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Fact Sheet

Millions of Medicare Part D Enrollees Will Benefit from New Out-of-Pocket Spending Cap for Prescription Drugs

Leigh Purvis
AARP Public Policy Institute

Key Takeaways

- Medicare Part D provides prescription drug coverage for nearly 56 million Americans.
- A 2022 law updated the Medicare Part D benefit, including a new cap on beneficiaries' annual out-of-pocket spending on prescription drugs that starts in 2025.
- More than 3 million Part D enrollees who do not receive the program's low-income subsidy are estimated to benefit from the new out-of-pocket spending cap in 2025. By 2029, this number will increase to more than 4 million enrollees.
- On average, approximately 1.4 million (40 percent) Part D enrollees who reach the new out-of-pocket cap between 2025 and 2029 are estimated to see annual savings of $1,000 or more, and just over 420,000 enrollees (12 percent) will see savings of more than $3,000.
- By 2029, the share of Part D enrollees who benefit from the new out-of-pocket cap is estimated to be 10 percent or higher in 19 states plus the District of Columbia.

Medicare Part D currently provides prescription drug coverage for nearly 56 million Medicare beneficiaries[1] and satisfaction with the program remains high.[2] However, rising drug prices[3,4] have placed increased pressure on the almost 20-year-old benefit, and the resulting cost-sharing burdens have caused millions of older adults to engage in cost-coping strategies, such as not filling a prescription or skipping doses to save money.[5]

One major contributor to beneficiary costs stems from the original Part D benefit design, which required many enrollees to pay 5 percent of their prescription drug costs, with no limit, even after their out-of-pocket spending reached a certain threshold and they entered catastrophic coverage.[6] As a result, some Part D enrollees prescribed expensive drugs faced out-of-pocket costs that exceeded $10,000 per year.[7]

Recognizing this growing challenge, the Inflation Reduction Act of 2022[8] included a redesign of the Part D benefit that caps annual out-of-pocket spending on prescription drugs. Starting in January 2025, enrollee out-of-pocket costs will be limited to $2,000 per year; this amount will be updated annually with the other parts of the Part D benefit.[9]

The new out-of-pocket spending cap will help everyone enrolled in Medicare Part D by ensuring they no longer face the possibility of unlimited cost-sharing every year. However, there is relatively little research on how many Medicare beneficiaries will see savings from the new out-of-pocket cap over the next five

years, or how such benefits might vary. To help clarify, AARP commissioned Avalere to identify and analyze Part D enrollees who will benefit from the new out-of-pocket limit between 2025 and 2029.[10] Part D enrollees who receive the low-income subsidy, or Extra Help, typically pay nominal copayments and were excluded from this analysis.

Millions of Part D enrollees will benefit between 2025 and 2029

The research findings indicate that the number and share of Part D enrollees[11] estimated to reach the new out-of-pocket cap will increase between 2025 and 2029. Across all Part D plan enrollees, 3.2 million (8.4 percent) are estimated to benefit from the out-of-pocket cap in 2025 (Figure 1). By 2029, this number will increase to 4.1 million (9.6 percent) enrollees.[12]

At the state level, the share of Part D enrollees estimated to reach the new out-of-pocket cap ranges from 4.7 percent (Idaho) to 20.2 percent (Alaska) across all years (see full report: https://doi.org/10.26419/ppi.00335.001). By 2029, the share of enrollees who will benefit from the out-of-pocket cap is estimated to be 10 percent or higher in 19 states, plus the District of Columbia.

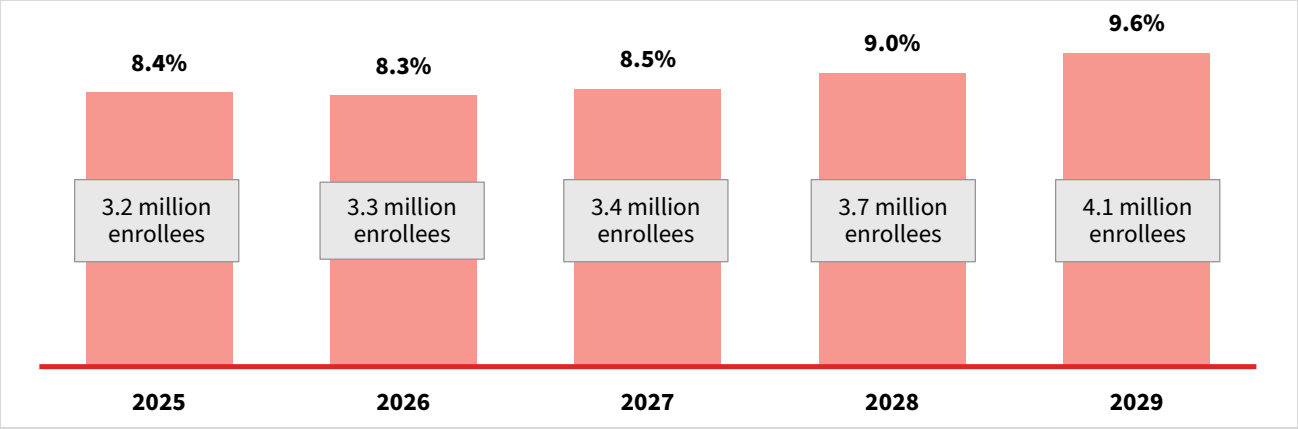
Annual savings for some Part D enrollees will exceed $5,000

The research also estimated savings for Part D enrollees who reach the new out-of-pocket cap between 2025 and 2029. Prior to the recent changes to the Medicare Part D benefit, these enrollees' average out-of-pocket spending would have been approximately $2,600 in 2025; under the redesigned benefit, their average out-of-pocket spending is estimated to be roughly $1,100, a savings of 56 percent.

On average, approximately 1.4 million (40 percent) of Part D enrollees who reach the new out-of-pocket cap between 2025 and 2029 are estimated to see annual savings of $1,000 or more (Figure 2). Just over 420,000 enrollees (12 percent) will see savings of more than $3,000 over the same time period, or roughly 10 percent of the median annual income for Medicare beneficiaries.[13]

FIGURE 1

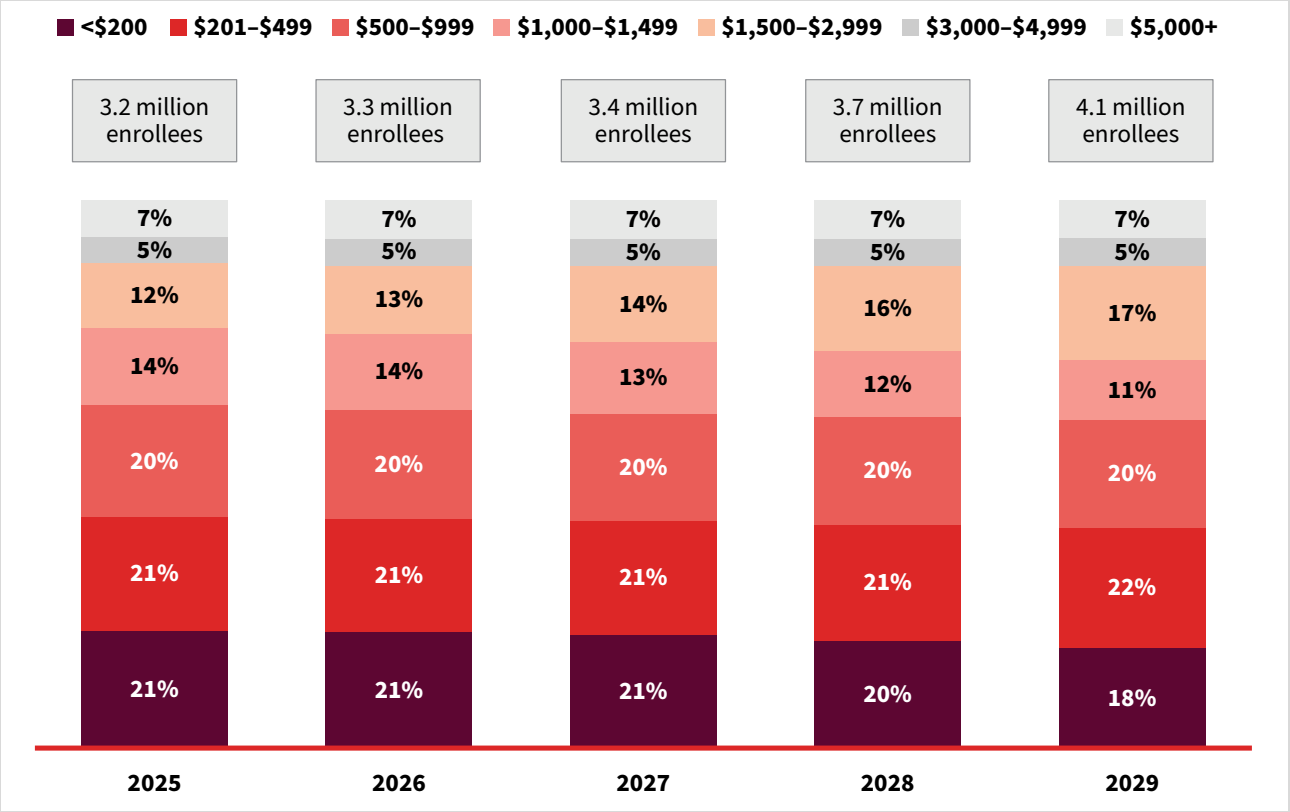
Number and Share of Part D Enrollees Who Reach the New Out-of-Pocket Cap Will Increase between 2025 and 2029



Note: *Analysis does not include Medicare beneficiaries receiving the Medicare Part D low-income subsidy.*

Source: *Avalere analysis of Medicare Part D Prescription Drug Event data. See full report: https://doi.org/10.26419/ppi.00335.001 for detailed methodology.*

FIGURE 2
Many Part D Enrollees Will See Considerable Savings under the Updated Benefit



Note: *Analysis does not include Medicare beneficiaries receiving the Medicare Part D low-income subsidy.*

Source: *Avalere analysis of Medicare Part D Prescription Drug Event data. See full report: https://doi.org/10.26419/ppi.00335.001 for detailed methodology.*

Medicare Part D changes are an important improvement

Medicare Part D originally did not include a limit on out-of-pocket spending. This left many enrollees, particularly those taking high priced or multiple medications, exposed to the possibility of significant financial burdens. However, the Inflation Reduction Act of 2022 included a benefit redesign that caps enrollees' annual out-of-pocket spending and ensures that they will no longer face the prospect of unlimited cost-sharing every year.

This analysis focused on non-LIS Medicare Part D enrollees who will benefit in the first five years that the new Part D out-of-pocket limit is in effect; it found that between 3.2 million and 4.1 million enrollees will reach the new out-of-pocket limit every year. It also found that enrollees who reach the cap will save an average of $1,500 in 2025, and that an average of 420,000 enrollees (12 percent) will experience savings of $3,000 or more between 2025 and 2029.

Federal research indicates that the share of Medicare Part D enrollees reaching the catastrophic coverage phase of the benefit has been increasing in recent years,[14] making the new out-of-pocket limit a timely and important improvement. In combination with other provisions in the 2022 drug law that will address high prescription drug prices and related costs, this change will help ensure that more Medicare beneficiaries' have affordable access to the prescription drugs they need.

1 Medicare Payment Advisory Commission (MedPAC), *A Data Book: Health Care Spending and the Medicare Program* (Washington, DC: MedPAC, July 2024).

2 MedPAC, *Report to the Congress: Medicare Payment Policy* (Washington, DC: MedPAC, March 2024).

3 The median price of a new brand name prescription drug is now approximately $300,000 per year. "Prices for New US Drugs Rose 35% in 2023, More Than the Previous Year," Reuters, February 23, 2024, https://www.reuters.com/business/healthcare-pharmaceuticals/prices-new-us-drugs-rose-35-2023-more-than-previous-year-2024-02-23/.

4 AARP Public Policy Institute Rx Price Watch reports are available on the AARP website at http://www.aarp.org/rxpricewatch; Nathan E. Wineinger et al., "Trends in Prices of Popular Brand-Name Prescription Drugs in the United States," *Journal of the American Medical Association* 2, no. 5 (2019): e194791; Immaculada Hernandez et al., "The Contribution of New Product Entry Versus Existing Product Inflation in the Rising Costs of Drugs," *Health Affairs* 38, no. 1 (2019): 76–83.

5 Stacie B. Dusetzina et al., "Cost-Related Medication Nonadherence and Desire for Medication Cost Information Among Adults Aged 65 Years and Older in the US in 2022," *JAMA Network Open* 6, no. 5 (2023): e2314211, https://jamanetwork.com/journals/jamanetworkopen/fullarticle/2805012.

6 Part D enrollees who received the low-income subsidy, or Extra Help, typically paid nominal cost-sharing throughout the Part D benefit and minimal or no cost-sharing once they reached catastrophic coverage.

7 Juliette Cubanski and Tricia Neuman, *Changes to Medicare Part D in 2024 and 2025 Under the Inflation Reduction Act and How Enrollees Will Benefit* (Washington, DC: Kaiser Family Foundation, April 2023), https://www.kff.org/medicare/issue-brief/changes-to-medicare-part-d-in-2024-and-2025-under-the-inflation-reduction-act-and-how-enrollees-will-benefit/.

8 Public Law 117–169, 136 Stat. 1818, August 16, 2022, https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf.

9 The spending thresholds that mark the beginning and end of the Part D benefit phases are statutorily defined and change annually based on growth in Part D costs per enrollee.

10 This modeling focuses on the impact of Part D benefit redesign and does not incorporate Medicare drug price negotiation or changes in utilization from enrollee or plan behavior.

11 Defined as the number of Part D enrollees who do not receive the low-income subsidy (LIS), including non-LIS employer group waiver plan (EGWP) beneficiaries. EGWPs are Part D plans that some employers and unions offer to their retirees.

12 These numbers differ from previously published estimates because they reflect a recent policy change that allows the value of supplemental coverage provided by employer group waiver plans (EGWPs) to count towards the new out-of-pocket spending cap (Centers for Medicare & Medicaid Services, *Final Calendar Year (CY) 2025 Part D Redesign Program Instructions*, April 1, 2024, https://www.cms.gov/files/document/final-cy-2025-part-d-redesign-program-instructions.pdf). More than 8 million Medicare beneficiaries, or 14 percent of total Part D enrollment, are in EGWPs (Medicare Payment Advisory Commission (MedPAC), *A Data Book: Health Care Spending and the Medicare Program* (Washington, DC: MedPAC, July 2024). The recent policy change also applies to non-EGWP Part D plans that offer supplemental benefits, known as enhanced Part D plans. However, because the landscape of plan offerings for 2025 is currently unknown and likely to change, the value of supplemental coverage for enhanced Part D plans was not incorporated into this analysis. See Appendix B for additional detail.

13 Half of all Medicare beneficiaries lived on incomes below $36,000 in 2023; one in four lived on incomes below $21,000. Alex Cottrill et al., *Income and Assets of Medicare Beneficiaries in 2023* (Washington, DC: Kaiser Family Foundation, February 2024), https://www.kff.org/medicare/issue-brief/income-and-assets-of-medicare-beneficiaries-in-2023/.

14 Bisma A. Sayed et al., "Inflation Reduction Act Research Series: Medicare Part D Enrollee Out-of-Pocket Spending: Recent Trends and Projected Impacts of the Inflation Reduction Act," Assistant Secretary for Planning and Evaluation, Office of Health Policy Research Report, revised January 30, 2024, https://aspe.hhs.gov/sites/default/files/documents/1b652899fb99dd7e6e0edebbcc917cc8/aspe-part-d-oop.pdf

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