

Rebate Reallocation

CY2024 Rebates

By Jackie Lee

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Actuaries and Consultants

On July 31, 2023, the Centers for Medicare & Medicaid Services (CMS) released their [2024 Projected Medicare Part D Premium and Bid Information](#), kicking off the rebate reallocation period for Medicare Advantage (MA) and Part D (PD) plan sponsors. CMS "expects the total [Part D premium to fall by 1.8 percent next year](#), partly due to premium stabilization." We will explain here what rebate reallocation is and the effects on premiums and benefits in Contract Year (CY) 2024.

Q: What is rebate reallocation?

A: There are two main parts to the rebate reallocation process: the PD premium and the MA rebate reallocation. The PD premium is broken up into two parts, the PD basic premium and the PD Supplemental Premium. The PD basic premium is calculated by comparing the standardized PD bid amount to the National Average Monthly Bid Amount (NAMBA) and the Base Beneficiary Premium (BBP) or the Bid Amount – NAMBA + BBP. Before the NAMBA and BBP are released annually, plan sponsors will estimate these values.

The MA basic member premium is calculated in a similar way, the standardized MA bid is compared to a standardized benchmark bid based on the plan's quality rating and service area. If the standardized bid amount is more than the benchmark, that difference is the MA basic premium. If the standardized bid is less than the benchmark, then it generates savings. A portion of those savings are given back to that plan's sponsor in the form of rebate (the amount of savings given back is also determined by the quality rating). That rebate is then used to increase benefits or lower premiums.

When allocating rebate, a plan sponsor can choose to allocate it between 5 things: reduced cost sharing, increased mandatory supplemental benefits, Part B premium buydown, and Part D Premium buydown for the basic or the supplemental Part D premiums. When the BBP and the NAMBA are released, the estimated Part D premium may change. In reaction to any

change a plan sponsor can choose to resubmit their bids to achieve a target plan intention for the Part D Basic Premium. That intention can be either the basic Part D premium net of rebates (the basic Part D premium with rebate applied) or the low-income premium subsidy amount (LIPSA).

Q: How will benefits and premiums be impacted?

A: An article from August 1, 2023 details changes resulting from the Inflation Reduction Act (IRA) and how they will affect [2024 benefits and premiums](#). This law made several changes to help reduce costs for Medicare beneficiaries. One of the major changes was capping the growth of the BBP to a 6 percent annual increase. The BBP "will increase by 6 percent in 2024 to \$34.70. Without the Inflation Reduction Act provision, the cost would have been \$4.65 higher at \$39.35." With this lower BBP, this will lead to a lower Part D basic premium. "The decreased Part D premium also reflects improved basic Part D benefits."

With the release of a BBP that was lower than expected and a NAMBA that was higher than expected, this change leads to a lower than estimated PD premium. With this lower PD premium prior to rebates, the plan sponsor can then shift rebates away from the PD premiums to other areas such as cost sharing and mandatory supplemental benefits. With a higher of the portion of the rebate shifted there this will lower beneficiary cost sharing and provide richer benefits to the beneficiaries.

Another important provision of the IRA that affects benefits is that it "will cap annual out-of-pocket costs, limit cost-sharing for insulin products, and eliminate cost-sharing for recommended adult vaccines." There are a number of other [provisions](#) in the IRA pertaining to prescription drugs, such as requiring the federal government to negotiate prices for some drugs covered under Medicare, and requiring drug companies to pay rebates to Medicare if prices rise faster than inflation for drugs used by Medicare beneficiaries.

JACKIE LEE, FSA, MAAA | VICE PRESIDENT & PRINCIPAL | JLEE@LEWISELLIS.COM | (972) 850-0850

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