

Rebate Reallocation

CY2025 Rebates

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On July 29, 2024, the Centers for Medicare & Medicaid Services (CMS) released their [2025 Part D Bid Information](#), kicking off the rebate reallocation period for Medicare Advantage (MA) and Part D (PD) plan sponsors. We will explain here what rebate reallocation is and the effects on premiums and benefits in Contract Year (CY) 2025.

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) less the Base Beneficiary Premium (BBP) – $NAMBA - BBP$. Before the NAMBA and BBP are released annually, plan sponsors will estimate these values in their bid submissions in June.

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 rebates, a plan sponsor can choose to allocate it between five things: reduced cost sharing, increased mandatory supplemental benefits, Part B premium buydown, and PD premium buydown for the basic or the supplemental PD premiums. When the BBP and the NAMBA are released, the PD premium may change from the original amount submitted in June. In reaction to any change a plan sponsor can choose to resubmit their bids and make minor changes to their MA supplemental benefit

offerings to achieve the target plan intention for the PD Basic Premium. That intention can be either the basic PD premium net of rebates from the June bid submission (the basic PD premium with rebate applied) or the low-income premium subsidy amount (LIPSA).

Q: How will benefits and premiums be impacted?

A: A major impact of the Inflation Reduction Act (IRA) goes into effect in 2025, with the elimination of the coverage gap phase (or “donut hole”), which will result in PD coverage consisting of three phases: the deductible phase, an initial coverage phase, and the catastrophic phase. The federal government hopes that this simpler structure will be more straightforward to understand for enrollees, while also providing richer benefits along with a lower \$2,000 cap on annual pocket costs.

For 2025, CMS has revealed that the BBP will be \$36.78. This represents an increase of \$2.08 from 2024, or the maximum 6% growth allowed by the IRA. On the other hand, the NAMBA sees a drastic increase to \$179.45 in 2025, which is up nearly 180% from the previous year's value of \$64.28, and a jump of over five times that of 2023's NAMBA. This significant increase was expected to occur by CMS, due to “the [redesign of the program](#) that encourages better cost management of the Part D benefit by Part D sponsors” and will result in a larger risk-adjusted government PD subsidy.

As opposed to previous years, CMS did not release preliminary premium information in July. The main reason for this is CMS' introduction of a voluntary Part D Premium Stabilization Demonstration for stand-alone PD plans “to test whether additional premium stabilization and revised risk corridors for stand-alone prescription drug plans increase the efficiency and economy of services under the Medicare Part D program.” CMS' hope is that the results from this test may help to reduce the increased variation in plan bids during this transition period of the PD program.

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