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CMS Releases 2020 Medicare Part D Benefit Parameters

The Centers for Medicare & Medicaid Services has released the 2020 Medicare Part D standard benefit parameters and the cost thresholds and limits for qualified retiree prescription drug plans. Increases in the standard benefit parameters range from approximately 4.8% to 5.9%, with the OOP threshold increasing by 24.5%. Plan sponsors that want to remain qualified for the employer retiree drug subsidy will have to determine if their 2020 prescription drug coverage is at least actuarially equivalent to the standard Medicare Part D coverage.

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Background

Annually, the Centers for Medicare & Medicaid Services (CMS) revise the parameters for the standard Medicare Part D drug benefit to account for increased prescription drug costs. 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 based on the annual percentage increase in the Consumer Price Index. The parameters include the size of the coverage gap or “donut hole.” The Affordable Care Act (ACA) included a provision that phased out the donut hole by 2020. The Bipartisan Budget Act of 2018 (BBA of 2018), enacted in February 2018, accelerated the closing of the hole for brand drugs by one year — from 2020 to 2019. (See our [February 9, 2018 *Legislate*](#).)

CMS call letter

On April 1, CMS issued a [call letter](#) providing the parameters and thresholds for 2020, as well as a [fact sheet](#) that summarizes the call letter.

Medicare Part D parameters

The 2020 parameters (below) were calculated using the annual percentage increase method. Increases range from 4.8% to 5.9%, with the out-of-pocket (OOP) threshold increasing by 24.5%. The significant one-year increase in the OOP threshold is due to the expiration of the ACA provision that

modified how the annual OOP spending threshold was calculated between 2014 and 2019. Effective for 2020, the OOP threshold is determined using the pre-ACA calculation method.

	2019	2020	Change
Deductible	\$415.00	\$435.00	+ 4.8%
Initial coverage limit	\$3,820.00	\$4,020.00	+ 5.2%
Out-of-pocket threshold	\$5,100.00	\$6,350.00	+ 24.5%
Minimum copay (catastrophic portion of benefit)			
• Generic/preferred multi-source drug	\$3.40	\$3.60	+ 5.9%
• All other drugs	\$8.50	\$8.95	+ 5.3%

Donut hole closes in 2020

Prior to 2011, the standard Part D 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. The ACA included a provision that phased out the Part D coverage gap or “donut hole” by 2020.

The BBA of 2018 made significant changes in the coverage of brand drugs. Starting in 2019, it increased the manufacturer brand discount from 50% to 70%, effectively shifting 20% of the cost for brand drugs to the drug manufacturers. It also reduced the plan benefit to 5%. The combination of the 5% plan benefit and the 70% brand discount results in retiree-paid coinsurance of 25% for brand drugs in 2019. Because this is the same level of coinsurance that applies to brand drugs before the donut hole, the donut hole is effectively closed for brand drugs in 2019, one year earlier than under prior law. With the increase in generic drug coverage to 75% in 2020, the donut hole will be closed for both brand and generic drugs in 2020.

Sharing manufacturer rebates at point of sale

CMS has proposed rules that would require Part D sponsors, including EGWPs, to pass through a portion of manufacturer rebates at the point of sale to plan participants beginning in 2020. CMS has not finalized the proposal as of the date of this issue. (See our [April 15, 2019 FYI](#).)

Year	Generic benefit	Brand benefit	Brand discount
2019	63%	5%	70%
2020 and after	75%	5%	70%

Retiree drug subsidy amounts

The cost threshold and cost limit for the retiree drug subsidy (RDS) program will also increase in 2020.

	2019	2020	Change
RDS cost threshold	\$415.00	\$435.00	+ 4.8%
RDS cost limit	\$8,500.00	\$8,950.00	+ 5.3%

For 2020, plan sponsors eligible for the RDS will receive 28% of Part D prescription drug expenses between \$435 and \$8,950. The theoretical maximum potential subsidy per covered retiree will increase from \$2,264 in 2019 to \$2,384 for 2020.

RDS payment reduction due to budget sequestration

The Budget Control Act of 2011 authorized automatic spending cuts to certain federal programs — a process known as "sequestration." While some major programs like Social Security and Medicaid were exempt from sequestration, 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 beginning with April 2013 and 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 2020 prescription drug coverage is at least actuarially equivalent to the 2020 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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