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

New Issue or SSAP

Interpretation

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 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. 54R*—*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 below. The edits to INT 05-05 adds reference the new INT 24-02 regarding Medicare Part D prescription payment plans.
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 Blanks (E) Working Group to develop a 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:
4. Amounts recoverable on Medicare Part D installments due from enrollees.
5. Aging of Medicare Part D installments due from enrollees more than 90 days overdue in categories similar to what is used for premium receivables.
6. Information nonadmitted Medicare Part D installments due from enrollees.
7. Information on write-offs of Medicare Part D installments due from enrollees.

Exposed revisions to 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; November 17, 2024

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 24-02: Medicare Prescription Payment Plan*

1. 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:
   1. 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” 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.
   2. 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.
   3. Specific funds received as premiums for coverage that is not retrospectively rated should be accounted for under SSAP No. 54R. 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.
   4. The Medicare Part D Prescription Payment Plan shall follow the guidance in *INT 24-02: Medicare Prescription Payment Plan.*

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