Weekly Checkup

A Look at the Medicare Part D Risk Sharing Program

CONOR RYAN | FEBRUARY 12, 2014

Medicare Part D is a prescription drug program for Medicare-eligible Americans that began its first open enrollment period in late 2005. Medicare Part D offered a new way for seniors to get coverage for prescription medication and required a significant rollout effort. In an attempt to protect insurance companies from the risk of instability associated with new markets, Congress designed a risk sharing program: the federal government would provide financial assistance to insurance companies that suffer abnormally large losses in return for sharing in the gains from abnormally large profits. A similar provision, referred to as the "risk corridor", exists in the Affordable Care Act (ACA) and is detailed in an AAF primer on the risk protections for insurance companies participating in the new exchanges.

The risk sharing programs of Part D and the ACA are intended to be close to budget neutral—gain-sharing revenue from well-performing companies should roughly offset loss-sharing spending from poor-performing companies. However, the revenue and spending are not guaranteed to be equal. As is shown in the chart below, gain-sharing revenue has greatly out-weighed loss-sharing spending in Part D since the beginning of the program and has yielded net revenue. In the case of the ACA, the Congressional Budget Office estimates that gain-sharing revenue will amount to $16 billion over the next ten years, while loss-sharing payments will total only $8 billion.

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