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**DATE:** September 30, 2025

**TO:** All Medicare Advantage Organizations, Prescription Drug Plans, Cost Plans, PACE Organizations

**FROM:** Jennifer R. Shapiro, Director, Medicare Plan Payment Group

**SUBJECT:** **Applicability of the Selected Drug Subsidy for Certain Claims for 2026**

CMS has received several inquiries as to whether, for calendar year (CY) 2026, the selected drug subsidy<sup>1</sup> will apply to certain types of claims that are not subject to manufacturer discounts under the Manufacturer Discount Program.<sup>2</sup>

Section 1860D-14D of the Social Security Act (“the Act”) establishes the selected drug subsidy as a substitute for the Manufacturer Discount Program discount for a covered Part D drug that would otherwise meet the definition of an applicable drug but for being a selected drug under the Medicare Drug Price Negotiation Program during a price applicability period. Because of the intertwined structure and wording of the Manufacturer Discount Program and selected drug subsidy program provisions at sections 1860D-14C and 1860D-14D of the Act, CMS treats claims that are subject to the selected drug subsidy as coterminous with claims that would qualify for applicable discounts under the Manufacturer Discount Program, but for the drug’s status as a selected drug during a price applicability period. In other words, the selected drug subsidy will apply if the selected drug that otherwise would be an “applicable drug” would have received an applicable discount for the particular claim at issue under the rules of the Manufacturer Discount Program. Conversely, the selected drug subsidy will not apply if the applicable discount under the Manufacturer Discount Program otherwise would not have applied to that particular claim.

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<sup>1</sup> Section 11201 of the Inflation Reduction Act (IRA) added section 1860D-14D to the Act, creating a new selected drug subsidy program, which begins in CY 2026. Under the program, the Secretary must, periodically and on a timely basis, provide Part D plan sponsors with a subsidy for selected drugs equal to 10 percent of the drug’s negotiated price. The selected drug subsidy applies to a covered Part D drug that would otherwise meet the definition of an applicable drug but for being a selected drug under the Medicare Drug Price Negotiation Program during a price applicability period. The subsidy is paid on behalf of an applicable beneficiary who is enrolled in a standalone prescription drug plan or a Medicare Advantage Prescription Drug plan, has not incurred costs that are equal to or exceed the annual out of pocket threshold, and is dispensed a selected drug.

<sup>2</sup> Section 11201 of the IRA added section 1860D-14C of the Act, which created the Manufacturer Discount Program beginning January 1, 2025. Under section 1860D-14C(b)(1)(A) of the Act, participating manufacturers that enter into a Manufacturer Discount Program agreement provide discounts on applicable drugs, typically amounting to 10 percent of the negotiated price for enrollees in the initial coverage phase and 20 percent of the negotiated price for enrollees in the catastrophic phase. Guidance applicable to CY 2026 for the Manufacturer Discount Program can be found in the [Revised Medicare Part D Manufacturer Discount Program Final Guidance](#).

Types of claims for which the selected drug subsidy is not available for CY 2026 because such claims will *not* be subject to a manufacturer discount under the Manufacturer Discount Program include, but are not limited to, the following:

- Claims for compound drugs containing a selected drug ingredient;
- Medicare Secondary Payer (MSP) claims;
- Medicaid Subrogation claims;
- Non-Standard Format Coordination of Benefits (COB) claims; and
- Manual claims with a service provider identification qualifier of “Other.”

Note that this list is not necessarily exhaustive. For any type of claim that is not subject to a manufacturer discount under the Manufacturer Discount Program the selected drug subsidy is not available for CY 2026.

Questions about this memorandum should be directed to [partdpaymentpolicy@cms.hhs.gov](mailto:partdpaymentpolicy@cms.hhs.gov).