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CMS Releases 2017 Medicare Part D Benefit Parameters and Proposes Lower Payments to EGWPs

The Centers for Medicare & Medicaid Services has released the proposed updates to Medicare Part D standard benefit parameters and the cost thresholds and limits for qualified retiree prescription drug plans for 2017. The standard benefit parameters will increase from 2016 by approximately 11 to 12%, with the OOP threshold increasing by 2.1%. Plan sponsors that want to remain qualified for the employer retiree drug subsidy will have to determine if their 2017 prescription drug coverage is at least actuarially equivalent to the Medicare Part D coverage using the 2017 parameters. Importantly, CMS has proposed lowering payments to Medicare Advantage EGWPs in 2017.

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. Each year CMS also announces the payment amounts and methodology for Medicare Part C and D plans, including employer group waiver plans (EGWPs).

CMS Advance Notice

On February 19, CMS issued the Advance Notice for 2017 of the preliminary payment policies for Medicare Part C and D, including the Medicare Part D parameters and thresholds, and the proposed payment methodology for Medicare Advantage plans. Importantly, CMS is proposing a revised methodology that will lower average payments to Medicare Advantage EGWPs to be more in line with payments to non-EGWPs. The deadline for comments on the Advance Notice was March 4, 2016. CMS will announce final payment policies on April 4, 2016.

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Reduced Payments to Medicare Advantage EGWPs

Currently Medicare Advantage EGWPs are subject to an annual bidding process. (This annual bidding process does not apply to Part D EGWPs.) Beginning with the 2017 bids, CMS is proposing to waive this bidding process for Medicare Advantage EGWPs and instead establish payment amounts based on individual market, non-EGWP bids. In the Advance Notice CMS outlines two primary reasons for this change:

- Waiving the bidding process will facilitate employers and unions offering Medicare Advantage plans "by avoiding the cost and administrative burden of submitting complex bids."
- CMS has "concerns regarding the competitiveness of the bids" submitted for Medicare Advantage EGWPs. For example, for the 2016 bids, the average Medicare Advantage risk score for EGWP plans was 9% lower than individual plans, but the average bid was 1% higher. CMS stated that it "believes it is likely that CMS' current payments to EGWPs help subsidize the wrap-around coverage otherwise covered by employers."

What are Medicare Advantage Plans and EGWPs?

A Medicare Advantage plan is a type of health plan offered under Medicare Part C by a private company like an insurance company, employer or union that contracts with Medicare to provide Medicare Part A (hospitalization) and Part B (physician), and commonly, Part D (prescription drug) benefits. Medicare Advantage plans can be offered to individuals, or can be offered by an employer, union or insurer to retirees of an employer. An employer/union-sponsored group waiver plan, or EGWP, is a Medicare Advantage or Part D plan sponsored by an employer or union offered to retirees of the entity sponsoring the EGWP.

Additionally, CMS is proposing a change in the risk adjustment model that would result in increased payments to Medicare Advantage plans that cover higher risks populations such as Medicare/Medicaid dual eligibles. If this change is made on a cost-neutral basis, it could further reduce payments to Medicare Advantage EGWPs because they typically cover individuals in better health or higher socioeconomic status.

The use of the individual market, non-EGWP bids to establish payment levels and the proposed changes in the risk adjustment methodology would reduce the federal subsidies made to many Medicare Advantage EGWPs, and reduce the attractiveness of these plans for employers.

> **Comment.** Employers and unions that offer Medicare Advantage EGWPs to retirees should review the impact of these changes on their plan offerings. In addition to a potential increase in current costs, there could also be an increase in an employer's liability for retiree medical benefits. That increase may need to be reflected in the employer's financial statements if CMS finalizes the changes as proposed.

Medicare Part D Parameters

The 2017 parameters (below) were calculated using the annual percentage increase method, and they will increase by approximately 11 to 12%, with the out-of-pocket (OOP) threshold increasing by 2.1% in 2017. This is the second year in a row that the parameters increased at these levels.

Standard Benefit Parameters

	2016	2017
Deductible	$ 360.00	$ 400.00
Initial coverage limit	$ 3,310.00	$ 3,700.00
Out-of-pocket (OOP) threshold	$ 4,850.00	$ 4,950.00
Minimum copay (catastrophic portion of benefit)		
• Generic/preferred drug	$ 2.95	$ 3.30
• All other drugs	$ 7.40	$ 8.25

Coverage Gap

Under the Affordable Care Act (ACA), the standard Part D benefit now includes coverage in the "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 2017, there will be a 49% plan benefit (51% retiree-paid coinsurance) for generic drugs and a 10% 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 10% plan benefit and 50% brand discount results in 40% retiree-paid coinsurance for brand drugs in 2017. 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 coverage gap, as follows:

Year	Generic Benefit	Brand Benefit	Brand Discount
2017	49%	10%	50%
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 2017 from 2016.

	2016	2017
RDS cost threshold	$ 360.00	$ 400.00
RDS cost limit	$ 7,400.00	$ 8,250.00

For 2017, plan sponsors eligible for the RDS will receive 28% of Part D prescription drug expenses between $400 and $8,250. The theoretical maximum potential subsidy per covered retiree will increase from $1,971 in 2016 to $2,198 for 2017.

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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 CMS Proposal

Plan sponsors that want to remain qualified for the employer retiree drug subsidy will have to determine if their 2017 prescription drug coverage is at least actuarially equivalent to the Medicare Part D coverage using the 2017 parameters. 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. Employers sponsoring Medicare Advantage plans should also review the impact of the proposed payment changes. The changes could have an impact on cash costs and liabilities for retiree medical plans.

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