

[Transition period (five and one-half months) administrative costs in 2006 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	0	0	0.00	0.00
Eligibility Determination and Enrollment Processing	0	0	0.00	0.00
Customer Service Operations	107,694	162,168	0.25	0.37
Claims Processing and Claims Adjudication	149,352	305,325	0.34	0.70
Account Maintenance	356,996	371,871	0.82	0.85
Logging and Responding to Grievances	8,367	11,156	0.02	0.03
Total Administrative Costs	622,410	850,519	1.42	1.94
Maximum Revenue Stream from Enrollment Fee	0	0	0.00	0.00
Net Benefits	(622,410)	(850,519)	(1.42)	(1.94)

* Costs assume an average of 2.25 months enrollment to match assumptions in section on beneficiary impact analysis.

4. Specific Assumptions For Administrative Cost Estimates

In the following paragraphs, we discuss our assumptions for the estimates provided in Table 9 for the 7 major types of administrative costs anticipated for this program.

(a) Start-up, program implementation costs for infrastructure enhancements, including software and hardware upgrades, programming for many operations, and systems integration;

(b) Information and outreach activities, for example the production and distribution of pre-enrollment application materials and a post-enrollment welcome kit with a discount card;

(c) Eligibility determination and enrollment processing;

(d) Call center and customer service operations, including handling calls asking for information and outreach materials and enrolling, where applicable;

(e) Claims processing for administrating and adjudicating claims transactions;

(f) Account maintenance, including staff time to run the program and updates to various systems, to provide typical industry data reports, including providing data to support the price comparison Web site; and

(g) Logging and responding to beneficiary complaints and grievances for reasons other than eligibility.

a. Program Implementation

Program implementation costs are those associated with setting up the necessary infrastructure, mostly information systems, to run the Medicare prescription drug discount card program.

We do not believe that endorsed sponsors will need to purchase entirely

new hardware or software. We believe that those organizations, with their subcontractors, that will be eligible for the endorsement already maintain the information system infrastructure, including hardware and software, necessary to house the information systems needed for this program. This infrastructure includes enrollment databases, claims processing and adjudication, third-party reimbursement, and call center operations. One exception is our requirement that endorsed sponsors pay to install CMS software and test connect with CMS data systems for exchanging eligibility and enrollment information. However, CMS will pay for the program sponsor T1 connection and provide the "connection software". For this software, we estimate installation costs of no more than \$1,500 per endorsed sponsor, or less than \$0.01 per discount card enrollee, in 2003 dollars.

Endorsed sponsors will incur program implementation costs for programming or enhancing current software systems and conducting the systems integration necessary to accommodate the specific parameters of this program. Impacted software systems include current enrollment systems, drug price database, formulary management, pharmacy network database, call center software, accounting systems to track expenditures by beneficiary for the transitional assistance program, updates to claims processing to provide rebates at the point-of-sale, and setting up other data files associated with CMS reporting requirements.

One representative of the pharmacy benefit management industry interviewed for CMS, anticipated information system enhancement costs, including upgrading and programming call center software, for a Medicare

prescription discount card program, to between \$4 million and \$6 million for a program of 500,000 enrollees. Using our estimates of 431,865 enrolled per endorsed sponsor, these fixed costs become an estimated per discount card enrollee annual cost between \$9.26 and \$13.89 dollars. These estimates reflect costs known to this organization as well as additional dollars to account for the uncertainty of making estimates without programmatic specifics.

Interviews with other State and commercial discount card programs, provided estimates of labor type and time required to program software systems. Using the information, the consulting firm estimated start-up program implementation costs for information systems between \$54.5 and \$250 thousand in 2003 dollars. As an annual per discount card enrollee cost for the average endorsed sponsor, this program implementation estimate is negligible, ranging from \$0.13 to \$0.58. This program has unique aspects whose costs are not fully known. So as to accommodate for this and the limited experience that some types of firms may have with programming specific software systems and new programming, such as tracking beneficiary expenditure of transitional assistance, CMS has chosen to estimate program implementation costs that are a compromise of the higher cost estimates for program implementation anticipated by one organization and the lower costs estimated by the consulting firm. Specifically, we have chosen a per endorsed sponsor range between 1.5 million and \$3 million dollars for program implementation for Year One in 2003 dollars. We reduced the lowest industry number of \$2 million by a rough \$500 thousand for upgrading call center software, as the estimates for that