

Actuarial User Group Call: Part D Premium Stabilization Demonstration

Thursday, August 1, 2024

Q1: For plans participating in the demonstration, how will the reduction in Part D premiums due to the reduction in the base beneficiary premium (BBP) of \$15 and, when applicable, the year-over-year premium increase limit of \$35 on a plan's total Part D premium work?

A1: The government, through an increase in the Part D direct subsidy paid to participating PDP sponsors, will cover the full amount of the reduction in premiums under the demonstration. This increase will account for both the \$15 reduction in BBP and the year-over-year premium increase limit of \$35 on a plan's total Part D premium.

Direct subsidy payments are equal to the Part D plan's risk-adjusted standardized bid and reduced by the Part D plan's basic Part D premium. The reduction in the plan's basic Part D premium will directly result in increased direct subsidy payments. In the voluntary demonstration, the BBP reduction of \$15 and year-over-year limit of \$35 will decrease the PDP's basic Part D premium and will cause a corresponding increase to the PDP's direct subsidy payment.

The voluntary demonstration does not affect any other payment operation or calculation conducted by CMS with respect to participating plans. For participating plans, all other payment operations will be conducted as normal using the premiums under the demonstration parameters.

Q2: What happens if a basic PDP's basic Part D premium is above a low-income subsidy (LIS) benchmark prior to the demonstration, and participation in the demonstration brings the plan's basic Part D premium below the benchmark? Do these plans receive reassignments?

A2: Low-income subsidy benchmarks were calculated based on pre-demonstration basic Part D premiums and will not be recalculated based on the demonstration premiums. The low-income premium subsidy amount (LIPSA) paid to participating plans will be based on their demonstration basic Part D premiums. If a participating basic plan has a pre-demonstration basic Part D premium that was greater than the LIS benchmark for a particular region and a demonstration basic Part D premium that is less than the LIS benchmark for that region, that plan will be treated as a plan with a basic Part D premium under the LIS benchmark and be eligible for LIS auto-assignments for calendar year (CY) 2025.

Q3: Can plans rebid? Will this demonstration adjust plan bids?

A3: Part D sponsors are not expected or permitted to make any changes to their bids in order to participate in the demonstration nor will their bid be changed by the voluntary demonstration.

Q4: If participation in the demonstration brings a basic PDP's basic Part D premium below the LIS benchmark, can the plan decline reassignments?

A4: No. If the plan has a final basic Part D premium under the LIS benchmark and is eligible for LIS auto-assignments for CY 2025, they may not decline LIS auto-assignments.

Q5: How do Part D risk corridors operate today? What are the revised thresholds for the risk corridors under the demonstration?

A5: Absent the demonstration, if a plan's actual drug costs are up to 5% higher or lower than their bid projection, the plan is at full risk for those unanticipated losses or savings. If actual drug costs exceed bid

projections by more than 5%, the government shares the liability for some of the unanticipated expenditures through a risk corridor reconciliation that occurs after the year is over. For a plan sponsor's costs that are 5 to 10% in excess of the bid, the loss between the thresholds is split evenly (50/50) between the government and plan. If actual drug costs are more than 10% of the bid, the government bears 80% and the plan pays 20% of the costs above 10%.

The thresholds for unanticipated losses will be narrowed in CY 2025 for plans that choose to participate in the voluntary demonstration. If the plan's actually paid drug costs attributable to basic prescription drug coverage exceed the plan's target amount by more than 2.5%, the government will pay the plan 50% of costs between the 2.5% and 5% thresholds. If the plan's actually paid drug costs attributable to basic prescription drug coverage exceed the plan's target amount by more than 5%, the government will pay the plan 90% of the costs above the 5% threshold. The thresholds and risk sharing amounts for costs below bid projections are unaffected by demonstration participation.

For a detailed description of the Part D risk corridors for CY 2025 absent the demonstration, please refer to the 2025 Advance Notice and 2025 Rate Announcement.

Q6: How will the target amount for risk corridors be calculated? Will there be any changes to risk corridor reconciliation, or will the higher direct subsidy revenue be compared to basic drug costs for risk corridor reconciliation purposes?

A6: The voluntary demonstration does not affect risk corridor calculations or risk corridor reconciliation with respect to participating plans. The calculation of target amounts for risk corridor reconciliation is the sum of direct subsidy payments (including higher direct subsidy payments for plans participating in the demo) and basic Part D premiums reduced by amounts for administrative expenses (including return on investment) assumed in the standardized bids, and this is not changed under the demonstration.

Q7: What will CMS be releasing on August 8th? Will CMS make publicly available pre-demonstration and demonstration basic, supplemental, and total Part D premiums for all participating standalone PDPs, or will the premium landscape released later this summer and Medicare Plan Finder reflect demonstration premiums only?

A7: On August 8th, CMS will provide final demonstration premiums to plan sponsors for participating plans. The final demonstration premiums will be available for plan sponsors on the Review Plan Data page in HPMS.

Once offerings are finalized, we will release final Part D premiums at the individual plan level in September, consistent with past years, via the CY 2025 MA and Part D landscape after Part D sponsors have completed all steps necessary to finalize their CY 2025 bids. Medicare Plan Finder will also reflect final Part D premiums.

Q8: Is the increase in direct subsidy subject to sequestration?

A8: Yes. The Part D direct subsidy is subject to the sequestration two percent payment reduction. This includes any increase in the Part D direct subsidy as a result of participation in the demonstration.

Q9: Can CMS share clarifying examples to demonstrate how the payment mechanics will work?

A9: We are providing two examples that represent varying scenarios.

1. The first example demonstrates the impact of the demonstration for a participating basic PDP with no supplemental Part D premium. In CY 2024, the plan's total Part D premium is \$10. In

CY 2025, the total (in this case, just the basic) Part D premium without the demonstration would have been \$65. With participation in the demonstration, the \$15 reduction in the BBP lowers the plan's basic Part D premium from \$65 to \$50. Because the CY 2024 total Part D premium is \$10, the plan's CY 2024 to CY 2025 total Part D premium increase still exceeds \$35 by \$5, and the \$35 year-over-year increase limit applies. After the \$35 increase limit is applied, the final CY 2025 total Part D premium is \$45. The government's direct subsidy payment to the plan will be \$20 more than it would have been without the demonstration, prior to the previously mentioned sequestration effects.

2. This example demonstrates the impact of the demonstration for a participating basic PDP with no supplemental Part D premium and a basic Part D premium under \$15. In CY 2024, the plan's total Part D premium is \$10. In CY 2025, the total (in this case, just the basic) Part D premium without the demonstration would have been \$13. With participation in the demonstration, the \$15 reduction in the BBP lowers the plan's basic Part D premium from \$13 to \$0. The BBP reduction cannot reduce the plan's total Part D premium to be less than \$0, so this plan receives a \$13 reduction in the BBP. The plan's total Part D premium increase is not greater than \$35, so the year-over-year increase limit does not apply. The government's direct subsidy payment to the plan will be \$13 more than it would have been without the demonstration, prior to the previously mentioned sequestration effects.

Q10: For the purposes of making an election related to the Part D stabilization demonstration, what is the definition of plan sponsor?

A10: For the purposes of making an election into the voluntary demonstration, a Part D sponsor is the parent organization.

Q11: Are new PDPs eligible for the demonstration in 2025?

A11: Yes, new PDPs are eligible to participate in the demonstration in 2025. New plans that participate are eligible for the uniform reduction of \$15 to the base beneficiary premium and risk corridor modifications. The year-over-year premium increase limit would not be applicable, given their status as a new plan, unless membership is being cross-walked into the new plan from another existing plan.

Q12: The language in the July, 29 memorandum indicates that new standalone PDPs from existing organizations can enter the demonstration in future years; however, it also states that a Part D Plan sponsor must participate in the preceding year. Does this mean that a Part D sponsor that opts into the demonstration for CY 2025 and subsequently introduces a new standalone PDP in CY 2026 can have the new standalone PDP participate in the demonstration in CY 2026? Also does this mean a Part D sponsor that does not opt into the demonstration for CY 2025 and subsequently introduces a new standalone PDP in CY 2026 cannot opt in in CY 2026?

A12: In order to participate in the demonstration in a subsequent year, a current Part D sponsor must participate in the demonstration in the immediately preceding demonstration year.

If a participating Part D sponsor offers a new standalone PDP in a subsequent year, that new plan would be eligible for participation in the voluntary demonstration and, in fact must be included in the demonstration if the parent organization as a whole continues to participate in that subsequent year. This is because there is a requirement that Part D sponsors at the parent organization level include all of their standalone PDPs in the demonstration.

If a Part D sponsor chooses not to participate in the demonstration in CY 2025 and chooses to offer a new standalone PDP in CY 2026, the new standalone PDP would not be eligible for participation in the demonstration because the Part D sponsor offering that PDP is not eligible due to its decision not to participate in CY 2025.

An entity that was not a Part D sponsor in CY 2025 when the demonstration began but enters the Part D market in CY 2026 or a later year when the demonstration is still ongoing, and therefore did not have the opportunity to opt into the demonstration in a preceding year, would be eligible for participation in the demonstration in the year in which it enters the Part D market and in subsequent years, provided it chooses to participate in the first year it is eligible.

Q13: Please confirm that the increased direct subsidy will continue to be paid for each month in CY 2025.

A13: That is correct. As noted previously, the voluntary demonstration does not affect any other payment operation or calculation conducted by CMS with respect to participating plans. For participating plans, all other payment operations will be conducted as normal using the premiums under the demonstration parameters. Plan sponsors will continue to receive direct subsidy payments on a monthly basis.

Q14: Are direct contract EGWPs able to participate in the Part D Premium Stabilization Demonstration?

A14: As stated in the July 29 memorandum, all standalone PDPs, including EGWPs, are eligible to participate in the demonstration. This includes direct contract EGWPs.

Q15: How are PDP administrative services only (ASO) plans to be treated that are contracted with an EGWP? Do these plans qualify for the demonstration?

A15: As stated in the July 29 memorandum, all standalone PDPs, including EGWPs, are eligible to participate in the demonstration. This includes EGWPs administered under an ASO arrangement.

Q16: Should the base beneficiary premium reduction be applied at a contract-PBP level or a group-specific level for EGWPs?

A16: Each element of the demonstration is applied by CMS at the individual PDP – i.e., plan benefit package (PBP) – level.

Q17: If a Part D sponsor chooses to participate in the voluntary demonstration, must both its individual PDPs and EGWPs participate or can participation vary between these distinct plan types?

A17: Part D sponsors must include all plans under each of their standalone PDP contracts in the voluntary demonstration if they choose to participate. Therefore, a Part D sponsor must include both its individual PDPs and EGWPs in the demonstration if it chooses to participate.