



MEDICARE CHANGES IN 2025
The Inflation Reduction Act (IRA) & Part D Updates

What Is the Inflation Reduction Act (IRA)?

Inflation Reduction Act Overview

Signed on August 16th, 2022



The Inflation Reduction Act will protect Medicare recipients from catastrophic drug costs by **phasing in a cap for out-of-pocket costs** and establishing a \$35 cap for a month's supply of insulin. And, as a historic win, **Medicare will be able to negotiate prices for high-cost drugs** for the first time ever.¹

White House statement on Inflation Reduction Act
August 19, 2022

Making prescription drugs more affordable for Medicare patients **could pave the way for future reforms.**²

The Commonwealth Fund

Summary

Healthcare-related highlights:

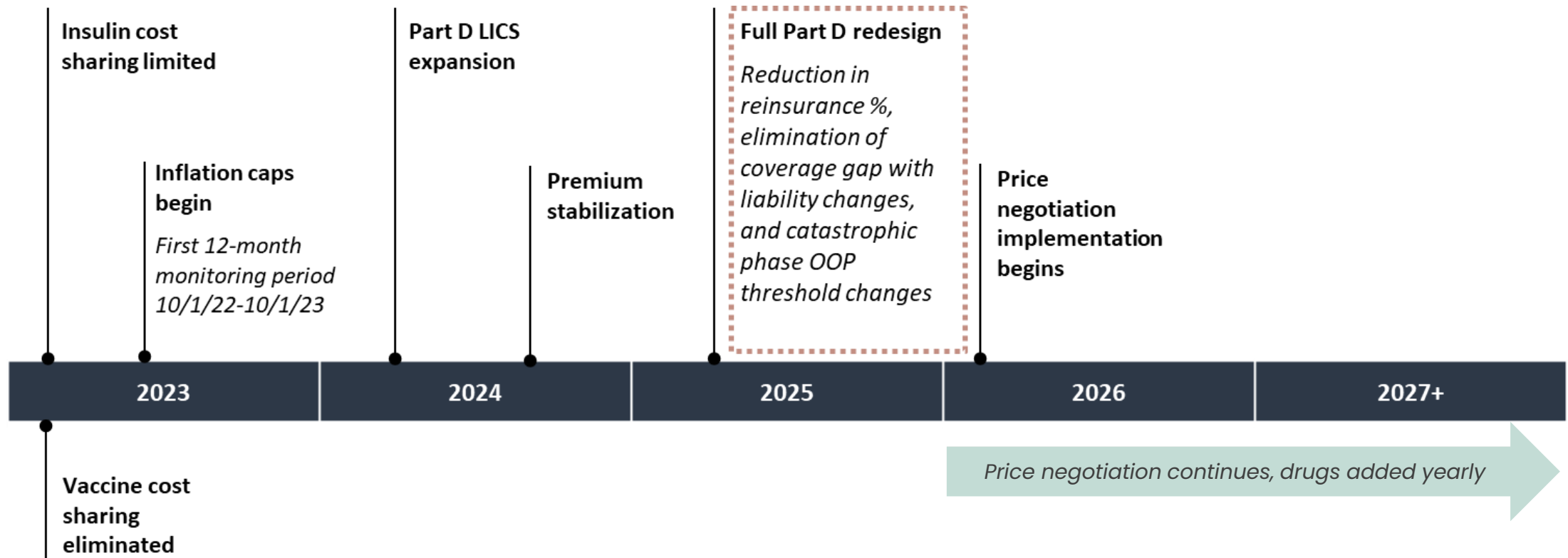
- Inflation Reduction Act has significant provisions affecting **Medicare drug programs:**
 - Some components are already phased in by 2024, including a \$35 insulin cap, \$0 vaccinations, and expansion of Low Income Subsidy eligibility
 - Also limits National Average Premium increase to 6% (not member premium)
 - **Most significant changes take effect in 2025+, including a complete redesign of Medicare Part D benefits and member cost sharing payment structure**
 - Includes provisions aimed at lowering prescription drug prices for Medicare
- Extends **Affordable Care Act subsidies**

Non-healthcare highlights:

- Provides tax incentives for clean energy investment and other climate initiatives
- Funds infrastructure and electric vehicle purchasing incentives
- Funds grants to support low-income communities and communities of color

Sources: 1. [White House](#). 2. [The Commonwealth Fund](#). 3. [Center for a Responsible Federal Budget](#). OW: "Inflation reduction act: Key Insights & Implications"

Part D Inflation Reduction Act Timeline



IRA Reduces Member Costs

Significantly Enhanced Drug Benefits & Lower Cost Sharing for Members

1

Part D Benefit Redesign

Revises Part D Cost sharing, shifts costs to plans and manufacturers, introduces insulin copay caps, and expands Low Income (LI) eligibility

2

Drug Price Negotiations

CMS can begin to negotiate drug pricing for mature, single-source high-cost drugs

3

Drug Price Inflation Cap

Limits Medicare drug price increase to level of inflation via rebates

Part D redesign will drive member cost savings starting in 2025 that increase further in 2026+

Net Impact of Part D Benefit Changes

After redesign, who pays what is changing:



Drug manufacturer liability



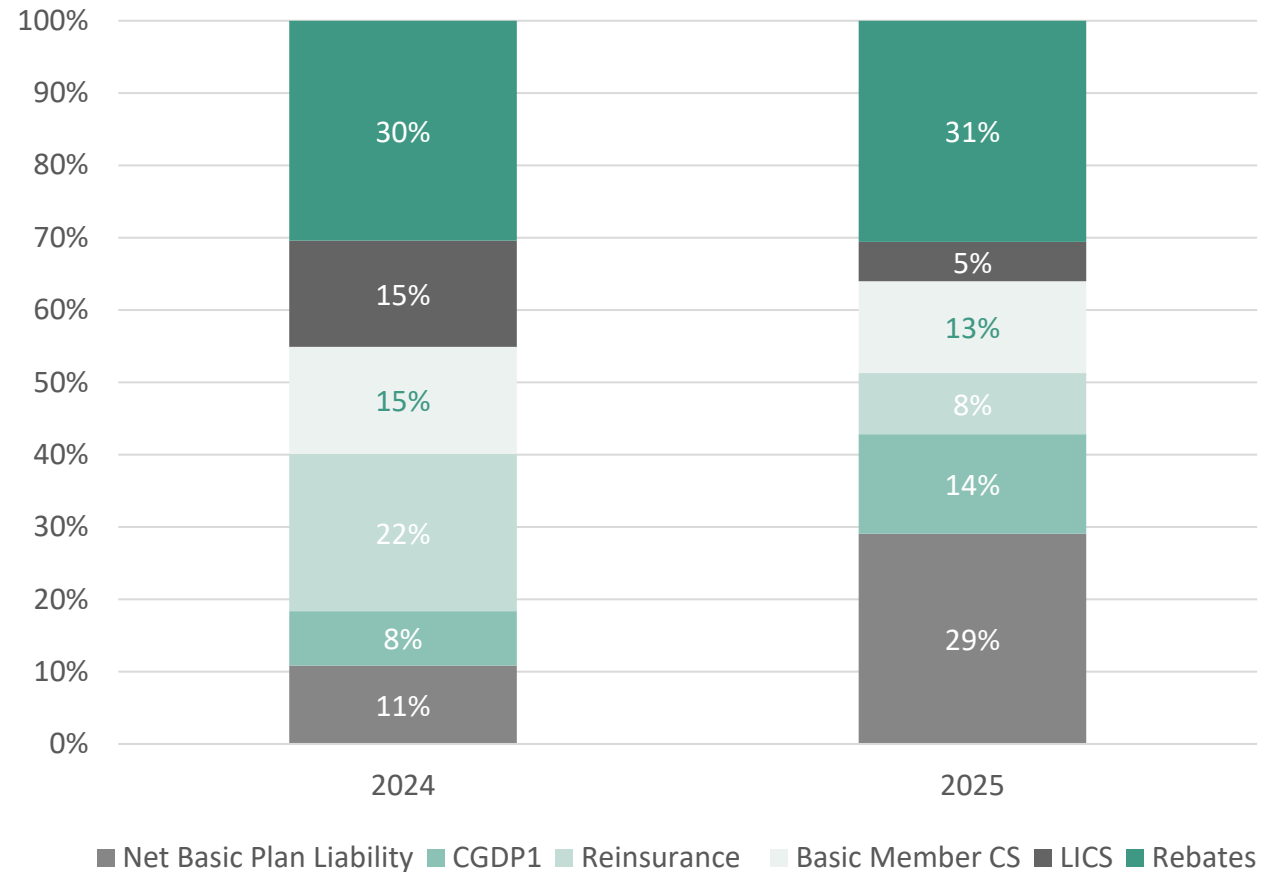
Medicare cost



Member cost



Plan cost will increase significantly.
CMS Revenue will offset somewhat,
but still a headwind overall



New Part D Benefit Lowers Cost to Members



What?

Member out of pocket costs are decreasing and there is a new \$2,000 max out of pocket



When?

- 2025



How?

- Changes to the Part D standard benefit:

“Gap” or “Donut Hole” eliminated – now just deductible, initial coverage phase, and catastrophic

Members pay 100% of all expenses up to the Part D deductible

Members pay 25% of costs after deductible until the out-of-pocket max cost threshold
(\$2,000 in 2025)

- Plan pays 75% for generics, 65% for brand drugs (manufacturers cover remaining costs)

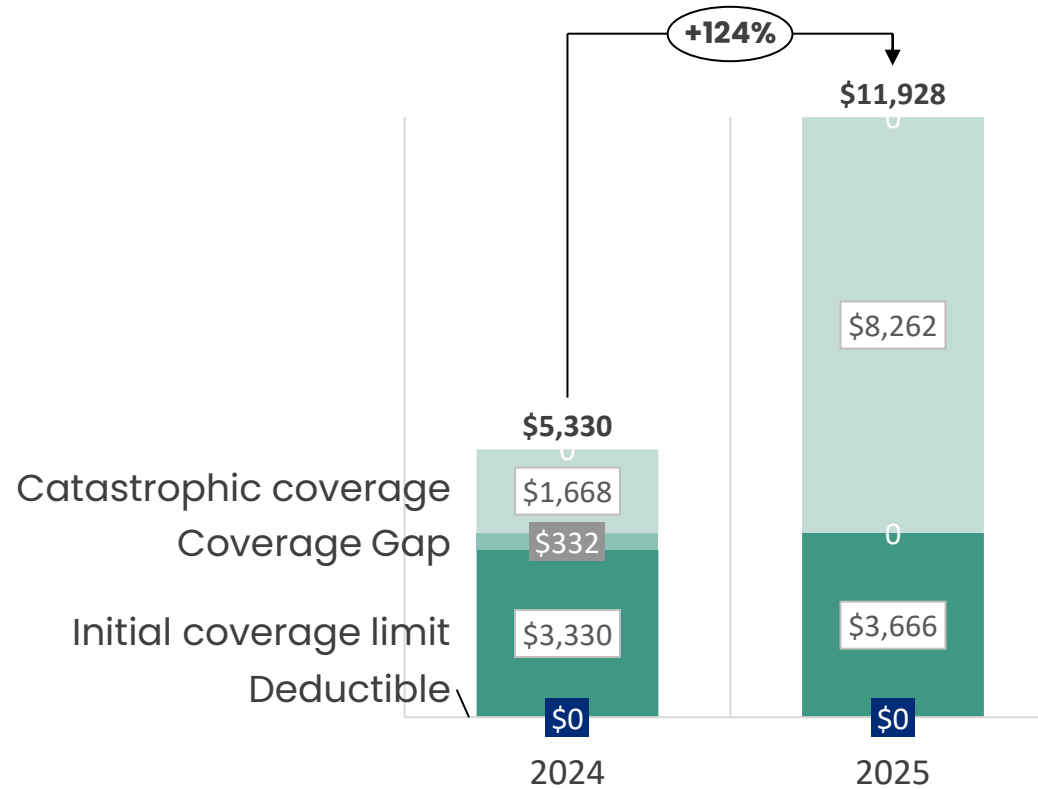
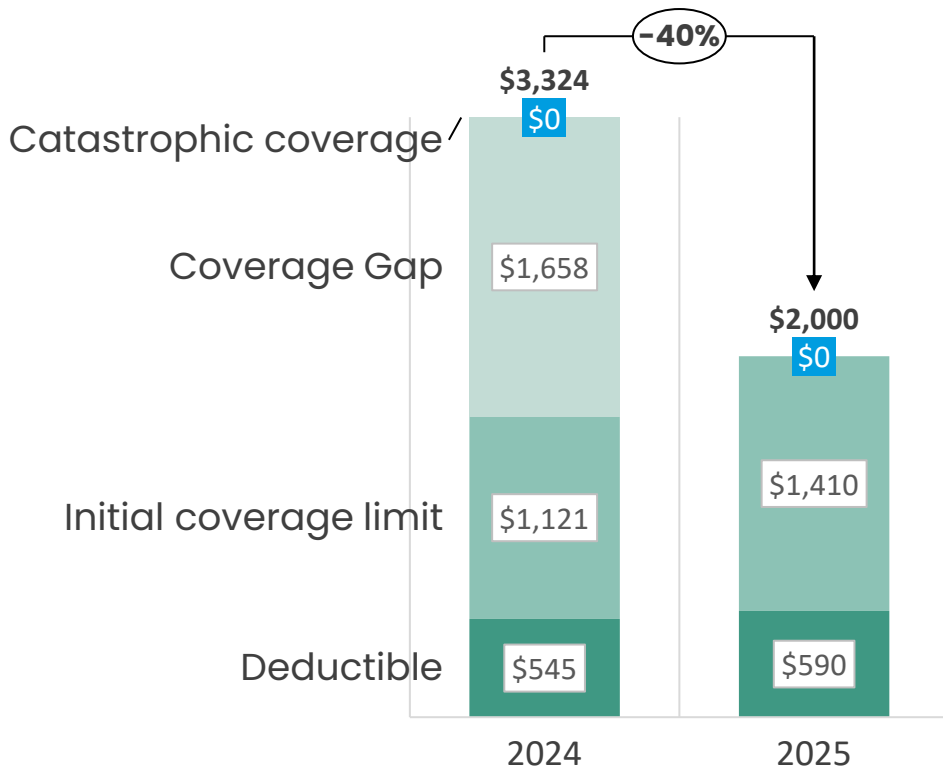
After the out-of-pocket maximum, members pay \$0

- Plan pays 60%, CMS & manufacturers cover the remaining costs
- OOP max covers only Rx spend, separate max for medical costs in MAPD

New Part D Benefit Increases Cost to Plans

Member out-of-pocket maximums

Plan spend for a \$20,000 total cost beneficiary



Member costs are decreasing significantly in 2025, while plan costs are going up for high-spend beneficiaries

Smoothing Provisions

Spreading cost sharing across the year, creating logistical concerns

1

Member Opt-In

Members must be offered to opt in at point of sale if spend on any given claim is high enough (\$600). Member can choose to spread cost sharing expense over the remaining year

2

Consequences

Members who do not make subsequent smoothing payments cannot be disenrolled or prevented from filling future prescriptions

3

Implementation

PBM / Pharmacy implementation is still being developed. Member education on program is needed by plans, agents, PBM, and pharmacy stakeholders

Smoothing will change point of service costs for members *and* change impact of cost sharing on selection for plans

Smoothing Examples

	Month	1	2	3	4	5	6	7	8	9	10	11	12	Total
Scenario 1	Incurring Costs	\$2,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,000
	Smoothing	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$167	\$2,000
Scenario 2	Incurring Costs	\$1,000	\$500	\$500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,000
	Smoothing	\$167	\$121	\$171	\$171	\$171	\$171	\$171	\$171	\$171	\$171	\$171	\$171	\$2,000
Scenario 3	Incurring Costs	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$660
	Smoothing	\$55	\$5	\$10	\$17	\$23	\$31	\$41	\$52	\$65	\$84	\$111	\$166	\$660

Smoothing may not be the best option for all members, especially if costs are low and predictable

Other Financial Considerations for Part D Plans



Smoothing will add additional administrative expenses, an unknown amount of bad debt for plans moving forward, and require logistical implementation that is still being developed



Increased emphasis on Part D risk scores, an area plans have typically not focused on, as the Direct Subsidy increases