

DEPARTMENT OF HEALTH & HUMAN  
SERVICES  
Centers for Medicare & Medicaid Services  
7500 Security Boulevard  
Baltimore, Maryland 21244-1850



**CENTER FOR MEDICARE**

---

**DATE:** April 25, 2024

**TO:** All Part D Sponsors

**FROM:** Jennifer R. Shapiro, Director, Medicare Plan Payment Group

**SUBJECT:** Technical Memorandum on the Changes to True Out-of-Pocket (TrOOP) Costs and the Calculation of the Maximum Monthly Cap for the Medicare Prescription Payment Plan

This memorandum provides interested parties with additional examples of program calculations for the Medicare Prescription Payment Plan, which was established by section 11202 of the Inflation Reduction Act of 2022 (IRA) (P.L. 117-169) and signed into law on August 16, 2022.

Please direct any questions regarding the information included in this memorandum to [PartDPaymentPolicy@cms.hhs.gov](mailto:PartDPaymentPolicy@cms.hhs.gov).

**Summary**

Beginning in Calendar Year (CY) 2025, Part D sponsors are required to provide all Part D enrollees the option to pay their out-of-pocket (OOP) prescription drug costs in monthly amounts over the course of the plan year, instead of paying OOP costs at the point of sale (POS). As a result, Part D enrollees who opt into the Medicare Prescription Payment Plan will pay \$0 at the POS for a covered Part D drug, instead of the OOP cost sharing they would normally pay when filling a prescription. The Part D sponsor must pay the pharmacy the OOP cost sharing amount that these participants would have paid if they were not in the Medicare Prescription Payment Plan and then bill the program participants monthly for any OOP cost sharing they incurred while in the program according to the calculations described below.

Additional details on the calculations and examples are included in the final part one guidance for the Medicare Prescription Payment Plan, issued February 29, 2024.<sup>1</sup> The Centers for Medicare & Medicaid Services (CMS) noted in that document that IRA-related changes to the incurred costs that count toward TrOOP were not reflected in the examples provided as part of final part one guidance for the Medicare Prescription Payment Plan.

---

<sup>1</sup> Medicare Prescription Payment Plan guidance documents and other resources are available at: <https://www.cms.gov/inflation-reduction-act-and-medicare/part-d-improvements/medicare-prescription-payment-plan>.

On April 1, 2024, CMS issued the Final CY 2025 Part D Redesign Program Instructions (hereinafter referred to as the Final Part D Program Instructions) for CY 2025.<sup>2</sup> Section 30 of the Final Part D Program Instructions described how section 11201 of the IRA amended section 1860D-2(b)(4)(C) of the Social Security Act ("the Act") to update the definition of incurred costs and, thus, which costs count toward TrOOP spending. As noted in the Final Part D Program Instructions, under section 1860D-2(b)(4)(C)(iii)(II) of the Act, supplemental Part D coverage provided by enhanced alternative (EA) Part D plans and other health insurance (OHI) will be counted as incurred costs and included in the calculation of TrOOP. In addition, the following third-party arrangements will continue to contribute to TrOOP: Low Income Subsidy (LIS) cost-sharing support, qualified State Pharmacy Assistance Programs (SPAPs), Indian Health Service and certain other Native American organizations, and AIDS Drug Assistance Programs (ADAPs).

CMS received multiple comments in response to the Draft CY 2025 Part D Redesign Program Instructions asking for additional information and clarifications on how the changes to TrOOP will be incorporated into Medicare Prescription Payment Plan calculations. As described in the Final Part D Program Instructions, the changes in costs counting towards TrOOP will be incorporated into the calculation of the first month maximum cap, which includes incurred costs in the numerator (prior to an enrollee's effectuation of participation in the Medicare Prescription Payment Plan). For the calculation of the maximum cap in subsequent months, only the OOP costs that the Part D enrollee is directly responsible for paying are included (note that this does not include other TrOOP-eligible amounts, such as any amount paid by an EA plan or employer group waiver plan (EGWP) for supplemental benefits or any amount paid by potential TrOOP-eligible third-party payers, such as SPAPs or charities).

As stated in section 30 of the Medicare Prescription Payment Plan final part one guidance, opting into the program will not impact how a program participant moves through the Part D benefit or what counts towards their TrOOP costs. Opting into the program only provides participants with the ability to spread OOP costs over the year—the total incurred costs and the timing of TrOOP accumulation do not change. Additionally, under section 1860D-2(b)(4)(F) of the Act, a participant's TrOOP-eligible costs under the program will still be treated as incurred based on the date each Part D claim is adjudicated.

The underlying Medicare Prescription Payment Plan calculations and program requirements, as outlined in the Medicare Prescription Payment Plan guidance documents, remain unchanged; this memorandum serves to provide additional examples that illustrate the Medicare Prescription Payment Plan calculations alongside TrOOP-accumulation calculations under the CY 2025 Part D benefit redesign.

### **Example #1: January Election (EA Plan with Defined Standard (DS) Deductible)**

---

<sup>2</sup> Final CY 2025 Part D Redesign Program Instructions available at: <https://www.cms.gov/inflation-reduction-act-and-medicare/part-d-improvements>.

Calculation of Maximum Monthly Cap in First Month: This example demonstrates how the maximum monthly cap would be calculated for an individual who opts into the Medicare Prescription Payment Plan in January and fills a new prescription. This individual has no additional prescription drug coverage through a third party. The participant is enrolled in an EA plan with a DS deductible of \$590.00. Prior to this fill, the individual had no prescriptions in 2025.

The total drug cost is \$700.00. The participant pays the full cost of the drug until the deductible is met (\$590.00) plus a \$30.00 copay in the initial coverage phase (ICP); their total OOP cost sharing for the prescription is \$620.00 (\$590.00 + \$30.00 = \$620.00).

Step 1: Determine the previously incurred costs. The participant has no previous prescriptions in January; the TrOOP Accumulator is \$0.00.

Step 2: Calculate the maximum monthly cap for the first month in which the Medicare Prescription Payment Plan is effective for the participant. The annual OOP threshold for CY 2025 is \$2,000.00. The month is January; months remaining in the plan year equals 12 (includes January).

$$(\$2,000.00 - \$0.00)/12 = \$166.67$$

The plan will bill \$166.67 for January, since the OOP incurred amount of \$620.00 is higher than the maximum monthly cap.

After the January fill, the participant's TrOOP accumulator is \$620.00 (the greater of enrollee liability under the DS benefit (\$590.00 + \$110.00 \* 0.25 = \$617.50) or enrollee liability under the plan's benefit design (\$620.00)).<sup>3</sup>

Calculation of Maximum Monthly Cap in Subsequent Months: In February 2025, the participant refills their prescription. Since they met their plan's deductible in January, their OOP cost sharing for February is the plan-defined co-pay of \$30.00.

Step 1: Determine the remaining costs owed by the participant. The participant incurred \$620.00 in January and was billed \$166.67.

$$\$620.00 - \$166.67 = \$453.33$$

Step 2: Determine the additional OOP costs incurred by the participant. The participant refills a single prescription during this month. Additional OOP costs incurred = \$30.00.

---

<sup>3</sup> For additional details on mapping plan liability to the DS benefit to distinguish between basic and supplemental benefits, please refer to the Final Part D Program Instructions and the April 15, 2024, memorandum, Prescription Drug Event Record Reporting Instructions for the Implementation of the Inflation Reduction Act for Contract Year 2025.

Step 3: Calculate the maximum monthly cap for the subsequent month. The month is February; months remaining in the plan year equals 11 (includes February).

$$(\$453.33 + \$30.00)/11 = \$43.94$$

If the participant in Example #1 continued to fill this single prescription (with a \$30.00 copay after meeting the deductible in January), their maximum monthly cap would update as shown below.

Because amounts reimbursed by supplemental coverage will count toward TrOOP in 2025, in February in this example, the participant incurs \$30.00 in OOP costs (the amount the participant is directly responsible for paying) but will accumulate additional TrOOP due to their plan's EA benefit design. For the February fill of a \$700.00 applicable drug in the ICP, the participant would accumulate a total of \$175.00 in TrOOP (the greater of enrollee liability under the DS benefit (\$700.00 \* 0.25 = \$175.00) or enrollee liability under the plan's benefit design (\$30.00)).

The participant reaches the CY 2025 annual OOP threshold of \$2,000.00 in September, due to a combination of OOP costs paid by the participant through the Medicare Prescription Payment Plan and additional TrOOP-eligible costs paid by the Part D sponsor.

Month	OOP Costs Incurred	Change in TrOOP	Maximum Monthly Cap	Monthly Participant Payment
January	\$620.00	\$620.00	\$166.67	\$166.67
February	\$30.00	\$175.00	\$43.94	\$43.94
March	\$30.00	\$175.00	\$46.94	\$46.94
April	\$30.00	\$175.00	\$50.27	\$50.27
May	\$30.00	\$175.00	\$54.02	\$54.02
June	\$30.00	\$175.00	\$58.31	\$58.31
July	\$30.00	\$175.00	\$63.31	\$63.31
August	\$30.00	\$175.00	\$69.31	\$69.31
September	\$30.00	\$155.00	\$76.81	\$76.81
October	\$0.00	\$0.00	\$76.81	\$76.81
November	\$0.00	\$0.00	\$76.81	\$76.81
December	\$0.00	\$0.00	\$76.80	\$76.80
<b>TOTAL</b>	<b>\$860.00</b>	<b>\$2,000.00</b>		<b>\$860.00</b>

**Example #2: February Election (Employer Group Waiver Plan (EGWP) with a \$0 Deductible)**

Calculation of Maximum Monthly Cap in First Month: This example demonstrates how the maximum monthly cap would be calculated for an individual who opts into the Medicare Prescription Payment Plan in February. This individual has no additional prescription drug coverage through a third party. The participant is enrolled in an EGWP with a \$0 deductible. Prior to opting into the Medicare Prescription Payment Plan, the individual had filled one prescription in January. The January prescription had a total drug cost of \$1,500.00 and a plan-

defined coinsurance of 10% (\$150.00). In February, the enrollee opts into the Medicare Prescription Payment Plan and then refills their prescription.

Step 1: Determine the previously incurred costs. The participant had one previous prescription in January; the TrOOP Accumulator is \$817.50.

The total drug cost in January was \$1,500.00. The costs incurred for TrOOP on this claim is the greater of enrollee liability under the DS benefit or enrollee liability under the EGWP OHI benefit. The participant paid their plan-defined coinsurance of 10% ( $\$1,500.00 * 0.10 = \$150.00$ ). Under the DS benefit, the enrollee pays 100% of the drug cost until the DS deductible is met ( $\$590.00 * 1.00 = \$590.00$ ) plus 25% coinsurance in the ICP ( $\$910.00 * 0.25 = \$227.50$ ), which equals \$817.50. Therefore, TrOOP accumulation based on the January prescription is equal to \$817.50.

Step 2: Calculate the maximum monthly cap for the first month in which the Medicare Prescription Payment Plan is effective for the participant. The annual OOP threshold for CY 2025 is \$2,000.00. The month is February; months remaining in the plan year equals 11 (includes February).

$$(\$2,000.00 - \$817.50)/11 = \$107.50$$

The plan will bill \$107.50 for February, since the OOP incurred amount of \$150.00 is higher than the maximum monthly cap.

After the February fill, the participant's TrOOP accumulator is \$1,192.50 (\$817.50 from January plus the greater of enrollee liability under the DS benefit ( $\$1,500.00 * 0.25 = \$375.00$ ) or enrollee liability under the plan's benefit design (\$150.00) for the February prescription).

Calculation of Maximum Monthly Cap in Subsequent Months: In March 2025, the participant refills their prescription. Their OOP cost sharing for March is 10% of the \$1,500.00 total drug cost (\$150.00).

Step 1: Determine the remaining costs owed by the participant. The participant incurred \$150.00 in February and was billed \$107.50.

$$\$150.00 - \$107.50 = \$42.50$$

Step 2: Determine the additional OOP costs incurred by the participant. The participant refills a single prescription during this month. Additional OOP costs incurred = \$150.00.

Step 3: Calculate the maximum monthly cap for the subsequent month. The month is March; months remaining in the plan year equals 10 (includes March).

$$(\$42.50 + \$150.00)/10 = \$19.25$$

If the participant in Example #2 continued to fill this single prescription (with 10% coinsurance for a \$1,500.00 drug), their maximum monthly cap would update as shown below.

The participant reaches the CY 2025 annual OOP threshold of \$2,000.00 in June, due to a combination of OOP costs that will be paid by the participant through the Medicare Prescription Payment Plan and additional TrOOP-eligible costs paid by the EGWP.

Month	OOP Costs Incurred	Change in TrOOP	Maximum Monthly Cap	Monthly Participant Payment
January	\$150.00	\$817.50	N/A	\$150.00*
February	\$150.00	\$375.00	\$107.50	\$107.50
March	\$150.00	\$375.00	\$19.25	\$19.25
April	\$150.00	\$375.00	\$35.92	\$35.92
May	\$150.00	\$375.00	\$54.67	\$54.67
June	\$57.50	\$57.50	\$62.88	\$62.88
July	\$0.00	\$0.00	\$62.88	\$62.88
August	\$0.00	\$0.00	\$62.88	\$62.88
September	\$0.00	\$0.00	\$62.88	\$62.88
October	\$0.00	\$0.00	\$62.88	\$62.88
November	\$0.00	\$0.00	\$62.88	\$62.88
December	\$0.00	\$0.00	\$62.88	\$62.88
<b>TOTAL</b>	<b>\$807.50</b>	<b>\$2,000.00</b>		<b>\$807.50</b>

\*This payment was made directly to the pharmacy, outside of the Medicare Prescription Payment Plan.

### **Example #3: June Election (EA Plan with DS Deductible and Supplemental AIDS Drug Assistance Program (ADAP) Coverage)<sup>4</sup>**

Calculation of Maximum Monthly Cap in First Month: This example demonstrates how the maximum monthly cap would be calculated for an individual who opts into the Medicare Prescription Payment Plan in June, prior to two new, high-cost prescriptions being filled. The participant is enrolled in an EA plan with a DS deductible of \$590.00; they also have supplemental coverage through an ADAP. Prior to this fill, the individual had no prescriptions in 2025.

The first prescription processed has a total drug cost of \$4,000.00, for a drug that is subject to the deductible and on a 25% coinsurance tier in the ICP, but is included on the ADAP formulary and is fully covered. The participant's OOP cost for this drug is \$0.00. The second prescription has a total drug cost of \$650.00, for a drug that is on a \$47.00 copay tier in the ICP, and is not included on the ADAP formulary. The participant's OOP cost for this drug is \$47.00.

<sup>4</sup> Note that third-party payment arrangements enumerated at section 1860D-2(b)(4)(C)(iii)(I) of the Act (e.g., Low Income Subsidy cost-sharing support, qualified SPAPs, Indian Health Service and certain other Native American organizations, and ADAPs, among others) continue to count toward TrOOP in CY 2025, as they have in prior years.

Step 1: Determine the previously incurred costs. The participant has no previous prescriptions in the year; the TrOOP Accumulator is \$0.00.

Step 2: Calculate the maximum monthly cap for the first month in which the Medicare Prescription Payment Plan is effective for the participant. The annual OOP threshold for CY 2025 is \$2,000.00. The month is June; months remaining in the plan year equals 7 (includes June).

$$(\$2,000.00 - \$0.00)/7 = \$285.71$$

The plan will bill \$47.00 for June, since the OOP incurred amount is lower than the maximum monthly cap.

After the June fills, the participant's TrOOP accumulator is \$1,605.00 (\$590.00 + \$852.50 + \$162.50 = \$1,605.00). This includes the amount covered by the ADAP (\$590.00 deductible plus 25% coinsurance in the ICP (\$3,410.00 \* 0.25 = \$852.50)) plus the greater of enrollee liability under the DS benefit (\$650.00 \* 0.25 = \$162.50) or enrollee liability under the plan's benefit design for the second drug (\$47.00).

Calculation of Maximum Monthly Cap in Subsequent Months: In July 2025, the participant refills their prescriptions. The prescription covered by the ADAP formulary is processed first. Since the participant met their plan's deductible in June, their plan-defined OOP cost sharing for July would be \$1,000.00 (\$4,000.00 \* 0.25) but is reduced to \$395.00 (capped by the CY 2025 annual OOP threshold of \$2,000.00). This amount is fully paid by the ADAP. Because they have now met the annual OOP threshold, they will incur no new OOP costs with subsequent fills.

Step 1: Determine the remaining costs owed by the participant. The participant incurred \$47.00 in June and was billed \$47.00.

$$\$47.00 - \$47.00 = \$0.00$$

Step 2: Determine the additional OOP costs incurred by the participant. Additional OOP costs incurred = \$0.00.

Step 3: Calculate the maximum monthly cap for the subsequent month. The month is July; months remaining in the plan year equals 6 (includes July).

$$(\$0.00 + \$0.00)/6 = \$0.00$$

Because the participant in Example #3 has already met the annual OOP threshold (which includes the payments made by the ADAP on behalf of the participant and additional TrOOP-eligible costs paid by the Part D sponsor), they will incur no new OOP costs. In addition, because they paid their June OOP costs incurred in full as part of the Medicare Prescription Payment Plan payment, they have no remaining balance to pay through the Medicare Prescription Payment

Plan. Note that the enrollee in this scenario is unlikely to benefit from opting into the Medicare Prescription Payment Plan, given their low OOP costs and robust supplemental coverage.

Month	OOP Costs Incurred	Change in TrOOP	Maximum Monthly Cap	Monthly Participant Payment
January	\$0.00	\$0.00	N/A	\$0.00
February	\$0.00	\$0.00	N/A	\$0.00
March	\$0.00	\$0.00	N/A	\$0.00
April	\$0.00	\$0.00	N/A	\$0.00
May	\$0.00	\$0.00	N/A	\$0.00
June	\$47.00	\$1,605.00	\$285.71	\$47.00
July	\$0.00	\$395.00	\$0.00	\$0.00
August	\$0.00	\$0.00	\$0.00	\$0.00
September	\$0.00	\$0.00	\$0.00	\$0.00
October	\$0.00	\$0.00	\$0.00	\$0.00
November	\$0.00	\$0.00	\$0.00	\$0.00
December	\$0.00	\$0.00	\$0.00	\$0.00
<b>TOTAL</b>	<b>\$47.00</b>	<b>\$2,000.00</b>		<b>\$47.00</b>

**Example #4: June Election (EA Plan with DS Deductible and Supplemental ADAP Coverage)**

This example is a variation of Example #3, illustrating how the order of claims processing may impact OOP costs and an enrollee’s likelihood of benefiting from participation in the Medicare Prescription Payment Plan.

Calculation of Maximum Monthly Cap in First Month: This example demonstrates how the maximum monthly cap would be calculated for an individual who opts into the Medicare Prescription Payment Plan in June, prior to two new, high-cost prescriptions being filled. The participant is enrolled in an EA plan with a DS deductible of \$590.00; they also have supplemental coverage through an ADAP. Prior to this fill, the individual had no prescriptions in 2025.

The first prescription processed has a total drug cost of \$650.00, for a drug that is subject to the deductible and on a \$47.00 copay tier in the ICP, and is not included on the ADAP formulary. The participant’s OOP costs for this drug are \$637.00 ( $\$590.00 + \$47.00 = \$637.00$ ). The second prescription has total drug cost of \$4,000.00, for a drug that is on a 25% coinsurance tier in the ICP, but is included on the ADAP formulary and is fully covered. The participant’s OOP costs for this drug are \$0.00.

Step 1: Determine the previously incurred costs. The participant has no previous prescriptions in the year; the TrOOP Accumulator is \$0.00.

Step 2: Calculate the maximum monthly cap for the first month in which the Medicare Prescription Payment Plan is effective for the participant. The annual OOP threshold for

CY 2025 is \$2,000.00. The month is June; months remaining in the plan year equals 7 (includes June).

$$(\$2,000.00 - \$0.00)/7 = \$285.71$$

The plan will bill \$285.71 for June, since the OOP incurred amount of \$637.00 is higher than the maximum monthly cap.

After the June fills, the participant's TrOOP accumulator is \$1,637.00 (\$637.00 + 1,000.00 = \$1,637.00). This includes the greater of enrollee liability under the DS benefit (\$590.00 \* 1.00 + \$60.00 \* 0.25 = \$605.00) or enrollee liability under the plan's benefit design for the first drug (\$637.00); it also includes the amount covered by the ADAP (\$4,000.00 \* 0.25 = \$1,000.00).

Calculation of Maximum Monthly Cap in Subsequent Months: In July 2025, the participant refills their prescriptions. The prescription with the total drug cost of \$650.00 is processed first. Since the participant met their plan's deductible in June, their plan-defined OOP cost sharing for July is \$47.00. The prescription covered by the ADAP is processed second; this prescription causes the participant to reach the annual OOP threshold, and they will incur no new OOP costs with subsequent fills.

Step 1: Determine the remaining costs owed by the participant. The participant incurred \$637.00 in June and was billed \$285.71.

$$\$637.00 - \$285.71 = \$351.29$$

Step 2: Determine the additional OOP costs incurred by the participant. Additional OOP costs incurred = \$47.00.

Step 3: Calculate the maximum monthly cap for the subsequent month. The month is July; months remaining in the plan year equals 6 (includes July).

$$(\$351.29 + \$47.00)/6 = \$66.38$$

Because the participant in this example has already met the annual OOP threshold (which includes the payments made by the ADAP on behalf of the participant and additional TrOOP-eligible costs paid by the Part D sponsor), they will incur no new OOP costs. Their maximum monthly cap would be approximately \$66.38 for all months remaining in the plan year, as shown below.

<b>Month</b>	<b>OOP Costs Incurred</b>	<b>Change in TrOOP</b>	<b>Maximum Monthly Cap</b>	<b>Monthly Participant Payment</b>
January	\$0.00	\$0.00	N/A	\$0.00
February	\$0.00	\$0.00	N/A	\$0.00
March	\$0.00	\$0.00	N/A	\$0.00
April	\$0.00	\$0.00	N/A	\$0.00
May	\$0.00	\$0.00	N/A	\$0.00
June	\$637.00	\$1,637.00	\$285.71	\$285.71
July	\$47.00	\$363.00	\$66.38	\$66.38
August	\$0.00	\$0.00	\$66.38	\$66.38
September	\$0.00	\$0.00	\$66.38	\$66.38
October	\$0.00	\$0.00	\$66.38	\$66.38
November	\$0.00	\$0.00	\$66.39	\$66.39
December	\$0.00	\$0.00	\$66.38	\$66.38
<b>TOTAL</b>	<b>\$684.00</b>	<b>\$2,000.00</b>		<b>\$684.00</b>