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MEDICARE PLAN PAYMENT GROUP

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TO: All Medicare Advantage Organizations

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

SUBJECT: **Contract Year 2026 Technical Guidance and Prescription Drug Event Record Reporting Examples for D-SNPs utilizing State-Only Funded Wrap Coverage to Buy Down the Nominal LIS Copayment**

The Centers for Medicare & Medicaid Services (CMS) has received technical questions from Medicare Advantage (MA) organizations offering dual-eligible special needs plans (D-SNPs) that use state-only funding to provide zero-dollar cost-sharing under Part D for Contract Year (CY) 2026.[1] This memorandum provides guidance and specific Prescription Drug Event (PDE) examples related to these technical questions.

The examples in this memorandum demonstrate how to report PDEs for beneficiaries enrolled in D-SNPs that utilize state-only funds to buy down the Low-Income Subsidy (LIS) beneficiary cost-sharing in the Part D benefit. Expenditures of state-only funds to buy down nominal LIS copayment amounts on behalf of D-SNP enrollees are not incurred costs for purposes of section 1860D-2(b)(4)(C) of the Social Security Act (the Act), meaning they do not accumulate towards True Out-of-Pocket costs (TrOOP).[2] Therefore, these expenditures should be reported in the Patient Liability Reduction due to Other Payer (PLRO) field on the PDE.

[1] 'State-only funding' means any state funds provided by a program that meet the definition of a "government funded health program" at 42 CFR 423.100, which comprises "any program established, maintained, or funded, in whole or in part … by the government of any State … which uses public funds, in whole or in part, to provide to, or pay on behalf of, an individual the cost of Part D drugs." This definition includes state programs that use public funds to pay for the cost sharing that an individual would otherwise be required to pay for Part D drugs but does not include Part D supplemental benefits offered by a Part D plan sponsor that are used to provide zero-dollar cost sharing.

[2] Note that cost-sharing assistance provided by a qualified State Pharmaceutical Assistance Program (as defined in § 423.464); by the Indian Health Service, an Indian tribe or tribal organization, or urban Indian organization (as defined in section 4 of the Indian Health Care Improvement Act) or under an AIDS Drug Assistance Program (as defined in part B of title XXVI of the Public Health Service) *are* included in incurred costs and do accumulate toward TrOOP. Furthermore, cost-sharing assistance provided by a Medicaid value-added service in accordance with 42 CFR 438.3(e)(1) is regarded as an incurred cost for Part D drugs that is "reimbursed through insurance" and also does accumulate toward TrOOP (see section 1860D-2(b)(4)(C)(iii)(II) of the Act). As such, these PDE instructions are not applicable in scenarios where cost-sharing assistance provided by such organizations or through a Medicaid value-added service is used to provide zero-dollar cost-sharing for LIS beneficiaries. Please refer to Example 32 in the *Prescription Drug Event Record Reporting Instructions for the Implementation of the Inflation Reduction Act for Contract Year 2025* (April 15, 2024) for an example of how to report a PDE where a TrOOP-eligible reduction in cost-sharing decreases the Patient Pay Amount.

Because the buy-down of the nominal LIS copayment using state-only funds is not TrOOP-eligible and is applied after the total Low Income Cost Sharing Subsidy Amount (LICS) on a claim is calculated, LIS beneficiaries that owe a nominal LIS copayment will not accumulate sufficient TrOOP to satisfy the annual out-of-pocket (OOP) threshold for claims that would otherwise straddle the Catastrophic Phase of the benefit if no buy-down had occurred.[3] The buy-down of the nominal LIS copayment effectively prevents such beneficiaries from entering the Catastrophic Phase of the benefit at any point during the plan year, which means D-SNPs that use state-only funds to buy down the entire nominal LIS copayment will not receive a reinsurance subsidy from CMS for any gross covered prescription drug costs actually paid on behalf of the D-SNP's LIS enrollees that owe nominal LIS copayments.[4]

The following PDE examples use the CY 2026 benefit parameters.

Please direct questions regarding this memorandum to PDE-Operations@cms.hhs.gov.

Example #1: D-SNP Defined Standard (DS) Plan – Deductible Phase where State-Only Funded Wrap Coverage Buys Down the Nominal LIS Copayment for an LIS Category 2 Beneficiary that would have straddled into the Initial Coverage Phase (ICP) if the Plan did not Utilize State-Only Funded Wrap Coverage (Applicable Drug)

This example demonstrates how to report a PDE for an LIS category 2 beneficiary that purchases a $625.00 covered Part D applicable drug that falls entirely within the Deductible Phase. The beneficiary is enrolled in a DS D-SNP that utilizes state-only funded wrap coverage to buy down the nominal LIS copayment. When the claim adjudication begins, the Total Gross Covered Drug Cost (TGCDC) Accumulator is $0.00 and the TrOOP Accumulator is $0.00. The remaining TrOOP amount required for the beneficiary to meet the definition of an applicable beneficiary and be eligible for the Manufacturer Discount Program (MDP) is calculated by subtracting the TrOOP Accumulator from the DS deductible amount and is $615.00 ($615.00 - $0.00).

If this were a DS plan that did not utilize state-only funds to buy down the nominal LIS copayment, the PDE would straddle the Deductible Phase and ICP.[5] However, because this is a DS plan that utilizes state-only funded wrap coverage to provide zero-dollar cost-sharing for the beneficiary by reducing the Patient Pay Amount to $0.00, the sum of the Patient Pay Amount and LICS on the PDE does not exceed the annual DS deductible amount (TrOOP Accumulator +

[3] This is specifically describing when the state-only funded wrap coverage is applied to the full nominal LIS copay for all of a beneficiary's PDEs.

[4] Note that this does not apply to situations where a Part D sponsor adjudicates a claim for an applicable drug with a total TrOOP amount that moves the beneficiary from one benefit phase to another but then receives an Information Reporting (N) transaction indicating a non-Part D, non-TrOOP eligible supplemental payment has been made. For information on such situations, please refer to the HPMS memorandum *Additional Guidance on the Impact of Supplemental Payments on Manufacturer Discount Program Calculations and True Out-of-Pocket (TrOOP) Cost Accumulation* (November 26, 2024).

[5] For more information on determining how to calculate a claim that straddles from the Deductible Phase into the ICP, please see the HPMS memorandum, *Prescription Drug Event Record Reporting Instructions for the Implementation of the Inflation Drug Act for Contract Year 2025*, published on April 15, 2024.

Delta TrOOP[6] ≤ $615.00). Therefore, the Deductible Phase is the beginning and ending benefit phase. Under this scenario, the D-SNP is administering a benefit package that is known at the point-of-sale (POS) to be a combination of the Part D benefit and state-only funded wrap coverage, and the PDE must be reported using this information.

To determine the beneficiary liability and LICS amount, the non-LIS beneficiary cost-sharing for this claim ($615.00 + $10.00 * 0.25 = $617.50) is compared to the LIS category 2 statutory cost-sharing amount ($4.90). Because the LIS statutory cost-sharing amount is less than the non-LIS beneficiary cost-sharing amount, the beneficiary liability (prior to the application of the state-only funded wrap coverage) is $4.90. LICS is calculated as the difference between the non-LIS and LIS beneficiary cost-sharing amounts[7] ($617.50 - $4.90 = $612.60).

The Patient Pay Amount is determined by applying the state-only funded wrap coverage to the beneficiary liability (i.e., the buy down of LIS beneficiary cost sharing to $0.00). Therefore, the Patient Pay Amount is $0.00. In this example, PLRO is the amount paid by the state in lieu of the beneficiary cost-sharing. PLRO is $4.90 ($4.90 - $0.00). The Delta TrOOP on this claim is equal to $612.60, which does not exceed the $615.00 of remaining TrOOP required for the beneficiary to be eligible for the MDP. Therefore, a manufacturer discount is not calculated for this claim. Because the state-only funded wrap coverage only provides coverage for the nominal LIS copayment, the remaining drug cost is reported in the Covered D Plan Paid Amount (CPP) field ($625.00 - $612.60 - $4.90 = $7.50).

After the claim is processed, the TGCDC Accumulator increases by $625.00, and the TrOOP Accumulator increases by $612.60. The table below illustrates how the Part D sponsor would populate the PDE record.

PDE Field	**Value**
Drug Coverage Status Code	C
Ingredient Cost Paid	$625.00
Dispensing Fee Paid	$0.00
Total Amount Attributed to Sales Tax	$0.00
Vaccine Administration Fee or Additional Dispensing Fee	$0.00
Gross Drug Cost Below Out-of-Pocket Threshold (GDCB)	$625.00
Gross Drug Cost Above Out-of-Pocket Threshold (GDCA)	$0.00
Patient Pay Amount	$0.00
Other TrOOP Amount	$0.00
Low Income Cost Sharing Subsidy Amount (LICS)	$612.60
Patient Liability Reduction Due to Other Payer Amount (PLRO)	$4.90
Covered D Plan Paid Amount (CPP)	$7.50
Non Covered Plan Paid Amount (NPP)	$0.00

[6] Delta TrOOP is defined as total TrOOP-eligible costs that are accrued on the individual PDE being reported, excluding the TrOOP Accumulator value, and represents the change in TrOOP from the preceding PDE.
[7] As stated in § 423.329(d)(1), the LICS amount for an LIS-eligible individual enrolled in a Part D plan for a coverage year is the "difference between the cost-sharing for a non-LIS-eligible beneficiary under the Part D plan and the statutory cost-sharing for an LIS-eligible beneficiary."

Selected Drug Subsidy	$0.00
Reported Manufacturer Discount	$0.00
Total Gross Covered Drug Cost Accumulator	$0.00
True Out-of-Pocket Accumulator	$0.00
Beginning Benefit Phase	D
Ending Benefit Phase	D

Example #2: D-SNP DS Plan – ICP where State-Only Funded Wrap Coverage Buys Down the Nominal LIS Copayment for an LIS Category 2 Beneficiary that would Straddle the ICP and Catastrophic Phase if the Plan did not Utilize State-Only Funded Wrap Coverage (Applicable Drug)

This example demonstrates how to report a PDE for an LIS category 2 beneficiary that purchases a $1,000.00 covered Part D applicable drug that falls entirely within the ICP due to the state-only funded wrap coverage. The beneficiary is enrolled in a DS D-SNP that utilizes state-only funded wrap coverage to buy down the nominal LIS copayment. When the claim adjudication begins, the TGCDC Accumulator is $6,000.00 and the TrOOP Accumulator is $1,951.45. The remaining TrOOP amount is calculated by subtracting the TrOOP Accumulator from the annual OOP threshold ($2,100.00 - $1,951.45), which equals $148.55.

If this were a DS plan that did not utilize state-only funds to buy down the nominal LIS copayment, the PDE would straddle the ICP and Catastrophic Phase.[8] However, because this is a DS plan that utilizes state-only funded wrap coverage to provide zero-dollar cost-sharing for the beneficiary by reducing the Patient Pay Amount to $0.00, the sum of the Patient Pay Amount and LICS on the PDE is less than the remaining TrOOP needed to meet the annual OOP threshold. Therefore, the ICP is the beginning and ending benefit phase. Under this scenario, the D-SNP is administering a benefit package that is known at the POS to be a combination of the Part D benefit and state-only funded wrap coverage, and the PDE must be reported using this information.

In the ICP, the manufacturer discount is 10% of the total drug cost ($1,000.00 * 0.10 = $100.00). To determine the beneficiary liability and LICS amount, the non-LIS beneficiary cost-sharing for this claim ($148.55) is compared to the LIS category 2 statutory cost-sharing amount ($4.90). The non-LIS beneficiary cost-sharing is equal to the remaining TrOOP amount for this claim because a non-LIS beneficiary would have straddled into the Catastrophic Phase and would have paid 25% of the drug cost falling in the ICP. Because the LIS statutory cost-sharing amount is less than the non-LIS beneficiary cost-sharing amount, the beneficiary liability (prior to the application of the state-only funded wrap coverage) is $4.90. LICS is calculated as the difference between the non-LIS and LIS beneficiary cost-sharing amounts ($148.55 - $4.90 = $143.65).

[8] For more information on determining how to calculate a claim that straddles from the ICP into the Catastrophic Phase, please see the HPMS memorandum, *Prescription Drug Event Record Reporting Instructions for the Implementation of the Inflation Drug Act for Contract Year 2025*, published on April 15, 2024.

The Patient Pay Amount is determined by applying the state-only funded wrap coverage to the beneficiary liability (i.e., the buy down of LIS beneficiary cost sharing to $0.00). Therefore, the Patient Pay Amount is $0.00. In this example, PLRO is the amount paid by the state in lieu of the beneficiary cost-sharing. PLRO is $4.90 ($4.90 - $0.00). Because the state-only funded wrap coverage only provides coverage for the nominal LIS copayment, the remaining drug cost is reported in the CPP field ($1,000.00 - $143.65 - $100.00 - $4.90 = $751.45).

After the claim is processed, the TGCDC Accumulator increases by $1,000.00, and the TrOOP Accumulator increases by $143.65. The table below illustrates how the Part D sponsor would populate the PDE record.

PDE Field	**Value**
Drug Coverage Status Code	C
Ingredient Cost Paid	$1,000.00
Dispensing Fee Paid	$0.00
Total Amount Attributed to Sales Tax	$0.00
Vaccine Administration Fee or Additional Dispensing Fee	$0.00
Gross Drug Cost Below Out-of-Pocket Threshold (GDCB)	$1,000.00
Gross Drug Cost Above Out-of-Pocket Threshold (GDCA)	$0.00
Patient Pay Amount	$0.00
Other TrOOP Amount	$0.00
Low Income Cost Sharing Subsidy Amount (LICS)	$143.65
Patient Liability Reduction Due to Other Payer Amount (PLRO)	$4.90
Covered D Plan Paid Amount (CPP)	$751.45
Non Covered Plan Paid Amount (NPP)	$0.00
Selected Drug Subsidy	$0.00
Reported Manufacturer Discount	$100.00
Total Gross Covered Drug Cost Accumulator	$6,000.00
True Out-of-Pocket Accumulator	$1,951.45
Beginning Benefit Phase	N
Ending Benefit Phase	N

Example #3: D-SNP DS Plan – ICP where State-Only Funded Wrap Coverage Buys Down the Nominal LIS Copayment for an LIS Category 2 Beneficiary that would Straddle the ICP and Catastrophic Phase if the Plan did not Utilize State-Only Funded Wrap Coverage and the Remaining TrOOP is equal to the Nominal LIS Copayment (Applicable Drug)

This example demonstrates how to report a PDE for an LIS category 2 beneficiary that purchases a $1,000.00 covered Part D applicable drug that falls entirely within the ICP. The beneficiary is enrolled in a DS D-SNP that utilizes state-only funded wrap coverage to buy down the nominal LIS copayment. When the claim adjudication begins, the TGCDC Accumulator is $7,000.00 and the TrOOP Accumulator is $2,095.10. The remaining TrOOP amount is calculated by

subtracting the TrOOP Accumulator from the annual OOP threshold ($2,100.00 - $2,095.10), which equals $4.90.

If this were a DS plan that did not utilize state-only funds to buy down the nominal LIS copayment, the PDE would straddle the ICP and Catastrophic Phase. However, because this is a DS plan that utilizes state-only funded wrap coverage to provide zero-dollar cost-sharing for the beneficiary by reducing the Patient Pay Amount to $0.00, the sum of the Patient Pay Amount and LICS on the PDE is less than the remaining TrOOP needed to meet the annual OOP threshold. Therefore, the ICP is the beginning and ending benefit phase. Under this scenario, the D-SNP is administering a benefit package that is known at the POS to be a combination of the Part D benefit and state-only funded wrap coverage, and the PDE must be reported using this information.

In the ICP, the manufacturer discount is 10% of the total drug cost ($1,000.00 * 0.10 = $100.00). To determine the beneficiary liability and LICS amount, the non-LIS beneficiary cost-sharing for this claim ($4.90) is compared to the LIS category 2 statutory cost-sharing amount ($4.90). The non-LIS beneficiary cost-sharing is equal to the remaining TrOOP amount for this claim because a non-LIS beneficiary would have straddled into the Catastrophic Phase and would have paid 25% of the drug cost falling in the ICP. Because the LIS statutory cost-sharing amount is equal to the non-LIS beneficiary cost-sharing amount, the beneficiary liability (prior to the application of the state-only funded wrap coverage) is $4.90. LICS is calculated as the difference between the non-LIS and LIS beneficiary cost-sharing amounts ($4.90 - $4.90 = $0.00).

The Patient Pay Amount is determined by applying the state-only funded wrap coverage to the beneficiary liability (i.e., the buy down of LIS beneficiary cost sharing to $0.00). Therefore, the Patient Pay Amount is $0.00. In this example, PLRO is the amount paid by the state in lieu of the beneficiary cost-sharing. PLRO is $4.90 ($4.90 - $0.00). Because the state-only funded wrap coverage only provides coverage for the nominal LIS copayment, the remaining drug cost is reported in CPP ($1,000.00 - $100.00 - $4.90 = $895.10).

After the claim is processed, the TGCDC Accumulator increases by $1,000.00, and the TrOOP Accumulator is unchanged. The table below illustrates how the Part D sponsor would populate the PDE record.

PDE Field	**Value**
Drug Coverage Status Code	C
Ingredient Cost Paid	$1,000.00
Dispensing Fee Paid	$0.00
Total Amount Attributed to Sales Tax	$0.00
Vaccine Administration Fee or Additional Dispensing Fee	$0.00
Gross Drug Cost Below Out-of-Pocket Threshold (GDCB)	$1,000.00
Gross Drug Cost Above Out-of-Pocket Threshold (GDCA)	$0.00
Patient Pay Amount	$0.00
Other TrOOP Amount	$0.00
Low Income Cost Sharing Subsidy Amount (LICS)	$0.00

Patient Liability Reduction Due to Other Payer Amount (PLRO)	$4.90
Covered D Plan Paid Amount (CPP)	$895.10
Non Covered Plan Paid Amount (NPP)	$0.00
Selected Drug Subsidy	$0.00
Reported Manufacturer Discount	$100.00
Total Gross Covered Drug Cost Accumulator	$7,000.00
True Out-of-Pocket Accumulator	$2,095.10
Beginning Benefit Phase	N
Ending Benefit Phase	N