

endorsement criteria to operate a discount card program.⁸

This analysis estimates a range of high and low annual costs per discount card enrollee, per endorsed sponsor, and for the whole program, for each type of administrative cost incurred to implement this program. The ranges serve to illustrate the sensitivity of differences in possible administrative costs that are the result of various levels of industry experience and technological efficiency, and of business decisions about the level of investment for discretionary activities, such as information and outreach. For example, efficient pharmacy benefit management organizations with modern information

systems that are currently operating a card program and that selectively target their marketing efforts are anticipated to have much lower costs than organizations that must program older mainframe systems, have less experience with direct enrollment, and make greater investments in information and outreach materials. Further, some organizations other than pharmacy benefit management firms that could qualify to be endorsed sponsors may have less experience in some areas of pharmacy management or may choose to outsource or partner with another organization for some activities, resulting in alternative, and possibly higher, cost structures.

The following estimates were made in 2003 dollars and have been updated by 1.041 percent in Year One to reflect 2004 dollars, 1.085 percent in Year Two to reflect 2005 dollars, and 1.132 percent to reflect 2006 dollars during the transition period. All dollar figures discussed in greater detail in the next section and presented in Table 9 reflect the inflated rate for that identified year. Inflation estimates are based on those for labor in the general population from table III.A.1 of the 2003 Annual Report of the Board of Trustees, *see* <http://www.cms.hhs.gov/publications/trusteesreport/2003/>.

TABLE 9.—ADMINISTRATIVE COSTS AND BENEFITS BY PERIOD
[Year one (nine months) administrative costs in 2004 dollars]

	Costs per endorsed sponsor (431,865 enrolled)		Dollars per discount card enrollee	
	Low	High	Low	High
Program Implementation	\$1,561,500	\$3,123,000	\$3.62	\$7.23
Information and Outreach	1,807,771	4,300,194	4.19	9.96
Eligibility Determination and Enrollment Processing	2,261,793	2,945,591	5.24	6.82
Customer Service Operations	2,899,735	4,366,461	6.71	10.11
Claims Processing and Claims Adjudication	541,677	1,764,862	1.25	4.09
Account Maintenance	1,294,765	1,348,714	3.00	3.12
Logging and Responding to Grievances	30,346	40,461	0.07	0.09
Total Administrative Costs	10,397,588	17,889,284	24.08	41.42
Maximum Revenue Stream from Enrollment Fee	12,955,945	12,955,945	30.00	30.00
Net Benefits	2,558,357	(4,933,339)	5.92	(11.42)

[Year two administrative costs in 2005 dollars]

	Costs per endorsed sponsor (438,010 enrolled)		Dollars per discount card enrollee	
	Low	High	Low	High
Program Implementation	\$0	\$0	\$0.00	\$0.00
Information and Outreach	858,543	1,513,041	1.96	3.45
Eligibility Determination and Enrollment Processing	302,577	393,446	0.69	0.90
Customer Service Operations	574,370	864,894	1.31	1.97
Claims Processing and Claims Adjudication	763,474	2,173,771	1.74	4.96
Account Maintenance	1,824,925	1,900,963	4.17	4.34
Logging and Responding to Grievances	42,772	57,029	0.10	0.13
Total Administrative Costs	4,366,661	6,903,144	9.97	15.76
Maximum Revenue Stream from Enrollment Fee	13,140,301	13,140,301	30.00	30.00
Net Benefits	8,773,640	6,237,156	20.03	14.24

⁸ On November 5, 2001, the Federal Court for the District of Columbia preliminarily enjoined CMS from proceeding with the administration's proposal for a Medicare-Endorsed Prescription Drug

Discount Card program. In accordance with the court order, we withdrew the solicitation, all work on the initiative ceased. CMS did not make any Medicare endorsements on the basis of applications

received. However, we had, at that time, completed our review of all applications and knew how many proposed programs would have been endorsed.