Insight

CMS Puts Part D on Life Support

JOHN WALKER | AUGUST 7, 2024

- The Centers for Medicare and Medicaid Services (CMS) recently announced a new "Premium Stabilization Demonstration" for Medicare Part D plans intended to offset the higher premium costs expected to arise from the Inflation Reduction Act's (IRA) Part D redesign, which shifted more financial liability from the government to Part D plans.
- CMS' three-year stabilization plan, which comes just a few months before the presidential election, would attempt to stave off a significant Part D premium increase triggered by the IRA by funneling $7.2 billion to insurers.
- Although the demonstration is marketed as "voluntary," any insurer refusing participation would not be able to offer competitive prices; CMS will allocate this additional 382.3-percent increase in subsidies (compared to last year) without congressional approval to cover for the fallout of the IRA.

Introduction

Late last month, the Centers for Medicare and Medicaid Services (CMS) announced a new "Premium Stabilization Demonstration" for Medicare Part D plans intended to offset the higher premium costs expected to arise from the Inflation Reduction Act's (IRA) Part D redesign, which shifted more financial liability from the government to Part D plans.

To prevent these politically unpopular premium increases in the lead up to the election, CMS' "voluntary" three-year stabilization plan would attempt to stave off significant Part D premium increases by funneling $7.2 billion to insurers. In other words, CMS' plan is not so much a demonstration as it is a bailout. While the demonstration is marketed as "voluntary," all insurers effectively must participate to maintain competitive prices. Most alarming is that CMS will allocate this additional 382.3-percent increase in subsidies (compared to last year) without congressional approval.

The IRA's Part D Redesign

The Inflation Reduction Act of 2022 included several provisions which aimed to redesign the Medicare Part D drug benefit, mostly by moving more financial liability from the government to Part D plans. These provisions, among other things, cap out-of-pocket (OOP) spending, shift plan costs into Part D bids, and require manufacturers to provide discounts for applicable drugs during both the initial coverage and catastrophic phases. Accordingly, with higher costs, Part D plans would need to make up this shortfall in revenue with higher premiums – or what CMS euphemistically refers to as "variation."

In anticipation of growing part D premiums caused by price controls on out-of-pocket drug spending in the IRA, lawmakers included a 6 percent cap on growth of the base beneficiary premium to prevent premiums from ballooning out of control. While it's expected that base beneficiary premium growth will remain in the prescribed 6 percent, with an estimated increase of only $2.08 for people with Medicare part D, this cap has little to no effect on the individual plan-level premiums charged by Part D sponsors and paid by Part D enrollees. Hence, as one health care consulting firm found in a review of Part D premiums, while the base premium of Part D plans decreased in response to the IRA, the average bid amount increased by 85 percent –

with plan-level data showing that, as a result, standalone prescription drug plan (PDP) premiums (that is, what enrollees end up paying) increased by 21 percent on average from 2023 to 2024.

If standalone Part D premiums jumped by 21 percent in response to an 85-percent increase in bid amount, how much might Part D premiums jump in response to a 179-percent increase in bid amount compared to last year? While CMS will not release Part D premium averages until sometime in September, it's reasonable to assume Part D premiums will experience a significant increase in cost compared to 2024.

CMS' Announcement

In late July, CMS released the Medicare Part D base beneficiary premium and the Part D national average monthly bid amount for basic Part D benefits across both Medicare Advantage and standalone prescription drug plans for 2025. Accompanying this release, CMS also highlighted recent changes to Part D payment practices and, most importantly, announced a new "voluntary demonstration" intended to stabilize premiums and better protect insurers against standalone PDP associated risk. As estimated by an American Action Forum analysis, the total cost of this voluntary program will cost the federal government approximately $7.21 billion [1], spent without congressional approval.

Part D payment revisions

Since its implementation in 2006, Medicare Part D plans have continued to use what's known as a Prescription Drug Hierarchical Condition Category (RxHCC) risk adjustment model to predict the annual liability cost for Part D covered prescription drugs. By assessing the health status and demographics of all part D enrollees each year and then applying a "normalization factor," the RxHCC model enables Part D plans to more accurately access the annual cost of coverage and adjust their bids accordingly. Hence, in an effort to artificially "stabilize" Part D premiums, CMS altered the predictive ability of the RxHCC model by recalibrating it with newer diagnostic and spending data, while also creating a separate normalization factor to apply only to PDPs. What's important to understand about these revisions is that this new separate "normalization factor" will artificially increase PDP risk scores relative to Medicare Advantage prescription drug plans, enabling Part D plans to claim higher bids and receive larger direct subsidy payments. Effectively, the Biden Administration is implementing a specialized "factor" that enables the federal government to directly pay insurers for keeping premiums artificially level.

Voluntary Demonstration

Alongside payment revisions, CMS also announced a voluntary program under section 402, intended to stabilize PDP markets as they transition to new IRA part D provisions in 2025 and to assess "whether additional premium stabilization and revise risk corridors for stand-alone prescription drug plans (PDPs) increase the efficiency and economy of service under the Medicare Part D program." For those plans that choose to participate, and it can be safely assumed most if not all standalone PDPs will, CMS will impose three changes. First, CMS will uniformly reduce the base beneficiary premium by $15 or less if the reduction should cause the plan premium to drop below $0. Second, CMS will limit Part D premium increases to $35 between the 2024 to 2025 calendar year. Of note, this limit will only take effect after the $15 base beneficiary premium is applied. Third, CMS will alter the risk corridors between insures and the federal government, reducing the range at which PDPs assume the full risk of any actual spending higher than their original bid amounts, while also increasing the federal government's risk share in associated plan losses to 90 percent.

These changes should raise significant concern. CMS is paying down and capping insurance premiums for the next year, while also shifting the risk of PDP coverage from private insurance companies onto the taxpayers, to bail out insurers and keep premiums low. Effectively, the Biden administration is forcibly keeping Part D premiums artificially “stable” on the taxpayer’s dime.

[1] This figure was calculated by multiplying projected average subsidy payments over the entire Medicare Part D enrollee population to find the aggregate subsidy payment. CMS subsidy payments for 2024 were then calculated by subtracting the 2024 average bid amounts from 2024’s average premiums, not including adjusters such as low-income subsidies, individual reinsurance, and risk corridor payments.