

Fact Sheet

New Medicare Part D Out-of-Pocket Spending Cap is an Important Improvement for Enrollees Facing High Prescription Drug Costs

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Key Takeaways

- Medicare Part D provides prescription drug coverage for nearly 56 million Americans.
- The Inflation Reduction Act of 2022 updated the Medicare Part D benefit, including a new cap on enrollees' 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 (12 percent) will see savings of more than \$3,000.
- By 2029, the share of enrollees who will 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 beneficiaries¹ 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 2022⁸ 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.

The number and share of Part D enrollees who reach the new out-of-pocket cap will increase over time

The analysis found the number and share of Part D enrollees¹¹ estimated to reach the new annual out-of-pocket spending 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 Appendix A). 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.

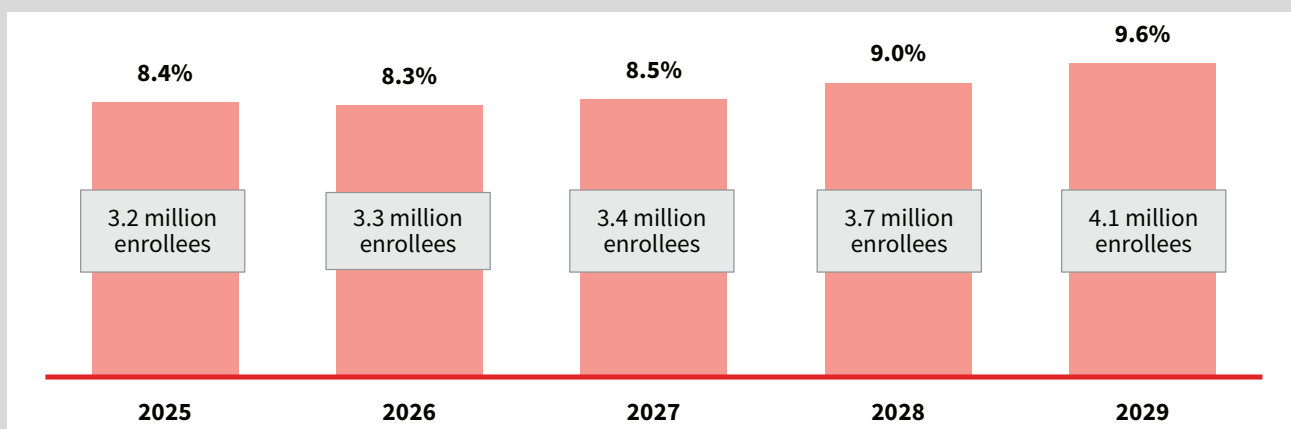
Impact of new Part D out-of-pocket cap will vary by age, gender, and race/ethnicity

The research found that the impact of the Medicare Part D out-of-pocket cap will vary by certain demographic characteristics. For example, in 2025, slightly more than three-quarters of the 3.2 million Medicare Part D enrollees estimated to reach the out-of-pocket cap are between the ages of 65 and 84 (Figure 2). Nearly half of the people expected to benefit, or 1.5 million enrollees, are in the 75- to 84-year-old age group. An additional 780,000 enrollees under age 65 or over age 85 will also benefit.

Among the 3.2 million Medicare Part D enrollees estimated to reach the out-of-pocket cap in 2025, 52 percent are female (1.7 million) and 48 percent are male (1.5 million) (Figure 3). Meanwhile, 9.2 percent of male enrollees are estimated to reach the new out-of-pocket cap in 2025 compared with 7.8 percent of female enrollees (data not shown).

The analysis also found the share of Part D enrollees who will benefit from the new out-of-pocket cap will vary by racial and ethnic group. For example, nearly 14 percent of North American Indigenous Part D enrollees are estimated to reach the new out-of-pocket cap

FIGURE 1
Number of Part D Enrollees Who Reach the New Out-of-Pocket Cap Will Increase Every Year

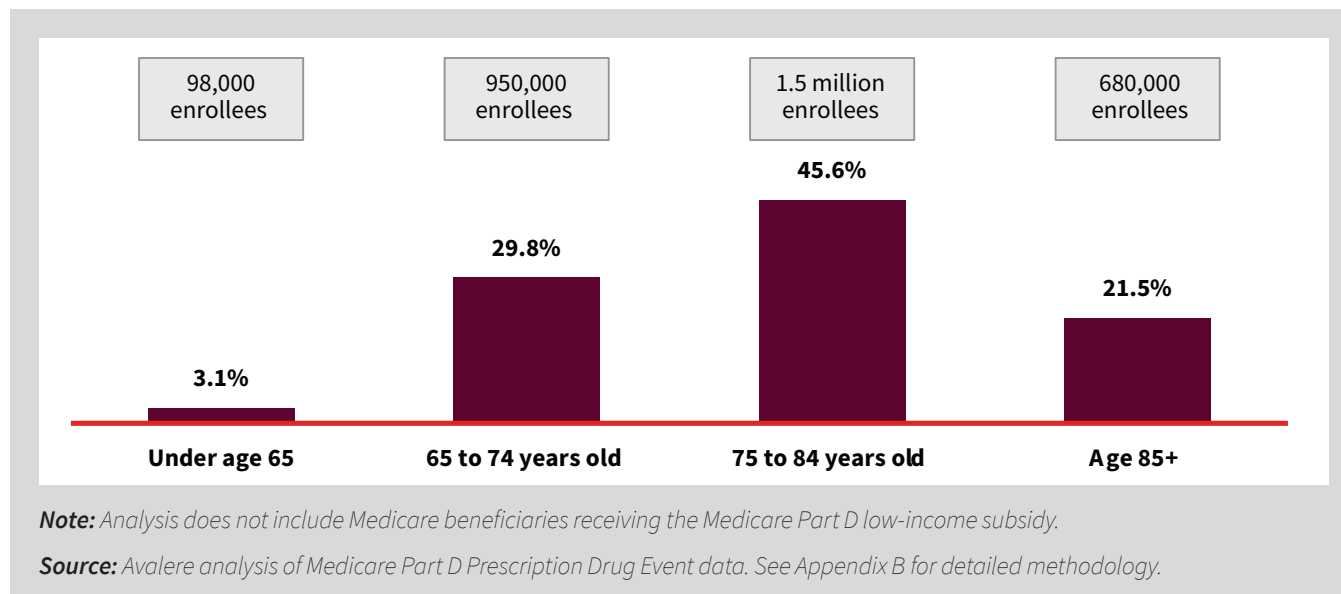


Note: Analysis does not include Medicare beneficiaries receiving the Medicare Part D low-income subsidy.

Source: Avalere analysis of Medicare Part D Prescription Drug Event data. See Appendix B for detailed methodology.

FIGURE 2

More than Three-quarters of Part D Enrollees Who Will Benefit in 2025 are Between the Ages of 65 and 84



in 2025 (Figure 4). Meanwhile, 8.5 percent of white and 9.0 percent of Black enrollees will reach the out-of-pocket cap in 2025, compared with 5.1 percent of Asian and 3.7 percent of Hispanic enrollees.

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 5). 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 3

Slightly Higher Number of Female Part D Enrollees Will Benefit from New Out-of-Pocket Cap in 2025

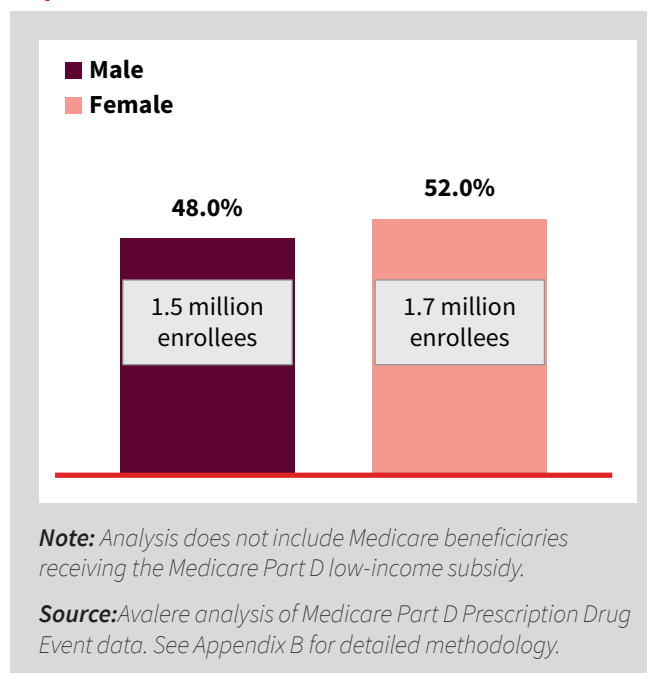
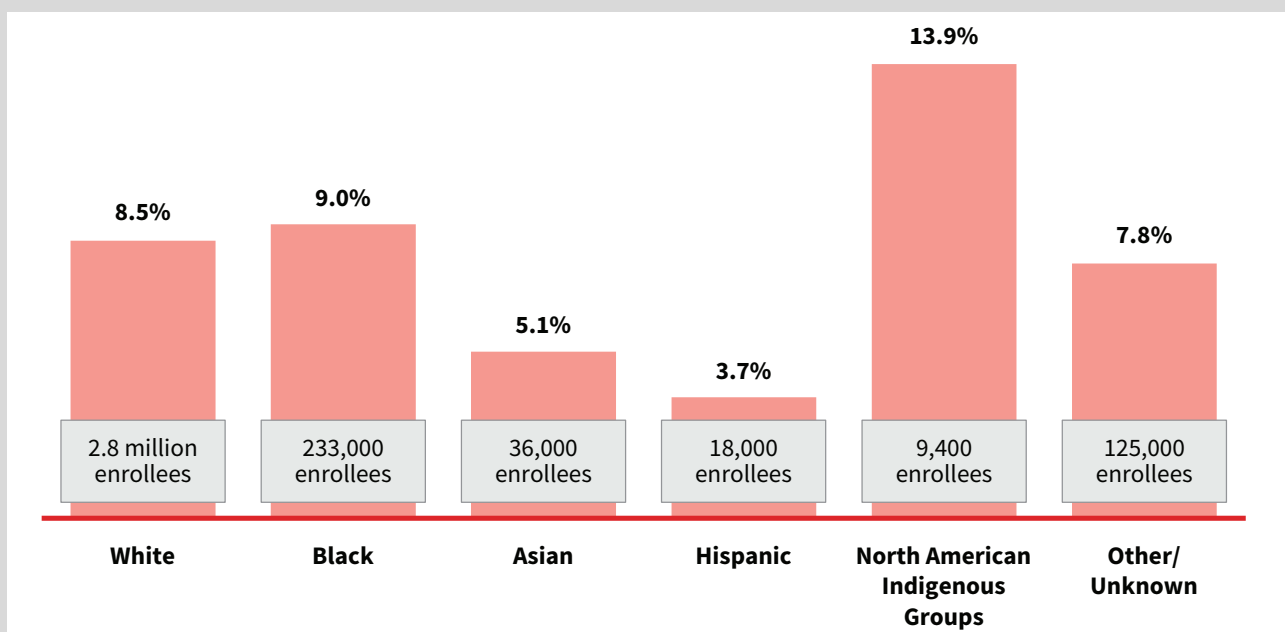


FIGURE 4

Higher Share of North American Indigenous Part D Enrollees Will Benefit from the New Out-of-Pocket Cap in 2025



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 Appendix B 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.

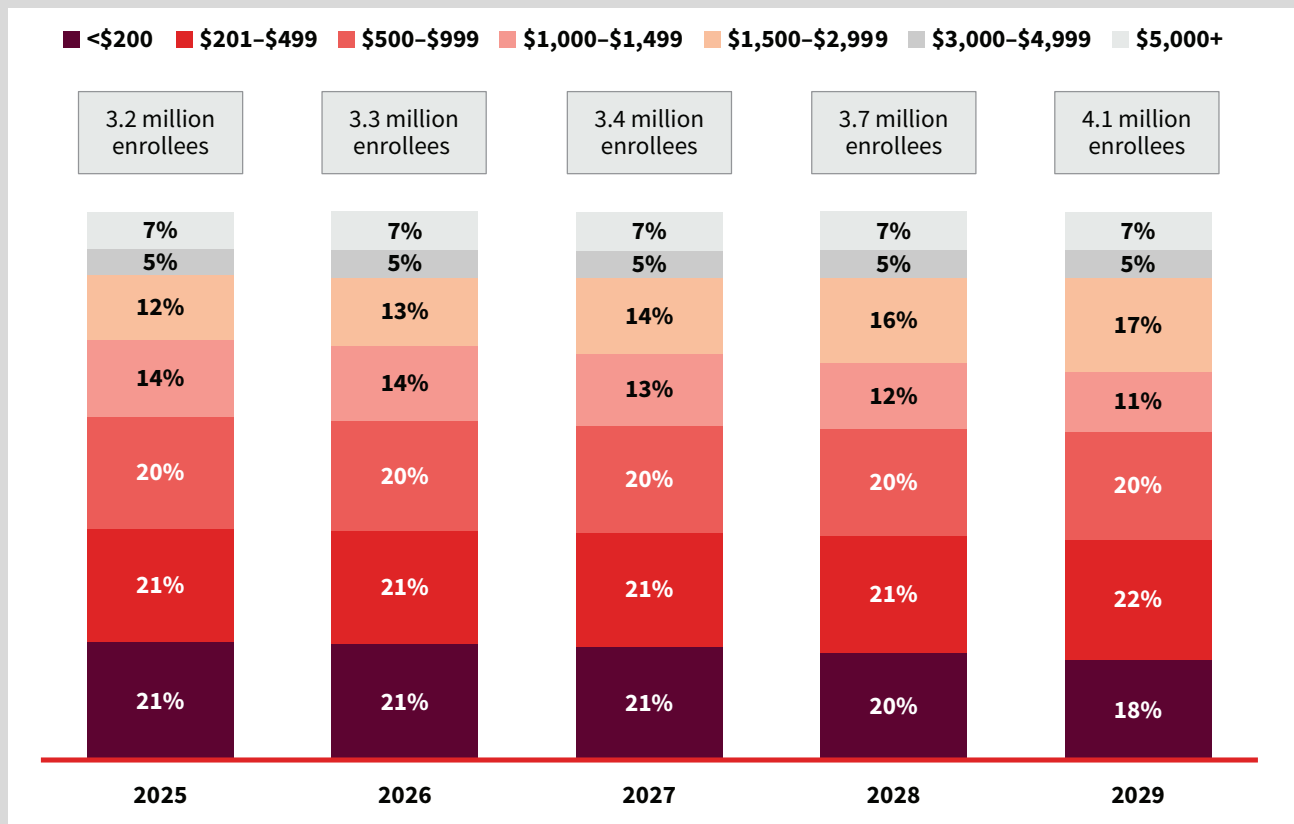
This analysis focused on non-LIS Medicare Part D enrollees who will benefit in the first five years that the new Part D out-of-pocket limit is in effect; it found that between 3.2 million and 4.1 million enrollees will reach the new out-of-pocket limit every year. It also found that enrollees who reach 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.

The findings also indicate that the benefits of the new out-of-pocket limit will vary by demographic characteristics and state. For example, nearly half of the Part D enrollees who will reach the new out-of-pocket limit in 2025, or 1.5 million people, are between the ages of 75 and 84, and slightly more women will benefit than men.

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.

FIGURE 5

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 Appendix B for detailed methodology.

Appendix A: Number and share of Part D enrollees not receiving the low-income subsidy estimated to benefit from new out-of-pocket cap by state, 2025–2029

State	2025		2026		2027		2028		2029	
	Number of Enrollees Estimated to Reach the OOP Cap	Percentage of Enrollees	Number of Enrollees Estimated to Reach the OOP Cap	Percentage of Enrollees	Number of Enrollees Estimated to Reach the OOP Cap	Percentage of Enrollees	Number of Enrollees Estimated to Reach the OOP Cap	Percentage of Enrollees	Number of Enrollees Estimated to Reach the OOP Cap	Percentage of Enrollees
Alabama	61,359	10.3%	62,976	10.2%	66,255	10.3%	71,368	10.9%	76,815	11.4%
Alaska	9,302	18.3%	9,547	18.2%	10,045	18.5%	10,785	19.3%	11,544	20.2%
Arizona	56,086	6.6%	57,430	6.5%	60,729	6.7%	66,314	7.1%	72,463	7.6%
Arkansas	17,853	5.2%	18,200	5.1%	19,422	5.3%	21,842	5.8%	24,567	6.4%
California	271,477	7.2%	278,360	7.1%	293,617	7.2%	318,723	7.7%	346,068	8.1%
Colorado	36,102	5.9%	37,025	5.9%	39,045	6.0%	42,530	6.4%	46,412	6.8%
Connecticut	49,205	11.9%	50,460	11.8%	53,146	12.0%	57,425	12.7%	61,931	13.3%
Delaware	19,034	12.8%	19,532	12.7%	20,566	12.9%	22,228	13.6%	23,967	14.3%
District of Columbia	2,364	9.6%	2,417	9.5%	2,547	9.6%	2,767	10.2%	3,043	10.9%
Florida	203,518	6.9%	208,402	6.8%	220,259	6.9%	240,300	7.4%	261,879	7.9%
Georgia	101,650	9.9%	104,160	9.8%	109,911	10.0%	119,177	10.6%	129,020	11.2%
Hawaii	19,436	11.6%	19,952	11.5%	21,016	11.7%	22,689	12.3%	24,437	13.0%
Idaho	10,640	4.7%	10,865	4.7%	11,528	4.8%	12,686	5.1%	14,010	5.5%
Illinois	125,643	8.9%	128,735	8.8%	135,886	9.0%	147,596	9.5%	160,541	10.1%
Indiana	70,597	8.3%	72,191	8.2%	76,358	8.4%	83,393	8.9%	90,924	9.5%
Iowa	27,348	6.0%	27,890	5.9%	29,614	6.0%	32,988	6.5%	36,847	7.1%
Kansas	20,701	5.7%	21,102	5.6%	22,424	5.7%	24,990	6.2%	27,884	6.8%
Kentucky	59,859	10.7%	61,396	10.6%	64,626	10.8%	69,821	11.3%	75,097	11.9%
Louisiana	42,997	8.8%	44,087	8.8%	46,495	8.9%	50,482	9.4%	54,879	10.0%
Maine	12,779	6.4%	13,102	6.4%	13,818	6.5%	14,997	6.9%	16,276	7.3%
Maryland	66,282	12.1%	67,982	12.0%	71,693	12.2%	77,479	12.9%	83,818	13.6%
Massachusetts	83,342	10.2%	85,465	10.1%	90,151	10.3%	97,404	10.8%	105,251	11.4%
Michigan	162,996	11.3%	167,301	11.2%	176,046	11.4%	188,862	11.9%	202,003	12.4%
Minnesota	40,050	5.4%	40,930	5.3%	43,323	5.4%	47,661	5.8%	52,625	6.3%
Mississippi	19,221	6.3%	19,587	6.2%	20,879	6.4%	23,303	7.0%	26,097	7.7%
Missouri	54,544	6.6%	55,812	6.5%	59,080	6.7%	64,772	7.2%	71,187	7.7%

State	2025		2026		2027		2028		2029	
	Number of Enrollees Estimated to Reach the OOP Cap	Percentage of Enrollees	Number of Enrollees Estimated to Reach the OOP Cap	Percentage of Enrollees	Number of Enrollees Estimated to Reach the OOP Cap	Percentage of Enrollees	Number of Enrollees Estimated to Reach the OOP Cap	Percentage of Enrollees	Number of Enrollees Estimated to Reach the OOP Cap	Percentage of Enrollees
Montana	7,383	5.1%	7,534	5.0%	8,025	5.2%	8,954	5.6%	10,015	6.1%
Nebraska	15,501	6.3%	15,817	6.2%	16,840	6.4%	18,779	7.0%	20,990	7.6%
Nevada	19,358	5.9%	19,826	5.8%	20,961	6.0%	22,833	6.3%	24,867	6.7%
New Hampshire	15,012	7.5%	15,345	7.4%	16,239	7.6%	17,736	8.1%	19,345	8.6%
New Jersey	143,427	13.5%	147,053	13.3%	155,052	13.6%	167,612	14.3%	180,604	15.1%
New Mexico	16,073	7.3%	16,476	7.2%	17,367	7.4%	18,810	7.8%	20,391	8.2%
New York	261,047	13.0%	267,823	12.9%	282,034	13.1%	304,151	13.8%	327,549	14.5%
North Carolina	110,154	8.5%	112,910	8.5%	119,099	8.6%	129,336	9.1%	140,189	9.7%
North Dakota	6,085	6.6%	6,207	6.5%	6,618	6.7%	7,408	7.4%	8,257	8.0%
Ohio	127,193	7.8%	130,209	7.7%	137,559	7.9%	150,097	8.4%	163,112	8.9%
Oklahoma	39,131	9.4%	40,045	9.2%	42,313	9.4%	46,144	10.0%	50,354	10.7%
Oregon	28,990	5.2%	29,649	5.1%	31,394	5.2%	34,483	5.6%	37,769	6.0%
Pennsylvania	160,792	8.7%	164,645	8.6%	174,006	8.8%	189,415	9.4%	205,967	9.9%
Rhode Island	7,413	5.2%	7,584	5.1%	8,056	5.3%	8,874	5.7%	9,733	6.1%
South Carolina	69,971	10.1%	71,724	10.0%	75,589	10.2%	81,869	10.7%	88,601	11.3%
South Dakota	6,267	5.3%	6,399	5.2%	6,848	5.4%	7,716	5.9%	8,710	6.5%
Tennessee	53,942	6.4%	55,161	6.3%	58,405	6.4%	63,832	6.9%	69,892	7.3%
Texas	229,036	9.0%	234,594	8.9%	247,831	9.1%	269,702	9.6%	293,132	10.2%
Utah	15,144	5.3%	15,460	5.3%	16,388	5.4%	17,965	5.8%	19,796	6.2%
Vermont	8,257	8.7%	8,458	8.6%	8,955	8.8%	9,821	9.5%	10,716	10.1%
Virginia	66,617	7.7%	68,192	7.6%	71,996	7.7%	78,701	8.2%	86,001	8.8%
Washington	42,069	5.3%	43,038	5.3%	45,556	5.4%	50,261	5.8%	55,610	6.3%
West Virginia	29,513	12.6%	30,292	12.5%	31,838	12.7%	34,194	13.3%	36,584	13.9%
Wisconsin	49,903	6.2%	50,990	6.2%	54,011	6.3%	59,344	6.8%	65,203	7.2%
Wyoming	4,423	6.4%	4,510	6.3%	4,808	6.5%	5,386	7.1%	6,035	7.8%

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 Appendix B for detailed methodology.

Appendix B: Detailed methodology

Avalere utilized 100% Prescription Drug Event (PDE) data from 2022 through a data use agreement with the Centers for Medicare & Medicaid Services (CMS) to simulate progression through the Part D benefit and account for all products utilized by beneficiaries. Avalere used the PDE simulation to quantify Part D liability by stakeholder (Part D plan, brand name drug company, beneficiary, CMS) under pre-Inflation Reduction Act (IRA) Part D benefit design (applying 2023 Part D benefit design parameters) and under IRA benefit redesign (2025-2029 benefit parameters) to identify beneficiaries estimated to reach the out-of-pocket (OOP) cap in each year.

Beneficiary characteristics were identified using the Medicare Beneficiary Summary File (MBSF).

This analysis was focused on all non-low-income subsidy (LIS) beneficiaries including beneficiaries enrolled in employer group waiver plans (EGWPs) and incorporated the policy change that allows the value of supplemental plan coverage to count towards the beneficiaries' progression to the OOP cap. However, because plan offerings for 2025 and beyond are unknown and likely to change, the value of supplemental coverage for enhanced Part D plans was not incorporated into this analysis.

Avalere inflated 2022 PDE negotiated prices and product volume to 2025-2029 projected values. Avalere calculated a weighted brand and generic price factor based on historical spend trends. If the average historical price growth for any brand drug exceeds Consumer Price Index for all Urban Consumers (CPI-U), price growth was capped at CPI-U. Avalere applied enrollment trends as outlined in the 2024 Medicare Trustees' Report as a proxy for volume changes.

Avalere used the 2022 plan-specific formulary coverage and tier placement for 2025-2029 and overlaid the corresponding year's Part D benefit structure for non-EGWP enrollees. For EGWP enrollees, due to lack of benefit design information, Avalere applied the average cost-sharing percentages for beneficiary, plan, and third-party assistance programs at the brand name drug level as observed in the pre-catastrophic scripts from 2022 PDE. Then, Avalere overlaid these cost-share percentages for 2025-2029 in the initial coverage phase under the pre-IRA and IRA benefit structures. Avalere applied the standard Part D benefit design to all non-EGWP and EGWP enrollees in the catastrophic phase for 2025-2029.

Avalere simulated Part D benefit redesign for 2025-2029 under IRA for non-LIS beneficiaries and applied the following provisions:

- IRA benefit parameters and liability percentages for each stakeholder (Part D plan, brand name drug company, beneficiary, Medicare program)
- Patient OOP maximum of \$2,000 and revised catastrophic threshold as outlined in the 2024 Medicare Trustees' Report for all modeling years
- Elimination of the coverage gap and introduction of a new mandatory manufacturer discount after the deductible
- \$35 monthly cap on patient OOP costs for insulin
- \$0 cost-sharing for recommended vaccines

Exclusions:

- Beneficiaries residing outside the 50 states and DC based on the MBSF
- Beneficiaries enrolled in the limited income newly eligible transition program (LINET)
- LIS beneficiaries

This modeling focuses on the impact of Part D benefit redesign and does not incorporate Medicare drug price negotiation (negotiated prices will first become available in 2026) or changes in utilization from beneficiary or plan behavior.

- 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 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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