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Rebate Reallocation: A Pre-NAMBA Strategy Guide

How Medicare Advantage Organizations Can Prepare for the Critical Window Following the NAMBA Release

Michelle Faust, ASA, MAAA

Amanda Nelessen, FSA, MAAA

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OVERVIEW

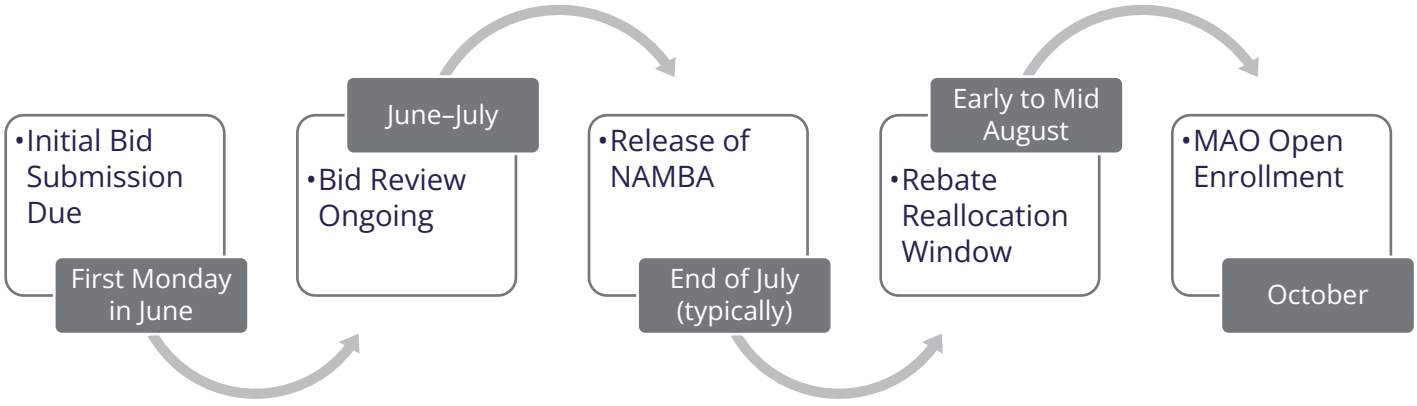
What Is Rebate Reallocation?

Rebate reallocation is the Medicare Advantage (MA) bid process that occurs after the Centers for Medicare & Medicaid Services (CMS) releases the final Part D benchmark values including the Part D national average monthly bid amount (NAMBA),the Part D base beneficiary premium (BBP), and the Part D regional low-income premium subsidy amounts (LIPSA), typically in late July or early August. These benchmarks are based on the average bid of all applicable Medicare Advantage Prescription Drug (MAPD) and stand-alone Prescription Drug Plans (PDP) in the nation.

Medicare Advantage Organizations (MAOs) estimate the NAMBA during the initial bid submission in June of each year. MAOs are required to reflect the published values in their bids, which may permit or require a resubmission during the rebate reallocation period. Rebate reallocation is an opportunity for plans to achieve their Part D basic premium targets, identified in their initial June submissions.

Figure 1 shows the timeline from when MAOs submit their initial bids to when rebate reallocation occurs and finally to the open enrollment period. The rebate reallocation window is critical for MAOs as it finalizes the bids and the plan benefit design ahead of the open enrollment period.

Figure 1. Bid Submission to Open Enrollment Timeline



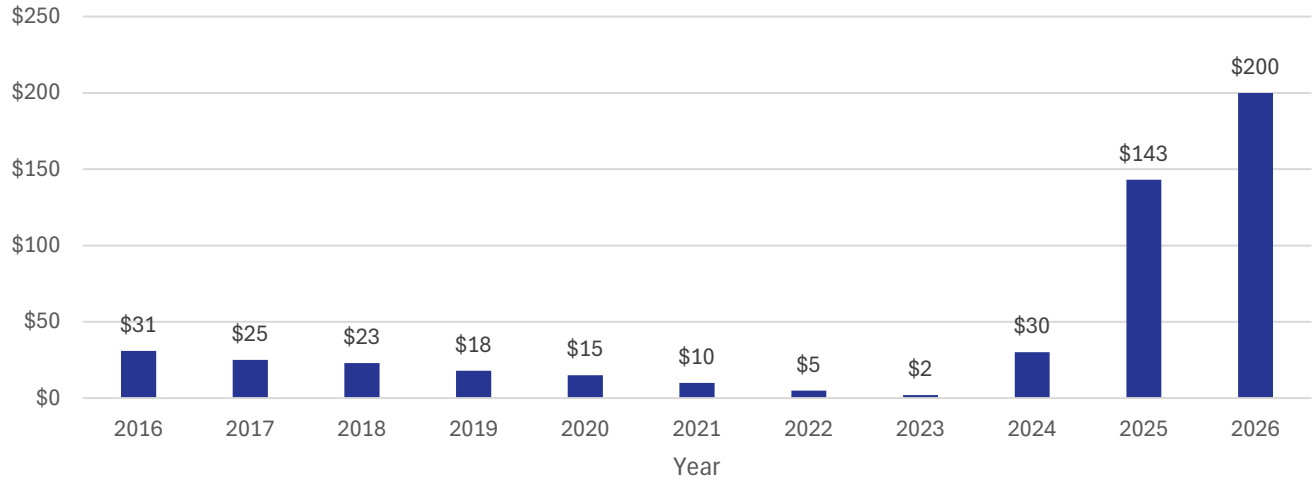
Helpful Definitions

- **NAMBA:** The CMS-calculated national weighted average of Part D prescription drug plan bids for the upcoming contract year.
- **BBP:** National standardized Part D premium amount established by CMS annually. For 2024–2029 it is limited to no more than 6 percent above the prior year.
- **Direct Subsidy (DS):** The difference between the NAMBA and the BBP.

History of Direct Subsidy

The DS has been increasing rapidly since 2025 as the result of significant changes in the Part D benefit design and other trend drivers. These factors include: the Inflation Reduction Act (IRA), increases to Part D drug prices, and changes to bid rules for stand-alone PDPs. The increases in the DS from 2023 to 2026 have also created a wider range in MAOs' estimates of the DS, creating more volatility in the benefit modifications that are required at rebate reallocation. **Figure 2** shows the acceleration in DS values between 2016 and 2026.

Figure 2. Annual Movement in Direct Subsidy



REBATE REALLOCATION GUIDELINES

Rebate reallocation is intended for premium and rebate adjustments rather than broad plan redesign. CMS outlines allowable modifications to the bid in Appendix E of the Instructions for Completing the Medicare Advantage Bid Pricing Tools (BPT) for Contract Year 2027,[1] with additional guidance being implemented recently. **Table 1** summarizes core rebate reallocation guidelines.

Table 1. Summary of Rebate Reallocation Guidelines

Core Guidance	Guidance Detail	Impact on MAOs
DS Estimation	Unlike prior years, MAOs were required to use a single estimate of the DS across all bids under the same organizations in initial submission for the 2027 bid year.	This change significantly limited flexibility in developing original plan designs.
Flexibility in the Reallocation of Rebates	The maximum change in A/B mandatory supplemental benefits ranges from 0–110% of the unallocated rebate. Prior year guidance identified the allowable range from $0 to the amount of the unallocated rebate.	MAOs have limited flexibility in reallocating rebates, but this range was expanded from previous year guidance.
Allowable Part C Pricing Changes	If MAOs are electing to change A/B mandatory supplemental benefits, Part C pricing assumption changes (i.e., flow-through pricing) are permitted for the bids that are participating in rebate reallocation.	This guidance is consistent with the prior year.

[1] Centers for Medicare & Medicaid Services. CY 2027 Gain Loss, MA BPT-PBP, and Rebate Reallocation Tools. 2026. Available at: https://www.cms.gov/medicare/payment/medicare-advantage-rates-statistics/bid-forms-instructions/2027.

Core Guidance	Guidance Detail	Impact on MAOs
Allowable Part D Pricing Changes	Pricing changes to Part D bids are allowed only if the total Part D premium is negative before rebates are allocated. During rebate reallocation, a plan may decrease or increase the Part D supplemental premium because of excessive or insufficient allocation of rebates. However, changes to the benefit design or pricing of the Part D basic benefit or the supplemental benefit offered under the enhanced alternative design are prohibited. If the total Part D premium is negative after the release of the NAMBA and BBP and it cannot be made positive by reducing the rebates allocated to Part D supplemental premium, CMS may require the plan to enhance Part D benefits, limited to the minimum amount necessary to make a non-negative total Part D premium through a combination of a reduction in tiered coinsurance or copay value, a reduction in the deductible, waiving tier(s) from deductible applicability, and refinement of structure from defined standard to enhanced alternative. If a plan has already reached 70 percent of the defined standard out-of-pocket costs and is using Part D margin flexibility in the initial submission, the margin may increase if Part D premium is a larger negative value at the time of rebate reallocation.	Revised guidance outlines the allowable modifications to Part D pricing during rebate reallocation, which is particularly important given the limited flexibility in DS estimation for the 2027 bid year.

Core Guidance	Guidance Detail	Impact on MAOs
Total Beneficiary Cost (TBC) Requirements	A plan's final bid submission must comply with CMS's TBC requirements. An MAO with a TBC that falls out of compliance because of rebate reallocation will be required to make any necessary changes to ensure compliance with TBC requirements. CMS may allow additional changes to the MA margin in some cases when it is required for an organization to comply with CMS's TBC requirement.	This guidance is consistent with the prior year.
Gain/Loss Margin Limitations	The gain/loss margin may not increase or decrease by more than $1.00 per member per month (PMPM).[2]	This guidance is consistent with the prior year.

[2] Note that this amount is exclusive of any changes to gain/loss margin to comply with CMS's TBC requirement and/or premium rounding rules.

HOW TO PREPARE

Understanding the Underestimation and Overestimation of Direct Subsidy

MAOs need to consider potential changes they may need to make to their bids once actual NAMBA and BBP values are released. This framework allows MAOs to better prepare for changes that must be made during the limited timeframe of rebate reallocation.

In general, the following scenarios apply:

- If the DS is finalized within about $1.00 PMPM of the estimate, a plan may adjust margin without incorporating benefit or premium changes.
- If the DS proves higher than initially estimated, the plan receives additional Part D revenue from CMS and therefore must enhance Part C benefits, increase the Part B premium reduction, or reduce member premiums so that total revenue is unchanged outside of the allowable margin changes.
- If the DS emerges lower than estimated the plan receives less Part D revenue from CMS than originally estimated and must decrease Part C benefits, decrease the Part B premium reduction, or increase member premiums.

An exhaustive list of scenario examples and allowable changes is provided in Appendix E of the of the Instructions for Completing the Medicare Advantage Bid Pricing Tools for Contract Year 2027.

Stakeholder Preparation

All stakeholders involved in the bid submission process should be prepared for rebate reallocation. Key players include the product team, actuarial and pricing team, and executive leadership.

It is beneficial for product teams and executive leadership to understand the process of rebate reallocation and potential changes required to benefits, premiums, and margin in the finalization of the bids. Ideally, the product team will have a benefit change wish list on hand for each potential rebate reallocation scenario applicable to the MAOs. Identifying the MAO's comfort with premium changes and benefit modifications will avoid last minute scrambling to implement allowable modifications. This understanding is especially timely as MAOs prepare for the rebate reallocation period that will be starting in just a few weeks.

Actuarial and pricing teams should be prepared to scenario test potential plan changes and their resulting impacts. There is no need to wait for rebate reallocation to start scenario testing. Starting this process now will give MAOs time to build a solid plan to address any potential event. Actuarial and pricing teams should be cognizant of their plans' TBC standing and guide executive leadership and product teams on premiums and benefits that will keep the plans compliant with requirements and in a competitive position within their landscape.

Allowable Benefit and Premium Changes

MAOs have several options for reallocating rebates during the rebate reallocation period. While MAOs can select one or multiple of these options, the bid instructions list them in order based on impact on beneficiaries.

- Decrease or increase premiums (Part B, A/B mandatory supplemental, or Part D supplemental)
- Enhance or add / reduce or remove non-Medicare covered benefits
- Reduce or increase cost sharing for widely used services (e.g., primary care visits)
- Reduce or increase cost sharing for limited use services, such as inpatient, skilled nursing facility, and home health services, or the maximum out-of-pocket

CMS states in the bid instructions that it will prohibit MAOs from substantially changing their benefit packages during rebate reallocation. An example of a substantial change is the proposal to eliminate one benefit for the purpose of adding or enhancing another benefit. In general, CMS expects only marginal adjustments.

NEXT STEPS

Rebate reallocation typically occurs in late July or early August after the completion of desk review and CMS's release of the final NAMBA and BBP values. The time between this release and final rebate reallocation submission is typically 7–10 calendar days. During this time, MAOs must make any necessary changes to their bids, ensuring that CMS requirements are met, and submit final BPTs and revised documentation to CMS. Certifying actuaries must recertify the final bid submissions in the days immediately following the necessary documents being submitted to CMS. Upon submission of final bids and supporting documentation and acceptance by CMS, the bid pricing cycle for the effective year is considered complete.

ABOUT THE AUTHORS

Michelle Faust
Consulting Actuary
michelle.faust@wakely.com

Amanda Nelessen
Senior Consulting Actuary
amanda.nelessen@wakely.com

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