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Policy UPDATE

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Announcement of 2025 Part D Premium and Bid Information, Premium Stabilization Demonstration

The Biden Administration has announced information on Part D premiums and other bid metrics for 2025, as it does around this time each year. This year's release is particularly noteworthy as it provides a first look at how Part D costs are shifting under the Inflation Reduction Act's (IRA's) Part D redesign, which takes full effect in 2025.

Key Points:

- Part D plans are projecting a 180% increase in "average costs" related to the provision of standard Part D benefits in 2025, which have been expanded under the IRA – $179.45 per member-per month in 2025 vs. $64.20 in 2024.
- Higher plan costs typically translate to commensurate increases in premiums charged to Medicare beneficiaries, but the increase in premiums for 2025 is largely being constrained by premium stabilization policies.

To mitigate premium growth driven by IRA changes, CMS also announced a Part D Premium Stabilization Demonstration. It remains to be seen whether the move will help Democrats avoid political attacks related to rising Part D costs in a contentious election year.

Who It Impacts

Insurers offering Part D plans, including Medicare Advantage plans that provide Part D coverage, are most directly impacted.

Entities that contract with Part D plans, including pharmacies and drug manufacturers, may also be impacted as shifts in plan premiums can result in shifts in plan enrollment/market share that then impact the negotiating leverage and revenue outcomes for all parties involved.

Given that, **as discussed below**, Part D premium pressures can impact Medicare Advantage offerings, there may also be downstream impacts for providers and other entities that contract with Medicare Advantage plans that provide Part D coverage.

Background

Medicare Part D is the optional prescription drug benefit for Medicare beneficiaries administered by private insurers under contract with the Centers for Medicare & Medicaid Services (CMS). Part D plans must provide, at a minimum, a standard benefit defined in the statute but are otherwise afforded considerable flexibility in designing and administering the benefit they offer – including with respect to drug formularies, pharmacy networks, and reimbursement rates.

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The government pays a portion of the Part D plan's projected drug and administrative cost liability for providing the standard (or basic) benefit to an average plan beneficiary – referred to as the plan "bid" – through a "direct subsidy" payment that is risk adjusted to account for each plan beneficiary's health status. Beneficiaries enrolled in the plan pay the remainder of the plan bid in the form of a "basic premium." Therefore, the higher the plan's projected drug cost liability, the more the government and beneficiaries pay, through the direct subsidy and beneficiary premium, respectively.

Part D plans that offer enhanced coverage – i.e., coverage that is richer than the basic benefit – must charge beneficiaries enrolled in the plan a "supplemental premium" (on top of the basic premium) to cover the cost of the enhancements offered.

Inflation Reduction Act – Part D Redesign

The IRA significantly redesigned the standard Part D benefit, with the bulk of changes taking effect in 2025. The main feature of the Part D redesign is a redistribution of Part D drug costs between Part D plans, the government, beneficiaries, and manufacturers. These changes have been **widely expected** to result in higher plan bids and, thus, higher direct subsidy payments by the government and premium payments by beneficiaries.
In short, under the redesign:

- Beneficiaries see a large reduction in out-of-pocket costs.
- Part D plans take on more liability for drug costs.
- Government payments shift from a reinsurance subsidy paid on the back end (based on actual plan costs) to the direct subsidy paid up front (based on projected plan costs, as provided in plan bids).

For those interested in the details of Part D redesign, the IRA specifically:

- Eliminates the coverage gap phase of the Part D benefit – where for non-low income (nonLI) beneficiaries, manufacturers generally cover 70% of drug costs, beneficiaries 25%, and plans 5%, and for LI beneficiaries, the government covers 100% of drug costs – leaving only the deductible, initial coverage, and catastrophic phases, through which beneficiaries move as they incur more drug costs.
    - Plan drug cost impact: higher plan drug costs, especially for LI beneficiaries, as drug costs will be distributed across phases of the Part D benefit where plans have more liability than they did in the coverage gap phase.
- In the initial coverage phase, for brands and biologics, reduces plan liability from 75% to 65% of drug costs and requires manufacturers to provide a 10% discount.
    - Plan drug cost impact: lower plan drug costs due to the lower liability share.
- In the catastrophic phase, eliminates all beneficiary liability, increases plan liability from 15% to 60%, reduces government reinsurance from 80% to 20% for brands and biologics and 40% for generics, and requires manufacturers to provide a 20% discount for brands and biologics.
    - Plan drug cost impact: higher plan drug costs as plans face greater liability in the catastrophic while beneficiaries face reduced liability and, thus, may increase drug utilization.
- Lowers the annual out-of-pocket cost threshold, at which point the initial coverage phase ends and the catastrophic phase begins, from $5,030 in 2024 to $2,000 in 2025.
    - Plan drug cost impact: higher plan drug costs given the aforementioned higher plan liability in the catastrophic phase.
- Imposes a $35/month limit on beneficiary cost-sharing for covered insulin products, eliminates all cost-sharing for most covered vaccines, and exempts both types of products from the deductible.
    - Plan drug cost impact: higher plan drug costs given that plans must provide enhanced coverage for insulins and vaccines while beneficiaries face reduced liability and, thus, may increase utilization of such products.

Note: The primary intent of Part D redesign was to increase the value of the benefit for Part D beneficiaries, especially those utilizing high-cost drugs and paying a larger share of actual drug costs each year under the old benefit design. With the enrichment of the benefit comes higher plan costs.

Premium Stabilization

To mitigate the premium impact of the Part D redesign, the IRA instituted a premium stabilization policy for calendar years 2024-2029. Under this policy, the average Part D basic premium across most of the Part D market (referred to as the "base beneficiary premium" or "BBP") cannot increase more than 6 percent year-over-year. Any increase in the BBP above 6 percent would be paid by the government, through a higher direct subsidy, instead of by the beneficiary.

It is important to note, however, that beneficiaries enrolled in a Part D plan don't actually pay the BBP, which is a market-wide average. Instead, they pay a plan-specific premium equal to the BBP PLUS the difference between their specific plans' bid and the national average bid.

Since the premium stabilization policy limits an increase in the average Part D basic premium and not the plan-specific basic premium, the latter could still increase by more than 6 percent if the plan's bid grows faster than the national average bid.

Note: The IRA's premium stabilization policy focuses on the BBP increase instead of the plan specific premium increase in order to preserve the competitive bidding dynamic under the Part D program. Had Congress prospectively capped plan-specific premiums, Part D plans would have less motivation to achieve efficiencies that reduce bids/premiums since beneficiaries would be protected from premium increases. By capping the BBP increase, the IRA theoretically puts downward pressure on plan-specific premiums while maintaining plan incentives to bid as efficiently as possible.

Release of 2025 Part D National Average Monthly Big Amount and Other Part C & D Bid Information

CMS has issued its annual release of information on Part D premium and other bid information, as it does around this time each year.

Key figures:

- **2025 national average monthly bid amount (NAMBA) = $179.45, 179% higher than in 2024.**
  - The NAMBA represents an enrollment-weighted average of Part D plan bids for basic Part D benefits across select Part D plans.
  - The large increase in the NAMBA from 2024 to 2025 reflects the fact that Part D plans will take on significantly more drug cost liability under the Part D redesign beginning in 2025, as described in the **background section above**.
- **2025 base beneficiary premium (BBP) =** $36.78, 6% higher than the 2024 value.
  - Again, the BBP is the average Part D basic premium across most of the Part D market. As noted in the **background section above**, the IRA's premium stabilization policy limits year-over-year growth in the BBP to 6%. Without this premium stabilization policy, the 2025 BBP would have been another 52% higher ($55.98).
  - A specific plan's basic premium is equal to the BBP PLUS the difference between the plan's bid and the NAMBA. Therefore, a plan that had an average bid in 2024 and 2025 would see an increase in premium of just 6%. A plan that had an average bid in 2024 but a higher-than-average bid in 2025 would see an increase in premium of greater than 6%, and vice versa.

Part D Premium Stabilization Demonstration

Along with the annual release of Part D premium and bid information, CMS announced a voluntary demonstration for standalone Part D plans (referred to as "PDPs") that is designed to suppress premium growth for such plans during the initial years of Part D redesign.

For those uninitiated: PDPs offer only Part D coverage, as opposed to Medicare Advantage-Part D plans (referred to as "MA-PDs") that offer both MA and Part D coverage.

For 2025, CMS observed greater-than-anticipated variation in PDP bids/premiums, and larger differences between PDP bids/premiums vs. MA-PD bids/premiums. This observation generally tracks with the **trend observed over the past**

several years, during which the difference between average PDP premiums and MA-PD premiums has grown larger, with the PDP average rising and the MA-PD average falling. In 2024, the dynamic led to the **fewest number of PDP offerings since the beginning of the Part D program**. However, for 2025, it seems that the uncertainty associated with the first year of IRA's Part D redesign, and the increase in plan liability under it, is leading to a

further exacerbation of that dynamic.

As a result, CMS developed the Part D Premium Stabilization Demonstration "designed to test whether additional policy changes stabilize year-over-year changes in premiums for participating standalone PDPs, leading to more predictable options for beneficiaries during the initial implementation of the [IRA's] benefit improvements, creating more gradual enrollment changes, and allowing participating Part D sponsors to accumulate the experience necessary for bidding in future years, consistent with prior demonstrations CMS has conducted to test policies that might address transitional issues associated with the implementation of major changes to the Medicare program."

CMS is relying on its demonstration authority under section 402 of the Social Security Act to take this action. Section 402 provides broad authority to the Agency to test new Medicare payment methodologies, and allows the Secretary to waive compliance with certain Medicare requirements relating to payment and reimbursement. Prior administrations have similarly relied on section 402 authority at times, including the **Bush Administration** when the Part D program was first established and the **Obama Administration** when the Affordable Care Act made major changes to the MA payment methodology.

Demo Details for 2025

Simplifying the terminology a bit, PDPs participating in the demonstration in 2025 will have:

- Premium reduction - Their basic premiums are reduced by up to $15, with the government paying the remainder through the direct subsidy. If a PDP's total premium is less than $15, the government will buy down the entirety of the total premium.
- Real dollar cap on premium growth - The 2025 vs. 2024 growth in their total premiums (= basic premium + supplemental premium) is capped at $35, with the government paying the remainder through the direct subsidy.
- Loss protection - Favorable government protection from losses PDPs might incur if their actual drug costs at the end of the year are higher than projected in their bids.

To illustrate the application and impact of the first two components of the demonstration, we use an example PDP A that has a $100 total premium (= $87 basic premium + $13 supplemental premium) in 2025 vs. a $30 total premium in 2024:

- Premium reduction – A $15 basic premium reduction leads to a $85 total premium (= $72 basic premium + $13 supplemental premium).
- Real dollar cap on premium growth – Since the $85 total premium that results for PDP A after applying the first component is still $55 higher than its 2024 total premium of $30, the government buys down another $20 of the basic premium in 2025.

After both components have been applied, PDP A has a $65 total premium (= $52 basic premium + $13 supplemental premium), with the government paying an additional $35 in direct subsidies under the demonstration.

Demo Details for Subsequent Years

The demonstration is designed for 2025 and at least two subsequent years. PDPs must participate in 2025 to be eligible for participation in the subsequent years.

However, CMS will determine the parameters of the demonstration for subsequent years – meaning, the level of reduction in basic premiums, the level of the total premium cap, and the level of loss protection – on the basis of "market conditions in those years." CMS notes that it does not expect to increase the level of the premium reduction in future years.

Note: Reading between the lines, we expect CMS to wait to announce the demonstration parameters for each subsequent year until after bids have been submitted for said year. In doing so, CMS could assess whether a premium reduction is

even necessary, with the hope that PDPs have adapted to the uncertainty associated with initial implementation of Part D redesign.

What It Means For You

Bid growth was to be expected given the IRA's enhancements of the standard benefit that were projected to increase drug utilization and expenditures, with Part D plans directly absorbing a higher share of the increased drug cost liability under the redesigned benefit beginning in 2025.

However, the numbers are high, with the NAMBA and BBP falling toward the higher end of the rumored range. Further, looking at the changes in low-income-enrollment-weighted average basic premiums across different Part D regions (**also released with the announcement**), there is a considerable amount of regional variation in the Part D premium impact – some regions even saw a decrease.

CMS' Part D Premium Demonstration is a major development for the PDP market – which while shrinking, still accounts for about 40% of total Part D enrollment. Your author knows how heavy of a lift it must have been to bring the demonstration to fruition based on experience working on these kinds of initiatives at CMS. The fact that CMS got it done – despite the prospect of significant criticism the Agency will likely face for it from fiscally-minded stakeholders and members of Congress – speaks volumes with respect to the level of concern the Agency must have had with the PDP bids and the PDP vs. MA-PD differential. Assuming nearly all the eligible PDPs volunteer to participate, the demonstration should help the Biden Administration avoid stronger criticism for overseeing even larger increases in Part D premiums, but the Administration won't avoid such attacks altogether.

Further, MA-PDs may have to make some important decisions in the coming days about their 2025 offerings that may then also impact downstream entities. Specifically, with the BBP and NAMBA now known, MA-PDs can calculate their plan-specific Part D premium. If that premium is higher than what MA-PDs had projected when submitting their bids, they may need to re-allocate more resources (MA rebate dollars, for those familiar with the MA program) towards buying down the increase and away from funding MA supplemental benefits or premium buydowns. If that premium is lower than projected, on the other hand, MA-PDs will have more resources available to apply toward MA benefits and premiums.

Which leads to the final point: it's important to remember that most of the Medicare Part D beneficiary population will largely be protected from premium increases through a variety of mechanisms, including:

- Nearly 60% of Part D beneficiaries are in MA-PDs, almost all of which at least partially buy down Part D premiums. In 2024, about 75% of Part D beneficiaries in MA-PDs paid no monthly premium for Part D, and while the BBP for 2024 was $34.70, beneficiaries in MAPDs paid an average of only $8.96 per month.
- About a quarter of Part D beneficiaries qualify for the Medicare low-income subsidy, through which the government covers basic premium obligations up to a certain level. The Part D Premium Stabilization Demonstration was presumably designed to ensure most PDP premiums fall below the cap on this subsidy.
- Beneficiaries can switch enrollment into lower premium plans each year. While PDP enrollees were expected to pay 21% higher average premiums in 2024, the actual increase in average premiums after accounting for plan switching was closer to a 5% increase. The Part D Premium Stabilization Demonstration should allow at least some lower premium options for many PDP beneficiaries.

What's Next

PDPs must indicate whether they will participate in the Part D Premium Stabilization Demonstration for 2025 by Monday, August 5.

MA-PDs must complete rebate reallocation by Wednesday, August 7.

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Once plans have completed those steps, CMS will release the 2025 preliminary average premiums later this summer and, as done in past years, the 2025 Part D landscape files in September. The latter release will include final Part D premiums at the individual plan level and provide the public with the best sense of how Part D beneficiary costs are actually expected to change in 2025.

After that, open enrollment in October.

Resources

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