

April 14, 2025

## CMS Issues CY 2026 Medicare Advantage and Part D Rate Announcement, Part D Redesign Program Instructions

On Monday (April 8), the Centers for Medicare & Medicaid Services (CMS) issued the Calendar Year (CY) 2026 Medicare Advantage (MA) and Part D Rate Announcement, which includes a 5.06% payment bump, on average, for MA plans in CY 2026. CMS estimated the rate increase would amount to a more than \$25 billion increase in overall payments for CY 2026, when compared with CY 2025.

CMS also released Part D Redesign Program Instructions, providing additional detail regarding implementation of the Inflation Reduction Act's (IRA) Part D drug benefit changes, including the establishment of the selected drug subsidy program.

[Press Release](#), [Fact Sheet](#), [Rate Announcement](#), [Part D Redesign Program Instructions](#), [Part D Redesign Fact Sheet](#)

### Summary of key provisions

**2026 payment rates.** CMS said MA plans will see a payment increase of 5.06%, on average, or \$25 billion, compared with 2025. The rate increase is up by 2.83 percentage points from the CY 2026 Advance Notice due primarily to newly available 2024 fee-for-service (FFS) expenditure data that increased the effective growth rate. CMS' rate projection is based on the summation of a 9.04% effective growth rate; a -0.28% rebasing adjustment; a -0.69% adjustment related to star ratings changes; and a -3.01% cut related to the final year of changes to the CMS-Hierarchical Condition Categories (HCC) risk adjustment model. The total does not include an adjustment for underlying coding trend in MA. For CY 2026, CMS expects the underlying coding trend to increase risk scores, on average, by 2.10%.

Table 1: Year-to-Year Percentage Change in Payment

	Effective Growth Rate	Rebasing/ Re-pricing	Change in Star Ratings	MA Coding Pattern Adjustment	Risk Model Revision and Normalization	Expected Average Change in Revenue
2026 Advance Notice (Proposed)	5.93%	TBD	-0.69%	0%	-3.01%	2.23%
2026 Rate Announcement (Final)	9.04%	-0.28%	-0.69%	0%	-3.01%	5.06%

**MA risk adjustment model updates.** CMS in CY 2026 will complete its three-year phase-in for its update to the MA, or Part C, risk adjustment model, also known as the CMS- Hierarchical Condition Categories (HCCs) model.

CMS said for CY 2026 it would calculate 100% of the risk scores using the updated 2024 MA risk adjustment model. CMS projected the CY 2026 impact on MA risk scores, relative to the blend in CY 2025, would be -3.01%, which the agency said represents a \$12.88 billion net savings to the Medicare Trust Funds in CY 2026. CMS said it will continue to use the multiple linear regression methodology implemented in CY 2025 for the FFS normalization factor, which is an adjustment to risk scores calculated using the models for CY 2026 payment to account for the expected growth in the average FFS risk score over time.

PACE organizations have been exempted from the 2024 MA risk adjustment model phase-in, but CMS said it will begin a four-year transition in CY 2026 using the 2017 CMS-HCC model and the 2024 CMS-HCC model.

CMS in the Rate Notice predicted that it may be able to start phasing in MA plans' encounter data, such as diagnosis, cost, and use data, into the risk adjustment model as early as CY 2027. In the Rate Announcement CMS said it received a range of feedback on the topic both in favor of and against the transition. Rather than commit to a potential date, CMS said it will continue to evaluate the "feasibility, transparency, and timing of a future transition to an encounter data-based risk adjustment model."

**Part D updates.** The IRA made several amendments and additions to the standard Part D drug benefit for CY 2023 and subsequent years. The updates in place for CY 2026 include:

- Establishing the selected drug subsidy program; and
- Guidance on the successor regulation exception to the IRA's requirement that Part D plan sponsors include drugs selected under the Medicare Drug Price Negotiation Program beginning in 2026.

In the CY 2026 Part D Redesign Program instructions, CMS detailed its plans to establish the selected drug subsidy program, which provides a government subsidy to Part D plan sponsors for drugs that were part of the drug price negotiation program ("selected drugs") and were dispensed to enrollees in the initial coverage phase.

CMS finalized its proposal to make monthly prospective payments that are reconciled after Part D plan sponsors submit prescription drug event (PDE) data, including the actual selected drug subsidy amounts. CMS said those reconciling payments would be made in a lump sum, noting that Part D plan sponsors would be paid "dollar for dollar" for the selected drug subsidy. CMS also detailed its policy for drugs not subject to the defined standard deductible, such as covered insulin products and updated its reinsurance categories to reflect the selected drugs.

In addition, CMS identified the "updated, immediate substitution regulatory provisions at § 423.120(e)(2)(i), (f)(2), (3), and (4) as the 'successor regulation.'" CMS noted that doing so would expand the types of selected drugs potentially eligible for removal as an immediate substitution to include reference products with newly available interchangeable biological products.

CMS also finalized updates to the Part D risk adjustment model to reflect the continued implementation of the IRA's Manufacturer Discount Program, the updated out-of-pocket threshold, and the Medicare Drug Price Negotiation Program. It also will calibrate the model for non-PACE organizations using 2022 diagnosis data and 2023 cost data and continue to use 2018 and 2019 data for PACE organizations.

**Star ratings.** In the Rate Announcement, CMS provided a list of eligible disasters for adjustment, non-substantive measure specification updates, and the list of measures included for 2026. CMS said it would review feedback on ways to progress toward the Universal Foundation of streamlined quality measures and noted any substantive measure specification changes or additions would go through rulemaking.

*If you have questions, please contact [Heather Meade](#) or [Heather Bell](#).*

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