

2025 IRA and CMS Funding Impact

Summary

The Inflation Reduction Act (IRA) brings major enhancements and plan design changes to Part D plans. The increases to benefits and member protections represent the largest changes in the Part D program since its inception. In addition, reductions in funding from the Centers for Medicare & Medicaid Services (CMS) contribute to the cost challenges. **As a result, there are potential premium increases in 2025 to Medicare Advantage Prescription Drug (MAPD) plans.**

Inflation Reduction Act Part D redesign

The IRA makes most plans with Part D coverage richer than they are today, reducing member cost share and shifting more of the claim liability to the plans and away from the government.

Effective January 1, 2025, key aspects of the IRA include:

- **A \$2,000 per member annual out-of-pocket maximum threshold.** The new annual threshold is substantially lower than the \$8,000 true out-of-pocket (TrOOP) cost threshold currently in place for 2024.
- **Decrease in federal reinsurance subsidy.** Plans will cover 60% of the cost once the out-of-pocket maximum is met (i.e., the catastrophic coverage phase*), tripling the plan liability as compared to 2024.
- **Changes to the Manufacturer Discount Program.** This change means a 10% manufacturer discount for applicable drugs** in the initial coverage phase*** and a 20% discount in the catastrophic phase. Additionally, there are reduced CMS reimbursements for Non-Low Income (NLI) risk scores. Employer Group Waiver Plans (or EGWPs) are predominantly comprised of NLI members.
- **A new, Medicare Prescription Payment Plan (M3P).** This new plan allows enrollees to spread Part D drug cost sharing through a payment plan over the course of the plan year instead of paying at the point of sale.

The 2025 redesign is in addition to the 2023 and 2024 IRA-required mandates: \$0 copay for vaccines, \$35 monthly cap for insulin, and \$0 cost share in the catastrophic phase.

Reduced CMS funding for Medicare Advantage

CMS recently issued the Final Notice that determines 2025 funding for all Medicare Advantage (MA) plans. This funding impacts the premiums and benefits offered in MA plans. Last year CMS introduced a change that reduces 2024–2026 funding to remove Indirect Medical Education (IME) and Direct Graduate Medical Education (DGME) costs. The impact of this change and other information in the Final Notice may result in premium increases in 2025.

Refer to your Renewal Package for more details.

*Catastrophic coverage phase is the claim phase after a member reaches the \$2,000 annual out-of-pocket threshold.

**CMS defines “applicable drugs” as Part D drugs which have been approved under a new drug application and are covered on the plan formulary or through appeal or exception. It does not include selected drugs during a price applicability period.

***Initial coverage phase is the claim phase after a member satisfies any deductible requirements and until the annual \$2,000 annual out-of-pocket threshold is met.