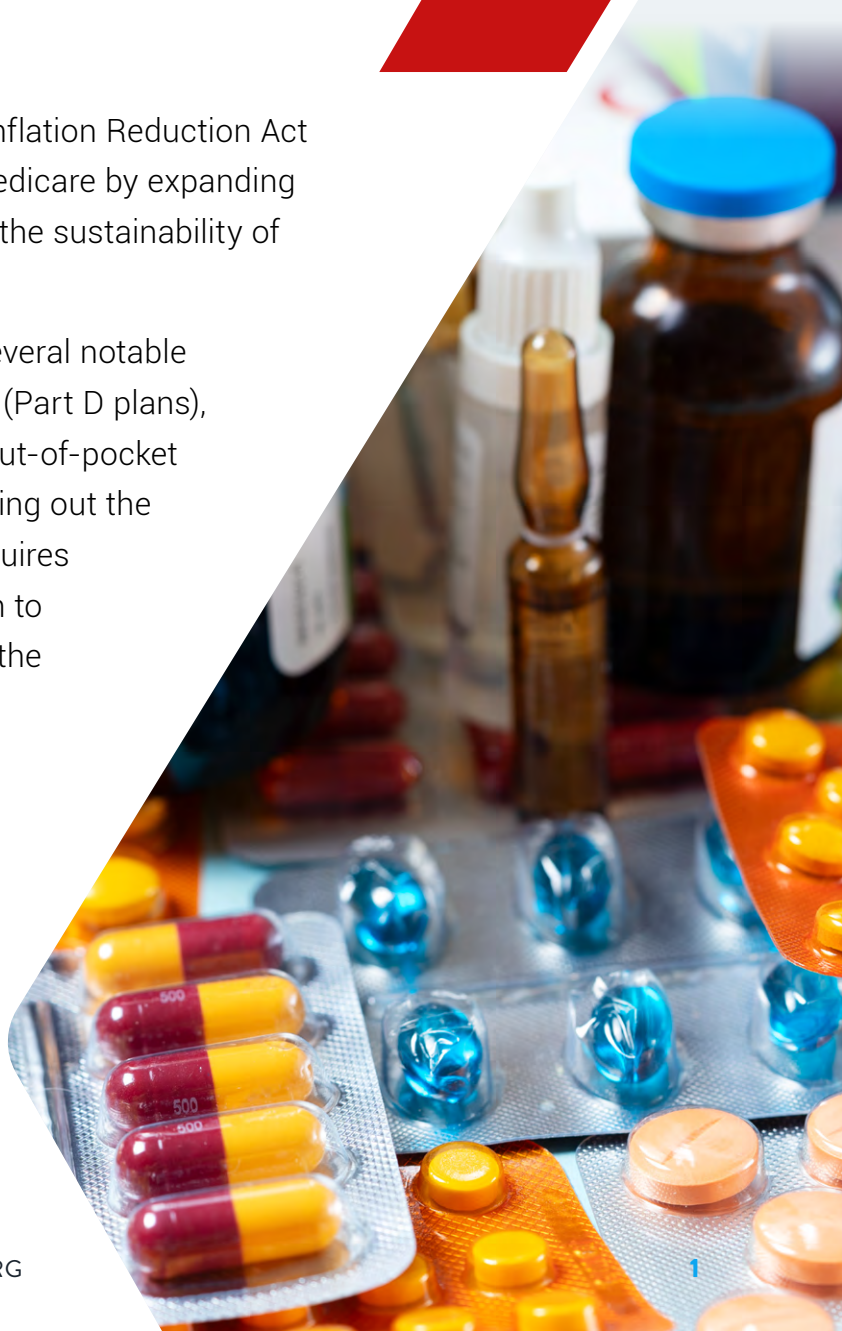


2025 MEDICARE PART D SMOOTHING: What Consumers Need to Know

In August 2022, President Biden signed the Inflation Reduction Act (IRA) into law.¹ The IRA strives to enhance Medicare by expanding benefits, lowering drug costs, and improving the sustainability of the program.²

Effective January 1, 2025, the IRA requires several notable changes to Medicare prescription drug plans (Part D plans), including imposing a \$2,000 annual cap on out-of-pocket ("OOP") prescription drug spending and phasing out the "donut-hole" coverage gap.³ The IRA also requires that all Part D plans offer enrollees the option to pay out-of-pocket prescription drug costs in the form of capped monthly payments to allow enrollees to spread out expenses over the course of the year.⁴ This initiative is known as the **Medicare Prescription Payment Plan**, but it has also been referred to as "**smoothing.**"⁵ The following fact sheet answers frequently asked questions about the Medicare Prescription Payment Plan.



What is the Medicare Prescription Payment Plan?

The Medicare Prescription Payment Plan ("Payment Plan") is a new program that allows consumers to spread out the cost of their prescription drugs over the year, in the form of capped monthly payments, instead of paying in full at the pharmacy counter.⁶ This can help patients manage their expenses more effectively and reduce the risk of unexpected financial burdens, particularly for those with expensive medications.⁷

For example:

If you are not enrolled in the Payment Plan, and your drug costs are \$800 per month, you will pay \$800 in January and February, and \$600 in April, until the \$2,000 annual cap is reached.

If you enroll in the Payment Plan, rather than pay high drug costs early in the year, your drug costs are spread out over the course of the year.

The payment amount may vary each month, but you'll never pay more than \$2,000 by the end of the year.

How are payments calculated?

Enrollees who enroll in the Payment Plan will pay \$0 at the point of sale for covered Part D drugs, rather than their OOP costs when filling a prescription.⁸ The Part D sponsor will then cover the OOP costs at the pharmacy. The plan will then bill the participant monthly, with payments capped at a maximum amount of \$2,000 annually.⁹

The monthly caps for the Payment Plan are calculated differently for the first month and subsequent months of participation.¹⁰ In the first month, the amount due is the lesser of either the total OOP costs for that month or the "maximum possible amount," which is calculated by subtracting any prior costs from the annual OOP threshold (\$2,000), then dividing the result by the number of months remaining in the plan year.¹¹

For subsequent months, the cap includes unpaid OOP costs from earlier months plus new OOP costs, divided by the months left in the year.¹² These caps vary depending on individual drug costs and can change each month if new costs are incurred.¹³ The cap only applies to covered Part D prescription drug costs and excludes third-party payments.¹⁴




For some individuals with low-cost prescription drugs, the Payment Plan may not be as helpful as simply paying the lower copay each month. For example:

Month	Low Drug Costs (\$20)		High Drug Costs (\$800)	
	No Payment Plan	Payment Plan	No Payment Plan	Payment Plan
January	\$20	\$20	\$800	\$166.67
February	\$20	\$1.82	\$800	\$130.30
March	\$20	\$3.82	\$600	\$190.30
April	\$20	\$6.04	\$0	\$168.08
May	\$20	\$8.54	\$0	\$168.08
June	\$20	\$14.25	\$0	\$168.08
July	\$20	\$17.59	\$0	\$168.08
August	\$20	\$21.59	\$0	\$168.08
September	\$20	\$26.59	\$0	\$168.08
October	\$20	\$33.25	\$0	\$168.08
November	\$20	\$43.25	\$0	\$168.08
December	\$20	\$63.25	\$0	\$168.08
Total Costs	\$240	\$240	\$2,000	\$2,000

*For lower prescription drugs costs, the price increases over the year. In the first month, you pay the standard \$20 copay. For the second month, the copay is recalculated by dividing the \$20 over 11 months. In the third month, it's divided over 10 months, plus any unpaid amount from the previous month. This pattern continues, with each month's payment factoring in the remaining balance from the previous months, as only a fraction of the full copay is paid each month.

*For higher prescription drug costs, patients typically face significant expenses early in the year, but no costs later. However, under the Payment Plan, these expenses are spread out over the year. In the first month, you pay the maximum possible amount, \$166.67, which is calculated by dividing the \$2,000 annual OOP cap by 12. In the second month, the copay is recalculated by spreading the month's \$800 copay, plus the unpaid \$633.33 from the previous month (since only \$166.67 of the \$800 was paid), over 11 months. This pattern continues until the \$2,000 annual OOP is reached, which in this case happens in the third month. After that, no new costs are added for filling prescription drugs, and you only continue to pay off the remaining balance from previous months. By the end of the year, the total spent will be \$2,000.

 To learn more about potential monthly costs, please visit <https://www.medicare.gov/prescription-payment-plan/examples>

Who is eligible for the plan?

All Medicare beneficiaries who have Part D prescription drug coverage are eligible for the Payment Plan.¹⁵

Will the plan save me money?

The program won't reduce drug costs or save enrollees money, it's simply an optional payment plan that allows participants to spread their expenses over monthly installments.¹⁶

Who will benefit most from the plan?

Enrollees with high cost-sharing earlier in the plan year will benefit the most.¹⁷ Part D sponsors must notify pharmacies when an enrollee's OOP costs for covered drugs suggest they might benefit from the program.¹⁸ While the law mandates this notification, it doesn't specify how to determine who will benefit.¹⁹ Enrollees with lower recurring OOP drug costs are less likely to benefit from the Payment Plan as their expenses are already spread evenly over the course of the year.²⁰

The Centers for Medicare and Medicaid Services (CMS) created a framework to identify those who are likely to benefit, which includes enrollees with high OOP costs early in the year, however, an individual enrollee may still find the program useful even if they don't fit the standard criteria but need to make smaller payments to access their prescription drugs.²¹

How do enrollees opt into the plan?

The Payment Plan is available beginning January 1, 2025.²² Part D enrollees can opt into the Payment Plan during open enrollment, which takes place from October 15 to December 7 each year, or at any point during the 2025 plan year.²³

Part D enrollees can join the program by contacting their Part D sponsor and completing the enrollment process.²⁴ Each plan may have a different way to enroll in the program, which may involve filling out a paper form, calling a toll-free number, or using an online application.²⁵ Check with your plan to see how you can enroll in the Payment Plan. Enrollees may opt out of the program at any time.²⁶

If I have a high-cost prescription drug, am I automatically enrolled in the program?

No. You must contact your plan to enroll in the Payment Plan.

What happens if I miss a payment?

If you miss a payment, your health or drug plan will likely send you a reminder. If the payment isn't made by the due date specified in the reminder, you may be removed from the Payment Plan.²⁷



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