August 1, 2024

CMS: Part D Premium Pilot Announced

MA Plans Irked; Part D Restructuring Spikes Premiums

Relevant Companies

Our Take & Next Up

CMS is creating a voluntary demonstration program for standalone prescription drug plans (PDPs) to support implementation of Part D IRA redesigns and assist Medicare stability in 2025 (here). While the voluntary demonstration is a step toward enhancing stability for Medicare beneficiaries, Medicare Advantage Prescription Drug (MA-PD) plans may not view the special treatment particularly favorably, particularly since it represents a policy shift from CMS' stated positions in the Final Rate Notice and Final Rule for 2025. The deadline to notify CMS of plan participation is Monday, August 5, 2024, so an extremely tight turnaround. We believe CMS knows that seniors are sensitive to even a few dollars of premium increase and could sour them on PDPs. Separately, 2025 landscape files are set to be released mid-to-late September, CMS says, once all offerings are finalized. Recall that V28 and two subsequent years of rate cuts adds up to a challenging landscape for MA plans, likely forcing plans to reduce supplemental benefits such as OTC cards, meal delivery, and transportation.

Key Points

CMS released 2025 preliminary Part D bid information in in advance of Medicare Open Enrollment. The national average monthly bid amount is $179.45, the Part D base beneficiary premium is $36.78 (a $2.08 increase), and the de minimis amount is $2. Without this 6% cap, the base beneficiary premium would have been $55.98. The full announcement can be found here. CMS is also announcing a voluntary demonstration only for PDPs to support implementation of the Part D changes that came under the IRA.

CMS believes Part D premiums will spike next year, as they have the last two years; hence, this new demonstration. The parameters of the demonstration, in which participating plans would have a premium increase of no more than $35, suggests that there are PDPs with premium increases above that amount for 2025. We have said we expect to see Part D premium increases through 2025 due to higher insurance liabilities in the catastrophic phase (here). The significantly increased cost sharing for plans is expected to impact plan premiums and potentially Part D benefit design. Even a few dollars in increased premiums are meaningful for seniors.

As a reminder, the IRA also included a premium stabilization provision that capped annual growth in Part D base beneficiary premium at +6% YoY beginning in 2024. However, this does not cap the individual plan premium growth, and PDPs tend to have higher Part D bids than MA-PDs. Plans are expected to offset their increased cost liability by increasing individual plan premiums where they can. CMS also continues to be wary of plans changing Part D benefits for increased utilization management.

The demonstration is set to test whether additional measures for premium stabilization can increase efficiency for PDPs. This test is focused on stabilizing premiums and adjusting how risks are managed, especially as new benefit improvements and cost-sharing changes come into play under the IRA. The procedure is as follows:

1. CMS reduces the base premium by $15 for all participating PDPs (total cannot be less than $0).
2. CMS will ensure the total premium for any PDP only increases by $35 or less year-over-year. This rule only applies after the $15 reduction to the base premium.
3. CMS narrows the PDP risk corridor. More of the potential losses for plans will be covered by the government.

The initiative appears to benefit standalone Part D plan sponsors more directly, potentially placing MA-PDs at a competitive disadvantage. The initiative favors PDPs, as adjustments are designed to directly stabilize and reduce their premiums, manage risk more effectively, and improve cost efficiency, while MA-PD plans are hurt. This disparity could make standalone Part D plans more attractive to beneficiaries, potentially drawing customers away from MA-PD plans. Furthermore, MA-PDs had asked for narrowing of the risk corridors in comments on the 2025 Rate Notice, which CMS is now providing, but only for PDPs. However, most of the major sponsors of PDPs (United, Humana, CVS) are also MA-PD sponsors.

In response to why only standalone PDPs are eligible for the demonstration, CMS claims that there is lesser variation in MA-PD premiums, partly because the factors influencing Part D costs differ between these two sectors of the Part D market. For instance, MA-PD plans can use MA rebates to lower premiums for their members, which helps them manage costs better than standalone Part D plans. However, the average Part D premiums from CMS' plan premium files for 2024 suggest that MA-PD plans have lower Part D plan bids than PDPs.

Recall that the MA landscape files are coming in September. We will see to what extent plans are reducing supplemental benefits (as we have said), as well as other benefit redesigns due to V28 and the overall rate cut environment for plans. To the extent that the average bid amount is higher than what MA plans had predicted, these plans may be allocating additional MA rebate dollars towards benefits they had cut. MA plans have until Wednesday, August 9th to reallocate MA rebate dollars.

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