Medicare Prescription Payment Plan

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Impact of the Maximum Monthly Out-of-Pocket Member Payment Plan

On August 21, 2023, CMS released an HPMS memo1 on Draft Part 1 guidance detailing the impacts and responsibilities for Part D drug sponsors relating to the Maximum Monthly Cap on Cost-Sharing Payments Program that will debut in plan year 2025. This paper will review the outline of the program, as set in the Inflation Reduction Act (IRA) and discuss the new information contained in CMS's August 21 memo.

Introduction

The IRA, signed into law on August 16, 2022, made several significant changes to Medicare Part D member cost-sharing that will reduce both the overall and the acute financial burden on members taking high-cost Part D drugs. While the reduction in the maximum out-of-pocket (OOP) limit from $8,000 to $2,000 reduces the total annual financial burden on these members, the Medicare Prescription Payment Plan (M3P) seeks to alleviate the immediate financial demand when filling prescriptions at the pharmacy. The re-distribution of costs offered by the M3P is designed to benefit members that incur high OOP costs early in the plan year or members who experience sporadic drug costs throughout the plan year.

Operationalization of the M3P falls squarely on the plan sponsors. This draft guidance lays out CMS expectations on implementing a monthly reconciliation process, marketing materials, timeframes for participant application approvals & terminations, and the handling of non-payments by participants. Plans need to think about the operational complexities, financial risk of bad debt, and the costs associated with the implementation of this new program for 2025 and beyond.

Program Details

Eligibility

Participation by Part D sponsors in this program is required. Sponsors are required to provide educational materials to all members during annual enrollment, as well as undertake targeted outreach of identified

[1] Titled 'Maximum Monthly Cap on Cost-Sharing Payments Under Prescription Drug Plans: Draft Part One Guidance on Select Topics, Implementation of Section 1860D-2 of the Social Security Act for 2025, and Solicitation of Comments'

Part D members who would benefit from this payment structure. CMS's prospective modeling of PDE data indicates that this program will be beneficial to individuals with high OOP Part D drug costs occurring in the beginning of the plan year, although this program may also benefit individuals with unique financial cash-flow situations. CMS is soliciting comments on the proposed framework for assessing "likely to benefit" members. More guidance will be provided in later memos.

All Part-D beneficiaries will be eligible to opt-in to this payment plan, including LIS-eligible & EGWP individuals, and they can opt-in any time during the year, excluding the month of December. M3P may not benefit some members, depending on their specific Part D spend patterns, or LIS-eligible beneficiaries who already have low cost-sharing. In fact, the unique design of this plan may have a negative impact on a member's cost distribution if a member's drug spending patterns deviate from the member profile that CMS is targeting with this program design.

Medicare Prescription Payment Plan Application

The M3P is designed to cap member monthly payments using a Maximum Monthly Cap formula. The redistribution of the cost-sharing through the plan year is intended to help relieve members of individual instances of large OOP spending through offering an alternative payment option.

After the beneficiary opts-in, the program will restructure the distribution of member's OOP financial obligations from that point forward across the remaining months of the contract year.

The first month's payment for a participant opting into the program will be calculated by subtracting any previous incurred TrOOP costs incurred by the member from the annual OOP threshold (for plan year 2025, this value will be $2,000), divided by the number of months remaining in the plan year (including the current month, if election is completed before any prescriptions are filled for that month):

$$\textit{First Month Maximum Cap} = \frac{\textit{Annual OOP Threshold} - \textit{Incurred Costs of the Participant}}{\textit{Number of Months Remaining in the Plan Year}}$$

OOP costs incurred during the participant's first month will not have an impact on that month's Maximum Cap. If the incurred cost of the first month does not exceed the maximum cap amount, the total cost will be billed to the member. Any costs incurred exceeding the maximum cap amount will be dispersed and billed in subsequent months through the payment plan.

The remaining months in the plan will follow a similar formula that restricts the overall financial burden a participant may incur from member cost-sharing. The Subsequent Months Maximum Cap calculates the sum of remaining OOP costs not yet billed to the participant, plus any additional OOP costs incurred by the participant in that month, divided by the number of months remaining in the plan year.

$$\textit{Subsequent Month Maximum Cap} = \frac{\textit{Sum of Remaining OOP Costs Not Yet Billed to Participant} + \textit{Additional OOP Costs Incurred by the Participant}}{\textit{Number of Months Remaining in the Plan Year}}$$

Incurred OOP costs that are not Part D eligible will not be included in the M3P. This includes covered plan pay amounts or other TrOOP-eligible amounts, such as any amount paid by potential third-party payers, i.e., State Pharmaceutical Assistance Programs or charities. As an additional note, claim adjudication and OOP accumulators will not be affected by the M3P.

Example 1 (from pg. 21 of HPMS memo):

A member opts into the M3P during annual enrollment and in January- April incurs $500 in cost-sharing each month.

Using the calculations above:

The maximum monthly cap in January is ($2000 – $0) / 12 = $166.67 since the OOP Threshold is $2,000 and the incurred costs before January was $0. The remaining balance for January incurred claims is $333.33 ($500 incurred costs - $166.67 payment).

Using the subsequent month calculation for February, the monthly maximum cap is ($333.33 + $500) / 11 = $75.76 and is billed to the participant. $333.33 being the remaining balance of previously incurred claims, plus $500 for new claims, all divided by the number of months left in the year.

The calculation used for February is repeated through the end of the year.

Month	OOP Cost Incurred	Maximum Monthly Cap	Monthly Participant Payment	Remaining Balance
January	$500.00	$166.67	$166.67	$333.33
February	$500.00	$75.76	$75.76	$757.57
March	$500.00	$125.76	$125.76	$1,131.81
April	$500.00	$181.31	$181.31	$1,450.50
May	$0.00	$181.31	$181.31	$1,269.19
June	$0.00	$181.31	$181.31	$1,087.88
July	$0.00	$181.31	$181.31	$906.57
August	$0.00	$181.31	$181.31	$725.26
September	$0.00	$181.32	$181.32	$543.94
October	$0.00	$181.31	$181.31	$362.63
November	$0.00	$181.32	$181.32	$181.31
December	$0.00	$181.31	$181.31	$0.00
TOTAL	**$2,000.00**		**$2,000.00**	

Example from Draft Part 1 guidance

It is important to understand that the monthly maximum cap is re-calculated monthly, and additional prescriptions throughout the year can have a significant impact on the variability of payments throughout

the year. Provided below is a second example that CMS released in the August 21 guidance that reflects how non-linear out-of-pockets costs throughout the calendar year can create significant deviation on the maximum monthly cap amount.

Example 2 (from pg. 47 of HPMS memo):

A beneficiary opts-into the M3P at the beginning of March. The member filled a 90-day prescription worth $55 in January and starts filling a $99 30-day prescription in March.

Using the calculations above:

The maximum monthly cap calculation for March is the "First Month Maximum Cap" as it is the first month since election into the plan. March's maximum payment is ($2000 - $55) / 10 = $194.50. Since the prescription filled is worth less than $194.50 ($99), the member will be billed $99 from the plan. Though this member does not benefit from cost reductions this month, they will not have to pay at the pharmacy, which is also a benefit to the member.

April's payment will be using the "Subsequent Month Maximum Cap" calculation. In April, the participant is refilling their $99 30-day prescription & $55 90-day prescription, worth a total of $154. Using the formula, April's maximum monthly payment is ($0 + $154) / 9 = $17.11, as the remaining balance from March was $0 since the member paid-in-full for their prescription.

The calculation used for April is repeated through the end of the year.

Month	OOP Cost Incurred	Maximum Monthly Cap	Monthly Participant Payment
January	$55.00	N/A	$55.00*
February	$0.00	N/A	$0.00
March	$99.00	$194.50	$99.00
April	$154.00	$17.11	$17.11
May	$99.00	$29.49	$29.49
June	$99.00	$43.63	$43.63
July	$154.00	$69.30	$69.30
August	$99.00	$89.09	$89.09
September	$99.00	$113.85	$113.85
October	$154.00	$165.18	$165.18
November	$99.00	$214.68	$214.68
December	$99.00	$313.67	$313.67
TOTAL	**$1,210.00**		**$1,210.00**

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

Example from Draft Part 1 guidance

Example #2 illustrates the sizable upswing of monthly participant payments in the last quarter of the plan year. This example portrays the importance of understanding the formulaic structure of this payment plan. Part D sponsors and program-eligible members should have a firm understanding of the program's financial implications before opting in.

CMS will provide eligible beneficiaries example calculations and resources before opting into the program. CMS will, also, develop tools to help people with Medicare Part D coverage and their caregivers learn what monthly payments might look like under this program.

Implications for Plan Sponsors

Part D sponsors will be affected by this plan in numerous ways. Affects are, but not limited to:

1. Part D sponsors are required to take on the financial burden if a beneficiary opts into the M3P and does not fulfill their payment obligations. Part D sponsor must provide members with a grace period for payment of at least 2 months, after which they can be removed from the program and precluded from opting in a subsequent year, until the overdue balance has been paid. Uncollected cost sharing payments from this program will be considered bad debt and placed in non-benefit expenses in the CY2025 BPTs.

2. Part D sponsors must create a reconciliation mechanism to accurately accumulate & reconcile monthly incurred claims & participant payments, including the ability to account for retroactive claims adjustments.

3. Monthly bills sent to the participants for this program must be sent separately from premium bills sent to members, increasing mailing & printing costs for the sponsor.

4. The Part D sponsor is required to educate all members on the M3P and target "likely to use" members, increasing printing costs for the sponsor.

5. Part D sponsors will be required to report information related to the M3P to CMS on PDE records and through annual reports.

Please read the HPMS memo for full draft guidance and detailed example calculations.

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OUR STORY

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