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Part D Redesign Pushes 2025 Bid Amounts Up As CMS Demo Aims To 'Stabilize' PDPs

by Cathy Kelly

It is not yet clear how much premiums may increase in standalone enhanced Medicare Part D plans for 2025 because the demonstration is designed to blunt the financial pressures imposed by the Inflation Reduction Act's benefit redesign.

Medicare Part D plan bids for 2025 more than doubled on average from 2024, primarily reflecting a shift in government payments that are part of the Inflation Reduction Act's benefit redesign, which will be fully in effect next year, the Centers for Medicare and Medicaid Services *announced* 29 July.

The national average monthly bid amount is an enrollment-weighted average of annual Part D plan bids for basic benefits, with weights based on the number of enrollees in each plan. It is used to calculate the government subsidy for the plans.

Under the Part D redesign, Medicare's back-end cost reconciliation, or reinsurance, will decrease from 80% in the catastrophic phase of the benefit to 20% for brands. Plan responsibility for cost will go from 20% to 60% of drug costs.

Key Takeaways

- The 2025 Medicare Part D bid announcement offers an early indication of how the benefit redesign will impact coverage and drug access.
- The biggest driver of the average bid increase is the shift in Medicare's reimbursement to plans moving from a back-end reconciliation to a front-end subsidy.

As part of that change, amounts that previously would have been paid as reinsurance will, on

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average, shift to plans' upfront cost calculation and the upfront government subsidy, CMS said. The redesign also includes a $2,000 cap on beneficiary out-of-pocket spending. In addition, CMS proposed changing patient spending calculations to include spending by third parties. (Also see "*'D' Is for Dynamic: CMS Proposals Could Shake Up Medicare Drug Benefits*" - Pink Sheet, 14 Feb, 2024.)

- CMS offered to buy down premiums in a demonstration for standalone prescription drug plans intended to stabilize the market.

The big jump in bid amounts could portend premium increases for plans with enhanced benefits next year and raise concerns about the cost of the redesign. CMS will release the preliminary average Part D premium later this summer and announce individual plan premiums in September.

"The national average bid amount increased from $64.28 in 2024 to $179.45 in 2025," CMS said. "This increase is in line with expectations due to the redesign of the program that encourages better cost management of the Part D benefit by … sponsors through a larger risk-adjusted government Part D subsidy payment upfront rather than cost reconciliation on the back end based on beneficiary costs."

The preliminary estimated average Medicare subsidy to plans will be $142.67 in 2025.

CMS emphasized that the increase in the national average bid "does not mean that Part D premiums will increase by a similar amount."

The IRA included a provision restricting plans from increasing base Part D beneficiary premiums by more than 6% annually, or about $2 a month. However, individual plans with enhanced benefits can increase the premiums that beneficiaries pay by more than 6%, which occurred going into 2024, as the first phase of the redesign went into effect. (Also see "*Part D In 2024: Premium Increases, Shrinking Choices Signal Early Impact Of IRA Redesign*" - Pink Sheet, 4 Jan, 2024.)

Insurers also notably limited the number of standalone prescription drug plans (PDPs) they offered this year, which raised questions about whether the standalone market could collapse as more beneficiaries sought prescription drug coverage from Medicare Advantage plans.

CMS Would Buy Down Premiums In Demonstration

CMS also announced a voluntary demonstration project to help ease the transition to the new system and stabilize PDPs. Participation will help determine actual Part D plan premiums for 2025 and insurers have until 5 August to apply.

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As part of the demonstration, Medicare will reduce the base beneficiary premium $15 for participating sponsors and provide more generous risk corridor payments. In return, insurers would be subject to a $35 limit on year-over-year increases in an individual plan's total Part D premium compared to 2024.

CMS said it "has observed more variation in the standalone PDP bids submitted by plan sponsors as compared to" Medicare Advantage plans with prescription drug coverage (MA-PD) for 2025, which is "due in part to differences in the drivers of Part D costs in each of these two sectors of the Part D market, including … the overall benefits that they are able to manage and available strategies used to manage Part D costs, including MA-PD plans access to MA rebates."

"The variation in PDP bids and resulting premium changes could create disruptive enrollment shifts in the PDP market during the initial implementation of the IRA benefit improvements," the agency added. "CMS believes that additional premium stability in the PDP market may improve the predictability of PDP offerings available to enrollees and improve the efficiency of the transition for both people with Medicare and Part D plan sponsors."

PDP Demo Could Last At Least Three Years

The demonstration is designed for one year with the current parameters and could continue for at least two additional years with parameters adjusted as needed.

Plans are expected to gain some relief from the additional financial pressure imposed by the redesign when negotiated prices begin to take effect in 2026. The impact is likely to be relatively modest at first will but grow as more drugs move through the process.

Sponsors that participate in the demonstration in 2025 can participate in subsequent years, a Part D sponsor that declines to participate in 2025 will not be admitted later.

Avalere associate principal Kylie Stengel told the *Pink Sheet* that it is unclear how many PDP sponsors will opt into the demonstration and how much it will help stabilize the market.

"Plans will have to consider this demonstration from a financial and a competitive standpoint, e.g., if opting in or not may put them at a competitive advantage or disadvantage," she said.