ANALYSIS OF MEDICARE PRESCRIPTION DRUG PLAN (PDP) PREMIUMS: 2023-2025

December 1, 2025

Prepared for:

Arnold Ventures (AV)
Laura and John Arnold Foundation
c/o Laura Fagbemi, Grants Manager
1717 West Loop South, Suite 1800
Houston, Texas 77027

Prepared and submitted by:

Actuarial Research Corporation (ARC)
6928 Little River Turnpike Suite E
Annandale, VA 22003

Contributing Authors:

Ryan Brake, A.S.A., M.A.A.A.
Brandi Dries, F.S.A., M.A.A.A.

Contents

SUMMARY REPORT: ANALYSIS OF MEDICARE PRESCRIPTION DRUG PLAN (PDP) PREMIUMS FROM 2023 TO 2025

Abstract Summary

By 2025, five national carriers (Centene, UHG, CVS, Humana, and Cigna) controlled 94% of the Medicare PDP market. The number of PDP offerings has declined, with enrollment shifting from enhanced to basic plans and from high- to low-premium enhanced plans. These trends were driven by CVS exiting the enhanced plan market, UHG consolidating their high- and low-premium enhanced plans, and smaller carriers leaving the market. From 2023 to 2024, the total estimated change in average standardized bid for PDPs was $40, compared to $30 for the NAMBA. This increase was partially driven by the 2024 IRA changes and primarily driven by carrier-specific pricing components, which may have included some level of correction for adverse experience in 2023 relative to expectation. As a result, total premiums went up by nearly 20% for basic plans offered by national carriers, by nearly 30% for their enhanced plans and by nearly 40% for enhanced plans offered by regional carriers.

From 2024 to 2025, the estimated change in the average standardized bid was $128, compared to $115 for the NAMBA. Almost two-thirds of this change was driven by the IRA catastrophic phase change from 20% to 60% plan liability. Additional key drivers include the IRA's $2,000 beneficiary out-of-pocket cap (approximately 25% of the change), the CMS RxHCC risk score model change, the PDP-specific normalization factor, strategic plan offering changes from CVS and UHG, and other carrier-specific pricing components. The risk score model change had opposite standardized bid impacts for enhanced plans (+$32) compared to basic plans (-$25) and varied by carrier based on their mix of membership. The PDP-specific normalization factor had a generally consistent estimated standardized bid impact of (-$20). In 2025, as a result of these changes, total premiums for enhanced plans offered by national carriers increased an additional 25%, while all other PDP plan premiums decreased. These results reflect the impact of the CMS Premium Stabilization Demonstration, which capped 2024 to 2025 total premium increases for beneficiaries to $35.

Background

Arnold Ventures (AV) has contracted with Actuarial Research Corporation (ARC) to perform a comprehensive analysis of the driving factors behind Medicare Prescription Drug Plan (PDP) premium changes between 2023 and 2025. This analysis was broken into two phases, with the first phase focused on generating visual and numerical summaries and insights from publicly available data. The second phase required a Centers for Medicare & Medicaid Services (CMS) innovator Data Use Agreement (DUA), allowing ARC to incrementally model and quantify the estimated impact to stand-alone PDP bids from the Inflation Reduction Act (IRA) and CMS Part D risk score model regulatory changes, the impact of plan consolidations, product offering, and other pricing changes using Medicare claims and beneficiary data, including Part D Prescription Drug Event (PDE) data.

The following appendices contain additional supporting information:

- Appendix A: Background on IRA Changes and PDP Bid Mechanics
- Appendix B: Data Reliance and Data Sources
- Appendix C: Phase 2 Modeling Methodology and Limitations
- Appendix D: Phase 2 Modeling Scenarios for Standardized Bid Evaluation

Key Observations and Findings

The following are key observations and findings about the PDP market from 2023 to 2025, separated by phase. Note that "basic" plans include Actuarially Equivalent (AE) and Basic Alternative (BA) plans and "enhanced" plans include Enhanced Alternative (EA) plans.

I. Phase 1 Analysis: PDP Market Overview

Over 90% of the PDP market is controlled by five national carriers (94% by 2025): Centene Corporation (Centene, also known as Wellcare), UnitedHealth Group (UHG), CVS Health Corporation (CVS), Humana Inc. (Humana), and The Cigna Group (Cigna).[1,2]

The number of PDPs offered decreased significantly between 2023 and 2025, and there has been a shift in enrollment from enhanced plans (13.3 million in 2023 to 10.5 million in 2025) to basic plans (5.5 million in 2023 to 7.8 million in 2025), as well as a shift from high-premium enhanced plans to low-premium enhanced plans over this period. These changes are driven by CVS no longer offering enhanced plans and cross-walking members to its basic plans beginning in 2025, UHG consolidating their high- and low- premium enhanced plans in 2025, and smaller national and regional carriers leaving the market.[3]

Centene has had the largest market growth over this period (from 23.7% in 2023 to 43.2% in 2025) and maintained a consistent mix of basic (approximately two-thirds) and enhanced membership over this time. It derived nearly all basic plan enrollment from its benchmark plan offerings, where most of its basic PDPs have been below the low-income benchmark in all PDP regions in all years. "Benchmark plans" enable Medicare Part D Low-Income Subsidy (LIS) beneficiaries to enroll in the plan with no monthly premium, as CMS pays the premium through the low-income premium subsidy amount (LIPSA). Beneficiaries are automatically assigned by CMS to these plans if they do not choose a plan themselves. All other national carriers have had mixed success in keeping the premium for basic plans below the low-income benchmark over this period.

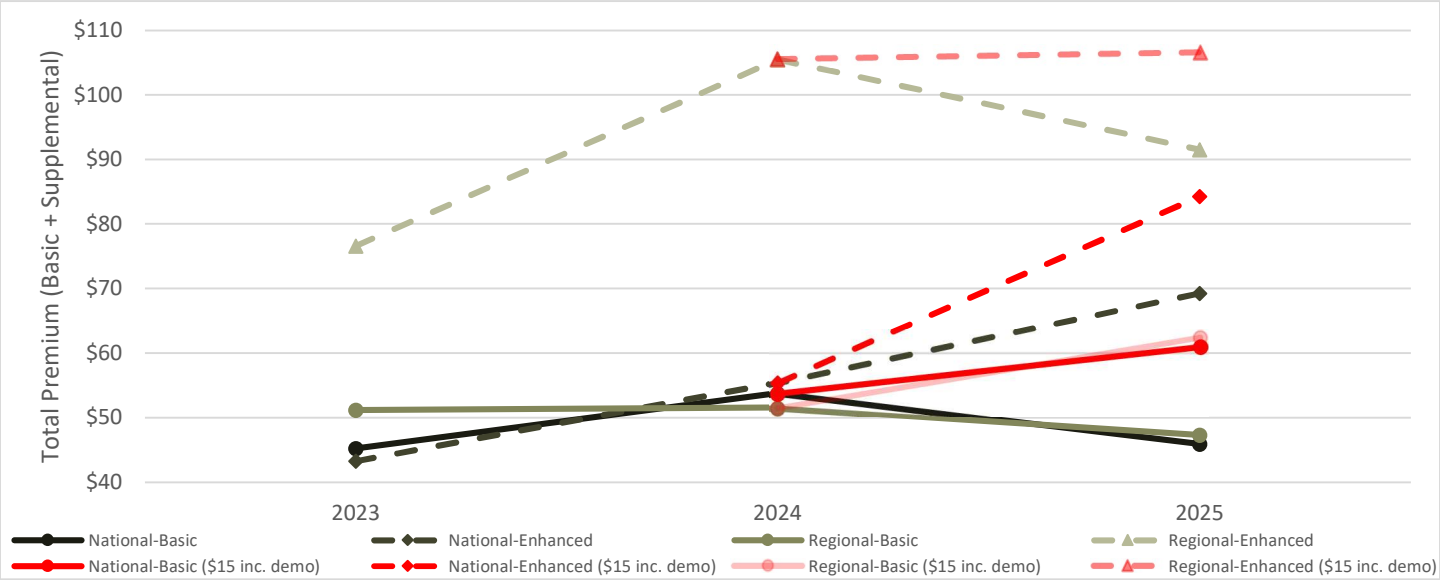
II. Phase 1 Analysis: Premium Increases, 2023 to 2025

Prescription drug plan premiums are comprised of basic premiums for all plan types with additional supplemental premium for enhanced plans. The basic premium reflects the cost for defined standard (DS) coverage, while the supplemental premium represents the cost for benefits above and beyond DS coverage. Between 2023 and 2024 total premiums went up significantly: by nearly 20% for basic plans offered by national carriers, nearly 30% for their enhanced plans, and by nearly 40% for enhanced plans offered by regional carriers. In 2025, with full implementation of the IRA, premiums for enhanced plans offered by national carriers increased an additional 25%, while all other PDP plan premiums decreased. The 2024 and 2025 PDP beneficiary premium increases were dampened by the IRA provision limiting the base beneficiary premium to a 6% growth rate. Without this provision, beneficiary premiums would have been higher (e.g., base beneficiary premium would have been $4.65 higher in 2024 and $19.20 higher in 2025). This analysis of total plan premiums in 2025 is complicated by the implementation of the Medicare Part D Premium Stabilization Demonstration ("demonstration").[4] Via this demonstration, beneficiaries participating in PDPs in 2025 have had their basic premiums reduced by an additional $15 and then had the total premium change from 2024 to 2025 capped at $35. The combination of these two mechanisms effectively capped observable premium increases in the data at $50.

Exhibit 1 shows average plan-level premiums for national and regional carrier basic and supplemental plans. It shows the total premium both raw (as viewed by the public, in black and grey) and with a $15 increase to the basic premium in 2025 (accounting for the first element of the demonstration, in red and pink). Note that the red, total, pre-demonstration premiums do not reflect the full value of what premiums would have been in absence of the demonstration for enhanced plans.

This exhibit highlights that the group of plans experiencing the highest level of premium increases between 2023 and 2025 are the enhanced plans of national carriers. This group of plans also had the most enrollment of any of the groups identified.

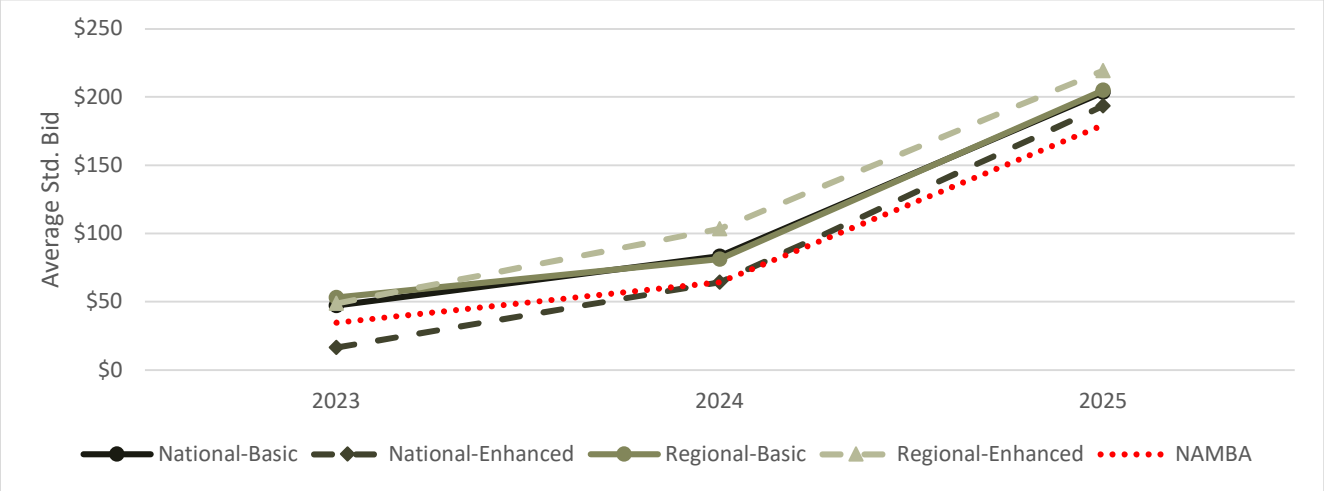
EXHIBIT 1: 2023-2025 AVERAGE TOTAL PREMIUM (BASIC + SUPPLEMENTAL) BY CARRIER AND PLAN TYPE



III. Phase 1 Analysis: PDP Standardized Bid and Premium Changes

To analyze premium increases in the PDP market, basic and supplemental premiums were reviewed separately, but with a heavier emphasis on basic premiums due to certain modeling limitations as outlined in Appendix C. The plan-level basic premium is based on the plan-specific standardized bid amount relative to the national average monthly bid amount (NAMBA), adjusted for the base beneficiary premium (BBP). Refer to Appendix A for more background on the IRA changes and PDP bid mechanics, including the impact of capping the BBP year-over-year increase at 6%. The NAMBA is defined statutorily and is calculated based on plan bids. The average standardized bid amount has increased significantly over this period for all national carriers across all plan types (basic and enhanced), with more substantial impact occurring in 2025. The primary driver of these increases was the passage of the IRA, which first removed catastrophic cost sharing in 2024 and then implemented an out-of-pocket maximum of $2,000 and increased plan liability in the catastrophic phase in 2025. Exhibit 2, below, shows that the standardized bids for enhanced plans offered by national carriers grew faster than other plan types, including MAPD plans, increasing relative to the NAMBA less the BBP.[5] For basic plans, premium increases are driven entirely by increases to standardized bids above and beyond the average increase to the NAMBA.

EXHIBIT 2: 2023-2025 AVERAGE STANDARDIZED PDP BID BY CARRIER AND PLAN TYPE



IV. Phase 1 Analysis: Enhanced Plan Standardized Bids (Basic Premiums) and Supplemental Premiums

Enhanced plans for national carriers had standardized bids substantially below the NAMBA in 2023. Most national and regional enhanced plans had a decrease in the supplemental premium from 2023 to 2024.

In 2024 and 2025, the standardized bids for enhanced plans have shifted to be more comparable to basic plans with this shift resulting in higher increases in the basic premium for enhanced plans. Additionally, these plans had a wider range of changes in the standardized bid from 2024 to 2025, demonstrating a greater range of impacts to plan-level (and parent organization level) liability from the IRA and other factors. The majority of national low- and high- premium enhanced plans had an increase in the supplemental premium from 2024 to 2025, while the regional plans (comprising of less than 10% of the PDP market) had a range of premium impacts.

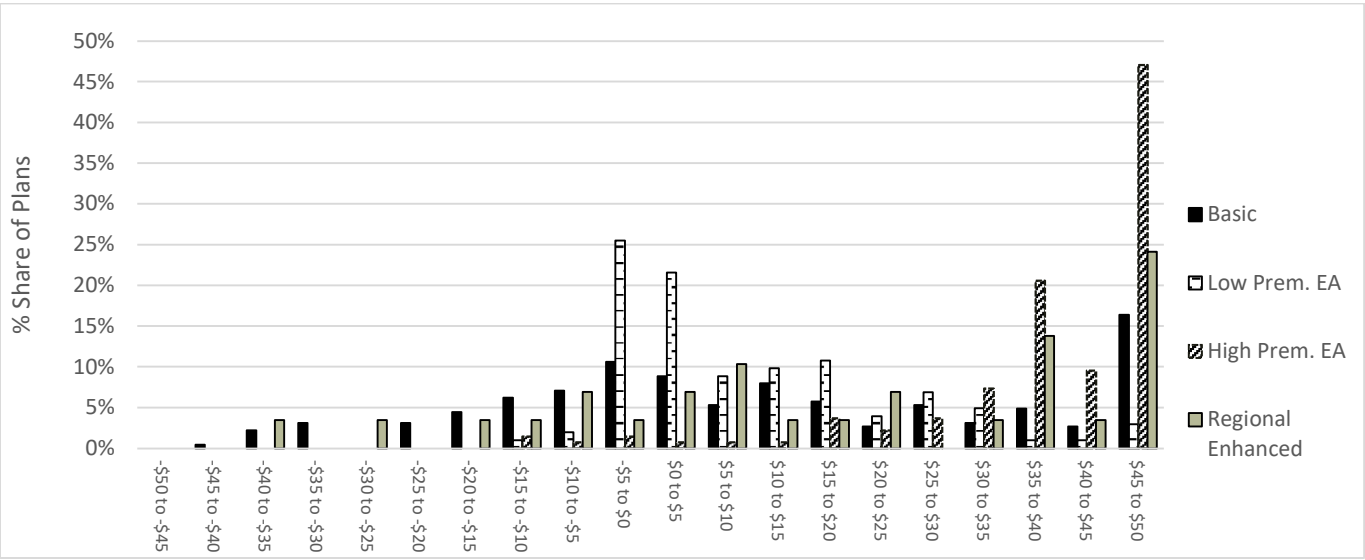
Mutual of Omaha exited the market and CVS no longer offered enhanced plans in 2025. Additionally, UHG terminated its high premium enhanced plan option in 2025 and cross-walked enrollment to its low premium plan, then increased the premium and benefits similar to the terminated high premium option. For 2025, Centene had substantial standardized bid changes and low supplemental premium changes, while Humana and Cigna had more variability in premiums across plans.

V. Phase 1 Analysis: 2025 Part D Premium Stabilization Demonstration

As noted above, the demonstration limited increases in premium in 2025 to $50 total (including a $15 reduction to the basic premium). These caps ultimately applied to both basic and enhanced plans and were therefore triggered both by increases to standardized bids (basic premium) and increases in the cost of supplemental benefits (supplemental premium). Note that PDP organizations were not aware of this demonstration at the time of the 2025 bid submission.

Exhibit 3, below, shows the distribution of PDPs by total premium increase, plan type, and carrier type – prior to the $15 basic premium reduction. The $50 total premium change bars at far right represent PDPs with capped premium (or nearly capped) increases from the demonstration. More than 30 basic PDPs had capped premium increases, driven entirely by an increase in the standardized bid. Nearly 60 national carrier high-premium enhanced PDPs had their total premium increases capped. The effects of the demonstration varied across PDPs and carriers, with some carriers benefiting more than others.

EXHIBIT 3: 2024 TO 2025 DISTRIBUTION OF PDPS BY TOTAL PREMIUM INCREASE AND PLAN TYPE



VI. Phase 2 Analysis: 2023 to 2024 Summary of Impacts on Basic Premiums

To isolate the estimated impact on the PDP standardized bids and plan liability for the 2023 to 2025 period, ARC modeled 17 distinct scenarios using the data outlined in Appendix B. Refer to Appendix D for specific details on the modeling assumptions and parameters used across the 17 scenarios.

The total estimated change in the overall PDP standardized bid amount from 2023 to 2024 was $40, compared to $30 for the NAMBA. The 2024 IRA changes accounted for an estimated $13 impact on the standardized bid with slightly greater impact for basic versus enhanced plans. The combination of carrier-specific pricing components and direct and indirect remuneration (DIR) fees moving to the point of sale (i.e., the negotiated price paid by the beneficiary at the time of prescription purchase reflected the DIR) accounted for an estimated $26 impact on the standardized bid, with greater impacts for enhanced versus basic plans. The carrier-specific pricing component likely represents some level of correction for adverse experience in 2023 relative to expectation, potentially driven by the use of 2021 COVID-influenced data for bid pricing, an underestimation by carriers of the higher volume of GLP-1 drugs, brand/specialty cost increases, and other market and carrier-specific drug, utilization, and cost drivers.[6]

VII. Phase 2 Analysis: 2024 to 2025 Summary of Impacts on Basic Premiums

The 2025 IRA and risk model changes had substantial impacts on the standardized bids across the PDP market. There was also sizable variability between basic and enhanced plans and across the five largest carriers, as summarized below.

- The total estimated change to the overall PDP standardized bid amount from 2024 to 2025 was $128, compared to $115 for the NAMBA, and was generally consistent between basic and enhanced overall but varied across carriers and plan type.
- The IRA $2,000 beneficiary out-of-pocket cap had an estimated impact of $33 on the overall average PDP standardized bid, compared to $29 for the NAMBA, with a greater impact for basic plans ($40) versus enhanced plans ($28).
- The IRA catastrophic phase change of 20% to 60% plan liability had an estimated impact of $87 on the overall average PDP standardized bid, compared to $77 for the NAMBA, with substantially greater impact for basic plans ($110) versus enhanced plans ($71).
- The CMS RxHCC (Hierarchical Condition Categories) risk adjustment model change (excluding the impact of the PDP-specific normalization factor) had an estimated impact of $8 on the overall average PDP standardized bid, similar to the impact on the NAMBA, with opposite impacts for enhanced plans ($32 overall) versus basic plans (-$25 overall) that varied by carrier.
- The PDP-specific normalization factor had an estimated -$20 on the overall average PDP standardized bid and was consistent for both basic and enhanced plans across carriers.
- Other parent organization pricing components averaged an estimated $12 impact on the overall average PDP standardized bid with greater impacts for basic than for enhanced plans. There was significant variation across carriers.

Exhibits 4-6, below, illustrate the modeled scenario on the x-axis and the resulting estimated overall average standardized bid for the basic plans, low premium enhanced plans, and high premium enhanced plans for the PDP market and the five largest carriers. These illustrate the substantial impacts to the standardized bids from the 2025 IRA (scenarios 10 and 11) and risk model changes (scenarios 13 and 14) for both basic and enhanced plans, and the variability across carriers.

EXHIBIT 4: 2023-2025 CHANGE IN STANDARDIZED BID BY SCENARIO: PDP BASIC PLANS

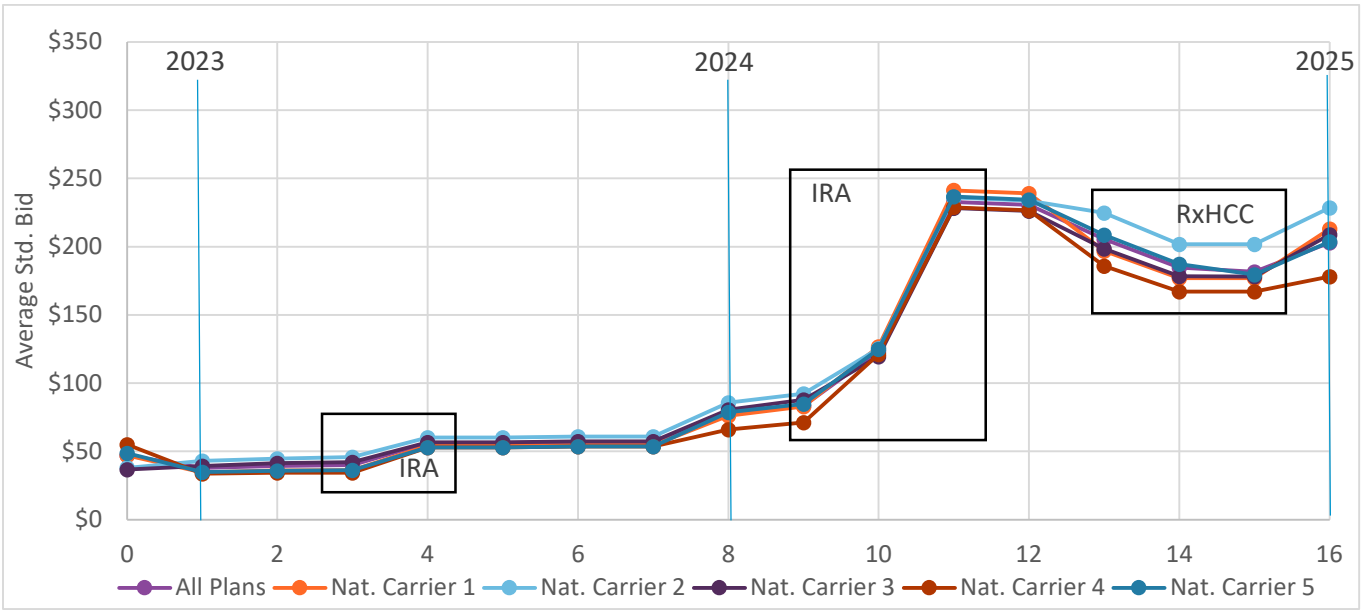


EXHIBIT 5: 2023-2025 CHANGE IN STANDARDIZED BID BY SCENARIO: PDP ENHANCED – LOW PREMIUM PLANS

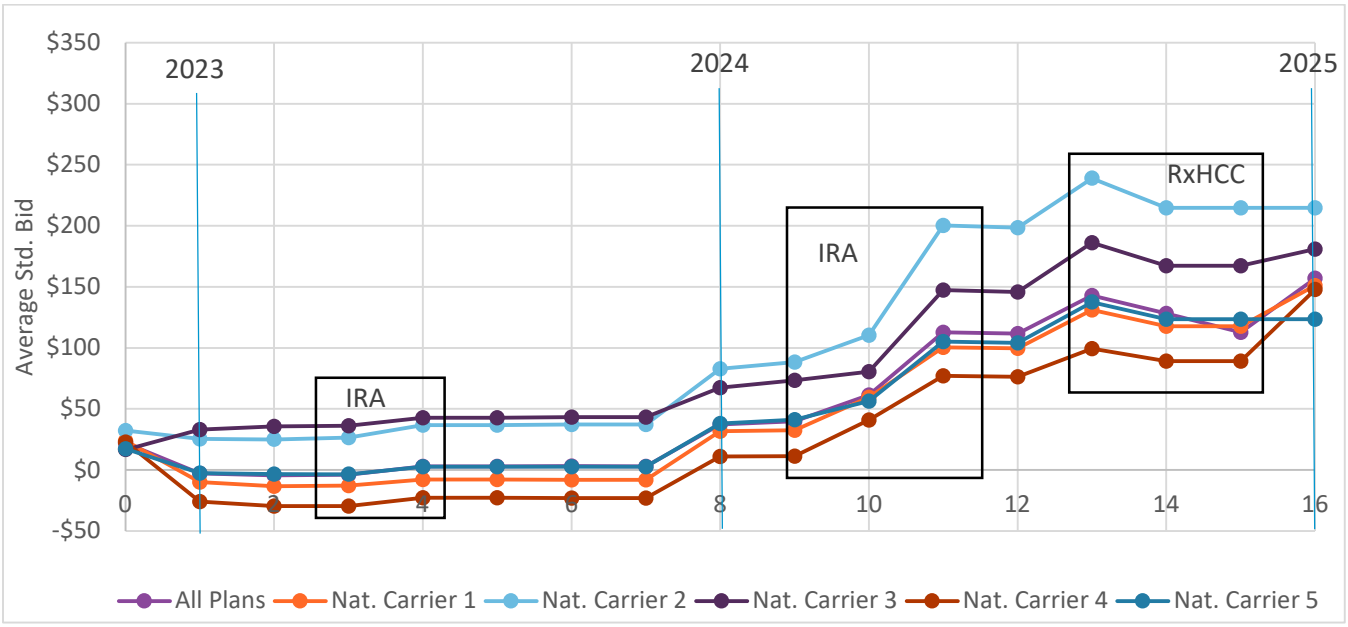
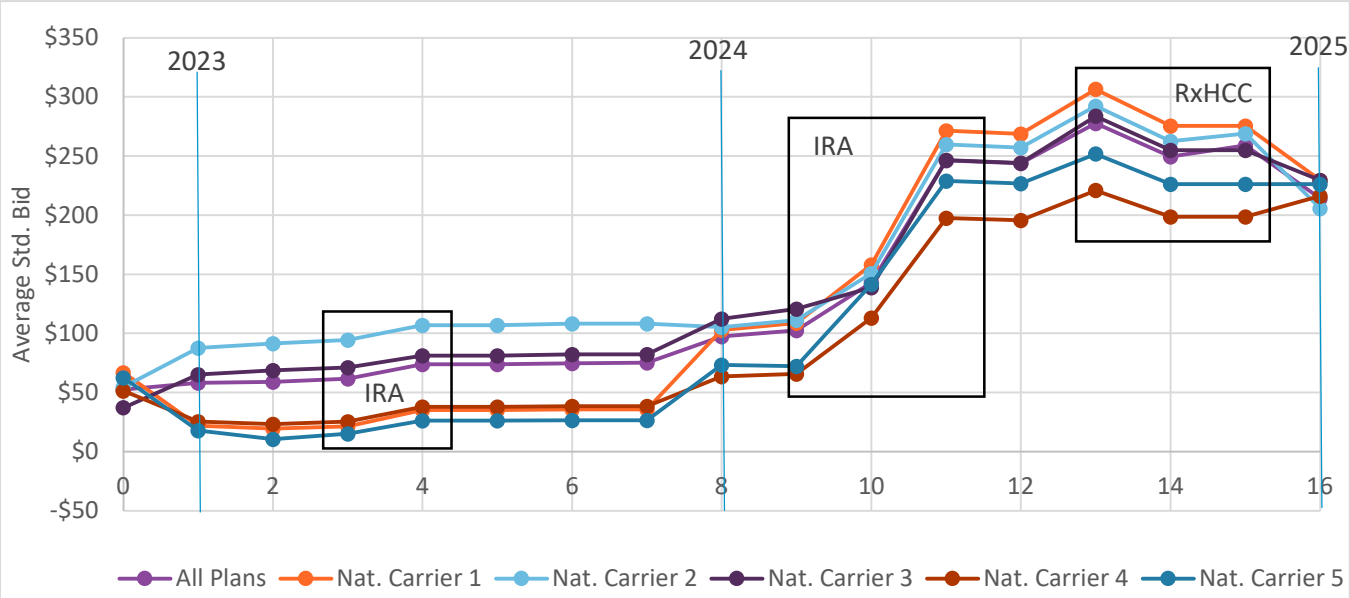


EXHIBIT 6: 2023-2025 CHANGE IN STANDARDIZED BID BY SCENARIO: PDP ENHANCED – HIGH PREMIUM PLANS



VIII. Phase 2 Analysis: 2025 IRA and CMS RxHCC Risk Score Model Changes

Table 1 below provides a summary of the range of impacts to the standardized bid resulting from the major 2025 IRA Part D benefit design changes and the 2025 Part D risk score model and normalization factor changes for the five major national carriers. Of the 17 modeled scenarios in the phase 2 analysis, these regulatory changes had the greatest impact on the standardized bids over the 2023 to 2025 period, excluding certain parent organization strategic and pricing decisions. There was variation by carrier for each change, driven by their basic/enhanced mix of membership and the risk profile and associated drug costs in the catastrophic phase of their basic and enhanced populations.

TABLE 1: ESTIMATED STANDARDIZED BID IMPACTS OF THE 2025 IRA PROVISIONS AND PART D RISK SCORE MODEL CHANGES

Plan Type	IRA $2k Cap Std Bid Δ (scenario 10)	IRA CAT Phase Std Bid Δ (scenario 11)	RxHCC Model Std Bid Δ (scenario 13)	PDP-specific Normalization Std Bid Δ (scenario 14)	Total 2025 Std Bid Δ (scenarios 9-16)
Basic	$32 to $50	$108 to $115	- ($42) to - ($9)	- ($23) to - ($19)	$112 to $143
Enhanced – Low	$7 to $30	$36 to $90	$23 to $41	- ($24) to - ($10)	$114 to $137
Enhanced – High	$18 to $69	$84 to $113	$25 to $40	- ($31) to - ($22)	$101 to $153

The 2025 CMS RxHCC risk score model updates included recalibration to more recent data, alignment to the 2025 Part D standard benefit redesign, diagnosis code changes, and separate normalization factors for MAPD and PDP.[7] The 2025 model resulted in overall increased risk scores for basic plans (higher LIS membership) and overall decreased risk scores for enhanced plans. Table 2 below provides the risk scores from the 2023 and 2025 CMS RxHCC models for the PDP market and the estimated range of factors for the five largest carriers by plan type, where the 2025 risk scores are shown both before and after the PDP-specific normalization factor.

TABLE 2: ESTIMATED RISK SCORES BY CMS RXHCC MODEL AND NORMALIZATION FACTOR BY PLAN TYPE

	All PDPs	Range for Five Largest Carriers
Basic		
2023 Risk Model	1.16	1.08 to 1.27
2025 Risk Model	1.32	1.15 to 1.55
+ PDP-specific normalization	1.47	1.28 to 1.72
Enhanced – Low Premium		
2023 Risk Model	0.74	0.63 to 0.82
2025 Risk Model	0.57	0.48 to 0.68
+ PDP-specific normalization	0.64	0.53 to 0.75
Enhanced – High Premium		
2023 Risk Model	1.02	0.99 to 1.09
2025 Risk Model	0.90	0.82 to 0.98
+ PDP-specific normalization	1.00	0.91 to 1.09

IX. Phase 1 and Phase 2: PDP Organizations 2025 Strategic and Other Pricing Decisions

PDP organizations had insight into the impact of the following regulatory changes on their business prior to bid submissions:

- The IRA provision that limits the increase in the BBP for Medicare Part D from 2024 through 2029 by 6%,
- The Medicare Part D Standard Benefit redesign and the normalization factors that were released in the CMS Medicare Advantage and Part D Advance Notice and Final Rate Announcements in January and April of the bid pricing year, respectively, and
- The estimated payment year 2023 Part D risk scores under both the 2023 RxHCC and the 2025 RxHCC models that were provided by CMS in early April 2025 with the release of the beneficiary files.[8]

While these organizations did not have direct insight into how these changes would impact the rest of the market and the resulting NAMBA used to calculate final basic premiums, nor did they know at the time of the 2025 bid submissions that CMS would release the PDP Premium Stabilization Demonstration in late July of 2024, they were able to price and model the known benefit redesign, risk score, and BBP changes on their own PDP experience data and sensitivity test various NAMBA estimates. It appears each parent organization addressed the PDP market and regulatory changes differently.

- **Centene** appears to have continued to target the benchmark for basic plans and has had significant market growth from 2023 (24%) to 2025 (43%). Standardized bids have increased significantly each year; supplemental premiums have remained relatively low; high-premium EA plans saw the addition of a deductible and coinsurance was added for all non-generics in 2025.
- **UHG** had a decrease in the number of benchmark basic plans from 2023 to 2025. UHG consolidated its high- and low-premium enhanced plans by cross-walking members into low-premium plans, then made changes to the premium and cost share structure resulting in a plan that looks more like their previously offered high-premium plans. Standardized bids increased substantially each year while supplemental premiums have increased moderately (but significantly for those cross-walked from low-premium plans in 2024 to high-premium plans in 2025).

- **CVS** has experienced decreasing market share from 2023 (26%) to 2025 (14%) and has had an inconsistent mix of benchmark and non-benchmark AE plans over this period. CVS eliminated all enhanced plans in 2025 and removed preferred/non-preferred cost sharing differentials for the basic plan option in 2025.
- **Humana** has lost 3% of market share and has had an inconsistent mix of benchmark and non-benchmark basic plans over this period. They removed the deductible on high-premium enhanced plans in 2025. Standardized bids have increased significantly; supplemental premiums increased from 2023 to 2024 but remained relatively flat in 2025.
- **Cigna** has grown slightly in market share over this period. From 2024 to 2025, they had an increase in the number of benchmark basic plans, driving growth in these plans. They've seen reduced enhanced enrollment and have made minimal benefit changes for these plans. Standardized bids have increased substantially; supplemental premiums for high-premium enhanced plans have also increased. Note that HCSC went through an acquisition of Cigna's MA-PD and PDP businesses during the study period. The public announcement was released in January 2024, and the sale was completed in March 2025.

Disclosures

This work was supported by Arnold Ventures. ARC maintains full editorial and analytical control.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all communications with respect to actuarial services. Ryan Brake and Brandi Dries are members in good standing of the American Academy of Actuaries and meet the qualification standards for performing the analysis in this report.

This report was prepared as an account of work for Arnold Ventures (the Client). Neither ARC nor the Client nor any of their employees or contractors make any representations or warranties, express, implied, or statutory, as to the validity, accuracy, completeness, or fitness for a particular purpose; nor represent that use would not infringe privately owned rights; nor assume any liability resulting from the use of such materials and shall in no way be liable for any costs, expenses, claims, or demands arising out of the use of this report. In no event shall ARC be liable to the Client or to any third party for any indirect, special or consequential damages or lost profits arising out of or related to this report, or the accuracy or correctness of the information and data in the report, even if ARC has been advised of the possibility thereof.

The information included in this report reflects both publicly available information regarding premiums and plan enrollment and additional detailed modeling which relies on significant assumptions related to plan-level pricing for which ARC has no specific insight. As such, the estimates related to the large, national carriers should be treated as broadly illustrative of the range of potential impacts of the IRA and plan responses to market conditions and other regulatory changes.

APPENDIX A: BACKGROUND ON IRA AND TROOP CHANGES AND PDP BID MECHANICS

Background on IRA changes impacting the PDP market and on the bid mechanics are provided below, which helps to understand the impact to standardized bids and subsequent member premium.

IRA Changes Explicitly Considered in this Analysis

The following provides a summary of the IRA changes by year impacting PDPs.

- The **2023 IRA changes** include $35 copay cap (per month) on insulin and $0 copay for adult vaccines
- The **2024 IRA changes** include base beneficiary premium (BBP) capped at a 6% increase through 2029 to help stabilize beneficiary premiums. The 2024 and 2025 BBPs were capped at $34.70 and $36.78, respectively. Without this cap, the 2024 and 2025 BBPs would have been $39.35[9] and $55.98[10], respectively.

  2024 changes also include expansion of eligibility for full Part D LIS benefits and 5% coinsurance in the catastrophic phase removed, which included:

  - Threshold set at $8,000: this amount includes what Part D enrollees spend out of pocket plus the value of the manufacturer price discount on brands in the coverage gap phase.
  - Greatest impact to members who hit the catastrophic phase (e.g., specialty cost drugs) and carriers with these members
- The **2025 IRA changes** include $2,000 out-of-pocket cap per member and coverage gap phase eliminated. After 2029, the currently set 25.5% of the cost of standard drug coverage will be altered to cap increases at 6%, and carriers and drug manufacturers are required to:
  - Pay 65% and are required to provide a 10% discount, respectively, on brand drugs in initial coverage limit phase (replacing 70% price discount in coverage gap phase)
  - Pay a larger share of drug costs for members in catastrophic phase, and CMS will pay a smaller portion (80% to 20% for brand and 40% for generic)

Other Regulatory Changes

Beginning in 2024, pharmacy direct and indirect remuneration (DIR) is applied at the point of sale in order for beneficiaries' liability to be applied to these net prices. Manufacturer DIR, the larger contributor to overall DIR, continues to be applied post point-of-sale. Given that ARC did not have visibility into the overall levels of DIR or into which drugs various price concessions would accrue, the impact of this change on plan premiums was not taken into explicit consideration but was implicitly included in the modeling results for scenario 8. Directionally, applying these concessions at point of sale reduces beneficiary liability and would likely increase premiums.[11]

In 2025, the methodology for accumulating true out-of-pocket (TrOOP) was changed significantly for enhanced plans. Under the new rules, the value of supplemental benefits is included as TrOOP along with actual beneficiary copays. In the event that enhanced benefits are worse than defined standard, the TrOOP accumulator uses the enhanced beneficiary payment. Certain 2025 modeling did take this change into account, but its impact was not specifically estimated.[12]

Bid Mechanics and Basic and Supplemental Premiums

The basic premium covers the minimum standard of coverage, as defined by CMS. The supplemental premium covers additional benefits beyond the basic coverage and are applicable to enhanced plans only.

The basic Premium for each PDP offered is a function of three components:

1. + Standardized bid amount: the plan liability for covering defined standard benefits plus administrative costs and gain/loss margin at a 1.0 risk score

2. - National average standardized bid amount (NAMBA): enrollment-weighted average of most all Part D plan bids (PDP and Part D bid of MA-PDs, excluding special needs and certain other plan types) for basic Part D benefits, used to calculate the government subsidy to Part D plans

3. + Base beneficiary premium (BBP): derived from standardized bid amounts and estimates of federal reinsurance, capped at a 6% growth rate under the IRA. By statute, set at 25.5% of cost of standard coverage (which includes both plan liabilities and federal reinsurance). After 2029, 25.5% will be adjusted to cap increases at 6%, per the IRA.

Because the *basic premium* for each PDP is set relative to other plans in the market, the change in the basic premium does not represent a change in benefits but rather a change in expected plan spending on defined standard benefits for the plan population relative to other plans in the market. To account for this, the *standardized bid amount* was derived to more effectively evaluate the impact of the IRA on the PDP market, plan liability, and beneficiary premium.

APPENDIX B: DATA SOURCES AND DATA RELIANCE

Data Sources

The CMS publicly available data sources used for the Phase 1 analysis included:

- CY 2023, 2024, and 2025 CMS Landscape Files[13,14]
- CY 2023, 2024, and 2025 (where available) PDP and LIS enrollment by plan[15]
    - Source: CMS Low Income Subsidy Enrollment by Plan
    - Limitation: LIS enrollment below 10 members is excluded from data
- CY 2023, 2024, and 2025 CMS Plan Benefit Package Files, specifically the "PBP_MRX_TIER" files.[16]

Note: The Phase 1 analysis excludes PDPs in US territories.

The data sources for the Phase 2 analysis included:

- 2021-2023 Medicare Beneficiary Summary Files (MBSF)
- 2021-2023 Medicare FFS claims
- 2021-2023 PDEs
    - Limitation: ARC did not have access to detailed direct and indirect remuneration (DIR) data allowing for the calculation of net paid amounts.
- 2021-2023 Medicare Advantage Encounter data file
- 2021-2023 Plan Characteristics (PLANCF) files
- 2024 Medicare Trustees Report[17]

For all items under Phase 2 aside from the 2024 Medicare Trustees Report, the data used was contained within CMS's Chronic Conditions Warehouse and were secured via data use agreement (DUA) with CMS.

Data Reliance

This analysis is based on the data and information provided, as outlined above. ARC did not independently audit or verify this information. The work relies on the accuracy and completeness of the data. If the underlying data is materially inaccurate or incomplete, the results of the analysis may be similarly affected. The analysis was performed in accordance with applicable Actuarial Standards of Practice (ASOPs).

APPENDIX C: PHASE 2 MODELING METHODOLOGY AND LIMITATIONS

In order to determine the impacts of the IRA on sponsors within the PDP market, ARC developed a PDE-based micro model.

Source Data

The primary source for data was 2023 PDEs for covered drugs for 100% of Part D enrollees from the chronic condition warehouse (CCW) – secured via a data use agreement with CMS. These final action claims were combined with enrollment and other demographic data from the enrollment database (EDB) and reflected in the Master Beneficiary Summary File (MBSF). For these beneficiaries, all relevant 2022 FFS claims and MA encounters was queried to extract diagnosis codes and calculate risk scores. Risk scores were calculated for all beneficiaries under both RXHCC model versions for payment in 2023 (v23) and 2025 (v25). Beneficiaries were assigned a risk score based on their community or long-term institutional status, dual-eligibility, and new enrollee status.

Other trends and assumptions were derived from the 2024 Medicare Trustees Report and projections of national health expenditures as published by CMS.

Methodology

In order to perform the modeling whose results are described in this report, PDEs were re-adjudicated to determine plan, beneficiary, manufacturer, and government liability to derive bid amounts – which represent expected plan liability under the defined standard benefit. Using calculated risk scores, bid amounts were converted to standardized bid amounts. Standardized bids in turn were aggregated to determine the national average monthly bid amount (NAMBA).

Specifically,

- 2023 PDEs were combined with demographic and enrollment data from the 2023 MBSF, including plan enrollment and LIS status.
- 2023 PDEs were projected to 2024 and 2025, and any reported plan crosswalks were also attached to the 2024 and 2025 PDEs.
- Separate algorithms were developed for each of the 2023, 2024, and 2025 defined standard benefit structures, in order to adjudicate claims to determine plan liability, cost sharing, LICS, federal reinsurance, and manufacturer discounts. The claims were aggregated to the plan-level depending on the relevant scenario. For instance, claims were combined based on actual 2023 enrollment for 2023 scenarios, while claims were combined based on 2024 and 2025 plans recognizing formal crosswalks for scenarios which consider these.
- For MAPD plans, 5% sample data was used. For PDPs, 100% of 2023 PDEs were used to develop the plan-level estimates.
- Algorithms associated with enhanced benefits were also developed for each year. Plan benefits from the publicly available benefits files were attached to each PDE. PDEs were also combined with relevant formulary data within the CCW to determine the tier to which the drug was assigned for purposes of allocating the appropriate cost sharing. For the purposes of formulary, only access to 2023 formulary tiering was procured. As such, formulary changes between 2023 and 2025 could not be captured.
- For each relevant scenario, these plan-level values were then adjusted to incorporate rebates, administrative/margin costs, and any other unknown pricing factors. For Scenarios 1, 8, and 16 outlined in Appendix D, adjustment was performed in two steps:
    - All PDP plan-level rebate percentages were adjusted to target the actual standardized bid derived from publicly available landscape files for 2023, 2024, and 2025 respectively.

- Then, all MAPD rebate percentages were adjusted to target the overall published NAMBA in the relevant year.

Modeling Limitations

- Phase 2 modeling was based on 2023 PDP membership, with mapping of 2023 members based on 2024 and 2025 plan changes for the identified modeling scenarios. Calibration to actual 2024 and 2025 PDP membership was not modeled.
- Since the benefits files report both preferred and non-preferred pharmacy cost sharing, all non-preferred pharmacy pricing was used for the calculation of supplemental benefits. This represents an important limitation to the analysis.
- Risk score coding, utilization, unit cost, administrative cost, and rebate assumptions were developed based on a review of public sources, including the Trustees Report, and were ultimately selected based on actuarial judgment. The application of universal factors, not separately by parent organization, is a significant simplification relative to actual pricing. While the calibration factors to actual standardized bids in 2023, 2024, and 2025 account for these organization-specific deviations from national averages, the preceding calculations have the limitations outlined above.
- In order to reconcile standardized bids to those actually submitted and derived from the public landscape files, the rebate assumptions have been altered to target the final premiums and resulting standardized bids from the CMS landscape files. However, differences between plan or organization-specific rebates and those assumed nationally from the Trustees Reports are not the only driver of differences between the initial scenarios and the calibrated scenarios. This adjustment also reflects differences in assumed administrative costs, profit margin, risk and morbidity, contractual, service area, and many other changes assumed in pricing. For simplicity and given the lack of knowledge about these issues, the overall adjustment factor is considered sufficient.
- Only access to 2023 formulary tiering was procured. As such, formulary changes between 2023 and 2025 could not be captured.

APPENDIX D: PHASE 2 MODELING SCENARIOS FOR STANDARDIZED BID EVALUATION

For modeling impacts to standardized bids and, in turn, basic premiums, 17 distinct scenarios were modeled according to the following specifications.

Scenario	Claims Trend applied to 2023 PDEs	PD Standard Benefit Design / IRA Change	CMS RxHCC Risk Model	Risk Score Coding Trend	Risk Score Normalization Factor	Plan ID Mapping	Std Bid Calibration	Measured Impact (All prior impacts included + Iterative Change)
0	n/a	2023	2023	n/a	1.05	2023 plan ID	N/A	Baseline 2023
1	n/a	2023	2023	n/a	1.05	2023 plan ID	**2023 PDPs**	Scenario 0 + calibrated to final 2023 PDP bids
2	**1 year**	2023	2023	n/a	1.05	2023 plan ID	N/A	Scenario 1 + one year of claims trend
3	1 year	**2024, but with 15% plan liability in CAT**	2023	n/a	1.05	2023 plan ID	N/A	Scenario 2 + 2024 Standard Part D benefit design changes, but keeping 15% plan liability in catastrophic phase
4	1 year	**2024**	2023	n/a	1.05	2023 plan ID	N/A	Scenario 3 + 20% plan liability in catastrophic phase
5	1 year	2024	2023	**1 year**	1.05	2023 plan ID	N/A	Scenario 4 + one year of risk score coding trend
6	1 year	2024	2023	1 year	**1.063**	2023 plan ID	N/A	Scenario 5 + 2024 risk score normalization factor
7	1 year	2024	2023	1 year	1.063	**Cross-walked to 2024 plan ID**	N/A	Scenario 6 + 2024 parent organization plan changes (mapping 2023 enrollment)
8	1 year	2024	2023	1 year	1.063	Cross-walked to 2024 plan ID	**2024 PDPs**	Scenario 7 + calibrated to final 2024 PDP bids
9	**2 years**	2024	2023	1 year	1.063	Cross-walked to 2024 plan ID	N/A	Scenario 8 + one more year of claims trend
10	2 years	**2025, but with 20% plan liability in CAT**	2023	1 year	1.063	Cross-walked to 2024 plan ID	N/A	Scenario 9 + 2025 Standard Part D benefit design changes, but keeping 20% plan liability in catastrophic phase
11	2 years	**2025 (incl. 60% plan liability in CAT)**	2023	1 year	1.063	Cross-walked to 2024 plan ID	N/A	Scenario 10 + 60% plan liability in catastrophic phase
12	2 years	2025	2023	**2 years**	1.063	Cross-walked to 2024 plan ID	N/A	Scenario 11 + one more year of risk score coding trend
13	2 years	2025	**2025**	2 years	1.063	Cross-walked to 2024 plan ID	N/A	Scenario 12 + 2025 risk model change, but keeping the 2024 normalization factor
14	2 years	2025	2025	2 years	**0.955**	Cross-walked to 2024 plan ID	N/A	Scenario 13 + PDP-specific 2025 normalization factor
15	2 years	2025	2025	2 years	0.955	**Cross-walked to 2025 plan ID**	N/A	Scenario 14 + 2025 parent organization plan changes (mapping 2023 enrollment)
16	2 years	2025	2025	2 years	0.955	Cross-walked to 2025 plan ID	**2025 PDPs**	Scenario 15 + calibrated to final 2025 PDP bids

END NOTES

[1] Pierce, Kevin, Madeleine Cline, and Julia Friedman. *Emerging Medicare Advantage and Part D Trends from 2024 Financial Statements*. Milliman, 12 May 2025, https://www.milliman.com/en/insight/emerging-medicare-advantage-part-d-2024-financial

[2] "An Overview of Medicare Part D Enrollment, Costs in 2024." *AIS Health / MMIT*, 18 July 2024, aishealth.mmitnetwork.com/blogs/spotlight-on-market-access/an-overview-of-medicare-part-d-enrollment-costs-in-2024.

[3] Klaisner, John, and Matt Cline. *Demonstrations and Consolidations: A First View of the 2025 PDP Market*. Milliman, 24 Oct. 2024, https://www.milliman.com/en/insight/demonstrations-and-consolidations-2025-pdp-market

[4] Wreschnig, Laura A., Hannah-Alise Rogers, and Michele L. Malloy. Medicare Part D Premium Stabilization Demonstration. CRS In Focus, Version 2, Congressional Research Service, 30 Jan. 2025. Web. https://www.congress.gov/crs_external_products/IF/PDF/IF12889/IF12889.2.pdf

[5] Medicare Payment Advisory Commission (MedPAC). *MedPAC Report to the Congress: Chapter 12 — The Medicare Prescription Drug Program (Part D)*. March 2025, https://www.medpac.gov/wp-content/uploads/2025/03/Mar25_Ch12_MedPAC_Report_To_Congress_SEC.pdf

[6] Congressional Budget Office. 2024. Answers to questions for the record following a hearing on how CBO supports the Congress. Washington, DC: CBO. https://www.cbo.gov/publication/60974.

[7] Centers for Medicare & Medicaid Services. *Information on the Implementation of the 2025 RxHCC Risk Adjustment Models and Normalization Factors, and Updates to the Monthly Membership Report and Model Output Reports (MORs)*. U.S. Department of Health & Human Services, 8 Oct. 2024. CMS, https://www.cms.gov/files/document/informationontheimplementationofthe2025rxhccriskadjustmentmodelsandnormalizationfactorsg.pdf

[8] "Incoming File From CMS: Beneficiary-level File to Support 2025 Part D Bids." *Centers for Medicare & Medicaid Services*, 8 Apr. 2024, U.S. Dept. of Health & Human Services, https://www.cms.gov/files/document/2025hpmsmemoriskscoresforpartdbidding508g.pdf

[9] Centers for Medicare & Medicaid Services. (2023, July 31). *CMS releases 2024 projected Medicare Part D premium and bid information* [Fact sheet]. https://www.cms.gov/newsroom/fact-sheets/cms-releases-2024-projected-medicare-part-d-premium-and-bid-information

[10] Centers for Medicare & Medicaid Services. (2024, July 29). *Annual release of Part D national average monthly bid amount and other Part C & D bid information* [PDF]. https://www.cms.gov/files/document/july-29-2024-parts-c-d-announcement.pdf

[11] Arville, Alan J., Kala K. Shankle, and Constance A. Wilkinson. "CMS Finalizes Changes to Pharmacy DIR in Part D Starting with Contract Year 2024." *Epstein Becker Green*, 13 May 2022, www.ebglaw.com/insights/publications/cms-finalizes-changes-to-pharmacy-dir-in-part-d-starting-with-contract-year-2024

[12] Wakely Consulting Group. *Summary of Draft CY 2025 Part D Redesign Program Instructions*. April 2024, Wakely, https://www.wakely.com/wp-content/uploads/2024/04/summary-draft-cy2025-part-d-redesign-program-instructions.pdf

[13] Centers for Medicare & Medicaid Services. *CY 2025 Landscape (202506.1) [ZIP]*. 19 Sept. 2024, CMS, www.cms.gov/medicare/coverage/prescription-drug-coverage

[14] Centers for Medicare & Medicaid Services. *CY2006–CY2024 Landscape Files (ZIP)*. CMS, "Prescription Drug Coverage," www.cms.gov/medicare/coverage/prescription-drug-coverage

[15] Centers for Medicare & Medicaid Services. "Medicare Advantage/Part D Contract and Enrollment Data." *Statistics, Trends & Reports*, CMS, 27 Feb. 2025, www.cms.gov/data-research/statistics-trends-and-reports/medicare-advantagepart-d-contract-and-enrollment-data

[16] Centers for Medicare & Medicaid Services. "Benefits Data." *Medicare Advantage/Part D Contract and Enrollment Data*, CMS, 10 Sept. 2024, www.cms.gov/data-research/statistics-trends-and-reports/medicare-advantagepart-d-contract-and-enrollment-data/benefits-data

[17] Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds. *2024 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*. U.S. Department of Health and Human Services / Centers for Medicare & Medicaid Services, 2024. PDF file.