

representatives support beneficiaries in understanding their options among endorsed cards and other pharmacy assistance alternatives. In addition, the research conducted for CMS on discount drug card call centers provides some information on the percentage of calls moving from the IVR to a customer service representative. Two large call centers reported that 30 and 60 percent of calls were handled in their IVR respectively.¹⁰ We believe 50 percent of calls reflects the simplicity of calls, other than those related to eligibility and transitional assistance, that endorsed sponsors will receive. We assume 50 percent of calls are handled in the IVR for both years.

We estimate the cost of a completed call in the IVR to range between \$0.10 and \$.35 cents. These estimates reflect a range of differences in IVR structure and time.¹¹ The independent consulting firm also estimated completed calls in the IVR to cost between \$0.22 and \$0.30. These estimates are fully loaded and reflect the marginal cost of each additional call, as we assume that each endorsed sponsor or its subcontractor will already have the basic call center infrastructure for IVR in place.

Using call volume assumptions and IVR cost information, we estimate aggregate interactive voice-response system costs to range between \$1 million to 3.5 million dollars, with a per endorsed sponsor cost of \$67 thousand to \$236 thousand dollars. The estimated per new discount card enrollee cost is between \$0.16 and \$0.55 dollars.

For Year Two, we estimate aggregate interactive voice-response system costs range between \$200 thousand and \$701 thousand dollars, with a per endorsed sponsor cost of \$13 thousand to \$47 thousand dollars. The estimated per discount card enrollee cost is between \$0.03 and \$0.11 dollars.

We assume that calls to a customer service representative will average seven minutes in length. Interviews conducted by the independent consulting firm suggests that average talk-time for the senior population ranges from six to eight minutes. Our own internal experience with 1-800 Medicare confirms this analysis. Based on our assumptions about calls handled in the IVR, above, we assume that 50 percent of all calls are passed through. In Year One, this represents a total of approximately 4.9 million calls, across all card programs. In Year Two,

applying 50 percent to our total call volume estimates suggests that 924 thousand calls will be passed through to a customer service representative. As mentioned earlier, we assume that most of the first calls made by individuals will come into the Medicare 1-800, thereby reducing the call volume and thus costs to the endorsed sponsors.

We estimate the fully loaded cost of a call to a live customer service agent per minute to range between \$1.20 and \$1.75. These estimates reflect a range of differences in IVR structure and time as well as CMS' experience contracting with call centers.¹² These costs include the costs of overhead and labor for conducting call center operations. We assume these costs also include start-up costs, such as programming call center software, increasing seat licenses, computers, phones, phone lines and training customer service representatives. To avoid double counting, we do not include costs for setting up call-center operations in our estimates of program implementation.

The estimated Year One customer service representative costs across all endorsed sponsors is between \$42 million to \$62 million dollars with a per endorsed sponsor cost of \$2.8 million to \$4.1 million dollars. This translates to a per discount card enrollee cost of \$6.56 to \$9.56 dollars. The estimated Year Two cost across all sponsors will be \$8.4 million to \$12.3 million dollars, with a per endorsed sponsor cost of \$561 thousand to \$818 thousand dollars. This translates to per discount card enrollee costs between \$1.28 and \$1.87 dollars.

The total IVR and customer representative service costs for Year One are between \$44 million and \$66 million across all sponsors, \$2.9 million to \$4.4 million per endorsed sponsor, and \$6.71 to \$10.11 per discount card enrollee. This range of costs is slightly higher than the per member estimates captured by the consulting firm in their interviews with comparable drug card programs. They estimated between \$1.44 and \$8.04 per member. The total IVR and customer representative service costs for Year Two are between \$8.6 million and \$13 million across all endorsed sponsors, \$574 to \$865 thousand, and \$1.31 to \$1.97 per discount card enrollee. For the Transition Period, the total IVR and customer representative service costs are estimated between \$1.6 million and \$2.4 million across all endorsed sponsors, \$108 thousand to \$162

thousand per endorsed sponsor, and \$0.25 to \$0.37 per discount card enrollee.

e. Claims Processing

The following estimates reflect costs for claims processing by the endorsed sponsors. Claims processing is the process performed by an endorsed sponsor to adjudicate a claim. It includes checking an eligibility database for program information, such as balance of transitional assistance; verifying prices; and conducting Drug Utilization Review (DUR). Consumer purchasing at a retail pharmacy is almost always an automated process, with adjudication happening at the point of sale. We anticipate that endorsed sponsors will use their computerized management information systems to perform claims processing. For purposes of this analysis, we assume that claims-processing costs apply to processing all transactions, whether providing a discount or processing an actual claim against transitional assistance. Although processing a discount is generally less burdensome because it does not require financial reimbursement and associated reconciliation against third party payor funds, we have not reduced our transaction estimates to account for this difference. Research conducted for us concluded that the cost difference between these two types of claims would be negligible.

Costs for processing claims in the literature range from \$0.00 to \$.70.¹³ But, as already noted, these costs are not the true economic cost of processing claims because they include the cost of other services, such as account maintenance, and rebate-sharing arrangements. Estimates of the cost of claims processing obtained through the interviews conducted for CMS revealed true costs ranging from \$0.05 to \$0.14 for electronic processing of a prescription in 2003 dollars. We used this same range for our estimates of processing electronic claims. Lastly, endorsed sponsors may choose to promote mail prescription services for their enrollees. Some mail prescription fulfillments may be as high as a 90-day supply and thus utilize one prescription. This results in one prescription processing cost, instead of three claims being processed, at a 30-day supply each, thereby substantially reducing the overall cost component on the endorsed sponsor's expense

¹⁰ The Health Strategies Consultancy LLC. Call Center Parameters and Regulatory Authority for Drug Discount Cards. May 20, 2003.

¹¹ Personal communication with Elizabeth Herrell, Vice President, Customer Experience, Forrester Research. October 29, 2003.

¹² Personal communication with Elizabeth Herrell, Vice President, Customer Experience, Forrester Research. October 29, 2003.

¹³ Berg, Kevin and Noah Yosha. July 14, 2003. *Pharmacy Benefit Managers and Specialty Pharmacies*. Credit Suisse Equity Research for First Boston.