

## Interpretation of the Emerging Accounting Issues (E) Working Group and Statutory Accounting Principles (E) Working Group

### INT 05-05: Accounting for Revenues Under Medicare Part D Coverage

#### INT 05-05 Dates Discussed

September 28, 2005; December 3, 2005; March 24, 2018; August 4, 2018; [December 9, 2025](#); [March 23, 2026](#)

#### INT 05-05 References

##### Current:

*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*

#### INT 05-05 Issue

1. The Medicare Modernization Act of 2003 (MMA) created a new program, commonly known as Medicare Part D, whereby Medicare recipients may obtain prescription coverage offered by insurers who have been approved by the Centers for Medicare and Medicaid Services (CMS). Insurers who offer Medicare Part D coverage will, starting in January 2006, receive several different types of funds relating to the program. Some of these funds relate to portions of the coverage that require an annual reconciliation, resulting in the return of any excess funds received. Other funds may be received (or may be required to be returned) to offset experience that is especially unfavorable (or, respectively, favorable).
2. How should the various components of the funds received or receivable by an insurer from Medicare Part D coverage be accounted for?

#### INT 05-05 Discussion

3. The attached appendix provides a listing of terms to which CMS ascribes a specific meaning. This list has been enhanced to include other terms in order to facilitate consistent application for accounting and the NAIC's risk-based capital (RBC) formula. It should be noted that the terms included in the attached appendix are, for the most part, defined by CMS. Consequently, the term "reinsurance payment" does not represent actual reinsurance as defined by *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance*.
4. The Emerging Accounting Issues (E) Working Group reached a consensus to adopt the following guidance as it applies to the various funds to be received under the Medicare Part D program. The funds should be accounted for in accordance with one of the three SSAP's outlined below:
  - a. Specific funds received as reimbursements (or advance payments) for uninsured claims under a partially uninsured plan should be accounted for under SSAP No. 47. These funds include "reinsurance payments," "~~Coverage Gap Discount Program~~" [Manufacturer Discount Program](#) payments, and "low-income subsidy (cost-sharing portion)." These funds are paid by the government for a portion of claims above the out-of-pocket threshold or relate to prescription drug plan (PDP) payments for all or a portion of the

deductible, the coinsurance and the co-payment amounts for low-income beneficiaries. CMS provides advance funding to the Part D sponsors. The Part D sponsor uses those advances to provide point-of-sale drug discounts to participants. CMS invoices the prescription drug manufacturers. The payment reconciliation process ensures that the Part D sponsor is paid dollar for dollar for coverage gap discounts advanced at the point of sale, based on accepted prescription drug event (PDE) data, and that any unused excess advances from the government are repaid. The Coverage Discount Gap Program does not apply to low-income beneficiaries.

- b. Specific funds received by the PDP sponsor from either the Medicare Part D enrollee or the government as payment for standard coverage that will be subject to retrospective premium adjustments should be accounted for under SSAP No. 66. These funds include “direct subsidy,” “low-income subsidy (premium portion),” “beneficiary premium (standard coverage portion),” “Part D payment demonstration” and “risk corridor payment adjustment.” The funds noted above have a final policy amount that is calculated based on the loss experience of the insured during the term of the policy, therefore should be treated as such.
- c. Specific funds received as premiums for coverage that is not retrospectively rated should be accounted for under SSAP No. 54~~R~~. These funds include “beneficiary premium (supplemental benefit portion)” as these payments are considered to be standard premium payments that do not meet the definitions under SSAP No. 47 or SSAP No. 66 as defined in paragraph 4.a. and paragraph 4.b. of this interpretation.

5. The collectibility and any nonadmission of amounts receivable from the government insured or uninsured plans are addressed in SSAP No. 84, paragraph 22, and SSAP No. 47, paragraph 10 and paragraph 11, respectively.

#### INT 05-05 Status

6. On August 4, 2018, the Statutory Accounting Principles (E) Working Group updated this interpretation to add a description of the Coverage Gap Discount Program, amend existing guidance on program payments and update definitions. [The Coverage Gap Discount Program ended on December 31, 2024, and its replacement, the Manufacturer Discount Program, began in 2025. Guidance on the Manufacturer Discount Program was added on March 23, 2026.](#)

7. ~~No f~~urther discussion is planned.

## Accounting for Revenues Under Medicare Part D Coverage

### Appendix – Commonly Used Terms for Medicare Part D Coverage

The federal Centers for Medicare and Medicaid Services (CMS) oversees the Medicare Part D prescription drug coverage, including coverage provided through a stand-alone prescription drug plan (PDP) and coverage provided as part of a Medicare Advantage plan. CMS ascribed specific meaning to most of the following terms. Other terms have been defined below in order to facilitate consistent application.

**Beneficiary Premium (Standard Coverage Portion)** – The amount received from the Part D enrollee (directly, or from CMS after being withheld from Social Security benefits) as payment for the standard coverage. This includes any late enrollment penalties that the PDP sponsor receives for an enrollee. The beneficiary premium is accounted for as health premium.

**Beneficiary Premium (Supplemental Benefit Portion)** – The amount received from the Part D enrollee (directly, or from CMS after being withheld from Social Security benefits) as payment for supplemental benefits. The beneficiary premium is accounted for as health premium.

**Coverage Gap Discount Program** – The federal Affordable Care Act amended the Health Care and Education Act of 2010 (H. R. 4872) (HCERA) in 2011 to establish a discount program that would make manufacturer discounts available to applicable Medicare beneficiaries receiving applicable covered Part D drugs while in the coverage gap. Part D sponsors must provide the discounts for the applicable drugs in the coverage gap at point-of-sale. CMS coordinates the collection of discount payments from manufacturers and payment to Part D sponsors that provided the discount to applicable beneficiaries through a contractor. The coordination involves a standard process for paying Part D sponsors based on new information submitted to CMS on prescription drug event data. The Coverage GAP Discount Program is reconciled quarterly. [The Coverage Gap Discount Program ended on December 31, 2024, and was replaced by the new Manufacturer Discount Program in 2025. This INT previously directed readers to SSAP No. 47 for the Coverage GAAP Discount Program.](#)

**Coverage Year Reconciliation** – A reconciliation made after the close of each calendar year to determine the amounts that a PDP sponsor is entitled to for the low-income subsidy (cost-sharing portion), the reinsurance payment, and the risk corridor payment adjustment. To the extent that interim payments (if any) from CMS exceeded the amounts determined by the reconciliation, the PDP sponsor must return the excess to the government; to the extent that interim payments (if any) from CMS fell short of the amounts determined by the reconciliation, the government will make an additional payment to the PDP sponsor. The coverage year reconciliation results in the low-income subsidy (cost-sharing portion) and the reinsurance payment being essentially a self-insured (by the government) component of the Part D coverage, subject to SSAP No. 47. The coverage year reconciliation also results in the treatment of the risk corridor payment adjustment as a retrospective premium adjustment, subject to SSAP No. 66.

**Direct Subsidy** – The amount the government pays to the PDP sponsor for the standard coverage. These payments are accounted for as health premium.

**Low-Income Subsidy (Cost-Sharing Portion)** – The amount the government pays to the PDP sponsor for additional benefits provided to low-income enrollees. The additional benefits may include payment for some or all of the deductible, the coinsurance, and the co-payment above the out-of-pocket threshold. These payments are accounted for as payments made under a self-insured plan.

**Low-Income Subsidy (Premium Portion)** – The amount the government pays to the PDP sponsor for low-income enrollees in lieu of part or all of the beneficiary premium (standard coverage portion). These payments are accounted for as health premium.

[Manufacturer Discount Program – The Inflation Reduction Act of 2022 ended the Coverage Gap Discount Program effective December 31, 2024, and replaced it with the Manufacturer Discount Program beginning January 1, 2025. The CMS Manufacturer Discount Program is a Medicare Part D program and requires participating pharmaceutical manufacturers to offer discounts on applicable drugs. The program requires manufacturers to sign an agreement with the Centers for Medicare and Medicaid Services \(CMS\) to make their drugs eligible for coverage. For certain manufacturers, discounts will be phased in over several years. Discounts are available for both low-income and non-low-income enrollees. Enrollees will still be responsible for 100% of their drug costs until any applicable deductible is met. The manufacturer discount does not count towards the enrollee's incurred costs and is not applied until the enrollee has incurred costs exceeding the annual deductible.](#)

**PDP Sponsor** – The entity that provides stand-alone Part D coverage (as opposed to Part D coverage provided through a Medicare Advantage plan).

**Reinsurance Payment** – An amount paid by the government for benefit costs above the out-of-pocket threshold (see “Standard Coverage”). Generally, when costs exceed the out-of-pocket threshold, the government pays a specified percentage of the costs, the enrollee pays a percentage (or the specified co-payments which are updated based on cost trends for generic and for brand-name prescriptions), and the PDP sponsor pays the remainder. The amount paid by the government is treated as a claim payment made by a self-insured benefit plan rather than as revenue to the PDP sponsor, and the claims do not flow through the PDP sponsor’s income statement. In cases where the government prepays the reinsurance payment on an estimated basis, the prepayment is treated as a deposit, which again does not pass through the PDP sponsor’s income statement. The amount paid by the enrollee is paid directly to the pharmacy; therefore there is no required accounting for this amount by the PDP sponsor.

**Part D Payment Demonstration** – A payment from the government to a PDP sponsor participating in CMS’s Part D Payment Demonstration. The payment demonstration is a special arrangement in which the PDP sponsor receives a predetermined per-enrollee capitation payment and the government no longer provides reinsurance for the specified percentage (example 80%) of costs in excess of the out-of-pocket threshold. Rather, the PDP sponsor assumes the risk for the specified percentage (example 80%) of costs, in addition to its normal percentage (example 15%) share of costs in excess of this threshold. However, risk corridor protection does still apply to this specified percentage (example 80%) share of costs. These payments are accounted for as health premium.

**Reinsurance Coverage** – The Medicare Part D provision under which the PDP sponsor may receive a reinsurance payment. This does not include payments under the Part D Payment Demonstration.

**Risk Corridor Payment Adjustment** – An amount by which the government adjusts its payments to the PDP sponsor, based on how actual benefit costs vary from the costs anticipated in the PDP sponsor’s bid for the Part D contract (the “target amount” of costs). The government establishes thresholds for symmetric risk corridors around the target amount, using percentages of the target amount. If actual costs exceed the target amount but are less than the first threshold upper limit, then no adjustment is made. Risk corridor payment adjustments are accounted for as retrospective premium adjustments on retrospectively rated contracts.

**Risk Corridor Protection** – The Medicare Part D provision under which the PDP sponsor may receive (or pay) a Risk Corridor Payment Adjustment. Most employer plans providing Medicare Part D are not eligible for Risk Corridor Protection.

### Accounting for Revenues Under Medicare Part D Coverage

**Standard Coverage** – The Part D benefit design that conforms to certain standards prescribed by the government. The standard coverage comprises: no coverage for an annual initial deductible; coverage net of a coinsurance provision (the percentage of costs are payable by the insured) for costs up to an initial coverage limit; a range beyond the initial coverage limit (sometimes called the “coverage gap”) in which the insured drug manufacturers and the PDP sponsor (for example, by 2020 insureds who are eligible for drug manufacturer discounts will pay 25% for qualifying brand and generic drugs, the PDP sponsor will be responsible for 25% of qualifying brand and 75% of generic drugs, and the drug manufacturer will be responsible for 50% of qualifying brand drugs); and an annual out-of-pocket threshold above which the insured pays the greater of a specified co-payment or a specified percentage of the drug cost. The various limits and thresholds are set at specified dollar amounts, which will be increased in later years based on the growth in drug expenditures. Wherever the term “standard coverage” is used as part of these instructions, the same treatment would be applied to coverage that has been approved as actuarially equivalent coverage. With respect to amounts above the out-of-pocket threshold, see the definitions of “Reinsurance Payment” and “Part D Payment Demonstration.”

**Supplemental Benefits** – Benefits in excess of the standard coverage. These benefits typically will cover some portion of the deductible, the co-payments, or the coverage gap between the initial coverage limit and the out-of-pocket threshold. Supplemental benefits are part of an enrollee’s Part D coverage, so they are not placed in the “Other” category in the RBC formula. However, they are not subject to either the reinsurance payment or the risk corridor payment adjustment, so they receive less favorable RBC treatment than the standard coverage.