

Changes to Medicare Part D in 2024 and 2025 Under the Inflation Reduction Act and How Enrollees Will Benefit



[kff.org/medicare/issue-brief/changes-to-medicare-part-d-in-2024-and-2025-under-the-inflation-reduction-act-and-how-enrollees-will-benefit/](https://www.kff.org/medicare/issue-brief/changes-to-medicare-part-d-in-2024-and-2025-under-the-inflation-reduction-act-and-how-enrollees-will-benefit/)

Juliette Cubanski Follow @jcubanski on Twitter and Tricia Neuman Follow

@tricia_neuman on Twitter Published: Apr 20, 2023 April 20, 2023

The Inflation Reduction Act of 2022 includes several provisions to lower prescription drug costs for people with Medicare and reduce drug spending by the federal government, including a number of changes to the Medicare Part D drug benefit. These changes include a cap on out-of-pocket drug spending for enrollees in Medicare Part D plans and requiring Part D plans and drug manufacturers to pay a greater share of costs for Part D enrollees with high drug costs. This brief provides an overview of the Part D benefit design and Part D enrollee cost-sharing requirements in 2023 and changes coming in 2024 and 2025.

What Does the Medicare Part D Benefit Look Like in 2023?

The standard design of the Medicare Part D benefit currently has four distinct phases, where the share of drug costs paid by Part D enrollees, Part D plans, drug manufacturers, and Medicare varies (Figure 1). (The Part D enrollee shares reflect costs paid by enrollees who are not receiving low-income subsidies.)

- **In the deductible phase**, Part D enrollees pay 100% of their drug costs, up to \$505 in 2023. Not all Part D plans charge a deductible, but many enrollees in stand-alone PDPs are in a plan that charges the standard deductible in 2023.
- **In the initial coverage phase**, Part D enrollees pay 25% of total drug costs and Part D plans pay 75%, up to total drug costs of \$4,660 in 2023. However, most Part D plans charge a mix of copayments and coinsurance in this phase rather than a standard 25% coinsurance rate.
- **In the coverage gap phase**, Part D enrollees pay 25% of total drug costs for both brand-name and generic drugs. Part D plans pay the remaining 75% of generic drug costs and 5% of brand drug costs, and drug manufacturers provide a 70% price discount on brands (there is no manufacturer price discount on generics).
- **In the catastrophic phase**, Medicare pays 80% of total drug costs (known as “reinsurance”), Part D plans pay 15%, and Part D enrollees pay 5%. Part D enrollees qualify for catastrophic coverage when the amount that they pay out of pocket plus the value of the manufacturer discount on the price of brand-name drugs in the coverage gap phase exceeds a certain threshold amount. In 2023, the catastrophic threshold is set at \$7,400, and enrollees themselves will pay

about \$3,100 out of pocket before reaching the catastrophic phase (this estimate is based on using brand drugs only).

How Is the Medicare Part D Benefit Changing in 2024?

In 2024, costs in the catastrophic phase will change: the 5% coinsurance requirement for Part D enrollees will be eliminated and Part D plans will pay 20% of total drug costs in this phase instead of 15%.

The 5% coinsurance requirement for Part D enrollees in the catastrophic phase will be eliminated

In 2024, once Part D enrollees without low-income subsidies (LIS) have drug spending high enough to qualify for catastrophic coverage, they will no longer be required to pay 5% of their drug costs, which in effect means that out-of-pocket spending for Part D enrollees will be capped. In 2024, the catastrophic threshold will be 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. At this amount, Part D enrollees who take only brand-name drugs in 2024 will have spent about \$3,300 out of their own pockets and will then face no additional costs for their medications.

To understand the impact of this change, it helps to consider what Part D enrollees without LIS currently pay for high-cost medications. For example, for the five drugs with the highest per capita Part D expenditures in 2021 used by more than 10,000 Part D enrollees – Revlimid, Pomalyst, Imbruvica, Jakafi, and Ibrance, all cancer treatments – annual out-of-pocket costs per drug in 2023 range from over \$11,000 to nearly \$15,000, and out-of-pocket costs for each drug in the catastrophic phase alone range from around \$8,000 to nearly \$12,000 (see methods for details) (Figure 2). (These estimates exclude the cost of other drugs that users of these drugs might be taking.) Eliminating the 5% coinsurance requirement in the catastrophic phase in 2024 means that Part D enrollees without LIS who use these or other high-cost medications covered by Part D will see thousands of dollars in savings.

Part D plans will pay a somewhat larger share of total drug costs above the catastrophic threshold

With the elimination of the 5% coinsurance requirement for Part D enrollees in the catastrophic coverage phase, Part D plans will be required to pay 20% of total drug costs in this phase in 2024, up from 15% in 2023 and prior years.

How Is the Medicare Part D Benefit Changing in 2025?

Changes in 2025 include a new \$2,000 out-of-pocket spending cap, elimination of the coverage gap phase, a higher share of drug costs paid by Part D plans in the catastrophic phase, along with a new manufacturer price discount and reduced liability

for Medicare in this phase, and changes to plan costs and the manufacturer price discount in the initial coverage phase.

Out-of-pocket drug spending will be capped at \$2,000

Beginning in 2025, Part D enrollees' out-of-pocket drug costs will be capped at \$2,000. This amount will be indexed to rise each year after 2025 at the rate of growth in per capita Part D costs. (This cap does not apply to out-of-pocket spending on Part B drugs.)

For Part D enrollees who take only brand-name drugs, annual out-of-pocket costs at the catastrophic threshold will fall from around \$3,300 in 2024 to \$2,000 in 2025 (Figure 3). In other words, Part D enrollees who take only brands and have drug costs high enough to reach the catastrophic threshold could see savings of about \$1,300 in 2025 relative to what they will spend in 2024.

The coverage gap phase will be eliminated

The coverage gap phase, where Part D enrollees had faced 100% of their total drug costs under the original Part D benefit design and currently face 25% of costs for brand and generic drugs, will be eliminated in 2025. This means that Part D enrollees will no longer face a change in their cost sharing for a given drug when they move from the initial coverage phase to the coverage gap phase, which is the case in most Part D plans today, since most plans charge varying cost-sharing amounts, rather than the standard 25% coinsurance, in the initial coverage phase.

Part D plans and drug manufacturers will pay a larger share of costs for catastrophic coverage, and Medicare will pay a smaller share

Medicare's share of total costs in the catastrophic phase (reinsurance) will decrease from 80% to 20% for brand-name drugs and from 80% to 40% for generic drugs beginning in 2025. This reduction will help address concerns about the substantial increase in Medicare's reinsurance payments to Part D plans over time, which accounted for close to half (48%) of total Part D spending in 2022, up from 14% in 2006, based on data from the Medicare Trustees 2023 annual report. Medicare Part D plans' share of costs will increase from 15% to 60% for both brands and generics above the cap, and drug manufacturers will be required to provide a 20% price discount on brand-name drugs (Figure 4).

Part D plans and manufacturers will face changes to their share of total drug costs paid in the initial coverage phase

Drug manufacturers will be required to provide a 10% discount on brand-name drugs in the initial coverage phase beginning in 2025, replacing the 70% price discount in the

coverage gap phase under the current benefit design. Part D plans will pay 65% of brand-name drug costs.

What Other Changes Are Being Made to Part D?

- As of 2023, the out-of-pocket cost of insulin products is limited to no more than \$35 per month in all Part D plans. In addition, adult vaccines covered under Part D, such as the shingles vaccine, are covered with no cost sharing.
- Starting in 2024, people with Medicare who have incomes up to 150% of poverty and resources at or below the limits for partial low-income subsidy benefits will be eligible for full benefits under the Part D Low-Income Subsidy (LIS) Program. The law eliminates the partial LIS benefit currently in place for individuals with incomes between 135% and 150% of poverty.
- Also starting in 2024, the calculation of the base beneficiary premium will be adjusted, as needed, to limit increases in the base premium to no more than 6% from the prior year. (Premiums for individual Part D plan premiums and annual plan-level premium increases will continue to vary, however.)
- Starting in 2025, Part D enrollees will have the option of spreading out their out-of-pocket costs over the year rather than face high out-of-pocket costs in any given month.

This work was supported in part by Arnold Ventures. KFF maintains full editorial control over all of its policy analysis, polling, and journalism activities.