CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Phillip L. Swagel, Director

October 2, 2024

Honorable Jodey Arrington
Chairman
House Committee on the Budget

Honorable Cathy McMorris Rodgers
Chair
House Committee on Energy and Commerce

Honorable Jason Smith
Chairman
House Committee on Ways and Means

Honorable Charles E. Grassley
Ranking Member
Senate Committee on the Budget

Honorable Mike Crapo
Ranking Member
Senate Committee on Finance

Re: Developments in Medicare's Prescription Drug Benefit

Dear Chairman Arrington, Chair Rodgers, Chairman Smith, and Ranking Members Grassley and Crapo:

You have asked the Congressional Budget Office to provide information about some recent developments concerning plans that provide prescription drug coverage under Medicare Part D. In July 2024, the Centers for Medicare & Medicaid Services (CMS) announced the 2025 average bid amounts for those prescription drug plans. CMS also announced temporary subsidies that will be paid to certain prescription drug plans from 2025 to 2027.[1] You have asked how the bids compare with CBO's projections and how the subsidies would affect both federal spending and net spending for interest on the federal debt.

This letter provides background about the Part D benefit; reviews some changes made in the 2022 reconciliation act (Public Law 117-169), including the redesign of the Part D benefit; explains how some recent developments in

1. See Centers for Medicare & Medicaid Services, "CMS Releases 2025 Medicare Part D Bid Information and Announces Premium Stabilization Demonstration" (press release, July 29, 2024), https://tinyurl.com/y2ykvzps. CMS has administrative authority to undertake projects concerning the programs under its purview.

Part D compare with CBO's expectations; assesses changes that CMS will implement in 2025; and estimates the budgetary effects of the temporary subsidies that CMS announced in July 2024.

After accounting for information about 2025 bids from plans that provide coverage under Part D, CBO expects that the additional plan costs reflected in those bids will result in an increase in federal spending of $10 billion to $20 billion in calendar year 2025, compared with our earlier projections.

CBO also estimates that the temporary subsidies will increase federal spending in calendar year 2025 by an additional $5 billion and that, over the next decade, this will lead to an increase of $2 billion in net spending for interest, relative to prior projections.

Background

Medicare beneficiaries who enroll in Part D obtain prescription drug coverage through private plans. Nearly 60 percent of Part D enrollees are in Medicare Advantage plans, and they obtain coverage through what are known as MA-PD plans.[2] The remaining Part D enrollees usually obtain coverage through stand-alone prescription drug plans (PDPs).

Before the start of the calendar year, each PDP and MA-PD plan submits a bid to CMS representing that plan's expected cost to provide coverage to a typical Part D enrollee. Generally, premiums for Part D plans are calculated on the basis of a plan's bid relative to the bids of other plans.

Participants generally pay an extra premium if they enroll in a plan with a bid above the national average bid amount. (CMS published the national average bid amount for calendar year 2025 in July 2024.) The profits and losses of Part D plans are regulated through what are called risk corridors: Plans with losses that exceed 5 percent of their bid amount receive additional federal subsidies; plans with gains of more than 5 percent pay the government a share of those amounts.

What Changes Were Made in the 2022 Reconciliation Act?

Section 11201 of P.L. 117-169 redesigned the Medicare Part D benefit, with most of the provisions taking effect in calendar year 2025. That law introduced numerous changes, including capping enrollees' annual

2. Medicare Advantage allows Medicare beneficiaries—people age 65 or older and those with disabilities—to enroll in private plans for their Medicare coverage instead of the publicly administered Medicare fee-for-service program. Enrollment estimates in this letter are from CBO's analysis of CMS's Part D enrollment data.

out-of-pocket costs and limiting their premium increases, reducing the federal government's share of costs beyond the out-of-pocket cap, and requiring manufacturers to provide new price discounts. Those provisions increased plans' expected benefit payments, which contributed to a significant rise from 2024 to 2025 in the amounts that plans bid. Those higher bids increase premiums paid by beneficiaries and the federal cost of the subsidies paid to Part D plans.

How Do Part D Plans' 2025 Bid Submissions Compare With CBO's Projections?

The average plan bid for standard Part D coverage increased by 179 percent for 2025, relative to 2024, in part because the Part D redesign led to higher costs for those plans (see Table 1). On average, plans expect monthly reinsurance (payments from Medicare to cover part of the cost of prescription drugs for enrollees who have reached the catastrophic coverage threshold) to decrease by 55 percent. The combined year-over-year cost of the plans' bids and expected reinsurance increased by 42 percent. In its June 2024 baseline, CBO projected an increase in the combined cost of bids and reinsurance of 26 percent—16 percentage points below the amount implied by the 2025 plan bids.

Table 1.

Information from the 2024 and 2025 Part D Bid Announcements

Dollars

	2024	2025	Change (Percent)
National Average Monthly Bid Amount	64.28	179.45	179
Average Expected Monthly Reinsurance	90.03	40.08	-55
Bids and Reinsurance, Observed	154.31	219.53	42
Bids and Reinsurance, CBO's 2024 Projection			26

Source: Congressional Budget Office.

The larger-than-expected increase in bid amounts suggests that CBO underestimated the federal cost in 2025 that would be attributable to the Part D redesign. CBO now expects that the additional 16 percentage points of growth in plan costs will result in an increase in federal spending of $10 billion to $20 billion in calendar year 2025, compared with our earlier projections.

What Additional Changes Is CMS Implementing for 2025?

The temporary subsidies that CMS announced in July 2024 will affect enrollees' premiums and federal payments to PDPs in calendar years 2025, 2026, and 2027. As a result of the temporary subsides, CBO expects the following effects for PDPs in 2025:

- Beneficiaries' monthly Part D premiums will decline by $15 relative to what they would have been without the subsidies,

- The increase in monthly Part D premiums from 2024 to 2025 will be capped at $35, and

- Risk corridor subsidies will increase for Part D plans that incur losses in excess of 2.5 percent of their bids in that year.

CMS is likely to continue paying at least some of the temporary subsidies through 2027, but because specific policies have not been announced for 2026 and 2027, CBO has not estimated budgetary effects for those years.

How Will the Temporary Subsidies Affect Federal Spending?

CBO estimates that the temporary subsidies will increase federal spending for Part D in calendar year 2025 by roughly $5 billion. The higher costs are attributable to the increases in subsidies for premiums and risk corridors. CBO's estimate of the federal costs is the sum of the following:

- Approximately **$2.9 billion** from a $15 reduction in the base beneficiary premium, which is set on the basis of the national average monthly bid amount;

- Approximately **$1.8 billion** from the year-over-year limit of $35 on the increase in a plan's total Part D premium; and

- Approximately **$250 million** because of larger risk corridor subsidies.

CBO expects that the higher Part D spending in calendar year 2025 will increase the federal debt, which in turn will increase net interest outlays by an additional $2 billion over the 2025–2034 period.

CBO expects that all PDPs will collect the temporary subsidies in calendar year 2025. The average payment in that year per parent organization (the entity that owns and controls subsidiary Part D plans and that receives payments from the government on the plans' behalf) will be approximately $100 million. Most of that amount would otherwise be paid by Part D enrollees in the form of premiums. For that reason, the effect of CMS's subsidies on plans' revenues is much smaller than the federal cost. By providing larger federal subsidies to prescription drug plans, the federal payments to Part D plans effectively cover costs that would have been borne by Part D enrollees.

I hope this information is useful to you. Please contact me if you have further questions.

Sincerely,

Phillip L. Swagel
Director

cc: Honorable Brendan F. Boyle
Ranking Member
House Committee on the Budget

Honorable Frank Pallone Jr.
Ranking Member
House Committee on Energy and Commerce

Honorable Richard E. Neal
Ranking Member
House Committee on Ways and Means

Honorable Sheldon Whitehouse
Chairman
Senate Committee on the Budget

Honorable Ron Wyden
Chairman
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