



Mandatory Payment Reduction in CMS' Retiree Drug Subsidy Reconciliation Payments (April 19, 2014)

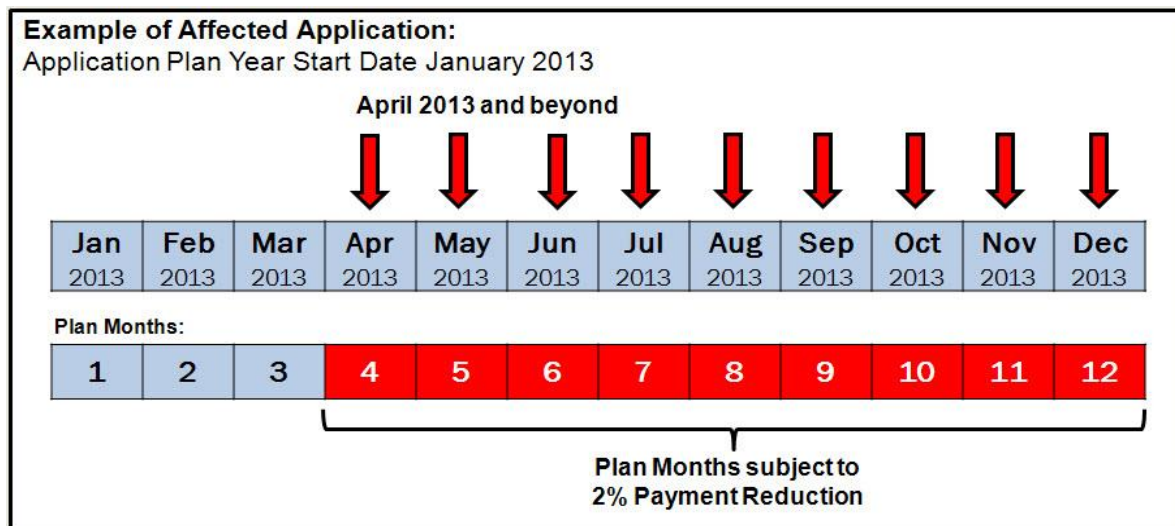
The Centers for Medicare & Medicaid Services (CMS') Retiree Drug Subsidy (RDS) Program is subject to the mandatory reductions in Federal spending in accordance with the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended. This process of payment reduction is referred to as sequestration. This document provides additional information about the application of sequestration to RDS payments.

CMS' RDS Center will apply a mandatory 2% payment reduction on all plan months of April 2013 and beyond when calculating the Reconciliation Payment Request for affected Applications.

Affected RDS Applications:

Only RDS Applications with a plan year that includes April 2013 and beyond are affected by sequestration. The 2% payment reduction is applied at the month level and only applies to plan months of April 2013 and beyond. Applications that have a Plan Year End Date on or before March 31, 2013 are not affected by sequestration.

For example: An Application with a Plan Year Start Date of January 1, 2013 and a Plan Year End Date of December 31, 2013 is affected. Plan months January 2013 through March 2013 are not subject to the mandatory 2% payment reduction because they are before April 2013. However, the remaining plan months in the plan year, April 2013 through December 2013, are subject to the mandatory 2% payment reduction.



Payment Reduction Calculation:

The subsidy calculation remains at 28% of the Allowable Retiree Costs (ARC). The mandatory 2% payment reduction is applied to the calculated Subsidy Amount for final costs incurred in April 2013 and beyond.

Subsidy Calculation	Payment Reduction	Reduced Payment Amount
(ARC *28%)	(ARC *28%) *2%	Subsidy Calculation minus Payment Reduction

Cost Reporting is unaffected by sequestration. Cost data will continue to be aggregated and reported by plan month.

CMS' RDS Center will continue to calculate Allowable Retiree Costs (ARC) as follows:

$$\text{Allowable Retiree Costs} = \text{Gross Retiree Costs} \text{ minus } (\text{Threshold Reduction} + \text{Limit Reduction} + \text{Actual Cost Adjustments})$$

For example: Assume Gross Retiree Costs, Threshold Reduction, Limit Reduction, and Actual Cost Adjustment are reported by a Plan Sponsor for the March and April 2013 plan months.

Plan Month	Gross Retiree Costs	Threshold Reduction	Limit Reduction	Actual Cost Adjustment	Calculated Allowable Retiree Costs
March 2013	\$10,000	\$6,000	\$1,200	\$100	\$2,700
April 2013	\$12,500	\$5,500	\$1,500	\$200	\$5,300

Subsidy is still calculated at 28% of the ARC. The mandatory 2% payment reduction is only applied to the subsidy calculated for the April 2013 plan month and beyond. In this example, only payment for the April 2013 plan month is reduced. The Plan Sponsor continues to receive the full amount of the Subsidy Payment for March 2013 costs.

Plan Month	Allowable Retiree Costs	Subsidy Percentage	Calculated Subsidy	2% Payment Reduction	Subsidy Amount
March 2013	\$2,700	28%	\$756	N/A	\$ 756.00
April 2013	\$5,300	28%	\$1484	\$ 1484*.02 = \$29.68	\$1,454.32

Mandatory Payment Reduction Applied to Reconciliation Payment Request:

CMS' RDS Center will apply the mandatory 2% payment reduction when calculating the Subsidy Amount during Reconciliation. Reconciliation is the process where after the end of the Plan Year, the Plan Sponsor finalizes the Covered Retiree List, submits all final cost data, and makes their Reconciliation Payment Request. The mandatory 2% payment reduction will be reflected in the Subsidy Amount for plan months April 2013 and beyond, as well as the aggregated Subsidy Amounts in the Reconciliation Payment screens on the RDS Secure Website (SWS). The RDS SWS has been updated to automatically apply the mandated payment reduction.

If you have any questions about the information in this document please contact Ivan.Iveljic@cms.hhs.gov.