

endorsed sponsor costs between \$43 thousand and \$57 thousand, and a per discount card enrollee cost between \$0.10 and \$0.13. For the Transition Period, we estimate a total cost between \$126 thousand and \$167 thousand, a per endorsed sponsor cost between \$8 and \$11 thousand, and a per discount card enrollee cost between \$0.02 and \$0.03.

TABLE 10.—NET PRESENT VALUE ANALYSIS BY AVERAGE ENDORSED SPONSOR

	Net present value	Year 1	Year 2	Transition period
Low.				
Net Benefits from Table 9 in 2003 dollars	NA	\$2,457,596	\$8,086,304	(\$549,832)
Discounted by 3%	9,790,107	2,457,596	7,850,781	(518,269)
Discounted by 7%	9,534,645	2,457,596	7,557,293	(480,244)
High.				
Net Benefits from Table 9 in 2003 dollars	NA	(4,739,038)	5,748,531	(751,342)
Discounted by 3%	133,848	(4,739,038)	5,581,098	(708,212)
Discounted by 7%	(22,830)	(4,739,038)	5,372,459	(656,251)

TABLE 11.—COST BENEFIT RATIOS BY ENDORSED SPONSOR

	Year 1	Year 2	Transition period
Benefits.			
From Table 9 in 2003 Dollars	\$12,445,673	\$12,110,876	\$0
Discounted by 3%	\$12,445,673	\$11,758,132	\$0
Discounted by 7%	\$12,445,673	\$11,318,576	\$0
Costs.			
Low.			
Cost Stream from Table 9 in 2003 Dollars	9,988,077	4,024,572	549,832
Discounted by 3%	9,988,077	3,907,352	518,269
Discounted by 7%	9,988,077	3,761,282	480,244
High.			
Cost Stream from Table 9 in 2003 Dollars	17,184,711	6,362,345	751,342
Discounted by 3%	17,184,711	6,177,034	708,212
Discounted by 7%	17,184,711	5,946,117	656,251
Present Value Benefit/Cost Ratios.			
Low—3%	1.68
Low—7%	1.67
High—3%	1.01
High—7%	1.00

Table 9, which appears earlier in this document at the beginning of the discussion about individual administrative cost categories, presents cost estimates for endorsed sponsors for each cost component in nominal dollars, at both the program and per discount card enrollee levels, relative to the maximum annual enrollment fee of \$30. The total low cost range represents the costs to a card sponsor incurring all low administrative costs, and the total high cost range represents the costs to a card sponsor incurring the highest administrative costs, including those associated with claims processing for special endorsed sponsors. We use the maximum annual enrollment fee as the only source of revenue for endorsed sponsors in this analysis to demonstrate that endorsed sponsors can cover their administrative costs with enrollment fee revenue. These estimates do not account for any costs of producing services that are not required for endorsement, but which could be offered to distinguish a drug card offering, such as disease-specific counseling or using mass media for information and outreach.

In Year One, we estimate that endorsed sponsors with low costs can easily cover their costs if they charge the maximum annual enrollment fee of \$30. An average endorsed sponsor with 431,865 beneficiaries enrolling and participating for nine-months, and low administrative costs could collect revenue of \$12,955,945 and incur costs of \$10,397,588 resulting in a profit of \$2,558,357. We estimate that endorsed sponsors with high administrative costs and an average of 431,865 beneficiaries enrolling and participating for nine-months could collect revenue of \$12,955,945 and incur administrative costs of \$17,889,284, resulting in a net loss of \$4,933,339. Costs are higher than revenue for these endorsed sponsors because the costs associated with information and outreach, enrollment, and program implementation activities are loaded into Year One.

In Year Two, we estimate that all endorsed sponsors will cover their administrative costs. We estimate that endorsed sponsors with low costs and an average of 438,010 enrolled could earn revenue of \$13,140,301, if they

charge the maximum annual enrollment fee, and will incur administrative costs of \$4,336,661. This results in net revenue of \$8,773,640. For the same year, we estimate that endorsed sponsors with high costs and an average of 438,010 enrolled could earn revenue of \$13,140,301, if they charge the maximum annual enrollment fee, and will incur administrative expenses of \$6,903,144. This results in net revenue of \$6,237,156. For the Transition Period, we estimate that endorsed sponsors with low costs and 438,010 enrolled for an average of 2.25 months will lose \$622,410 and that endorsed sponsors with high costs and 438,010 enrolled for an average of 2.25 months will lose \$850,519. Endorsed sponsors cannot charge an annual enrollment fee during the Transition Period.

A present value calculation is appropriate when costs and benefits are realized in different years in order to standardize costs and benefits for the time-value of money. Table 2 calculates the net present value (NPV) of these streams of net benefits (provided in Table 9), over the life of the program. In