DATE: July 17, 2023

TO: All Part D Sponsors

FROM: Jennifer R. Shapiro, Director, Medicare Plan Payment Group

SUBJECT: Technical Memorandum on the Calculation of the Maximum Monthly Cap on Cost-Sharing Payments Under Prescription Drug Plans

Public feedback is critical to the successful implementation of the Inflation Reduction Act (IRA). CMS will continue to engage all interested parties to ensure all voices are heard as we implement the new drug law.

This memorandum provides a high-level summary of statutory provisions and examples of monthly cap calculations for the *Maximum Monthly Cap on Cost-Sharing Payments Program* that was established by section 11202 of the IRA (P.L. 117-169), signed into law on August 16, 2022. Section 1860D-2(b)(2)(E) of the Social Security Act (the Act), as added by section 11202 of the IRA, requires all Medicare prescription drug plans to offer their enrollees the option to pay their out-of-pocket Part D drug costs through monthly payments over the course of the plan year instead of at the pharmacy point of sale, beginning January 1, 2025. This provision is applicable to all Part D sponsors, including both stand-alone Medicare prescription drug plans (PDPs) and Medicare Advantage (MA) plans with prescription drug coverage (MA-PDs), as well as Cost plans and demonstration plans.

In coming months, CMS plans to issue guidance about key requirements of the *Maximum Monthly Cap on Cost-Sharing Payments Program*, including requirements related to how Part D enrollees can opt into the program, identification of Part D enrollees who are likely to benefit from the program, pharmacy payment and communication obligations for Part D sponsors, conditions of enrollee participation in the program, enrollee outreach and education, and instructions related to bidding. CMS will request public comment before issuing final guidance.

CMS is issuing this summary of the law and technical examples of calculations prescribed under the statute in advance of program guidance at the request of stakeholders, so that interested parties have a foundation upon which to provide continued input as we implement the program.

Please direct any questions regarding the information included in this memorandum to PartDPaymentPolicy@cms.hhs.gov.

Summary

Beginning in 2025, the statute requires Part D sponsors to provide all enrollees the option to pay their out-of-pocket prescription drug costs in the form of monthly payments over the course of the plan year, instead of upfront, i.e., at the pharmacy. As a result, Part D enrollees who opt into the program will pay $0 at the pharmacy for a covered Part D drug, instead of the cost sharing they would normally pay the pharmacy when filling a prescription. The Part D sponsor must pay the pharmacy the cost-sharing amount that these Part D enrollees would have paid and then bill the enrollees monthly for any cost

sharing the enrollees incurred while in the program. The amount that the Part D sponsor bills the enrollee under the program for a month cannot exceed a maximum monthly cap.

The statute specifies how to calculate the maximum monthly cap on the amount that a Part D sponsor may bill a Part D enrollee who has opted into the program. The cap calculation for the first month of participation in the program differs from the cap calculation for the remaining months in the year. We provide more information below on how the monthly caps are calculated.

Program Calculations and Examples

Section 1860D–2(b)(2)(E)(iv) of the Act specifies how the monthly caps on cost-sharing payments are to be calculated. The actual monthly cap amount may be different from one Part D enrollee to the next, and from one month to the next for any single enrollee. The formula for calculating the cap differs for the first month that a Part D enrollee opts in, versus the rest of the months of the year. Assuming a Part D enrollee remains in the *Maximum Monthly Cap on Cost-Sharing Payments Program* through the end of the plan year, the total amounts billed monthly through the December payment (which would be billed and paid in January of the following year) will equal the total out-of-pocket costs incurred by the Part D enrollee under this program during the year.

The enrollee will not have any monthly bills to pay under this program until the enrollee elects into the program and incurs out-of-pocket drug costs. Once the enrollee incurs out-of-pocket drug costs while in this program, then so long as the enrollee remains in the program, all their incurred out-of-pocket costs for all covered Part D drugs (as defined at 423 CFR 423.100) will be billed on a monthly basis. While non-Part D drugs are not part of the program, Part D plans may not exclude any covered Part D drugs from being part of the program. Opting into the program will not affect how enrollees move through the Part D benefit or what counts toward their deductible or annual out-of-pocket threshold.

Part D sponsors will be responsible for correctly calculating the monthly caps based on the statutory formulas, determining the amount to be billed (up to the cap), and sending monthly bills to their enrollees who have opted into the program. The example calculations in this memo are illustrative and intended to help Part D sponsors ensure they are programming their claims and billing systems correctly for 2025; additional detail will be provided in forthcoming guidance. For more general audiences, CMS will develop tools, such as calculators, to help people with Medicare and their caregivers learn what monthly payments might look like under this program.

Calculation of Maximum Monthly Cap in First Month

Under section 1860D–2(b)(2)(E)(iv)(I) of the Act, for the first month for which the Part D enrollee has opted into the program, the term “maximum monthly cap” means an amount determined by calculating the annual out-of-pocket threshold minus any costs the enrollee previously incurred during the year before opting in, divided by the number of months remaining in the plan year. The number of months remaining in the plan year includes the month when the enrollee opts into the program. The annual out-of-pocket threshold is $2,000 for 2025.

A Part D sponsor cannot bill the enrollee more than the lesser of their actual out-of-pocket costs or the first month’s cap.

$$\textit{First Month Maximum Cap} = \frac{\textit{Annual OOP Threshold} - \textit{Incurred Costs of the Enrollee}}{\textit{Number of Months Remaining in the Plan Year}}$$

Calculation of Maximum Monthly Cap in Subsequent Months

Under section 1860D–2(b)(2)(E)(iv)(II) of the Act, for a subsequent month for which the Part D enrollee has opted into the program, the maximum monthly cap is determined by calculating the sum of any remaining out-of-pocket costs owed by the enrollee from a previous month that have not yet been billed and any additional out-of-pocket costs incurred by the enrollee in the subsequent month, divided by the number of months remaining in the plan year, where the number of months remaining includes the month for which the cap is being calculated.

$$\textit{Subsequent Month Maximum Cap} = \frac{\textit{Sum of Remaining OOP Costs Not Yet Billed to Enrollee} + \textit{Additional OOP Costs Incurred by the Enrollee}}{\textit{Number of Months Remaining in the Plan Year}}$$

Example Calculations

Example #1: A Medicare Part D Enrollee Opts into the Program in January; First Fill in February

Calculation of Maximum Monthly Cap in First Month: This example demonstrates how the maximum monthly cap would be calculated for an enrollee with no prescriptions filled in the first month in the program. The enrollee successfully opted into the program in January 2025. They fill no prescriptions during that month.

> **Step 1: Determine the previously incurred costs before opting in**. The enrollee has had no prior pharmacy expenditures in 2025; therefore, previously incurred costs are $0.
>
> **Step 2: Calculate the maximum monthly cap for the first month in which the enrollee has opted into the program**. The annual out-of-pocket threshold for 2025 is $2,000. The month is January, so the months remaining in the plan year equals 12.
>
> ($2,000 - $0)/12 = $166.67

The plan will bill $0 in January, since the enrollee has not incurred any costs.

Calculation of Maximum Monthly Cap in Subsequent Months: The enrollee presents to the pharmacy in February to fill a high-cost, short-course treatment.

> **Step 1: Determine the remaining costs owed.** The enrollee incurred $0 in January and was billed $0.
>
> $0 - $0 = $0

Step 2: Determine the additional out-of-pocket costs incurred. The enrollee fills a single prescription with an out-of-pocket cost of $1,030.37. Additional out-of-pocket costs incurred = $1,030.37.

Step 3: Calculate the maximum monthly cap for the subsequent month. The month is February, so the months remaining in the plan year equals 11.

($0 + $1,030.37)/11 = $93.67

The calculation for the maximum monthly cap in subsequent months, described above, is repeated for each month remaining in the plan year and will change if there are additional out-of-pocket costs incurred by the enrollee. If the enrollee in Example #1 continued to have no new covered Part D prescription drug costs, their maximum monthly cap would be $93.67 for all the months remaining in the plan year, as shown below.

Month	Out-Of-Pocket Costs Incurred	Maximum Monthly Cap	Monthly Enrollee Payment
January	$0	$166.67	$0
February	$1,030.37	$93.67	$93.67
March	$0	$93.67	$93.67
April	$0	$93.67	$93.67
May	$0	$93.67	$93.67
June	$0	$93.67	$93.67
July	$0	$93.67	$93.67
August	$0	$93.67	$93.67
September	$0	$93.67	$93.67
October	$0	$93.67	$93.67
November	$0	$93.67	$93.67
December	$0	$93.67	$93.67
TOTAL	**$1,030.37**		**$1,030.37**

Example #2: A Medicare Part D Enrollee Opts into the Program During Open Enrollment and has Low-Cost Drugs in January

Calculation of Maximum Monthly Cap in First Month: This example demonstrates how the maximum monthly cap would be calculated for an enrollee with a single low-cost drug filled in January. The enrollee opted into the program prior to the start of the 2025 plan year, based on their existing prescription for a high-cost maintenance medication. However, this enrollee has enough of their high-cost medication on hand for all of January and only fills a low-cost drug during the month. The out-of-pocket cost for this prescription would be $4.00.

Step 1: Determine the previously incurred costs before opting in. The enrollee has had no prior pharmacy expenditures in 2025; incurred costs are $0.

Step 2: Calculate the maximum monthly cap for the first month in which the enrollee successfully opted into the program. The annual out-of-pocket threshold for 2025 is $2,000. The month is January, so the months remaining in the plan year equals 12.

($2,000 - $0)/12 = $166.67

The plan will bill $4 for January, since the incurred amount is lower than the cap.

Note: when the amount incurred in the first month in the program is less than the maximum monthly cap, the enrollee cannot be billed more than their actual out-of-pocket costs in that first month. Therefore, the enrollee should be billed $4.00.

Calculation of Maximum Monthly Cap in Subsequent Months: The enrollee does not need a refill of their low-cost prescription filled in January but refills their high-cost maintenance medication in February.

Step 1: Determine the remaining costs owed. The enrollee incurred $4.00 in January and was billed $4.00.

$4.00 - $4.00 = $0

Step 2: Determine the additional out-of-pocket costs incurred. The enrollee refills a high-cost prescription in February that causes them to reach the annual out-of-pocket threshold. Additional out-of-pocket costs incurred = $1,996.

Step 3: Calculate the maximum monthly cap for the subsequent month. The month is February, so the months remaining in the plan year equals 11.

($0 + $1,996.00)/11 = $181.45

Because the enrollee in Example #2 has already met the 2025 annual out-of-pocket threshold of $2,000 in February, they will incur no new additional out-of-pocket costs during the rest of the year. Their maximum monthly cap and monthly payment would be approximately $181.45 for all months remaining in the plan year, as shown below.

Month	Out-Of-Pocket Costs Incurred	Maximum Monthly Cap	Monthly Enrollee Payment
January	$4.00	$166.67	$4.00
February	$1,996.00	$181.45	$181.45
March	$0	$181.46	$181.46
April	$0	$181.45	$181.45
May	$0	$181.46	$181.46
June	$0	$181.45	$181.45
July	$0	$181.46	$181.46
August	$0	$181.45	$181.45
September	$0	$181.46	$181.46
October	$0	$181.45	$181.45
November	$0	$181.46	$181.46
December	$0	$181.45	$181.45
TOTAL	**$2,000.00**		**$2,000.00**

Example #3: A Medicare Part D Enrollee Opts into the Program in April and has a 90-Day Supply of a Drug

Calculation of Maximum Monthly Cap in First Month: This example demonstrates how the maximum monthly cap would be calculated for an enrollee who fills a prescription for 90-day supply of medication. They successfully opt into the program in April 2025. The enrollee presents to the pharmacy in April to fill a new prescription for a 90-day supply of medication that costs $617. The enrollee has previously filled low-cost monthly maintenance medications, so they have not yet reached their deductible. The out-of-pocket cost in April, including the remainder of the deductible, would be $617.00.

Step 1: Determine the previously incurred costs before opting in. The enrollee has filled multiple, low-cost generic medications from January through March 2025; incurred costs are $12.00.

Step 2: Calculate the maximum monthly cap for the first month in which the enrollee has effectively opted into the program. The annual out-of-pocket threshold for 2025 is $2,000. The month is April, so the months remaining in the plan year equals 9.

($2,000 - $12.00)/9 = $220.89

The plan will bill $220.89 for April, since the incurred amount of $617.00 is higher than the cap.

Calculation of Maximum Monthly Cap in Subsequent Months: In May the enrollee only refills their low-cost generic prescriptions (total out-of-pocket cost: $4). The next time they refill their 90-day supply in July, their total out-of-pocket cost for the refill would be $124.

Step 1: Determine the remaining costs owed. The enrollee incurred $617.00 in April and was billed $220.89.

$617.00 - $220.89 = $396.11

Step 2: Determine the additional out-of-pocket costs incurred. The enrollee refills their generic prescriptions in May. Additional out-of-pocket costs incurred = $4.00.

Step 3: Calculate the maximum monthly cap for the subsequent month. The month is May, so the months remaining in the plan year equals 8.

($396.11 + $4.00)/8 = $50.01

If the enrollee in Example #3 continued this pattern of 90-day fills (with a $120 copay after meeting the deductible in April) and monthly generic fills ($4 copay), their maximum monthly cap would update as shown below.

Month	Out-Of-Pocket Costs Incurred	Maximum Monthly Cap	Monthly Enrollee Payment
January	$4.00	N/A	$4.00*
February	$4.00	N/A	$4.00*
March	$4.00	N/A	$4.00*
April	$617.00	$220.89	$220.89
May	$4.00	$50.01	$50.01
June	$4.00	$50.59	$50.59
July	$124.00	$71.25	$71.25
August	$4.00	$72.05	$72.05
September	$4.00	$73.05	$73.05
October	$124.00	$114.39	$114.39
November	$4.00	$116.39	$116.39
December	$4.00	$120.38	$120.38
TOTAL	**$901.00**		**$901.00**

*These payments were made directly to the pharmacy, outside of the program described in section 1860D–2(b)(2)(E) of the Act.