

RDS to Part D: It's Time to Transition *Now*

The Retiree Drug Subsidy (RDS) was a government-funded program established in 2003 to assist employers and unions in providing prescription drug coverage to their retired employees. Even after Medicare Part D prescription drug plans were first sold in 2006, many plan sponsors opted to remain on their commercial plans and collect RDS reimbursements. That was then.

In the new healthcare landscape of 2025, plan sponsors have several reasons to consider alternatives to RDS.

RDS plans can't receive subsidies under the Manufacturer Discount Program and federal reinsurance program

It will be more difficult to qualify for RDS in 2025, given new criteria

Fewer member claims will be eligible for RDS reimbursement due to drug pricing trends

It's time to transition from RDS. Here's why.

In 2025, the Inflation Reduction Act (IRA) will establish the new Manufacturer Discount Program, replacing the Coverage Gap Discount Program. When a Part D enrollee meets a \$590 deductible and enters initial coverage, the drug manufacturer typically covers 10% of the cost of applicable drugs. When an enrollee reaches an annual out-of-pocket spending cap of \$2,000 and enters catastrophic coverage, the drug manufacturer pays a discount, typically equal to 20%, of applicable drugs. Also in the catastrophic phase, the Centers for Medicare & Medicaid Services (CMS) pays a reinsurance subsidy equal to 20% of the costs of applicable drugs and equivalent to 40% of the costs of all other covered Part D drugs.¹ **Commercial plans, like RDS, are ineligible for these subsidies.**²

The impact of the IRA will also enhance and restructure the Medicare Part D basic plan. RDS plans must provide prescription drug coverage that equals or exceeds the actuarial value of this basic plan,³ including the member's out-of-pocket costs; a qualification known as creditable coverage. **With the impact of the IRA and a newly defined reference plan, it will be more challenging for plans to qualify as creditable in 2025 compared to prior years,**¹ without moving to a more costly benefit design.

The future of RDS will also be affected by drug pricing trends. CMS reimburses RDS plan sponsors the equivalent of 28% of all allowable retiree drug expenses that fall between the federally designated cost threshold amount and the cost limit, after the removal of actual cost adjustments. **In 2025, fewer member claims will fall between the cost threshold (\$590) and the cost limit (\$12,150) due to drug pricing trends.** The wider availability of cheaper generic and biosimilar medications along with expensive gene therapies have made prescription expenses either too cheap or too expensive to qualify for RDS reimbursement.⁵

Here's what you can do.

Work with an actuary to evaluate if your current plan will be credible and what the subsidy projections with RDS will be. You may need to enhance your commercial plan benefits to meet new qualification criteria, or consider a Medicare Part D alternative that could be more financially advantageous.

Connect with an advisor at RetireeFirst for an assessment and review of current options. In our quickly evolving healthcare system, you need a strategic approach to market analysis and plan design. For almost twenty years and counting, RetireeFirst has been the leader in Retiree Benefits Management with a sole focus on improving outcomes for plan sponsors and their retiree members.

In addition to plan strategy, RetireeFirst specializes in guiding our clients and their retirees through the transition from RDS to a Medicare Part D plan. From implementation to ongoing administration, our support is comprehensive and ensures continuity of care for members.

SOURCES

- 1 Centers for Medicare & Medicaid Services. (2024). *Final CY 2025 Part D Redesign Program Instructions Fact Sheet* [Fact sheet]. <https://www.cms.gov/newsroom/fact-sheets/final-cy-2025-part-d-redesign-program-instructions-fact-sheet>
- 2 Dickett, M., Lin, J., & Wanta, T., (2024). *Battle Royale: Part D EGWPs vs. RDS plans in the era of the Inflation Reduction Act*. [White paper]. Milliman. <https://www.milliman.com/en/insight/battle-royale-part-d-egwp-vs-retiree-drug-subsidy>
- 3 Centers for Medicare & Medicaid Services. (2024, January). *RDS: General Program Information*. <https://www.rds.cms.hhs.gov/common-questions/general-program-information>
- 4 Dulczak, J. P. (2024). Retiree Drug Subsidy changes: New benefit options for employers to consider for 2025. *BenefitsPRO*. <https://www.benefitspro.com/2024/03/19/retiree-drug-subsidy-changes-new-benefit-options-for-employers-to-consider-for-2025/>

Book a meeting with an advisor at RetireeFirst.com/contact.

More Resources on the RDS Program in 2025



READ our latest insights from RetireeFirst CEO John P. Dulczak: *Retiree Drug Subsidy changes: New benefit options for employers to consider for 2025* at RetireeFirst.com/blog.



WATCH a webinar recording of *What to Know About the CMS Final Rule: CMS Updates, IRA Impacts, and Key Considerations* with discussion on RDS in 2025 at RetireeFirst.com/webinars.



About RetireeFirst



We are the premier Retiree Benefits Management provider, enhancing the experience and outcomes for group plan sponsors and their retirees. We provide an end-to-end solution built on three pillars: Strategy, Support, and Advocacy, and partner with brokers, consultants, and clients to meet their unique needs—ultimately reducing costs while preserving group retiree benefits.



RetireeFirst



856.780.6218



info@RetireeFirst.com



RetireeFirst.com



[@RetireeFirst](https://www.linkedin.com/company/RetireeFirst)