

estimate costs for each of the two special endorsed sponsors. We assume that these special endorsed sponsors process in-network claims, both paper and electronic, and process out-of-network claims for two-thirds of their institutionalized enrollees. For Year One, we estimate a per endorsed sponsor cost between \$1 million and \$1.8 million and a per enrollee cost between \$2.48 and \$4.09. For Year Two, we estimate a per endorsed sponsor cost between \$1.2 million and \$2.2 million and a per enrollee cost between \$2.75 and \$4.96. For the Transition Period, we estimate a per endorsed sponsor cost between \$120 thousand and \$305 thousand and a per enrollee cost between \$0.28 and \$0.70.

To accurately represent the full range of possible costs faced by an endorsed sponsor, for our final estimates of claims processing, we use the lowest per sponsor cost estimate, the low costs faced by each of the 13 endorsed sponsors, as our low estimate. Similarly, we used the highest per endorsed sponsor cost estimate, the high costs faced by each of the two special endorsed sponsors, as our high estimate of claims processing costs.

We estimate the total claims processing costs, including claims from pharmacies in long-term care facilities and paper claims, across all sponsors for Year One to be between \$8 million and \$22 million dollars, with a per endorsed sponsor cost between \$542 thousand and \$1.8 million dollars. This translates to a per discount card enrollee cost between \$1.25 and \$4.09 dollars. For Year Two, the total program cost is between \$11.5 million and \$30 million dollars, with a per endorsed sponsor cost between \$763 thousand and \$2.2 million dollars. This translates to a per discount card enrollee cost between \$1.74 and \$4.96 dollars. For the Transition Period, we estimate the total cost across all sponsors to be between \$2.2 million and \$5.6 million dollars, with a per endorsed sponsor cost between \$149 thousand and \$305 thousand dollars. This translates to a per discount card enrollee cost between \$0.34 and \$0.70 dollars.

f. Account Maintenance

Endorsed programs generally require ongoing account maintenance to maintain and update eligibility databases, input changes to the formulary database, provide technology support, provide typical industry data reports, and manage customer service for the purchaser. Account maintenance does not include call center or information and outreach activities. The cost of account maintenance is fairly

minimal and is often rolled into other costs, such as a claims-processing fee. This clarifies, in part, the higher observed claims processing costs observed in the literature than we are using in this analysis.

The independent consulting firm gathered estimates of current account maintenance costs across commercial and State programs ranging from \$2.28 per discount card enrollee per year to \$3.84 per discount card enrollee per year in 2003 dollars. One firm that the consulting firm interviewed believed account maintenance costs for this program would be closer to \$4.00 per discount card enrollee per year in 2003 dollars. For purposes of these estimates, we used \$3.84 per discount card enrollee for our low estimate and \$4.00 per discount card enrollee as our high estimate.

We believe these estimates capture the costs of producing data files for price comparison and the type of reporting that CMS requires to support monitoring. Further, the consulting firm found that most data related reports provided by sponsors to their clients, based on their clients' business needs, are negligible in cost. An example provided by the consulting firm includes a data file of all claims for a week long period. They stated that the cost of such a report would be between \$100 to \$200 and would include the retail purchase price actually paid, the coded name and address of the store, and the name of the drug. The consulting firm indicated that some of the types of reporting likely to be required by CMS under the Medicare prescription drug discount card program would, in the private sector, be treated as a revenue generating product offering by sponsors. As such, sponsors would typically charge their clients according to the value, not cost that this data provides. In cases where the owner/producer of the data is providing the data reports as a subcontractor to a client of CMS, then whether the subcontractor chooses to charge the sponsor, at cost or profit, is a business and contract decision for these two entities, where, for example, the subcontractor is competing among other possible subcontractors for the volume of business that the name of the front organization may provide.

Adjusting account maintenance for the nine-month operating period in Year One and for inflation, we estimate a per discount card enrollee cost for Year One ranging from \$3.00 to \$3.12. This translates to a total cost between \$19.4 million and \$20.2 million dollars for all endorsed sponsors in Year One, with a per endorsed sponsor cost between \$1.3

million and \$1.4 million. In Year Two, an aggregate account maintenance cost is between \$27 million and \$29 million dollars with a per endorsed sponsor cost between \$1.8 million and \$1.9 million dollars. This translates to a per discount card enrollee cost between \$4.17 and \$4.34 for Year Two. For the Transition Period, we estimate a total program cost between \$5.4 million and \$5.6 million dollars, with a per endorsed sponsor cost between \$357 thousand and \$372 thousand dollars and a per discount card enrollee cost between \$0.82 and \$0.85 dollars.

g. Grievances

We anticipate that endorsed sponsors will incur minimal costs providing an internal grievance mechanism to document and address discount card enrollee complaints. Our endorsement criteria require that endorsed sponsors maintain a grievance process dedicated to complaints by discount card enrollees only about program operations, not about requests for reconsideration of a negative eligibility determination. Within a traditional benefit, medical-related grievances are usually related to prior approval, medical necessity, or a previous complaint. In means-tested prescription assistance programs, appeals for negative eligibility determinations are also a common source of complaints.

For this discount card program, discount drug endorsed sponsors will not need to address the traditional appeals of a funded benefit, those related to medical necessity determinations, or to address appeals for means-tested programs, those of eligibility determination. We expect grievances to be limited to programmatic issues such as pharmacy participation and the size of discounts. These issues are not complex and are straightforward to address.

The consulting firm gathered estimates of grievance processing in State programs and reports and estimated that costs were less than \$0.01 per discount card enrollee per month. In light of this information, we estimate a low of \$0.09 and a high of \$0.12 per discount card enrollee per year in 2003 dollars.

For the nine-month operating period in Year One, we estimate a range of total program costs between \$455 thousand and \$606 thousand dollars. We estimate a per endorsed sponsor cost for grievances in Year One between \$30 thousand and \$40 thousand and a per discount card enrollee cost between \$0.07 and \$0.09. In Year Two, we estimate a total costs between \$642 thousand and \$855 thousand, a per