Congress of the United States
Washington, DC 20515

August 26, 2024

The Honorable Phillip Swagel, PhD
Director
Congressional Budget Office
United States Congress
Washington, D.C. 20515

Dear Director Swagel:

We are concerned that a new rushed demonstration program will result in an unchecked taxpayer-funded bailout to paper over the flaws in the Inflation Reduction Act (IRA) [P.L. 117-169]. The IRA included several provisions that significantly redesigned the Medicare Part D prescription drug benefit at an estimated cost of nearly $30 billion over ten years.[1] These policy changes restructured the Part D market, and prescription drug plan (PDP) sponsors are responding by increasing seniors' premiums and reducing plan choices. In response, the Centers for Medicare and Medicaid Services (CMS) announced a new "Premium Stabilization Demonstration," to bail out the large health insurance companies increasing premiums at the expense of taxpayers.

On July 29, 2024, CMS published the "*Annual Release of Part D National Average Bid Amount and Other Part C & D Bid Information,*" providing important indicators on how seniors' costs for prescription drug coverage will change next year.[2] The base beneficiary monthly premium for 2025 will be $36.78, in accordance with the statutory maximum six percent increase in the year-over-year base beneficiary premium. This feature, however, obscures the true impact on seniors' total premiums, which differ depending on plan selection and may increase by a much greater amount. The national average monthly bid amount, which reflects the average monthly cost for Part D plan sponsors to provide benefits, nearly tripled, increasing from $64.28 in 2024 to $179.45 in 2025. Furthermore, the national average monthly bid amount was $34.71 in 2023—meaning the $179.45 in 2025 represents an overwhelming 417 percent increase in just two years.

The Premium Stabilization Demonstration program will shift financial liability away from large health insurers and onto American taxpayers. Specifically, CMS indicates the demonstration will apply a uniform reduction of $15 to the base beneficiary premium, establish a year-over-year increase limit of $35 on a plan's total Part D premium, and adjust risk corridors to buy off plan losses without corresponding changes to limit financial upside – a normal feature of risk corridor policies across markets.[3] Additionally, CMS claims demonstration participation by PDP sponsors

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[1] "Estimated Budgetary Effects of Public Law 117-169, to Provide for Reconciliation Pursuant to Title II of S. Con. Res. 14" (September 7, 2022)
[2] "CMS Releases 2025 Medicare Part D Bid Information and Announces Premium Stabilization Demonstration" (July 29, 2024)
[3] Risk corridors: ACA vs. Part D, in charts | The Incidental Economist (January 2014)

is voluntary and will last up to three years, "with parameters to be adjusted to reflect market conditions and variation in those years," opening the door to significantly increased future federal spending and market instability resulting from the policy uncertainty. Furthermore, the bailout is only available to stand-alone prescription drug plans, creating a policy imbalance between such plans and those financed by employers and Medicare Advantage organizations.

To help Congress understand the costs and related budgetary effects of this new Premium Stabilization Demonstration program, we respectfully request the following analysis:

1) What are the estimated budgetary effects, including net interest costs, for the new Premium Stabilization Demonstration for plan year 2025?

2) For plan year 2025, what are the isolated budgetary effects for each of the stated components of the demonstration, including the uniform $15 reduction to the base beneficiary premium, the year-over-year increase limit of $35 on a plan's total Part D premium, and the changes to risk corridors?

3) For plan year 2025, what is the average projected payout to individual PDP sponsors under this demonstration?

4) How does Part D plan bid growth and program outlays in 2024 and 2025 compare to CBO's original assumptions when scoring the redesign provisions of the IRA in 2022?

Please provide responses no later than October 1st, 2024. Thank you for your attention to this matter. We look forward to your response.

Sincerely,

Jodey C. Arrington
Chairman
House Committee on the Budget

Charles E. Grassley
Ranking Member
Senate Committee on the Budget

Cathy McMorris Rodgers
Chair
House Committee on Energy and Commerce

Mike Crapo
Ranking Member
Senate Committee on Finance

Jason Smith
Chairman
House Committee on Ways and Means