Medicare Part D

Implications of The Inflation Reduction Act (IRA) on Medicare Drug Strategies

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Agenda

01 Medicare refresher

02 The practical and strategic implications of the IRA's changes to Medicare Part D

03 The impact of the financing changes on plan design and funding

04 Steps to address the IRA and questions for your actuary

Medicare quick refresher

Traditional

Part A — Hospital

Part B — Medical

- Traditional Medicare is operated by the federal government.
- Traditional employer plans (and Medigap plans) coordinate with Parts A and B.

Private

Part C — Advantage

Part D — Drugs

- Parts C and D are operated by private insurers, with federal financial assistance.
- Part C plans replace A and B and often offer D.
- Medigap plans offered by private insurers coordinate with Parts A and B.

Medicare Part D — Retrospective

	2006	2010
What happened?	Medicare Modernization Act of 2003 created Medicare Part D. In 2006, Part D Plans first sold to Medicare-eligible individuals.	Health care reform addressed the coverage gap and revised Medicare Advantage financial picture, including quality bonus awards starting in 2012.
What did Plan Sponsors do?	Many continued to offer group Rx benefits, opting to collect the Retiree Drug Subsidy (RDS) instead. Why? Financially attractive and plan sponsors were not comfortable with poor Part D plan design due to the coverage gap (donut hole).	• Exchange with HRA funding • Group MA-PD • Standalone EGWP for Rx • Continue with RDS approach

HRA = Health Reimbursement Arrangement. EGWP = Employer Group Waiver Plan. MA-PD = Medicare Advantage with Prescription Drugs

Polling question #1

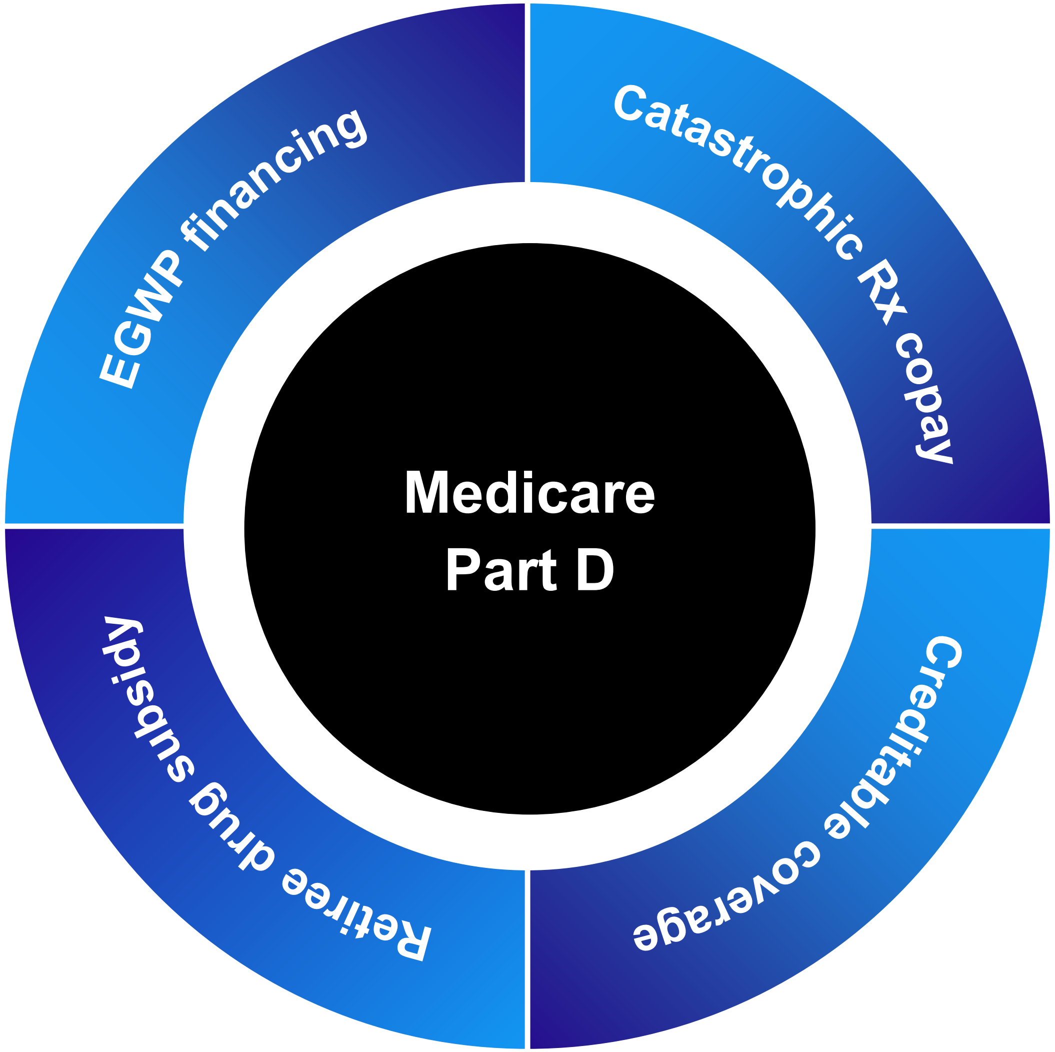
How are prescription drug benefits delivered to all (or the majority) of your Medicare retirees today?

a. Commercial plan (not through one of the following)
b. Rx Employer Group Waiver Plan (EGWP), a stand-alone group Part D plan
c. Medicare Advantage plan with prescription drugs (MA-PD)
d. Health Reimbursement Arrangement (HRA), a stipend to purchase individual coverage on an Exchange
e. Not sure or none of the above

Overview of IRA impacts on Plan Sponsors

EGWP financing

- Major changes to how Part D benefits will be funded in 2025



Catastrophic Rx copay

- If retirees on Exchange, no need for Catastrophic Rx HRA after 2023

Retiree drug subsidy

- Harder to qualify after 2023 without regulatory relief

Creditable coverage

- Harder to meet after 2024 without regulatory relief

Inflation Reduction Act implementation timeline for Medicare

2022

Spring 2022

- MA/Part D Final rule released

Summer/Fall 2022 Reconciliation Bill Enacted

- Part D inflation rebates start October 2022

2023

January 1, 2023

- Requires coverage of Part D vaccines at $0 cost sharing (govt. subsidy)
- Part B inflation rebates begin
- $35 Insulin copay cap
- Begins for ALL covered insulins (govt. subsidy)
- Secretary begins
- Medicare drug negotiation process for 2026
  - EGWP will receive retro-reimbursement for vaccines and insulins. (included in 2023 reconciliation payment)

2024

January 1, 2024

- $0 cost sharing in catastrophic phase for Part D
- LI subsidy eligibility expansion to 150% Federal Poverty Level (FPL)
- Premium stabilization begins;
- capped through 2029, adjusted for 2030+

2025

January 1, 2025

- Part D Redesign in effect
  - $2K MOOP
  - CGDP sunsets, new
  - discount program with 10% Initial Coverage Level (ICL) discount and 20% catastrophic discount
  - Federal reinsurance reduces from 80% to 20%
  - Copay smoothing across the year for individual plans

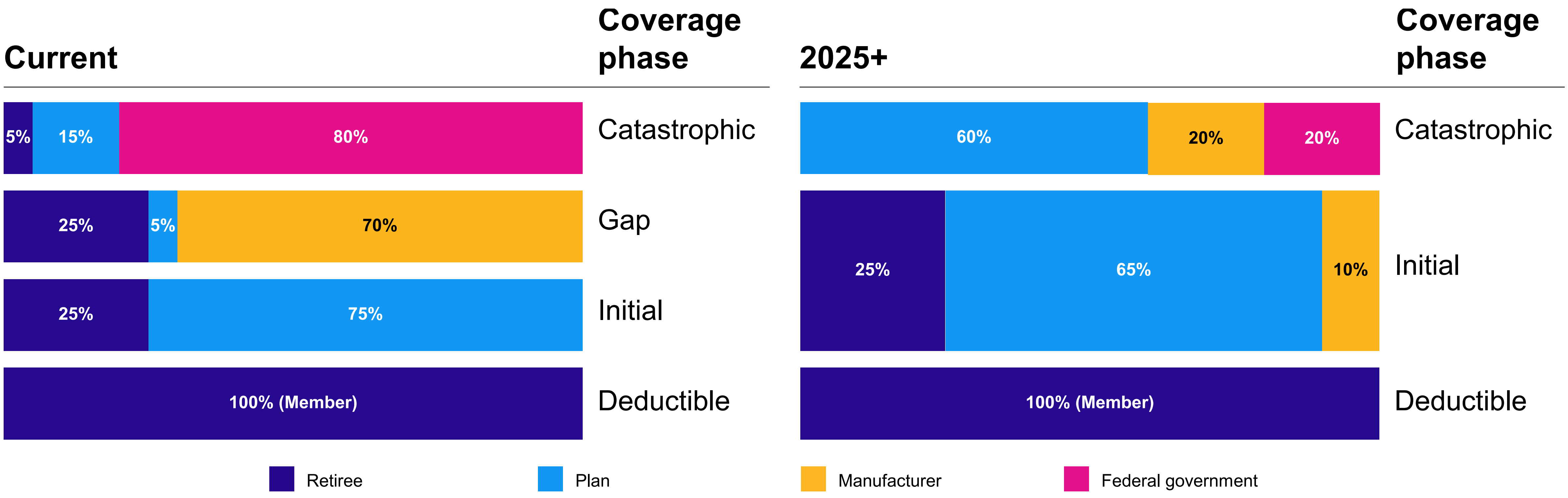
2026

January 1, 2026

- Medicare negotiated maximum fair prices for 10 Part D drugs in effect (drugs tbd)
  - 15 additional Part D drugs in 2027
  - 15 additional Part B and D drugs in 2028
  - 20 additional drugs annually 2029+

Standard Part D design for brand name drugs

- In 2025, member out-of-pocket costs capped at $2,000 (down from an estimated $3,250 in 2024).
- Gap coverage phase eliminated for 2025 and beyond, sunsetting Coverage Gap Discount Program.
- Significant increase in Plan's share of costs in the catastrophic coverage phase.



Expected IRA impacts on EGWP and MA-PD costs

Good news

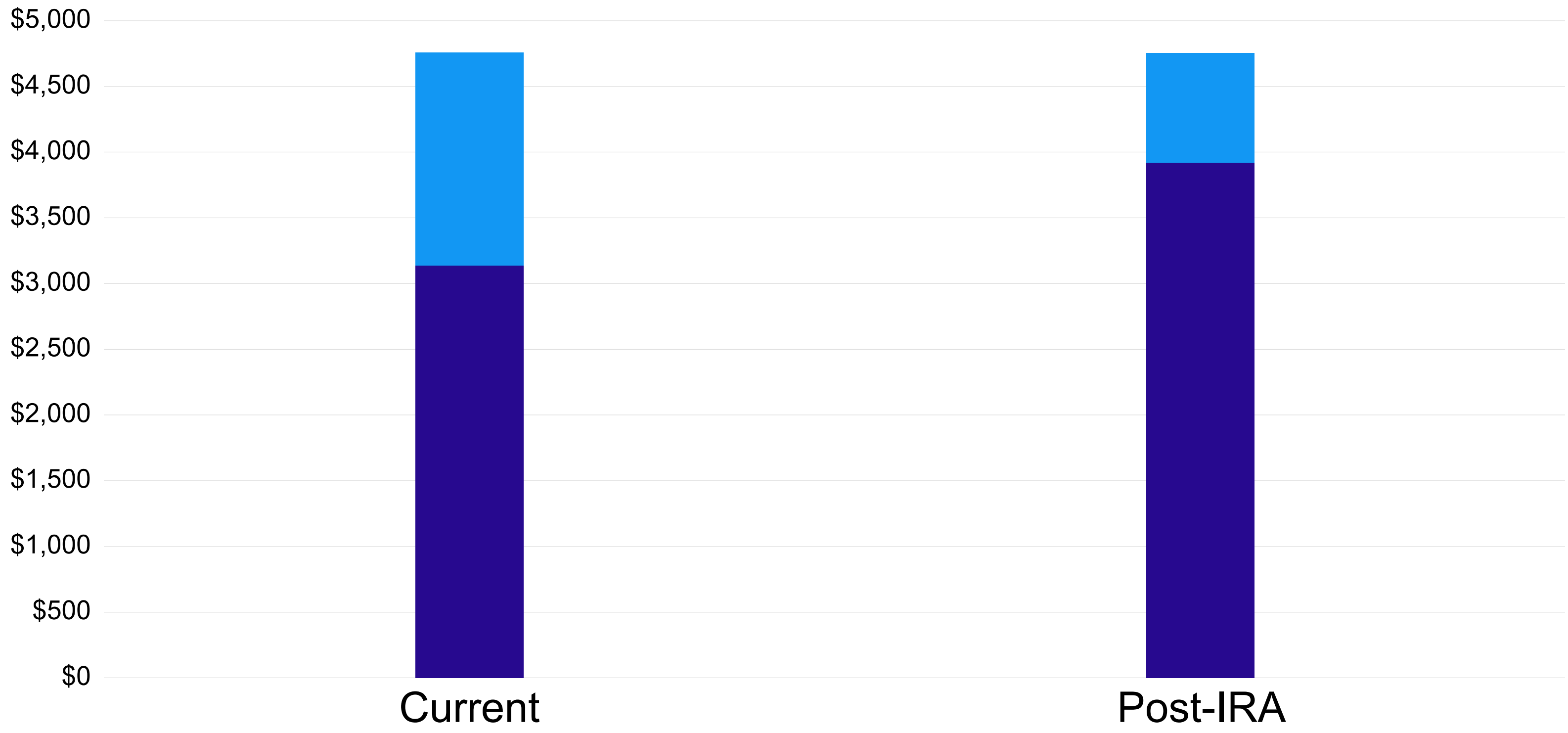
- Pharmaceutical companies required to pay rebates if drug prices rise faster than inflation starting in 2023.
- First 10 negotiated Medicare Part D drugs will be effective 1-1-2026.
- Above changes suggest lowering long-term trend on Medicare Rx costs.

Bad news

- Funding from external sources is expected to decline starting in 2025.
- Notably, funding from external sources will drop from 80% to 40% in the catastrophic coverage phase.
- Less EGWP subsidies will mean higher Medicare Rx costs starting in 2025.

EGWP Costs to Increase in 2025

Impact of lower subsidies

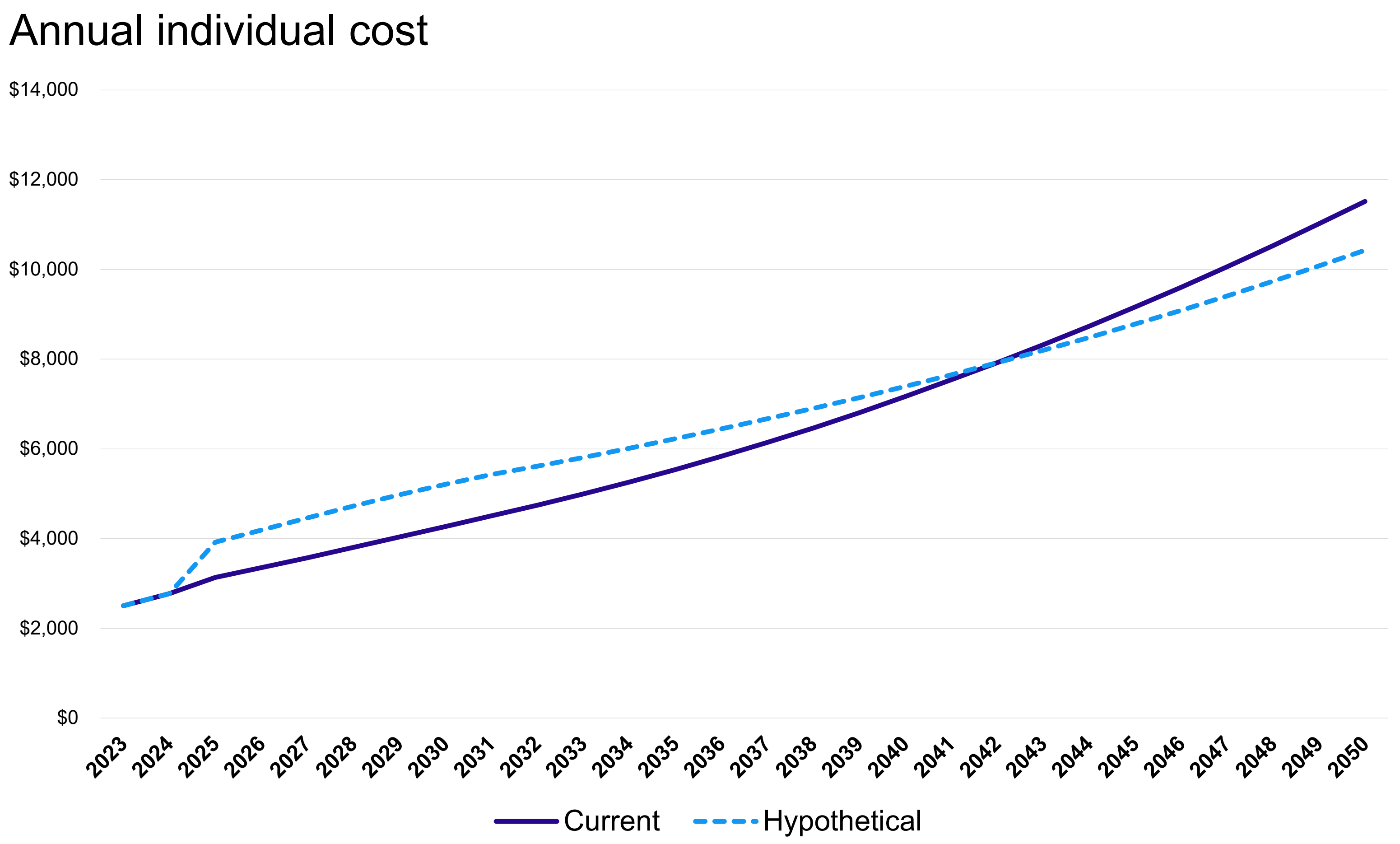


	Current	Post-IRA
Subsidy	$1,613	$828
Net EGWP	$3,135	$3,920

Bad news

EGWP and MA-PD costs are expected to increase in 2025 due to lower federal subsidies.

EGWP cost trends may decline



Good news

Expected trend reduction could help lower EGWP and MA-PD costs over the long-term.

Expected IRA impacts on EGWP and MA-PD costs

As noted on previous slides, IRA is expected to increase costs for Rx EGWPs and MA-PD plans in 2025 due to lower federal subsidies. But price control measures could help hold costs down over the long-term through lower trends.

Recommendation:

- Discuss with opining actuary how these offsetting factors might be expected to impact GASB costs for your plan. PBMs and Insurers could also have insights on near-term cost implications.
- Watch for federal guidance that could provide further clarity on these points.

Observation:

- Direct Subsidies are a potential source of federal funding that will pose challenges for actuaries to estimate due to how this subsidy is determined (based on Standardized Part D bids). This source of subsidy has been negative for several Plan Sponsors in recent years, but is likely to become positive once again in 2025 due to design changes.

Polling question #2

Are you collecting Retiree Drug Subsidy (RDS)?

a. Yes
b. No
c. Not sure

Retiree Drug Subsidy (RDS)

IRA improves the Part D Standard (DS) design, which is expected to make it more difficult to qualify for RDS in the future.

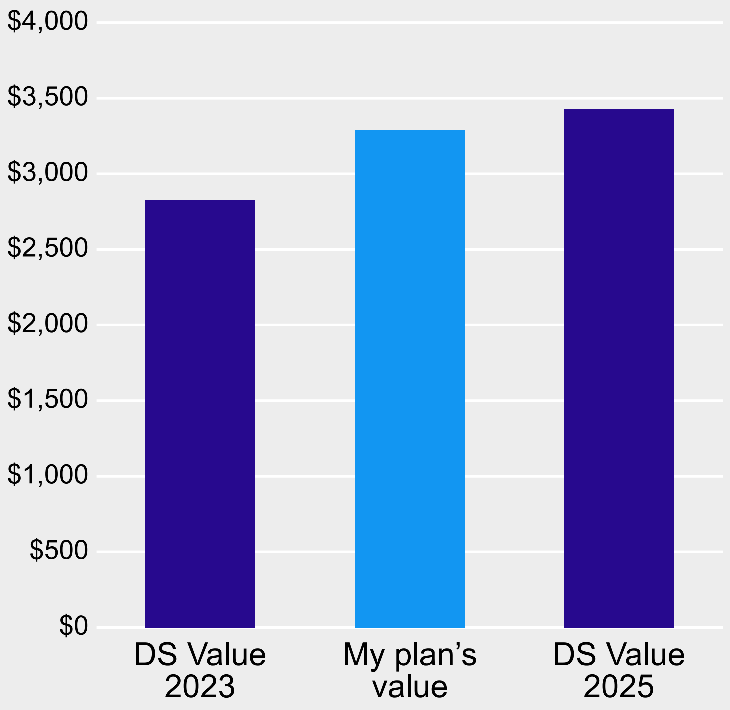
Recommendation:

- Ask attesting actuary to evaluate if/when the plan may no longer be eligible for RDS. There are modest improvements to the DS for CYs 2023-2024, with the most meaningful improvement in CY 2025.
- Watch for federal guidance that could offer regulatory relief.

Observations:

- RDS plans are commercial drug plans that are not expected to enjoy the price control measures enacted by IRA.
- No direct impact to GASB costs/liabilities, as GASB does not allow expected RDS payments to be reflected. But if no longer eligible for RDS, Plan Sponsors should consider alternative strategies.

Will my plan still qualify for RDS in 2025 under new IRA design?



Timing concerns

GASB costs — Next measurement date: While the most meaningful Part D design changes will not occur until CY 2025, GASB 74/75 accounting costs will need to consider implications of IRA at next Measurement Date after August 16, 2022 (when the law was enacted).

- **RDS:** Plan sponsors who collect Retiree Drug Subsidy are not allowed to reflect RDS payments as an offset to their GASB costs and liabilities.
- **Medicare exchange:** Plan sponsors who offer a specialized HRA to reimburse member copays in Catastrophic coverage phase should assume this benefit and plan cost is no longer applicable for CYs after 2023. This will reduce GASB costs at next Measurement Date.
- **Rx EGWP and MA-PD:** As noted, plan cost increases in 2025 are expected to be mitigated to a degree through lower long-term trend.

Retiree drug subsidy application:

- The actuary will need to reflect the IRA provisions in determining RDS eligibility

Creditable coverage implications

Part D late enrollment penalties

- Exception to penalties if enrolled in creditable coverage
- CMS tool — "Creditable Coverage Simplified Determination"
- Impacts not just retiree, but Medicare-eligible active employees, dependents, disabled

Impact of IRA changes

- It will be much more difficult for plans to satisfy the requirements
- Especially an issue for high deductible plans with HSAs

Lobby for regulatory relief

- Base determination of creditable coverage on pre-IRA Part D standard design

Key takeaways

#1 Keep and eye out for regulatory guidance
#2 Work with your actuary and PBM to assess implications given your specific situation

Deliver Rx benefits through:	Potential risks	Potential opportunities
Retiree commercial plan	• May not qualify for RDS, which means lost revenue • May be subject to higher trend, due to cost shifting • Will not benefit from Part D Rx price controls	
EGWP or MA-PD for retirees	• Plan costs may increase due to lower federal subsidies • May impact GASB costs	Long-term Medicare Rx trends could decline due to price controls May impact GASB costs
Active commercial plan	• May no longer offer creditable coverage • May be subject to higher trend, due to cost shifting	

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This information is subject to change based on additional guidance from CMS.