Interpretation of the
Statutory Accounting Principles (E) Working Group

INT 24-02: Medicare Part D Prescription Payment Plan

INT 24-02 Dates Discussed

November 17, 2024; February 25, 2025; March 24, 2025

INT 24-02 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 24-024 Issue

1. The Inflation Reduction Act of 2022 introduced changes to Medicare Part D, which is the voluntary outpatient prescription drug program (Part D), including a new program to offer Part D enrollees the option to pay their out-of-pocket Part D prescription drug costs through monthly payments over the course of the plan year instead of paying the full amount upfront at the pharmacy counter. This program, known as the Medicare Prescription Payment Plan (MPPP), is effective on January 1, 2025.

2. The purpose of this interpretation is to provide statutory accounting and reporting guidance for aspects of the MPPP. This interpretation specifically addresses the MPPP 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.

MPPP Program Overview

3. The MPPP requires all Medicare prescription drug plans (Part D plan sponsors), including both standalone Medicare prescription drug plans and Medicare Advantage plans with prescription drug coverage, to offer enrollees the option to pay their out-of-pocket prescription drug costs through monthly payments to the Part D plan sponsor over the remainder of the plan year, as opposed to paying the full amount upfront to the pharmacy.

4. Part D plan enrollees who elect to participate in the MPPP (MPPP participants) will pay $0 to the pharmacy for covered Part D drugs. Instead, the Part D plan sponsor is required to fully pay the pharmacy the total of an MPPP participant'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 MPPP participant monthly for any cost-sharing incurred while enrolled in the MPPP.

5. The MPPP will not reduce total out-of-pocket costs for participants' prescription drug purchases for a plan year. The MPPP simply spreads MPPP participants' out-of-pocket Part D costs into monthly payments over the remaining term of the plan year which may help some to better manage their monthly cash flow.

6. Unlike other existing aspects of Medicare Part D, which involve funds due from the federal government for which payment is effectively assured, MPPP installment balance recoverables are due from individual MPPP participants. Consequently, Part D plans may pay pharmacies for MPPP participants' out-of-pocket pharmacy claim costs, but some amounts billed to the MPPP participants might be uncollectible. That could occur when an MPPP participant does not pay the full outstanding balance after the required grace period. This raises statutory accounting concerns regarding potential nonadmittance of overdue amounts and impairment of unpaid outstanding recoverables from MPPP participants.

7. To help cover potential uncollectible balances, the Centers for Medicare and Medicaid Services (CMS) allows Part D plan sponsors to include an estimate for MPPP related losses in their plan bids. However, for the initial years, Part D plan sponsors lack directly relevant prior experience in estimating the MPPP program's potential for uncollectible amounts.

8. The government is responsible for the estimated MPPP losses to the extent they are included in plan bids by Part D plan sponsors. Part D plan sponsors receive additional premium revenue from the government, which helps to cover uncollectible balances from MPPP participants. Part D plan sponsors face pricing/underwriting risk relating to the prescription needs of enrollees and may inaccurately estimate the amounts of uncollectible balances to include in plan bids. In addition, there are risks that the costs of uncollectible amounts and other aspects of implementing the MPPP will vary from amounts that had been factored into plan bids.

MPPP Program Requirements for Unpaid Balances

9. Under the MPPP, Part D plan sponsors take on the risk for uncollectible balances not covered by the plan bid. The program rules prohibit or limit many of the common methods used to mitigate loss from uncollectible MPPP balances. Examples of such prohibitions or limitations include the following:

a. **Late Fees, Etc. –** Under the MPPP, late fees, interest payments, or other fees, such as for different payment mechanisms, are not allowed.

b. **Billing and Payment Procedures –** Part D plan sponsors can design their own billing and payment procedures for the MPPP. 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 MPPP balance.

c. **Pharmacies Not Responsible for Balances –** Participation in the MPPP is considered an arrangement between the Part D plan sponsor and the MPPP participant. Pharmacies are not responsible for losses attributed to the uncollectibility of MPPP participants' balances or for collecting unpaid balances from the MPPP participant on the Part D plan sponsor's behalf.

d. **Termination of Participation –** A Part D plan sponsor must terminate an enrollee's participation in the MPPP if the enrollee fails to pay their monthly billed amount. An MPPP participant will be considered to have failed to pay their monthly billed amount only after a required grace period of at least two months. The Part D plan sponsor cannot terminate an enrollee from the Part D plan for nonpayment of any of their MPPP billed amounts. Part D plan 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.

e. **Reinstatement of Enrollees** – Part D plan sponsors must reinstate terminated MPPP participants if the individual demonstrates good cause for failure to pay the program billed amount within the grace period and pays all overdue amounts billed.

f. **Preclusion from Subsequent Enrollment** – A Part D plan sponsor may prevent an individual from opting into the MPPP 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 parent organization. In other words, an individual who owes an overdue MPPP balance to a Part D plan sponsor cannot be barred from enrolling in the MPPP in a subsequent year through a different Part D plan sponsor that does not have the same parent organization.

g. **Compliance with Federal and State Laws –** Part D plan sponsors (and any third parties with whom 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 other types of payment plans, credit reporting, and debt collection.

Medical Loss Ratio

10. 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, as prescribed by CMS. *SSAP No. 66—Retrospectively Rated Contracts* provides disclosures related to the MLR. The CMS MLR requirements are separate from the statutory accounting reporting requirements for the MPPP which create the need to report differences between them in the annual statement *Supplemental Health Care Exhibit*.

11. According to the CMS guidance, the losses related to uncollectible MPPP participants' balances are considered for MLR purposes as part of the Part D plan sponsor's administrative expenses. CMS guidance excludes losses attributed to uncollectible MPPP participants' balances from the numerator of the MLR calculation, which is consistent with CMS' treatment in the MLR of other administrative expenses incurred by Part D sponsors. The CMS guidance states that the additional premium revenue attributable to the estimates of MPPP uncollectible amounts included in the Part D plan sponsor plan bids are included in the MLR calculation denominator.

INT 24-02 Discussion

Statutory Accounting and Reporting Considerations for MPPP

12. The Statutory Accounting Principles (E) Working Group reached the following consensus for MPPP statutory accounting and reporting guidance. In addition, Appendix 1 illustrates some basic journal entries which help to show the intended financial statement results.

Recoverables from MPPP Participants

13. Recoverables from MPPP participants shall be accrued and reported as an asset on the asset page in the line for *Health care and other amounts receivable,* when the related payment is made by the Part D plan sponsor to the pharmacy for the out-of-pocket costs incurred on behalf of the MPPP participant.

14. Current recoverables from MPPP participants, 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. Recoverables from MPPP participants are also subject to impairment analysis.

15. Uncollected MPPP recoverables more than 90 days overdue are nonadmitted. The due date for aging of the MPPP recoverables shall follow the program billing guidelines.

16. If a recoverable from an MPPP participant is fully collected, the amounts received by the Part D plan sponsor will equal the corresponding out-of-pocket payment it made for a pharmaceutical claim. In those cases, there will not be an income statement impact regarding claims (or claims adjusting expenses).

Impairments

17. Uncollected recoverables from MPPP participants are subject to an impairment analysis which shall be assessed using the evaluation guidelines in *SSAP No. 5—Liabilities, Contingencies, and Impairment of Assets.* However, when uncollectible recoverables from MPPP participants are written off, the expense shall be reflected as an incurred Medicare Part D prescription drug claims in the statutory income statement.

Out-of-Pocket MPPP Pharmacy Payments

18. When the Part D plan sponsor 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 MPPP participant, and to the extent that the MPPP participant pays in full, there should not be any claims recognition. This is analogous to the handling of anticipated pharmaceutical rebates or anticipated subrogation recoveries.

19. If the MPPP participant pays the amount due in full, there will be no income statement impact in claims expenses resulting from the Part D plan sponsor's payment of the MPPP participants out-of-pocket costs to the pharmacy. This is because the MPPP participant's subsequent monthly payments to the Part D plan sponsor have fully offset the initial pharmacy payments. In such cases, the MPPP recoverable will be reduced as payments are collected and there would be no income statement impact.

20. If the MPPP participant's balance is not repaid in whole or in part, there will be an income statement impact to reflect the paid amount in claims expense for the uncollectible MPPP balance which has been evaluated as impaired and written off. Since there is a recoverable from the MPPP participant there should be no income statement amount for an incurred claim until the related MPPP recoverable is written off as uncollectible based on impairment analysis.

21. When the recoverable from the MPPP participant is evaluated as impaired, the contra claims expense is decreased by the amount of the MPPP recoverable that is written off. This results in the incurred Medicare prescription claim reported reflecting the uncollectible recoverable from MPPP participants for statutory reporting. The premium to offset these claims is included in Medicare premium bids, so reporting the uncollectible MPPP amounts as losses allows the statutory accounting loss ratio to reflect incurred Medicare Part D prescription costs, including the MPPP uncollectible amounts which have been impaired and written off.

Administrative Costs

22. Other costs, e.g., those incurred by Part D plan sponsors in implementing and administering the MPPP program and related collections, are included in the administrative expenses of the Part D plan sponsor and are not included in the claim expenses or claim adjustment expenses.

MLR Reporting Difference

23. Note that the statutory reporting of the written off (impaired) recoverable from MPPP participants in Medicare prescription claims is different from CMS treatment of such amounts in the MLR. The CMS requires Part D plan sponsors to report losses from impairment write-offs of uncollectible recoverables from MPPP participants as administrative amounts and, thus, such losses are excluded from the numerator in the CMS MLR. For loss ratios determined under statutory accounting, and pursuant to the guidance in this INT 24-02, such amounts are reported as claims expense and included in the numerator of the loss ratio.

INT 24-02 Status

24. This interpretation is effective March 30, 2025.

25. No further discussion is planned.

Appendix 1 - Illustrative Journal Entries

Medicare Prescription Payment Plan Scenarios			
	Claims	**Receivable**	**Cash**
Initial entries for all scenarios *Assumed to have been recorded by the Part D plan sponsor prior to Scenarios 1 – 3.*			
DR Claims Expense *To represent claims expenses incurred on behalf of the MPPP participant.*	$ 2,000		
CR Cash *To represent the $2,000 paid by the Part D plan sponsor to the pharmacy on behalf of the MPPP participant.*			$ (2,000)
DR Healthcare Receivable *To represent the amount due to the Part D plan sponsor from the MPPP participant, which the MPPP participant 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 Part D plan sponsor from the MPPP participant which the MPPP participant must pay over the policy term. This offsets the claims expense amount, so results in a current net $0 impact on the income statement, but both the DR and CR on the income statement are in claims expense.*	$ (2,000)		
Scenario 1 - The MPPP participant pays their full amount of $2,000 to the Part D plan sponsor.			
DR Cash To *record receipt of the MPPP participant'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 MPPP participant, there are no further income statement journal entry impacts.*		$ (2,000)	
Scenario 1 Net result on Financial Statements	**$ -**	**$ -**	**$ -**
Scenario 2 - The MPPP participant pays $1,500 out of the $2,000 to the Part D plan sponsor and does not pay the remaining $500.			
DR Cash To *record receipt of MPPP participant partial payment of outstanding balance.*			$ 1,500
CR Healthcare receivable *To reduce MPPP participant 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 Part D plan sponsor 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 Part D plan sponsor, offset by the $1,500 received from the MPPP participant.*	$ 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 MPPP participant does not pay any of the $2,000 owed to the Part D plan sponsor.			
DR Claims A/R (contra-claims expense) *To represent the write-off of the amount anticipated to be paid by the MPPP participant. This results in the income statement impact to the Part D plan sponsor being a debit of $2,000, for the amount paid to the pharmacy by the Part D plan sponsor and not reimbursed by the MPPP participant.*	$ 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)**