

By Kenan G. Loomis

'Co-logo contracts' can help health insurers glide through the clouds enveloping Medicare Part D.

Silver Lining

The Medicare Part D craze has brought with it a haze of complicated rules and regulations. Yet, for health insurers, there may be a glimmer of light breaking through all the fog.

Designed to provide seniors with low-cost prescription drug coverage, the Medicare Modernization Act authorizes private companies to contract with the federal Centers for Medicare and Medicaid Services to offer prescription drug plans to Medicare participants. Participants then pay a premium for the prescription drug plan, and CMS reimburses that sponsor (at agreed-upon rates) for providing the discounted medication. This has triggered a healthy competition among plan sponsors desiring to enroll Medicare participants in their prescription drug plans.

However, contracting with CMS—a requirement to be a plan sponsor—is an onerous process, imposing a murky assortment of regulations on involved parties. A potential sponsor must submit a bid containing estimated premium, description of the coverage and actuarial data. If approved, the regulations require that the plan sponsor/CMS contracts contain specific provisions on such topics as reporting rights, recordkeeping/retention, etc. And in addition to mandating an electronic interface, CMS also retains the right to inspect that sponsor's facilities.

This expensive and time-consuming process can result in certain financial risks. A plan sponsor may find, for example, the administrative costs associated with its prescription drug plan combined with the costs of drugs from the manufacturer exceed the CMS reimbursements and participant premiums.

However, there's an emerging trend of health insurers developing alternative means to participate in the Part D program. Through a "co-logo contract" with an existing plan sponsor, the health insurer markets the plan sponsor's prescription drug plan to its current and potential insureds, hopefully leading to their enrollment. The marketing material it uses is "co-branded," with both the plan sponsor's and the carrier's logos appearing on letters to participants, enrollment kits, forms, Web sites, and brochures. The plan sponsor also frequently offers training to the carrier pertaining to the prescription drug plan and the enrollment process.

From the carrier's perspective, there are some advantages of a co-logo contract: the arrangement provides the carrier with the opportunity to offer an added benefit to its insureds through one-stop shopping with respect to their Medicare needs (which may include a Medicare supplement policy). Enrolling an insured in the prescription drug plan via the co-logo contract may also prevent insureds from seeking out other plan sponsors who could offer competitive insurance products in addition to their

own prescription drug plan. Plus the carrier and its agent sales force receive a commission per enrollee.

Although the Part D regulations mandate that plan sponsors require all "related entities, contractors, or subcontractors" to agree to certain provisions, the sponsors may attempt to impose upon the carrier and its sales force more than is required. In some cases, the plan sponsor may request that the carrier share in the risk associated with the prescription drug plan, meaning that the carrier will be responsible for a percentage of the loss if the costs of the prescription drug plan exceeds the revenue generated from it. In that event, the carrier might negotiate for reciprocity so that it would be entitled to a percentage of the plan sponsor's profit should the prescription drug plan's revenues exceed costs.

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So it is vital the carrier takes a strategic role in the contract development from the start, carefully evaluating the expense/commission structure negotiated in the agreement and factoring in how much the insurer will incur to market the product to its insureds, as well as the potential profit margin.

However, the carrier should be resistant if the plan sponsor imposes obligations on the carrier—making it more difficult and expensive to enroll insureds in the prescription drug plan. This is particularly true where the plan sponsor requires the carrier to amend its contract with the latter's agent sales force. Although this may be due to the regulations to some extent, additional burdens placed upon the insurance agents could make them reluctant to market the prescription drug plan. This could wind up in a lose-lose situation for both parties.

Nevertheless, co-logo contracts are an attractive and profitable option for health insurers to consider with Medicare Part D—as long as they maneuver cautiously through its miasma of demanding and specific regulations to ensure they work to the insurer's benefit. **BR**

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