# Interpretation of the

# Statutory Accounting Principles (E) Working Group

### INT 24-02T: Medicare Part D Prescription Payment Plans

## **INT 24-02T Dates Discussed**

# November 17, 2024

## **INT 24-02T 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: Accounting for Revenues Under Medicare Part D Coverage*

## **INT 24-024T Issue**

1. The Inflation Reduction Act of 2022 introduced changes to Medicare Part D, which is the prescription drug program (Part D), including a new program to help Part D enrollees manage their prescription drug payments. This program, known as the Medicare Prescription Payment Plan (MP3), will become effective on January 1, 2025. The purpose of this interpretation is to provide statutory accounting and reporting guidance for aspects of the MP3 program. This interpretation specifically addresses the MP3 components of Medicare Part D and does not intend to alter the guidance in *INT 05-05: Accounting for Revenues Under Medicare Part D Coverage*, which offers high-level accounting guidance on the current Medicare Part D program.

## **MP3 Program Overview**

1. MP3 is a new program that requires all Medicare prescription drug plans (Part D plans), including both standalone Medicare prescription drug plans and Medicare Advantage plans with prescription drug coverage, to offer its members the option to pay their out-of-pocket prescription drug costs through monthly payments over the remainder of the plan year, as opposed to paying the full amount upfront to the pharmacy.
2. Part D plan members who elect to participate in MP3 (MP3 enrollees) will pay $0 to the pharmacy for covered Part D drugs. The Part D plan sponsor is required to fully pay the pharmacy the total of an enrollee’s applicable out-of-pocket amount and the Part D plan sponsor’s portion of the payment in accordance with Part D prompt payment requirements. Subsequently, the Part D plan sponsor will bill the MP3 enrollee monthly for any cost-sharing incurred while enrolled in MP3.
3. MP3 enrollees will not save money on the total out-of-pocket costs of prescription drug purchases (there are other Part D programs in place to help qualifying Part D plan members with affordability issues). MP3 simply spreads payments over the remaining term of the plan year which may help many Part D plan members to better manage their monthly cash flow.
4. Unlike existing Part D programs which involve funds due from the federal government (for which payment is effectively assured), MP3 installment recoverables are due from individual enrollees. Consequently, Part D plans may pay pharmacies for MP3 enrollees’ out-of-pocket pharmacy claim costs, but some amounts billed to the enrollee might be uncollectible. Reasons for the amount being uncollectable could include leaving enrollment in the Part D plan or an inability or unwillingness to pay the full outstanding balance. This raises statutory accounting concerns regarding potential nonadmittance of overdue amounts and impairment of such recoverables.
5. To help cover potential uncollectible balances, the Centers for Medicare and Medicaid Services (CMS) allows Part D plan sponsors to include an MP3 loss estimate in their premium bids. However, for the initial years, Part D plan sponsors have no prior experience in estimating the MP3 program’s potential expenses.
6. The government is responsible for the estimated MP3 losses included in premium bids by Part D plan sponsors. Part D plan sponsors receive additional revenue, which helps to cover uncollectible balances resulting from MP3 enrollees. Part D plan sponsors face pricing/underwriting risk relating to the prescription needs of enrollees and may inaccurately estimate the amounts of uncollectible losses in the premium bids. In addition, there are risks that the costs of uncollectible amounts and other aspects of implementing the payment plan will vary from amounts that had been factored into premium rates. According to CMS guidance any losses in excess of the loss estimates included in the premium bids are the responsibility of the Part D plan sponsor.

**MP3 Program Requirements for Unpaid Balances**

1. The MP3 Program requires Part D plan sponsors to take on the risk of uncollectible balances. The program rules prohibit many of the common methods used to mitigate loss from uncollectible MP3 balances. MP3 is a mandated program benefit imposed by federal law and CMS rules, with different implications for statutory accounting purposes. Other key program requirements for MP3 balances include the following:

1. **Late Fees, Etc. –** Under MP3, late fees, interest payments, or other fees, such as for different payment mechanisms, are not allowed.
2. **Billing and Payment Procedures –** Part D plan sponsors can design their own billing and payment procedures for MP3. However, they must prioritize payments towards Part D plan premiums to avoid an enrollee losing their Part D coverage. This rule applies when it is unclear if an enrollee intended a submitted payment to cover their outstanding Part D plan premium or their MP3 balance.
3. **Pharmacies Not Responsible for Balances** **–** Participation in MP3 is considered an arrangement between the Part D plan sponsor and the MP3 enrollee. Pharmacies are not responsible for an enrollee’s unsettled balances or for collecting unpaid balances from the MP3 enrollee on the Part D plan sponsor’s behalf.
4. **Termination of Participation** **–** A Part D plan sponsor must terminate an enrollee’s participation in MP3 if the enrollee fails to pay their monthly billed amount. An MP3 enrollee will be considered to have failed to pay their monthly billed amount only after the required grace period of at least two months. The Part D plan sponsor cannot terminate the enrollee’s membership in the Part D plan for nonpayment of their MP3 billed amounts. Sponsors must continue billing amounts owed under the program in monthly amounts up to the maximum monthly cap based on the statutory formula for the remaining duration of the plan year after an enrollee has been terminated.
5. **Reinstatement of Enrollees** - Part D plan sponsors must reinstate terminated MP3 enrollees if the individual demonstrates good cause for failure to pay the program billed amount within the grace period and pays all overdue amounts billed.
6. **Preclusion from Subsequent Enrollment** - A Part D plan sponsor may prevent an individual from opting in to the MP3 program in a subsequent year if the individual owes an overdue balance to that Part D plan sponsor or to another Part D plan sponsor with the same ultimate parent. In other words, an individual who owes an overdue balance under the program cannot be barred from MP3 in a subsequent year by a different Part D plan sponsor that does not have the same parent organization.
7. **Compliance with Federal and State Laws -** Part D plan sponsors (and any third parties that Part D plan sponsors contract) collecting unpaid balances related to the program must follow other applicable federal and state laws and requirements, including those related to payment plans, credit reporting, and debt collection.

**Medical Loss Ratio**

1. The current Public Health Act outlines how to calculate medical loss ratio (MLR) rebates, which are generally based on a comparison of incurred health claims and quality improvement activities to premium revenue, considering various factors and adjustments. *SSAP No. 66—Retrospectively Rated Contracts* provides disclosures related to the MLR.
2. According to the CMS guidance, the outstanding balances owed by MP3 enrollees are considered part of the Part D plan’s administrative expenses. CMS guidance excludes unsettled balances from the numerator of the MLR calculation, aligning with CMS’ treatment of other administrative expenses incurred by Part D sponsors. The CMS guidance states that unsettled balances are included in the MLR calculation denominator and allows Part D sponsors to account for these balances as losses in their premium bids. Including enrollee losses in the denominator aligns with reporting the revenue estimated to offset these losses in the MLR denominator.

 *Drafting Note: The MP3 program considers uncollectible MP3 recoverables as incurred plan administrative costs and does not include these amounts in the MLR numerator, so reporting guidance for other adjustments to the Supplemental Health Care Exhibit will be needed. Such reporting revisions are not addressed in this interpretation but would be anticipated to be in the annual statement reporting revisions submitted to the Blanks (E) Working Group.*

**INT 24-02T Discussion**

**Statutory Accounting and Reporting Considerations for MP3**

1. The Working Group reached the following tentative consensus for MP3 statutory accounting and reporting guidance. In addition, Appendix 1 illustrates some basic journal entries which help to show the intended financial statement results.

**MP3 Recoverables**

1. MP3 recoverables from enrollees shall be accrued and reported on asset line 24, Health care and other amounts receivable, when the related pharmacy out-of-pocket payment is incurred.
2. Current MP3 recoverables, meaning those that are less than and up to 90 days overdue, are admitted assets to the extent that they comply with the guidance in this interpretation. Repayment by MP3 enrollees represents a probable future economic benefit to the Part D plan sponsor resulting from past transactions or events (i.e., paying the MP3 enrollee’s out-of-pocket costs to the pharmacy). MP3 recoverables are also subject to impairment analysis.
3. Uncollected MP3 recoverables more than 90 days overdue are nonadmitted. The due date for aging of the MP3 recoverables shall follow the program billing guidelines.
4. If an MP3 recoverable is fully collected, it will equal the corresponding out-of-pocket payment for pharmaceutical claim payment. In those cases, there will not be an income statement impact regarding claims (or claims adjusting expenses) if the MP3 recoverable is fully collected.

**Impairments**

1. Uncollected MP3 recoverables from enrollees are subject to impairment analysis which shall be assessed using the evaluation guidelines in *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets.* However, when impairments for uncollectible MP3 recoverables are recorded, the expense for the impairment shall be reflected in as incurred Medicare Part D prescription drug claims in the statutory income statement.

**Out-of-Pocket MP3 Pharmacy Payments**

1. When the Part D plan pays out-of-pocket drug claims to the pharmacy, a claims expense, a contra claims expense, and a contra claims expense account recoverable are recorded. The contra claims expense, or similar mechanism, is recorded to prevent initial claims expense recognition in the income statement so there is zero initial impact to the income statement. This is because there is an amount recoverable from the enrollee, and to the extent that the enrollee pays in full, there should not be any claims recognition. This is analogous to the handling of anticipated pharmaceutical rebates or anticipated subrogation recoveries.
2. If the enrollee pays the amount due in full, there will be no income statement impact in claims expenses from the MP3 pharmacy payment and subsequent enrollee payments. In such cases, the MP3 recoverable will be reduced as payments are collected and there would be no income statement impact.
3. If the enrollee recoverable is not repaid in whole or in part, there will be an income statement impact to reflect paid claims for the amount of the MP3 recoverable that are impaired and written off. Since there is an MP3 recoverable from the enrollee, there should be no income statement amount for an incurred claim until the related MP3 recoverable is written off for impairment.
4. When the MP3 recoverable is impaired, the contra claims expense is decreased by the amount of the MP3 recoverable that is written off. This results in the incurred Medicare prescription claim reported reflecting the uncollectible MP3 recoverable for statutory reporting. The premium to offset these claims is included in Medicare premium bids, so reporting the incurred uncollectible MP3 amounts as losses allows the statutory accounting loss ratio to reflect incurred Medicare Part D prescription costs which include MP3 uncollectible amounts.
5. Reporting uncollectible and impaired MP3 recoverables in statutory filings as claims incurred is different than the CMS treatment of which reports such amounts as administrative expense for MLR purposes.

**Administrative Costs**

1. 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.

**MLR Reporting Difference**

1. Note that the reporting of the uncollectible (impaired) MP3 recoverable in Medicare prescription claims is different from CMS treatment of such amounts in the MLR. The CMS treatment of uncollectible MP3 recoverables reports such amounts as administrative amounts. These administrative amounts are included in the denominator of the MLR by CMS.

# INT 24-02T Status

1. This interpretation is tentatively effective March 30, 2025.
2. Further discussion is planned.

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| **Medicare Prescription Payment Plan Scenarios** |  |  |
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|  | **Claims** | **Receivable** | **Cash** |
| **Initial entries for all scenarios***Assumed to have been recorded by the insurance company prior to Scenarios 1 – 3.* |  |  |  |
|  |  |  |  |
| DR Claims Expense*To represent claims expense incurred on behalf of the enrollee.* |  $ 2,000  |  |  |
|               CR Cash*To represent the $2,000 paid by the insurance company to the pharmacy on behalf of the enrollee.*  |  |  | $ (2,000) |
|  |  |  |  |
|  DR Healthcare Receivable*To represent the amount due to the insurance company from the enrollee, which the enrollee must pay over the policy term.* |  |  $ 2,000  |  |
|               CR Claims A/R (contra-claims expense)*To be reported within the claims expense line, essentially a contra-claims expense, and represents the amount due to the insurance company from the enrollee which the enrollee must pay over the policy term. This offsets the claims expense amount, so results in a current net $0 impact* *to the income statement, but both the DR and CR on the income statement are in claims expense.* |  $  (2,000) |  |  |
|  |  |  |  |
| **Scenario 1 - The enrollee pays their full amount of $2,000 to the insurance company.** |  |  |  |
|  |  |  |  |
| DR CashT*o record receipt of the enrollee’s payment in full.* |  |  |  $ 2,000  |
|                CR Healthcare Receivable*The net income statement impact remains at $0, because the original claims expense was offset by the contra-claims expense (Claims A/R), and since the full $2,000 was received from the enrollee, there are no further income statement journal entry impacts.* |  |  $  (2,000) |  |
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| ***Scenario 1 Net result on Financial Statements*** |  **$ -**  |  **$ -**  |  **$ -**  |
|  |  |  |  |
| **Scenario 2 - The enrollee pays $1,500 out of the $2,000 to the insurance company and doesn’t pay the remaining $500.**  |  |  |  |
| DR CashT*o record receipt of enrollee partial payment of outstanding balance.* |  |  |  $ 1,500  |
|                CR Healthcare receivable*To reduce enrollee receivable for amounts paid.* |  |  $  (1,500) |  |
| DR Claims A/R (contra-claims expense)*To represent the write-off of the receivable. This results in the insurance company having a total income statement impact debit to claims expense of $500, represented as the initial $2,000 claims expense for the out-of-pocket paid to the pharmacy by the insurance company, offset by the $1,500 received from the enrollee.* |  $  (500) |  |  |
| CR Healthcare receivable*To write-off the remaining uncollectible amount as impaired* |  |  $ (500) |  |
|  |  |  |  |
| ***Scenario 2 Net result on Financial Statements*** |  **$ 500**  |  **$**  |  **$**  **(500)** |
|  |  |  |  |
|  |  |  |  |
| **Scenario 3 - The enrollee does not pay any of the $2,000 owed to the insurance company.** |  |  |  |
| DR Claims A/R (contra-claims expense)*To represent the write-off of the amount anticipated to be paid by the enrollee. This results in the income statement* *impact to the insurance company being a debit of $2,000, for the amount paid to the pharmacy by the insurance company and not reimbursed by the enrollee.* |  $ 2,000  |  |  |
| CR Healthcare receivable*To represent the write-off of the $2000 receivable.*  |  |  $  (2,000) |  |
|  |  |  |  |
| ***Scenario 3 Net result on Financial Statements*** |  **$ 2,000**  |  **$ -**  |  **$**  **(2,000)** |

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