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TO: All Medicare Advantage Organizations, Prescription Drug Plan Sponsors, Medicare-Medicaid Plans, and 1876 Cost Plans

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SUBJECT: Contract Year 2023 Part C and Part D Baseline Out-of-Pocket Cost Models

The purpose of this memorandum is to announce that the contract year (CY) 2023 Part C and Part D Baseline Out-of-Pocket Cost (OOPC) Models are available for Medicare Advantage Organizations (MAOs), Prescription Drug Plans (PDPs), Medicare-Medicaid Plans, and Section 1876 Cost Plans to calculate their updated CY 2023 OOPC values. The values produced from these models are based on CY 2023 approved bids and will serve as the baseline for the Medicare Advantage (MA) Total Beneficiary Cost (TBC) calculation for evaluating the TBC change between CY 2023 and CY 2024. The CY 2024 Part C and Part D Bid Review OOPC Models will be released in April 2023, and will be used in CMS' review of CY 2024 bids, to include PDP Meaningful Difference and MA TBC reviews.

Update to Non-Formulary Drug Cost Sharing

CMS released the CY 2023 Part D Bid Review OOPC Model with the non-formulary update on November 25, 2022 in order for plans to gain familiarity with the change prior to implementation for the CY 2024 bid review. CMS explained the technical updates in the [November 25, 2022 Health Plan Management System \(HPMS\) memorandum](#) titled, "Proposed Part D Out-of-Pocket Cost Model Updates." We appreciate those that took the time to review and comment. Organizations are supportive of incorporating therapeutic alternatives and formulary exceptions into the OOPC model. The models we are releasing today are inclusive of this methodological change. CMS acknowledges that this is a significant enhancement to the model and although organizations did not identify concerns during testing, please notify CMS if issues arise running the baseline model. Based on the feedback received from organizations regarding performance of the model, CMS recognizes that there may be opportunities to improve on runtime as we continue to enhance the model.

Annual Part D OOPC Model Drug List Refresh

The November 25, 2022 HPMS memorandum cited above also sought feedback on an additional annual release of a refreshed OOPC model that incorporates changes from the May Formulary Reference File (FRF) prior to the bid submission deadline. Again, we appreciate those that responded and continue to consider the feedback provided. As a point of clarification, if an updated model is released reflecting the May FRF, drugs deleted from the FRF would also be deleted from the OOPC model to avoid a cost increase associated with the FRF deletion. Since this proposed refresh impacts only the Bid Review version of the OOPC Models released in the spring, further details will be forthcoming.

CY 2023 Part D Inflation Reduction Act Provisions

Section 11401 (Coverage of Adult Vaccines Recommended by the Advisory Committee on Immunization Practices under Medicare Part D) and section 11406 (Appropriate Cost Sharing for Covered Insulin Products under Medicare Part D) of the Inflation Reduction Act (IRA, P.L. 117-1691), become effective January 1, 2023 and apply to all Part D plans. Please refer to the [September 26, 2022 HPMS memorandum](#) titled “Contract Year 2023 Program Guidance Related to Inflation Reduction Act Changes to Part D Coverage of Vaccines and Insulin” for additional details. Although these changes were not submitted by plans in the formulary and bid submissions for CY 2023, for purposes of the CY 2023 Part D Baseline OOPC model, CMS is implementing two changes:

1. Cost sharing for insulin products will follow a lesser of logic, whereby the model will assume the lesser of the cost sharing for the relevant tier or \$35. In other words, the plan-entered copay or coinsurance will apply if it is lower than \$35; if the cost sharing for the relevant tier is greater than \$35, cost sharing will be capped at \$35 per 30-day supply, regardless of cost sharing phase.
2. Vaccine utilization will be removed from the model. The only vaccines that previously had an impact on a plan’s OOPC value are the adult vaccines recommended by the Advisory Committee on Immunization Practices. Since these vaccines will no longer have beneficiary cost sharing, and the remaining vaccines do not affect OOPC values, we are removing all vaccines from the model.

General Information

The CY 2023 Part C and Part D Baseline OOPC Models may be accessed at: <https://www.cms.gov/Medicare/Prescription-Drug-Coverage/PrescriptionDrugCovGenIn/OOPCResources.html>. CMS encourages PDPs and MAOs to run their plan benefit structures through the updated OOPC model to test their current benefit design in preparation for CY 2024 bids. For the TBC evaluation, please note that MAOs will need to calculate their Part C and Part D OOPC values separately and combine them for their total OOPC value. As in the past, all MA plans (including those that do not include a Part D benefit) will have both a Part C and a Part D OOPC value.

The updates in the CY 2023 Part C and Part D Baseline OOPC Models include:

- The methodological change to incorporate therapeutic alternatives and formulary exceptions into the OOPC model that was explained in the [November 25, 2022 HPMS memorandum](#)
- The CY 2023 IRA-related methodological changes that are detailed above for the Part D OOPC Model. The CY 2023 Part C OOPC Model is not being adjusted for IRA-related changes due to the mid-year implementation of the Part B rebatable drug coinsurance adjustment and the Part B insulin cost sharing cap.
- Updated Medicare Current Beneficiary Survey (MCBS) utilization and inflation factors. The CY 2023 Part C Baseline OOPC Model includes 2018 and 2019 MCBS utilization and cost data, which reflect CY 2023 levels. The CY 2023 Bid Review OOPC Model, released April 8, 2022, used 2017 and 2018 MCBS utilization and cost data, which reflected CY 2022 levels.
- The CY 2023 Part C Baseline OOPC Model was also updated to reflect 2023 deductibles, coinsurance, and premiums for Medicare Part A and Part B.
- Updated Formulary Reference Files (FRF). The CY 2023 Part D Baseline OOPC Model uses the CY 2023 FRF released in September 2022 and associated cross-reference files to generate the beneficiary prescription drug input file. The CY 2023 Bid Review OOPC Model, released April 8, 2022, used the CY 2023 FRF released in March 2022.

For convenience, CMS has generated CY 2023 Part C and Part D Baseline OOPC Model values for organizations and posted these values in HPMS. MAO OOPC values can be viewed in HPMS under: **Quality and Performance > Performance Metrics > Costs > Part C Out-of-Pocket Costs**. PDP OOPC values can be viewed in HPMS under: **Quality and Performance > Performance Metrics > Costs > Part D Out-of-Pocket Costs**. Please note that previous versions of the OOPC and TBC data will continue to be accessible in HPMS.

The CY 2023 Part D Baseline OOPC Model uses a different version of the drug list (RXCUI_REFERENCE.xpt) than will be used in the CY 2024 Part D Bid Review OOPC Model to be released in April 2023. The drug list for the CY 2023 Part D Baseline OOPC Model incorporates information from the September 2022 version of the CY 2023 FRF and other input sources (NDC databases, FDA Brand/Generic definitions, Generic Substitution, Potential Formulary Alternatives, and 2021 PDE average prices). The CY 2024 Part D Bid Review OOPC Model will incorporate updated versions of these files for CY 2024, as well as updated PDE average prices. The resulting differences from the two different drug list files may not be reflected by the OOPC model change factor and may yield OOPC value differences. It will be the responsibility of plan sponsors to address significant OOPC value differences through the benefit and formulary design.

For technical and policy related questions the following resources are available:

- For Part C policy related questions, such as TBC, please contact <https://mabenefitsmailbox.lmi.org>
- For Part D policy related questions about meaningful difference, please submit an email to partdbenefits@cms.hhs.gov
- For technical questions about the Bid Pricing Tool, please submit an email to

actuarial-bids@cms.hhs.gov

- For technical questions about the 2023 Baseline OOPC Model, please submit an email to OOPC@cms.hhs.gov