

DEPARTMENT OF HEALTH & HUMAN
SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard
Baltimore, Maryland 21244-1850



CENTER FOR MEDICARE

DATE: June 17, 2024

TO: All Part D Plan Sponsors

FROM: Vanessa S. Duran, Director Medicare Drug Benefit and C & D Data Group
Jennifer R. Shapiro, Director, Medicare Plan Payment Group

SUBJECT: Clarification of True Out-of-Pocket Costs for Calendar Year 2025

This memorandum provides operational guidance for Part D sponsors for determining which payments by Other Health Insurers (OHI) will be considered true out-of-pocket (TrOOP) costs for calendar year (CY) 2025. Interested parties have requested that the Centers for Medicare & Medicaid Services (CMS) align existing information in the Prescription Drug Benefit Manual Table, Chapter 14, Table 30.2-2 (Other Payers Supplemental to Part D and Applicability to TrOOP) with the policy announced in Section 30 of the Final CY 2025 Part D Redesign Program Instructions (Final Program Instructions).

As stated in the Final Program Instructions, section 11201 of the Inflation Reduction Act of 2022 (IRA) (P.L. 117-169) amended section 1860D-2(b)(4)(C) of the Social Security Act to update the definition of incurred costs to include costs incurred for covered Part D drugs that are reimbursed through insurance, a group health plan, or certain other third party payment arrangements, but not including the coverage provided by a prescription drug plan or an MA-PD plan that is basic prescription drug coverage.

As such, third-party payments made by most health insurance supplemental to Part D are TrOOP-eligible for CY 2025. Specifically, expenditures by the following third-party arrangements will count toward TrOOP for CY 2025:

- Supplemental commercial health insurance (supplemental insurance type code L)¹;
- Qualified State Pharmacy Assistance Programs (SPAPs) (supplemental insurance type code Q);

¹ As of October 2024, supplemental commercial health insurance records with supplemental insurance type code O will be converted to supplemental insurance type code L. Supplemental insurance type code O will no longer be a valid value for other health insurance (OHI) records.

- Indian Health Service and certain other Native American organizations;
- AIDS Drug Assistance Programs (supplemental insurance type code S); and
- Legitimate charities (supplemental insurance type code T).

Expenditures by the following third-party arrangements will **not** contribute to TrOOP in CY 2025:

- Federal Government Programs (supplemental insurance type code T);
- TRICARE (supplemental insurance type code 2); and
- Non-qualified SPAPs (supplemental insurance type code N)²

CMS would like to emphasize that the information provided in this memorandum is consistent with the policy stated in Section 30 of the Final Program Instructions. To the extent the Final Program Instructions conflict with earlier guidance, including Chapter 14 of the Prescription Drug Benefit Manual, the Final Program Instructions are the controlling guidance for CY 2025. However, unless otherwise stated in the Final Program Instructions, guidance for prior years with respect to incurred or TrOOP-eligible costs continues to apply for CY 2025.

Any questions about this memorandum should be directed to: PartD_COB@cms.hhs.gov and PartDPaymentPolicy@cms.hhs.gov.

² See the Final Program Instructions, pg. 9 for a discussion of the continued exclusion of government-funded health programs from TrOOP for CY 2025.