



For your information

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CMS Releases 2013 Medicare Part D Benefit Parameters

The Centers for Medicare & Medicaid Services released the Medicare Part D standard benefit parameters and the cost thresholds and limits for qualified retiree prescription drug plans for 2013.

Background

By statute, the Centers for Medicare and Medicaid Services (CMS) must update the parameters for the standard Medicare Part D drug benefit annually 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 on the basis of the annual percentage increase in the Consumer Price Index. The health care reform law includes a provision that will phase out the Part D “donut hole” by 2020.

CMS Call Letter

CMS issued a [call letter](#) providing the numbers and thresholds for 2013 (outlined below).

Medicare Part D Parameters

The 2013 parameters (below) were calculated using the annual percentage increase method. The 2013 annual percentage increase is 1.40%.

Standard Benefit Parameters

	2012	2013
Deductible	\$ 320	\$ 325
Initial Coverage Limit	2,930	2,970
Out-of-Pocket (OOP) Threshold	4,700	4,750
Minimum Copay (Catastrophic Portion of Benefit)		
Generic/Preferred Drug	2.60	2.65
All Other Drugs	6.50	6.60

Donut Hole Coverage

Under the Health Care and Education Affordability Reconciliation Act (part of the health care reform law), the Standard Part D benefit now includes 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 2013, there will be a 21% plan benefit (79% coinsurance) for generic drugs and a 2.5% plan benefit (97.5% coinsurance) for brand drugs. The 79% coinsurance counts against the OOP threshold as does the 97.5% coinsurance for brand drugs. Thus, the total amount required to reach the OOP threshold and catastrophic coverage will depend on whether spending is on generic drugs, brand drugs, or a combination. There continues to be a separately calculated 50% brand drug discount provided by the manufacturer of the brand drug. 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
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 that qualify for the retiree drug subsidy (RDS) face a higher cost threshold and cost limit for 2013.

	2012	2013
RDS Cost Threshold	\$ 320	\$ 325
RDS Cost Limit	6,500	6,600

The maximum potential subsidy per covered retiree will increase to \$1,757 for 2013.

Effects of New Parameters

Plan sponsors that want to remain qualified for the employer retiree drug subsidy will have to determine if their 2013 prescription drug coverage is at least actuarially equivalent to the 2013 standard Medicare Part D coverage. The actuarial equivalence testing will not reflect the new benefits provided in the donut hole. Plan sponsors that provide coverage directly or indirectly through a Part D plan may want to evaluate the impact of the new parameters and provisions on their plans.

In any event, in light of the change in tax treatment of RDS in 2013 and the expanded Part D coverage, plan sponsors should consider whether to move Medicare retirees into other options for medical and/or drug coverage.

Buck Can Help

- Review the Medicare Part D parameters for 2013
- Evaluate the changes made by the health care reform law to Medicare Part D
- Consider the options for providing prescription drug coverage to 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.
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