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# The Medicare prescription drug program (Part D): Status report

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# Presentation roadmap

1. Snapshot of the Part D Program
2. Major changes in 2025 seek to address long-standing concerns
3. Prices of Part D drugs
4. Concerns about the stability of the PDP market
5. Discussion

# In Part D, private plans compete to deliver outpatient pharmacy benefits to enrollees

- Plan sponsors accept insurance risk and own or contract for PBM services
  - PDPs: stand-alone prescription drug plans for FFS beneficiaries
  - MA–PDs: combined medical and prescription drug coverage for MA enrollees
    - Conventional plans available to all MA enrollees; SNPs only available to certain individuals
- Sponsors and PBMs negotiate with:
  - Pharmacies for payments for dispensed prescriptions
  - Pharmaceutical manufacturers for rebates on brand-name drugs
- Enrollees pay subsidized premiums based on plans' bids of expected costs
  - Costs are partially dependent on plans' abilities to negotiate lower prices

**Note:** PBM (pharmacy benefit manager), PDP (prescription drug plan), FFS (fee-for-service), MA (Medicare Advantage), MA–PD (Medicare Advantage–Prescription Drug [plan]), SNP (special needs plan).

# Key features of the Part D program encourage enrollee and plan participation

- For enrollees:
  - Premium subsidies (plus additional premium and cost-sharing subsidies for low-income enrollees)
  - Late-enrollment penalty
  - Cost-sharing limits
- For plans:
  - Risk sharing between plans and Medicare (i.e., reinsurance and risk corridors)
  - Risk adjustment to account for variation in spending due to health status

# Enrollment and plan growth strongest among SNPs

## Enrollment, 2024

- 54.1 million (80% of all Medicare beneficiaries)
  - 14 million LIS beneficiaries
- PDP enrollment: 23 million (68% of FFS)
  - 43% of all Part D beneficiaries
  - 34% of all LIS beneficiaries
  - Down 8% since 2020
- Conventional MA–PD enrollment: 24.7 million (73% of MA)
  - Up 34% since 2020
- SNP enrollment: 6.3 million (19% of MA)
  - 42% of all LIS beneficiaries
  - Up 80% since 2020
- Average premiums remained stable but with wide variation

## Plan availability, 2025

- 35% fewer plans for FFS beneficiaries
  - 464 PDPs, down from 709 in 2024
  - Four regions have just one benchmark PDP
- 7% drop in plans for MA enrollees who are ineligible for SNPs
  - 3,246 conventional MA–PDs
  - Almost exclusively enhanced plans offering supplemental benefits, enrolling non-LIS
- 8% growth in plans for SNP-eligible MA enrollees
  - 1,417 SNPs (nearly 2/3 are D–SNPs)
  - Mostly basic plans as 90% of SNP enrollees receive the LIS

**Note:** SNP (special needs plan), LIS (low-income subsidy), PDP (prescription drug plan), MA–PD (Medicare Advantage–Prescription Drug [plan]), D–SNP (dual-eligible special needs plan).
**Source**: MedPAC analysis of CMS landscape, plan report, and February enrollment data.

# Part D program spending and quality, 2023

## Spending

- Medicare paid $112.1 billion, up 11% from 2022
  - Cost-based payments accounted for most program spending
- More beneficiaries reached the catastrophic phase than in 2022
- Beneficiaries paid $16.1 billion in premiums and $18.8 billion out-of-pocket

## Quality

- Overall, high program satisfaction
- A majority describe their plan as a good value and convenient to use
- Average star ratings declined again but CAHPS measures are over 80 for both PDPs and MA–PDs

**Note:** CAHPS (Consumer Assessment of Healthcare Providers and Systems). CAHPS measures are based on a 100-point scale; for Part D, measures include overall rating of drug plans and getting needed prescription drugs.

**Source**: MedPAC analysis based on Table IV.B10 of the 2024 annual report of the Boards of Trustees of the Medicare trust funds. MA and PDP CAHPS mean scores published by CMS, 2023.

# Beneficiary choice of plans and convenient access to pharmacies is important

- Beneficiaries in every region have access to at least 12 PDPs and roughly 30 MA–PDs in 2025
  - Every region has at least 1 premium-free benchmark PDP; most enrollees have access to zero-premium MA–PDs
- Pharmacy closures could impede access to medications
  - Focus groups and external surveys do not suggest widespread issues
  - Some studies have found that neighborhoods whose residents tend to be non-White may be more likely to experience pharmacy closures
  - Myriad existing challenges, e.g., low reimbursements, implementation of rule shifting pharmacy DIR to POS, competition from online retailers

**Note:** MA–PD (Medicare Advantage–Prescription Drug [plan]), PDP (prescription drug plan), DIR (direct and indirect remuneration).

**Source**: Hunter, K. 2024. In cities across the U.S., Black and Latino neighborhoods have less access to pharmacies. *Associated Press*, June 4.
Guadamuz, J.S., et al. 2024. More U.S. pharmacies closed than opened in 2018–21; independent pharmacies, those in Black, Latinx communities most at risk. *Health Affairs*, Dec 3.

# Major changes in 2025 seek to address long-standing concerns in Part D

- Medicare's payments to plans were increasingly cost based (reinsurance) rather than capitated (direct subsidy)
  - Plans had weakened incentives to manage spending
- Uncapped cost-sharing liabilities for high-cost enrollees were burdensome and posed medication access and adherence concerns
- The Commission recommended changes, including a reform of the benefit design to increase plan liability, reduce plan incentives for use of high-price/high-rebate drugs, and provide financial protections to beneficiaries
- The Inflation Reduction Act of 2022 (IRA) included a redesign of the benefit structure that is directionally consistent with MedPAC's recommendations
  - The Commission has not made recommendations on other policies included in the IRA

**Source:** June 2020 Report to the Congress: Medicare and the Health Care Delivery System – MedPAC.

# Most major Part D–related provisions of the Inflation Reduction Act of 2022 are now in effect

## 2023

- Mandatory manufacturer rebate to Medicare if drug prices rise faster than inflation
- $35 monthly cap on insulin cost sharing
- No cost sharing for recommended adult vaccines

## 2024

- No cost sharing once Part D enrollees reach OOP threshold ($8,000)
- Growth in national average premium limited to 6%
- Expanded eligibility for full LIS benefits
- Pharmacy DIR must be applied at POS*

## 2025

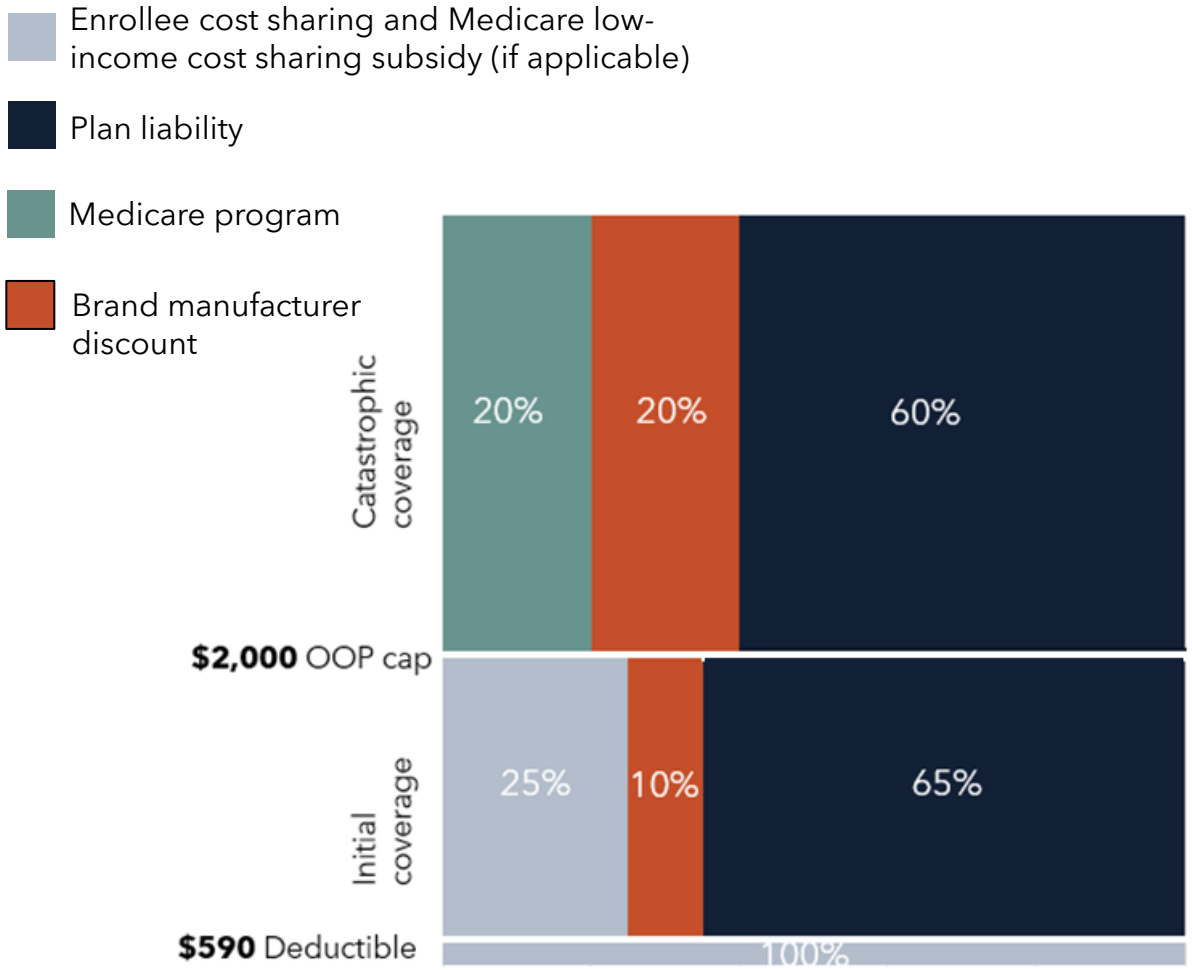
- New benefit design for Part D, including $2,000 OOP cap

## 2026

- Secretary-negotiated prices for first 10 drugs take effect

**Note:** OOP (out-of-pocket), LIS (low-income subsidy), DIR (direct and indirect remuneration), POS (point of sale).
* Pharmacy DIR change was made via rulemaking, not as part of the Inflation Reduction Act of 2022.

# Redesigned Part D benefit structure for all enrollees effective in 2025




- Cap on beneficiary OOP spending
- Higher plan liability
- Lower Medicare reinsurance
- No coverage gap
- New manufacturer discount*

**Note:** OOP (out-of-pocket). The standard benefit is depicted as it would apply to brand-name drugs and biologics. For generics, plan sponsors must pay 75% of covered benefits between the deductible and OOP cap. Medicare will pay 40% reinsurance above the OOP cap.
* For beneficiaries receiving the low-income subsidy and for certain small manufacturers, the new manufacturer-discount program will be phased in over time, reaching final levels by 2031.

# In 2025, Medicare's total subsidy increased by 53%

| | 2024 | 2025 | Change (%) |
|---|---|---|---|
| **Total expected basic benefit cost** | **$154** | **$220** | **42%** |
| National average bid amount(plan) | 64 | 179 | 179 |
| Medicare's average expected reinsurance | 90 | 40 | -55 |
| **Base beneficiary premium (BBP)** | **35** | **37** | **6** |
| **Medicare's total subsidy** | **120** | **183** | **53** |
| Medicare's average direct subsidy | 30 | 143 | 382 |

**Note:** The national average bid is the enrollment-weighted average of plan bids that reflect plans' expected benefit liability, net of postsale rebates and discounts and including required administrative costs and profit margin. Figures do not reflect the effects of the Premium Stabilization Demonstration.

**Source:** CMS's annual release of Part D national average monthly bid-amount and other Part C and Part D bid information.

- IRA changes are expected to:
  - Increase basic benefit costs
  - Decrease share of benefits paid by Medicare's reinsurance
- Bids are plans' expected benefit costs (excluding reinsurance)
- National average bid increased by nearly 180%
- BBP increase limited to 6%
- Medicare's total subsidy costs increased by 53%

# Multiple factors explain the increase in expected benefit costs, Medicare subsidy, and plan bids for 2025

- IRA related changes:
  - Increase in the generosity of Part D's basic benefit
  - Shift from Medicare's cost-based reinsurance to plan liability
  - Greater uncertainty around increase in utilization and cost:
    - First year with the new benefit structure
    - New method for calculating true OOP costs
- Underlying price and utilization trends

**Note:** IRA (Inflation Reduction Act of 2022), OOP (out-of-pocket).

# Multiple factors explain the increase in expected benefit costs, Medicare subsidy, and plan bids for 2025 (cont.)

- Direct subsidy was also affected by the IRA policy that limits annual increase in the BBP ("the 6% cap")
- The 6% cap:
  - Reduced the BBP by $19
  - Increased Medicare's average subsidy by $19
- Higher overall subsidy rate (83%) for Medicare

| | Without the 6% cap | With the 6% cap | Difference |
|---|---|---|---|
| BBP (an enrollee's share of the total basic benefit costs) | $56 | $37 | –$19 |
| ***% of total expected benefit cost*** | ***25.5%*** | ***17%*** | |
| Medicare's direct subsidy | $123 | $142 | +$19 |
| Medicare's total subsidy (with expected reinsurance) | $164 | 183 | +$19 |
| ***% of total expected benefit cost*** | ***74.5%*** | ***83%*** | |
| | | | |
| Memo: Total expected basic benefit cost | $220 | $220 | |

**Note:** IRA (Inflation Reduction Act of 2022), BBP (base beneficiary premium). Figures do not reflect the effects of the Premium Stabilization Demonstration.

**Source:** CMS's annual release of Part D national average monthly bid-amount and other Part C and Part D bid information.

# Plan premiums and Part D Premium Stabilization Demonstration in 2025

- Individual plan premiums may increase by more (or less) than the BBP
- CMS was concerned with "disruptive enrollment shifts" due to large increases and variation in PDP premiums; in response, implemented a demonstration for PDPs:
  - Lower total Part D premiums by up to $15
  - Limit increase in total Part D premiums to no more than $35
  - Provide more generous protection from losses under Part D's risk corridors
  - Estimated to increase federal spending by about $5 billion in 2025
- With nearly all PDPs participating in the demonstration, *average* premiums remained stable but individual plan premiums vary widely

**Note:** BBP (base beneficiary premium), PDP (prescription drug plan). The Part D Premium Stabilization Demonstration may be extended for an additional two years.
**Source:** https://www.cms.gov/files/document/2025-announcement.pdf. https://www.cbo.gov/system/files/2024-10/Arrington_et_al_Letter_PartD_0.pdf, https://www.kff.org/policy-watch/medicare-part-d-premiums-are-increasing-for-many-but-not-all-stand-alone-plans-in-2025-reflecting-effects-of-new-premium-stabilization-demonstration/.

# Prices of Part D drugs

- SS drugs have increasingly driven the growth in Part D spending
  - Gross prices grew by over 7% per year between 2014 and 2023
  - Accounted for 80% of total gross Part D spending in 2023, up from 70% in 2014
  - >0.5 million enrollees filled a prescription with sufficiently high price to meet the annual OOP limit in 2023, up from 33,000 in 2010
- Several IRA provisions aim to restrain price increases in Medicare
- Medicare Drug Price Negotiation Program focuses on single-source brand-name drugs (SS drugs)
  - CMS estimated that negotiated prices for 10 Part D drugs achieved discounts ranging from 38% to 79% relative to wholesale acquisition costs
  - However, savings must be considered in the context of prices net of rebates and discounts

**Note:** IRA (Inflation Reduction Act of 2022), OOP (out-of-pocket). Single-source drugs are brand-name drugs or biologics with no direct generic or biosimilar alternatives. Negotiated prices for 10 Part D drugs selected for the program will apply beginning in 2026. More drugs will be selected for the Negotiation program going forward, including drugs covered under Medicare Part B.

# Understanding the full impact of the IRA changes will take time

- IRA changes are expected to have wide-ranging impacts on Part D stakeholders:
  - Improved affordability of medicines for enrollees financed by Medicare and enrollees (through higher premiums)
  - Policies to restrain price growth are likely to affect revenues for drug manufacturers; could affect their decisions about future R&D and the number of new drugs brought to market as well as launch prices of new drugs
- An early look at the 2025 plan bids and offerings shows a mix of expected and unexpected effects
- Analyzing the effects of the IRA will take time; initial year of data will provide an incomplete picture of the effects of the IRA
- Isolating the impact of any given policy will likely be difficult

**Note:** IRA (Inflation Reduction Act of 2022), R&D (research and development).

# Ongoing concerns about the stability of the PDP market

- The number of PDPs offered in each region continued to decline, which has implications for:
  - Choice of Part D plans for FFS beneficiaries
  - Choice of premium-free benchmark PDPs for LIS beneficiaries
  - Medicare's ability to auto-enroll LIS beneficiaries into premium-free benchmark PDPs
- Basic premiums charged by PDPs, on average, exceed those of MA–PDs
- PDPs, on average, had higher gross costs but lower average risk scores than MA–PDs

**Note:** PDP (prescription drug plan), FFS (fee-for-service), LIS (low-income subsidy), MA–PD (Medicare Advantage–Prescription Drug [plan]).

# Discussion

# Discussion

- Questions?
- Feedback on draft chapter for the March 2025 report to the Congress
- In the spring, we will present findings from our continued work examining issues affecting the long-term stability of the PDP market

**Note:** PDP (prescription drug plan).

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