Navigating Medicare Advantage Risk in a Changing Landscape: Inflation Reduction Act Implications for ACOs

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Introduction

In the ever-evolving landscape of healthcare policy, the Inflation Reduction Act (IRA) of 2022 initiates significant changes aimed at curbing prescription drug costs and reshaping Medicare Part D. Signed into law by President Biden on August 16, 2022, the IRA's provisions are set to transform the Medicare Advantage (MA) landscape, particularly through a significant restructuring of the Part D benefit design slated for 2025. This whitepaper delves into the profound implications of the IRA on MA plans and Accountable Care Organizations (ACOs), illuminating the complex interplay between policy reforms, plan dynamics, and provider risks.

Background

The IRA includes several provisions to lower prescription drug costs for people with Medicare and reduce drug spending by the federal government. The prescription drug provisions in the IRA will have the following high-level impacts by year. This brief will focus specifically on the significant restructuring of the Part D benefit design to take place in 2025. Please refer to this paper for a more detailed overview of how Part D claims adjudication will change starting in CY2025 due to the IRA. This paper was released prior to the release of the Final CY 2025 Part D Redesign Program Instructions. The final version of these instructions are linked here.

2023:

- Limit monthly cost sharing for insulin to $35 for people with Medicare
- Eliminate cost sharing for vaccines covered under Medicare Part D
- Require drug companies to pay rebates to Medicare if prices rise faster than inflation for drugs used by Medicare beneficiaries

2024:

- Expand eligibility for full benefits under the Part D Low-Income Subsidy Program
- Cap out-of-pocket spending for Medicare Part D enrollees and make other Part D benefit design changes

2025:

- Cap out-of-pocket spending for Medicare Part D enrollees at $2,000

- Eliminate the coverage gap phase
- Shift liability of drug costs in the catastrophic phase from Medicare toward Medicare Advantage Organizations (MAOs)

2026:

- Require the federal government to negotiate prices for some drugs covered under Medicare Part B and Part D with the highest total spending, beginning in 2026

Restructuring of Part D Benefit Design

One of the prominent changes ushered in by the IRA is the overhaul of the Part D defined standard benefit design. Noteworthy changes include eliminating the coverage gap phase and imposing a cap of $2,000 on annual out-of-pocket expenses for Medicare Part D beneficiaries. Consequently, beneficiaries will reach the catastrophic phase sooner, imposing a greater financial burden on MA plans. Under the revised structure, beneficiaries will reach the catastrophic benefit phase at approximately $6,000 in gross drug spend, while beneficiaries reached that phase at approximately $12,000 in gross drug spend previously. Not only will beneficiaries reach the catastrophic phase sooner, but plans will also bear a much greater proportion of the spend in this category (60% versus 15% pre-IRA).

Increased Plan Liability and Revenue Implications

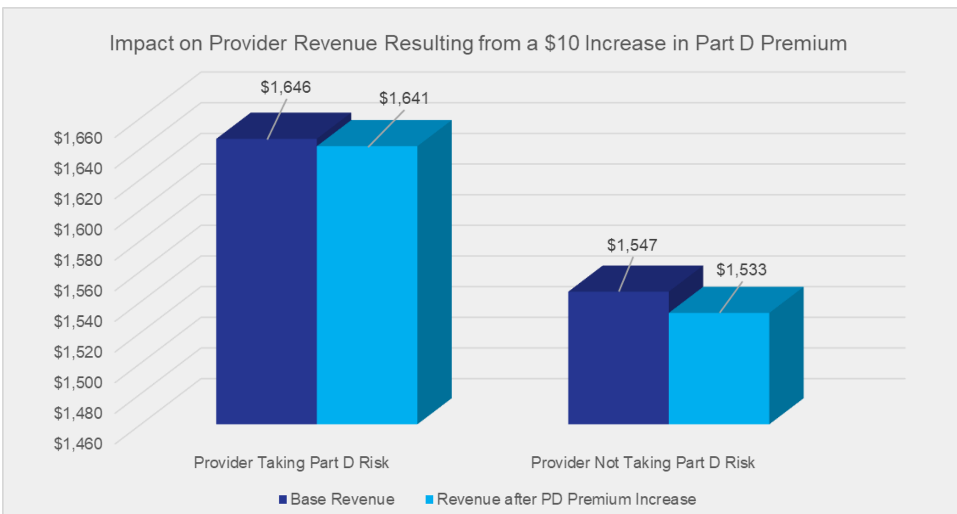
With the restructuring, MA plans will face a twofold increase in average plan liability, with low-income beneficiaries notably impacted. The CMS direct subsidy (the portion of Part D coverage funded by CMS and calculated as the national average monthly bid amount minus the Medicare Part D base beneficiary premium) will increase because of the higher expected plan liability amounts. That is, CMS plans to compensate MAOs for this added expected cost. Furthermore, the CMS RxHCC risk score model was recalibrated to better predict revised plan liability levels.

It's crucial to acknowledge that the risk score model solely considers benefit modifications impacting gross plan liability, omitting factors such as manufacturer rebates, point-of-sale pharmacy rebates, pipeline drugs (e.g., Humira, biosimilars), bad debt, and others. While CMS's predictive ratios indicate accuracy in risk scoring for members in the higher deciles of cost, there are considerable disparities in both directions (underprediction and overprediction) for lower spending levels. Consequently, there will be both plans who benefit and those who are adversely affected by the risk score model imperfections. Part D premiums could experience significant fluctuations due to the changes described above.

Implications for ACOs

ACOs taking Medicare Advantage risk will be directly affected by these changes. Just as plan liability and revenue will increase because of the benefit redesign, ACOs taking Part D risk will also see higher overall Part D liability and revenue. Even ACOs not directly involved in Part D risk may feel the ripple effects of these changes. It might seem counterintuitive, but it's true. Bid mechanics are complex, and there's a significant interaction between the Part C and Part D Bid Pricing Tools (BPTs). If Part D premiums rise, more rebate dollars are required to “buy down” such premiums if the plan is targeting a specific overall premium amount. The only way to generate additional rebate dollars is by lowering the bid. Assuming all other factors remain constant (such as expected Medicare-covered expenditures and member premium levels), plan profit and revenue will decrease. Consequently, revenue in a service fund for risk-bearing providers will also decrease. In essence, higher Part D premiums translate to lower Part C revenue. Please see the figure below for an illustration of what might happen to provider revenue if the IRA changes were to cause a $10 increase to Part D premiums for a given plan.

Even ACOs not directly involved in Part D risk may feel the ripple effects of these changes.



As a risk-bearing ACO, it's crucial for you to comprehend the risks you're undertaking. Ask pertinent questions of your plan partners and understand how your expected costs are evolving relative to your service fund revenue.

Conclusion

In conclusion, the IRA's sweeping reforms to the Medicare Part D program have ushered in a new era of complexity and uncertainty for MA plans, with far-reaching implications for ACOs operating within this ecosystem. Furthermore, these impacts will indirectly affect ACOs involved in risk arrangements, regardless of whether they take Part D risk. A thorough understanding of these changes and their impact on revenue streams are imperative for ACOs to navigate the evolving MA landscape effectively.

Please contact Kelsey Stevens at kelsey.stevens@wakely.com or Thomas Grivakis at thomas.grivakis@wakely.com with any questions or to follow up on any of the concepts presented here.

OUR STORY

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