1 Cover sheet                    | All bids                      | Cover Sheet 6-1-26.pdf | Page 1                                      | both                                   |
| 2 Product narrative              | All bids                      | Cover Sheet 6-1-26.pdf | Pages 2-4                                   | both                                   |
| 3 Related-party declaration      | All bids                      | Cover Sheet 6-1-26.pdf | Page 7                                      | both                                   |
| 4 Sequestration                  | All bids                      | Cover Sheet 6-1-26.pdf | Page 7                                      | both                                   |
| 5 Credibility assumption         | All bids                      | Cover Sheet 6-1-26.pdf | Page 5                                      | both                                   |
| 6 Cost sharing mapping           | All bids                      | Cover Sheet 6-1-26.pdf | Page 6                                      | both                                   |
| 7 Non-benefit expenses           | All bids                      | AdminProfit.xlsx       | Sheet1                                      | both                                   |
| 8 Gain/loss margin               | All bids                      | AdminProfit.xlsx       | Sheet2                                      | both                                   |
| 9 Risk scores                    | All bids                      | Risk CY27.xlsx         | MA-Sheet 1<br>PD-Sheet 2                    | both                                   |
| 12 Manual rates                  | Hxxxx-003<br>Syyyy-001        | Manual.xlsx            | Section II                                  | PD                                     |
| 24 ESRD subsidy                  | Hxxxx-001<br>Hxxxx-004        | Manual.xlsx            | Section I                                   | MA                                     |

**Part D Cover Sheet #2 - CY2027 Subsequent Bid Submission****Organization Name:** Health One**Contract(s):** Hxxxx, Hyyyy, and Szzzz**Date:** July 14, 2026

| <b>Documentation Requirement</b> | <b>Specific Bid(s) or N/A</b>                                              | <b>File Name</b>        | <b>Location within File (if applicable)</b> | <b>Applies to: MA, Part D, or Both</b> |
|----------------------------------|----------------------------------------------------------------------------|-------------------------|---------------------------------------------|----------------------------------------|
| 1 Cover sheet                    | Hxxxx-001<br>Hxxxx-003<br>Hxxxx-004<br>Hxxxx-801<br>Hyyyy-001<br>Hzzzz-001 | Cover Sheet 7-14-26.doc | n/a                                         | both                                   |

**SAMPLE Format for Reliance on Information Supplied by Others**

| <b>Bid</b> | <b>MA or Part D or Both</b> | <b>Source (Name, Position, Company)</b>         | <b>Type of Information</b>                | <b>Comments</b>                                                                                             |
|------------|-----------------------------|-------------------------------------------------|-------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| Hxxxx-002  | both                        | Joe Smith, Director of Finance, ABC Health Plan | Administrative expenses, gain/loss margin |                                                                                                             |
| Hxxxx-002  | both                        | Jane Doe, Medicare Analyst, ABC Health Plan     | Claim modeling, risk score                | I have not performed any independent audit or otherwise verified the accuracy of these data or information. |

## APPENDIX C – CALCULATION OF NATIONAL AVERAGE MONTHLY BID AMOUNT

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The CY2027 benchmarks will be based on the 2026 enrollments applied to the 2027 bids.

The following table illustrates the impact of the weighted enrollment methodology for two enrollment periods, June 2025 and March 2026. Recall that the 2026 benchmark was calculated as 100 percent of the enrollment-weighted approach.

The same values are presented based on the March 2026 enrollment. Since the 2027 benchmarks will be based on 2026 enrollment, these values may be useful for estimating the 2027 benchmarks. The left section of the table shows the actual 2026 benchmarks, which were calculated based on June 2025 enrollment. The right section, titled “March 2026 Enrollment,” indicates how the 2026 benchmarks would have been calculated based on more current enrollment data.

|                                                               | <b>Enrollment Weighted Approach</b> |                              |
|---------------------------------------------------------------|-------------------------------------|------------------------------|
|                                                               | <b>June 2025 Enrollment</b>         | <b>March 2026 Enrollment</b> |
| <b>National average monthly bid amount</b>                    | <b>\$239.27</b>                     | <b>\$TBD</b>                 |
| <b>Base beneficiary premium without premium stabilization</b> | <b>\$75.38</b>                      | <b>\$TBD</b>                 |
| <b>Base beneficiary premium</b>                               | <b>\$38.99</b>                      | <b>\$TBD</b>                 |
| <b>Direct subsidy</b>                                         | <b>\$200.28</b>                     | <b>\$TBD</b>                 |

This illustrative recalculation of the 2026 benchmarks is provided for the purpose of assisting Part D sponsors in developing the projected 2027 national average monthly bid amount and base beneficiary premium, which will be used in the calculation of the plan’s target premium. The final 2027 benchmarks will be based on the 2026 enrollments applied to the 2027 bids.

## APPENDIX D – CALCULATION OF LOW-INCOME BENCHMARK PREMIUM AMOUNTS

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The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) directs CMS to use a weighted average to calculate the regional low-income benchmark premium amounts used in the determination of the low-income premium subsidy amounts. In determining the CY2006 low-income benchmark premium amounts, PDPs were weighted equally, MA-PDs were assigned a weight based on prior enrollment as of March 31, 2005, and new MA-PDs were assigned a zero weight. For CY2007, under the “Medicare Demonstration to Transition Enrollment of Low-Income Subsidy Beneficiaries,” CMS calculated the regional low-income benchmark premium amounts using the same weighting methodology applied in 2006.

For CY2008, CMS implemented a transition to the statutorily required weighting such that the regional low-income benchmark premiums would experience a smaller decrease. CMS calculated the 2008 regional benchmarks using a composite of the 2006 weighting approach (simple average) and the statutory weighting formula (weighted average), as described below:

- The first component, the simple average, was the same as the 2006 weighting methodology for the regional low-income benchmark premium amount. The PDP organization premium amounts for basic prescription drug coverage in each region were weighted equally and the MA-PD plan premiums, after the application of Part A/B rebates, were weighted based upon prior enrollment.
- The second component was a weighted average of the premium amounts for each PDP and MA-PD with a weighting based on each plan’s prior enrollment as a percentage of all beneficiaries enrolled in those plans.

For CY2008, the regional low-income benchmark amount was based on 50 percent of the first component and 50 percent of the second component, as described above.

For CY2009, the “Medicare Demonstration to Transition Enrollment of Low-Income Subsidy Beneficiaries” and the de minimis policy were not in effect. The regional low-income benchmark amounts were calculated based on 100 percent of the weighted LIS enrollments.

For CY2010, the “Medicare Demonstration to Revise Part D Low-Income Benchmark Calculation” established that the regional low-income benchmark amounts, based on 100 percent of the weighted LIS enrollments, would be calculated using the Part D premiums for MA-PD plans before they were reduced by any applicable MA A/B rebates.

For CY2011 and subsequent years, in accord with the codification of the “Medicare Demonstration to Revise Part D Low-Income Benchmark Calculation”, the weighted average premium amounts are to be calculated using the Part D premiums for MA-PD plans before they have been reduced by any applicable Part A/B rebates.

The following table illustrates the impact of calculating the regional low-income benchmark amounts based on 100 percent of the weighted LIS enrollments for two enrollment periods, June 2025 and March 2026.

| PD<br>Region | State(s)                   | Enrollment Weighted Approach |                          |
|--------------|----------------------------|------------------------------|--------------------------|
|              |                            | June 2025<br>Enrollment      | March 2026<br>Enrollment |
| 1            | NH, ME                     | \$21.72                      | \$TBD                    |
| 2            | CT, MA, RI, VT             | \$35.76                      | \$TBD                    |
| 3            | NY                         | \$58.82                      | \$TBD                    |
| 4            | NJ                         | \$54.17                      | \$TBD                    |
| 5            | DE, DC, MD                 | \$31.21                      | \$TBD                    |
| 6            | PA, WV                     | \$32.71                      | \$TBD                    |
| 7            | VA                         | \$24.56                      | \$TBD                    |
| 8            | NC                         | \$36.17                      | \$TBD                    |
| 9            | SC                         | \$35.66                      | \$TBD                    |
| 10           | GA                         | \$25.42                      | \$TBD                    |
| 11           | FL                         | \$4.82                       | \$TBD                    |
| 12           | AL, TN                     | \$27.74                      | \$TBD                    |
| 13           | MI                         | \$8.75                       | \$TBD                    |
| 14           | OH                         | \$31.38                      | \$TBD                    |
| 15           | IN, KY                     | \$38.44                      | \$TBD                    |
| 16           | WI                         | \$21.12                      | \$TBD                    |
| 17           | IL                         | \$15.20                      | \$TBD                    |
| 18           | MO                         | \$43.03                      | \$TBD                    |
| 19           | AR                         | \$8.93                       | \$TBD                    |
| 20           | MS                         | \$23.84                      | \$TBD                    |
| 21           | LA                         | \$32.89                      | \$TBD                    |
| 22           | TX                         | \$4.82                       | \$TBD                    |
| 23           | OK                         | \$28.24                      | \$TBD                    |
| 24           | KS                         | \$55.20                      | \$TBD                    |
| 25           | IA, MN, MT, ND, NE, SD, WY | \$41.47                      | \$TBD                    |
| 26           | NM                         | \$0.00                       | \$TBD                    |
| 27           | CO                         | \$35.24                      | \$TBD                    |
| 28           | AZ                         | \$16.95                      | \$TBD                    |
| 29           | NV                         | \$9.48                       | \$TBD                    |
| 30           | OR, WA                     | \$10.46                      | \$TBD                    |
| 31           | ID, UT                     | \$37.60                      | \$TBD                    |
| 32           | CA                         | \$12.00                      | \$TBD                    |
| 33           | HI                         | \$45.60                      | \$TBD                    |
| 34           | AK                         | \$0.00                       | \$TBD                    |

## APPENDIX E – TRENDING RISK SCORES

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This appendix includes the following considerations for developing trends for coding and population changes to project CY2027 risk scores.

- Include the most recent annual consecutive calendar risk scores that are available.
- Use raw risk scores that are unnormalized.
- Reflect the same amount of paid claims run-out for each year's risk scores.
- Use final risk scores from each year or apply a completion factor to the last set of scores to approximate a final score.
- Use the same cohort for each year (for example, the July cohort).
- Use the same model to estimate all payment year scores. If possible, use the risk adjustment model for the upcoming payment year or apply a conversion factor to each payment year's risk scores to convert to a single risk model.
  - The model conversion factor should be bid-specific. It can be generated from the risk scores that CMS sends to Part D sponsors to support bidding; however, Part D sponsors should also consider whether other years in their trends have a different conversion factor (for example, when the population mix differs).
  - The conversion factor can be derived by calculating risk scores from a year under two different models. The factor can be a ratio of the scores under each model.
- When a Part D sponsor is converting risk scores from one model to another, a conversion between denominator years is, more than likely, occurring also. The risk scores in the conversion factor should be raw if the factor will be applied to an old model raw risk score, which is then projected to the payment year.
- If Part D sponsor compares scores within a single cohort, and the risk adjustment models do not have the same denominator year, the raw risk scores should be normalized to the same year. Otherwise, some portion of the ratio between the models will be attributed to the more recent denominator rather than to a difference in predicted risk.
- Divide cohorts into meaningful subgroups using the same considerations that are used to determine allowed costs and project enrollment in each subgroup to the payment year.
  - Weight subgroup risk scores by enrollment in each subgroup per year to determine annual risk scores for trending.
- Compare year over year risk scores to obtain a trend factor. Unless the Part D sponsor is anticipating changes in coding efforts or population characteristics, more than 2 years of risk scores will help minimize the effect of random changes in coding patterns and enrolled population. If deviations from the previous trend are expected in the payment year, provide justification for such changes in the supporting documentation.
  - If starting with base year risk scores that are blended, Plan sponsors are to assess whether there are bid-specific risk score trends unique to each model and adjust their overall trend accordingly.
  - Use this trend factor to project from base period risk scores to payment (contract) year raw risk scores.

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