

**Statutory Accounting Principles (E) Working Group  
Maintenance Agenda Submission Form  
Form A**

**Issue: Medicare Part D – Prescription Payment Program**

**Check (applicable entity):**

	P/C	Life	Health
Modification of Existing SSAP	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
New Issue or SSAP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interpretation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Description of Issue:**

This agenda item has been drafted to develop statutory accounting guidance in response to changes to the Medicare Part D (Part D) prescription drug program which goes into effect in 2025. At a high level, the Medicare Prescription Payment Program (MP3) requires insurers to pay pharmacies at the point of sale the out-of-pocket costs of enrollees who have opted into the MP3. The enrollees then have the remaining policy term to make installment payments to the insurer. (The policy term typically goes from January through December, so a cost incurred in March, would be repaid through installments ending in December.)

*Interpretation (INT) 05-05: Accounting for Revenues Under Medicare Part D Coverage* provides high-level accounting guidance on the current Part D program. INT 05-05 includes some basic guidance, but primarily provides guidance by referring to existing statements for specific aspects of the program.

A unique aspect of the updated program is having the insurer pay the pharmacy at the point of sale and seek reimbursement from enrollees. Most of the existing statutory accounting guidance on amounts recoverable from enrollees contemplates premium receivables or amounts due from a governmental payor.

Statutory accounting questions include, 1) where to report the initial point of sale payment to the pharmacy and the related installment receivables, 2) how to account for the prescription drug point of sale payments, and 3) when to write-off and or nonadmit overdue amounts.

Starting with plan year 2025, any Part D enrollee may opt into the program. Enrollees can also opt out of the program and will have differing options to repay their outstanding balance.

The program does not change the Part D enrollee's total out of pocket costs. If a participant fails to pay the amount, they are billed by the Part D sponsor and their participation in the program may be terminated following a required two-month grace period. The Medicare Part D plan sponsor is not permitted to terminate the individual's enrollment in the Part D plan due to failure to pay MP3 bills. Part D plan sponsors must also have a reinstatement process in place to allow individuals to resume participation in the MP3 in the same plan year.

Part D sponsors are required to treat any unsettled balances owed by enrollees under the MP3 as plan losses; Centers for Medicare & Medicaid Services (CMS) considers these unsettled balances as part of the plan's administrative costs. Costs of implementing the MP3 program and program collections are included in the administrative expenses of the Part D plan and are not included in the claim expenses or claim adjustment expenses. CMS requires several reporting requirements and ongoing monitoring.

CMS has specific guidance on the treatment of unsettled balances in the medical loss ratio (MLR). MLR is the share of revenue used for incurred claims and quality improvement activities, rather than the share of revenue used for administrative costs and profit. Therefore, **excluding unsettled balances from the numerator of the MLR calculation is consistent** with the statutory direction to treat unsettled balances as plan losses and CMS' approach to other administrative expenses incurred by Part D sponsors.

The CMS guidance notes that unsettled balances **are included in the denominator of the MLR calculation**. The Act requires Part D sponsors to treat any unsettled balances owed by participants under the MP3 as plan losses and allows Part D sponsors to include unsettled balances assumed as losses in their premium bids. Consequently, Part D sponsors will receive revenue covering these assumed losses through their direct subsidy and premium payments, which should be included in the denominator of the MLR.

Health insurance industry trades, America's Health Insurance Plans (AHIP) and Blue Cross Blue Shield Association (BCBSA) have also coordinated with NAIC staff and submitted information on the programs.

#### **Existing Authoritative Literature:**

*INT 05-05: Accounting for Revenues Under Medicare Part D Coverage* is an interpretation of the following statements. It provides guidance that primarily references existing guidance in the SSAPs interpreted.

- *SSAP No. 47—Uninsured Plans*
- *SSAP No. 54—Individual and Group Accident and Health Contracts*
- *SSAP No. 66—Retrospectively Rated Contracts*
- *SSAP No. 84—Health Care and Government Insured Plan Receivables*

The CMS website has several guidance documents on the updates to the program.

<https://www.cms.gov/inflation-reduction-act-and-medicare/part-d-improvements/medicare-prescription-payment-plan>

**Activity to Date (issues previously addressed by the Working Group, Emerging Accounting Issues (E) Working Group, SEC, FASB, other State Departments of Insurance or other NAIC groups):** None.

**Information or issues (included in *Description of Issue*) not previously contemplated by the Working Group:** None

**Convergence with International Financial Reporting Standards (IFRS):** None

**Staff Review Completed by:** Robin Marcotte - NAIC Staff October 2024

#### **Staff Recommendation:**

**NAIC staff recommends that the Working Group move this item to the active listing, categorized as a SAP clarification, and take the actions listed below:**

1. Expose the draft interpretation *INT 24-02: Medicare Part D Prescription Payment Program* and expose minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage* as illustrated in the attachment. The edits to INT 05-05 adds reference to the new INT 24-02 regarding Medicare Part D prescription payment plans, but does not otherwise change the guidance in INT 05-05.
2. Send notice of the exposure to the Health Insurance (B) Committee and Health Risk-Based Capital (E) Working Group
3. Direct NAIC staff to coordinate with the Blanks (E) Working Group to develop an annual statement blanks proposal in the interim and to develop disclosures for future inclusion in relevant SSAPs. Preliminary recommendations would include the list below, but more research on CMS reporting may also identify other relevant items:
  - a. Amounts recoverable on Medicare Part D installments due from enrollees.
  - b. Aging of Medicare Part D installments due from enrollees more than 90 days overdue in categories similar to what is used for premium receivables.
  - c. Information nonadmitted Medicare Part D installments due from enrollees.
  - d. Information on write-offs of Medicare Part D installments due from enrollees.

On November 17, 2024, the Statutory Accounting Principles (E) Working Group moved this item to the active listing, categorized as SAP clarification, and exposed tentative *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plans* as well as minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*, as described above. The Working Group directed notice of the exposures to the Health Insurance (B) Committee and Health Risk-Based Capital (E) Working Group. In addition, NAIC staff were directed to coordinate on the annual statement blanks proposals and to develop disclosures for future discussion.

On February 25, 2025, the Statutory Accounting Principles (E) Working Group exposed additional revisions to tentative *Interpretation (INT) 24-02: Medicare Part D Prescription Payment Plans* and re-exposed the minor edits to *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage* for a shortened comment period ending on March 5, 2025 to allow for discussion at the Spring National Meeting. In addition, the Working Group directed NAIC staff to continue with the blanks proposals on this topic with the goal of incorporation into the 2025 annual statement instructions.

The additional revisions to INT 24-02 incorporated most of the revisions suggested by health industry trade representatives NAIC has also included a few additional clarifications, however, the three entirely new proposed paragraphs suggested in the comment letter were not incorporated and an existing paragraph was deleted as redundant. The exposure also did not incorporate the optional guidance wording that was proposed for the initial paragraph on recording of out-of-pocket MPPP pharmacy payments as it proposed that the methodology be optional, which would be inconsistent with the illustration. However, more comments are requested on other possible methodologies that do not record a contra claim expense which is not recognized until the receivable is determined to be uncollectible and is written-off as an incurred claims expense. If additional language is recommended, modifications to the illustration are also requested.

The majority of the new revisions are terminology revisions which did not change the key provisions of the prior exposure. The revised INT 24-02 retains the key points noted in the summary section above includes the following key terminology revisions:

- a. MP3 to MPPP
- b. Member to enrollee (in Part D Plan)
- c. Part D plan to Part D plan sponsor
- d. MP3 enrollee to MPPP participant
- e. Enrollee balance to recoverable from MPPP participant.

On March 24, 2025, Statutory Accounting Principles (E) Working Group adopted, as final, INT 24-02: Medicare Part D Prescription Payment Plans with additional revisions primarily suggested by industry; and the previously exposed revisions *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*, which provide statutory accounting guidance in response to changes to the Medicare Part D (Part D) prescription drug program. INT 24-02 and the revisions to INT 05-05 are effective for March 30, 2025 to allow for first quarter 2025 reporting.

<https://naiconline.sharepoint.com/teams/FRSStatutoryAccounting/NationalMeetings/A.NationalMeetingMaterials/2025/03-24-25SpringNationalMeeting/Adoptions/24-24MedicareDRX.docx>