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CMS Releases 2018 Medicare Part D Benefit Parameters

The Centers for Medicare & Medicaid Services has released the Medicare Part D standard benefit parameters and the cost thresholds and limits for qualified retiree prescription drug plans for 2018. The standard benefit parameters will increase by approximately 1.2 to 1.5%, with the OOP threshold increasing by 1%. Plan sponsors that want to remain qualified for the employer retiree drug subsidy will have to determine if their 2018 prescription drug coverage is at least actuarially equivalent to the standard Medicare Part D coverage.

Background

Annually, the Centers for Medicare & Medicaid Services (CMS) must update the parameters for the standard Medicare Part D drug benefit to account for the increased cost of prescription drugs. Most Part D benefit parameters are updated using the annual percentage increase in average expenditures for Part D drugs per beneficiary. Certain parameters related to the low-income program are adjusted on the basis of the annual percentage increase in the Consumer Price Index. The parameters include the size of the coverage gap. The health care reform law includes a provision that will phase out the Part D coverage gap or “donut hole” by 2020.

CMS Call Letter

On April 3, CMS issued a Call Letter providing the parameters and thresholds for 2018, as well as a Fact Sheet that summarizes the Call Letter.

Medicare Part D Parameters

The 2018 parameters (below) were calculated using the annual percentage increase method, and they will increase by approximately 1.2 to 1.5%, with the out-of-pocket (OOP) threshold increasing by 1% in 2018.

Standard Benefit Parameters

	2017	2018
Deductible	$ 400.00	$ 405.00
Initial coverage limit	$ 3,700.00	$ 3,750.00
Out-of-pocket (OOP) threshold	$ 4,950.00	$ 5,000.00
Minimum copay (catastrophic portion of benefit)		
• Generic/preferred drug	$ 3.30	$ 3.35
• All other drugs	$ 8.25	$ 8.35

Coverage Gap

Under the Affordable Care Act (ACA), the standard Part D benefit now includes coverage in the coverage gap (donut hole). Prior to 2011, the standard benefit did not include coverage between the initial coverage limit and the level of spending at which the OOP threshold was met, i.e., where the catastrophic coverage commenced. In 2018, there will be a 56% plan benefit (44% retiree-paid coinsurance) for generic drugs and a 15% plan benefit for brand drugs. There continues to be a separately calculated 50% brand drug discount provided by the manufacturer of the brand drug. The combination of the 15% plan benefit and 50% brand discount results in 35% retiree-paid coinsurance for brand drugs in 2018. The total amount of spending required to reach the OOP threshold and catastrophic coverage will depend on whether spending is on generic drugs, brand drugs or a combination. By 2020, the Part D coverage gap will be completely phased out through the combination of the additional Part D benefit and brand discount.

The coverage in the coverage gap is scheduled to increase until it is filled in and provides the same 75% coverage before the gap, as follows:

Year	Generic Benefit	Brand Benefit	Brand Discount
2018	56%	15%	50%
2019	63%	20%	50%
2020 and after	75%	25%	50%

Retiree Drug Subsidy Amounts

The cost threshold and cost limit for the retiree drug subsidy (RDS) program will also increase for 2018 from 2017.

	2017	2018
RDS cost threshold	$ 400.00	$ 405.00
RDS cost limit	$ 8,250.00	$ 8,350.00

For 2018, plan sponsors eligible for the RDS will receive 28% of Part D prescription drug expenses between $405 and $8,350. The theoretical maximum potential subsidy per covered retiree will increase from $2,198 in 2017 to $2,225 for 2018.

RDS Payment Reduction Due to Budget Sequestration

Sequestration was enacted as part of the Budget Control Act of 2011 (BCA) and refers to mandatory reductions in federal government spending. While some major programs like Social Security and Medicaid are exempt from the cuts, Medicare spending generally was reduced by 2%. This 2% Medicare spending reduction applies to the RDS program (RDS Q&A).

In 2014, CMS released guidance detailing the impact of sequestration on RDS payments. The 2% RDS reduction applies to plan months starting April 2013. Under current law, these RDS reductions will apply through 2023. Cost reporting is unaffected by sequestration. Plan sponsors will continue to report cost data by month. The 2% reduction will be applied as part of the reconciliation process, which occurs after the end of the plan year when the plan sponsor finalizes the covered retiree list, submits final cost data, and makes the reconciliation payment request.

Effects of New Parameters

Plan sponsors that want to remain qualified for the employer retiree drug subsidy will have to determine if their 2018 prescription drug coverage is at least actuarially equivalent to the 2018 standard Medicare Part D coverage and should also consider whether to move Medicare retirees into an employer group waiver plan, or EGWP. Plan sponsors that provide coverage directly or indirectly through an EGWP or Part D plan may want to evaluate the impact of the new parameters and provisions on their plans.

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