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CMS Releases 2011 Medicare Part D Benefit Parameters

The Centers for Medicare and Medicaid Services (CMS) released the updated Medicare Part D standard benefit parameters and the cost thresholds and limits for qualified retiree prescription drug plans for 2011. The new parameters take into account provisions of the recently enacted health reform law.

Background

By statute, CMS must update the parameters for the standard Medicare Part D drug benefit on an annual basis 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, and are subject to various rounding rules. Certain parameters related to the low-income program are adjusted based on the annual percentage increase in the Consumer Price Index.

The new health reform law includes a provision that will phase out the Part D “donut hole” by 2020.

CMS Call Letter

CMS has issued a [call letter](#) providing the updated numbers and thresholds for 2011 as outlined below.

Medicare Part D Parameters

The 2011 parameters below were calculated using the annual percentage increase method. The 2011 annual percentage increase is 0.31%, and due to rounding, the parameters are largely unchanged from 2010.

Standard Benefit Parameters

	2010	2011
Deductible	\$ 310	\$ 310
Initial Coverage Limit	2,830	2,840
Out-of-Pocket (OOP) Threshold	4,550	4,550
Minimum Co-Pays (Catastrophic Portion of Benefit)		
Generic/Preferred Drug	2.50	2.50
All Other Drugs	6.30	6.30

Donut Hole Coverage

Under the Health Care and Education Affordability Reconciliation Act (part of the new health care reform law), the Standard Part D benefit will now include some coverage in the donut hole. Previously, there was no benefit 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 2011, there will be a 93% coinsurance (7% plan benefit) for generic drugs. The 93% coinsurance counts against the OOP threshold as does 100% of the cost of brand drugs. Thus, the total amount of spending required to reach the OOP threshold and catastrophic coverage will depend upon whether spending is on generic drugs, brand drugs or a combination. While the Part D plan will not provide a brand benefit in the donut hole until 2013, there will be a separately calculated 50% brand drug discount provided by the manufacturer of the brand drug prescription to most Part D enrollees. By 2020, the Part D donut hole will be completely phased out through the combination of the additional Part D benefit and brand discount.

The coverage in the donut hole is scheduled to increase until the donut hole is filled in as follows –

Year	Generic Benefit	Brand Benefit	Brand Discount
2011	7%	0.0%	50%
2012	14	0.0	50
2013	21	2.5	50
2014	28	2.5	50
2015	35	5.0	50
2016	42	5.0	50
2017	49	10.0	50
2018	56	15.0	50
2019	63	20.0	50
2020 and after	75	25.0	50

Retiree Drug Subsidy Amounts

Plan sponsors who qualify for the retiree drug subsidy (RDS) will be required to meet the same cost threshold and cost limit levels for 2011 as for 2010.

	2010	2011
RDS Cost Threshold	\$ 310	\$ 310
RDS Cost Limit	6,300	6,300

Thus, the maximum potential subsidy per covered retiree remains at \$1,677.20.

Effects of New Parameters

Plan sponsors that want to remain qualified for the employer retiree drug subsidy will need to determine if their 2011 prescription drug coverage is at least actuarially equivalent to the 2011 standard Medicare Part D coverage. The actuarial equivalence testing will not reflect the new benefits provided in the donut hole. Those plan sponsors who provide coverage directly or indirectly through a Part D plan may want to review the impact of these new parameters and provisions on their plans.

In any event, plan sponsors may want to evaluate whether to move Medicare retirees into other options for medical and/or drug coverage for 2011. The changes made under the health care reform law make a review of various options particularly important this year.

Conclusion

Buck's consultants would be pleased to discuss the Medicare Part D parameters for 2011, the changes made by the new health reform law, and options for providing prescription drug coverage to your Medicare eligible retirees.

This FYI is intended to provide general information. It does not offer legal advice or purport to treat all the issues surrounding any one topic.