April 24, 2014

Medicare Part D Amounts Will Increase in 2015

The Medicare Modernization Act (MMA) requires the Centers for Medicare & Medicaid Services (CMS) to announce each year the Medicare Part D standard defined benefit and Retiree Drug Subsidy (RDS) amounts for the coming year. On April 7, 2014, the CMS announced the rates for 2015.¹ In 2015, the deductible and out-of-pocket limit for the defined standard Part D plan will be higher than the 2014 amounts.

This Capital Checkup features charts comparing the 2015 numbers to the 2014 numbers. It also reviews changes to the Part D benefit, which were made by the Affordable Care Act,² and illustrates the impact of those changes on the 2015 benefit. Coverage for Medicare beneficiaries in the Part D prescription drug coverage gap, or “donut hole,” will continue to increase in 2015.

RDS Amounts

For 2015, plan sponsors eligible for the RDS will receive 28 percent of Part D prescription drug expenses between $320 and $6,660. The table at the top of the next page compares those numbers to the numbers for 2014.

---

¹ The announcement (http://www.cms.gov/Medicare/HealthPlans/MedicareAdvgsSpecRateStats/Downloads/Announcement2014.pdf see Part D Benefit Parameters on page 58) and press release (http://www.cms.gov/apps/media/press/release.asp?Counter=4568&intNumPerPage=10&checkDate=&checkKey=&archType=1&numDays=3500&archOpt=0&archData=&keywordType=All&chkNewsType=1%2C+2%2C+3%2C+4%2C+5&intPage=&showAll=&enYear=&year=&desc=&choOrder=date) are available on the CMS website.

² The Affordable Care Act is the abbreviated name for the Patient Protection and Affordable Care Act (PPACA), Public Law No. 111-148, as modified by the subsequently enacted Health Care and Education Reconciliation Act (HCERA), Public Law No. 111-152.
<table>
<thead>
<tr>
<th>RDS Amounts</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Threshold*</td>
<td>$310.00</td>
<td>$320.00</td>
</tr>
<tr>
<td>Cost Limit**</td>
<td>$6,350.00</td>
<td>$6,600.00</td>
</tr>
</tbody>
</table>

* The cost threshold is the minimum amount of covered Part D drug expenses that must be incurred by an individual before a plan sponsor is eligible to receive the RDS based on the individual’s claims.

** The cost limit is the maximum amount of covered Part D drug expenses for which a plan sponsor may claim the RDS for each individual.

### Standard Benefit Design Parameters

The table below compares the standard benefit design parameters for a Part D plan for 2015 to the amounts for 2014.

<table>
<thead>
<tr>
<th>Standard Benefit Design Parameters</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductible</td>
<td>$310.00</td>
<td>$320.00</td>
</tr>
<tr>
<td>Initial Coverage Limit*</td>
<td>$2,850.00</td>
<td>$2,960.00</td>
</tr>
<tr>
<td>Out-of-Pocket Threshold**</td>
<td>$4,550.00</td>
<td>$4,700.00</td>
</tr>
<tr>
<td>Total Covered Part D Drug Spending before Catastrophic Coverage***</td>
<td>$6,455.00</td>
<td>$6,680.00</td>
</tr>
</tbody>
</table>

* After an individual pays the deductible, he or she is in the initial coverage period during which he or she pays 25 percent of drug costs and the Part D plan pays 75 percent of costs. Once Part D drug expenses (paid by the individual and by the Part D plan) total the initial coverage limit ($2,960 for 2015), the individual is responsible for a certain percentage of charges based on whether the drug is generic or brand until the individual has reached the out-of-pocket threshold.

** The out-of-pocket threshold is the amount that the individual must pay on his or her own before catastrophic coverage begins. This gap between the initial coverage limit and catastrophic coverage is referred to as the “donut hole.”

*** Once an individual reaches the catastrophic portion of the benefit, the Part D plan covers approximately 95 percent of the Part D drug expenses incurred. Cost sharing is set at the greater of 5 percent coinsurance or fixed copayments (see below). This amount is set by CMS. It is not a total of other amounts listed in this table.
### Copayments in Catastrophic Coverage Portion of Benefit

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic/Preferred Multi-Source Drug*</td>
<td>$2.55</td>
<td>$2.65</td>
</tr>
<tr>
<td>Other Drug</td>
<td>$6.35</td>
<td>$6.60</td>
</tr>
</tbody>
</table>

* For Part D plans that charge copayments in the catastrophic portion of the benefit (instead of 5 percent coinsurance), the amount of the copayment for a generic drug or for a preferred multiple source drug (i.e., generally one for which there are two or more products that are therapeutically and pharmaceutically equivalent) is set at a lower amount than the amount for any other drug.

---

### Part D Changes Introduced by the Affordable Care Act

The Affordable Care Act made significant changes to the Medicare program, including for Medicare beneficiaries enrolled in a Part D plan. In 2013, seniors who hit the “donut hole” received improved coverage on their brand-name drugs. Manufacturers began to cover 50 percent of the cost of the brand-name drugs and in 2013 and 2014, the plan paid another 2.5 percent, providing seniors with total coverage of 52.5 percent in the donut hole. Therefore, seniors pay 47.5 percent of the costs for brand-name drugs in the donut hole.

In 2015, manufacturers will continue to cover 50 percent of the cost of the brand-name drugs and the plan will pay another 5 percent, providing seniors with total coverage of 55 percent in the donut hole. Therefore, seniors will pay 45 percent of the costs for brand-name drugs in the donut hole. The chart on the next page shows 2015 cost sharing for individuals in a standard Medicare Part D prescription drug plan (PDP) starting with the deductible at the bottom of the chart and ending with catastrophic coverage at the top of the chart.

Coverage of generic drugs in the gap will increase annually until it reaches 75 percent in 2020. By then, cost sharing for both brand and generic prescription drugs will be the same during the “donut hole” as during the initial coverage period. Consequently, in 2020, individuals will pay 25 percent of drug costs, and the Part D plan will pay 75 percent. In 2015, Part D plans will pay 35 percent of the cost of generic drugs in the donut hole leaving seniors responsible for 65 percent.

Continued on next page.
Implications for Sponsors of Plans that Provide Prescription Drug Coverage for Retirees

Plan sponsors should note the new benefit amounts for planning purposes for 2015 — both with respect to expected RDS income and to the design of any Medicare Part D prescription drug plan that is offered to retirees.

Prior to making benefits designs for 2015 final, plan sponsors may wish to analyze the benefits of contracting with a Medicare PDP as opposed to retaining the RDS. In many instances, contracting with a PDP will produce a greater cost savings than the RDS because the reimbursement that insurers get from CMS can be greater than what plan sponsors obtain in direct subsidies. Plan sponsors can review potential savings for a PDP, and also review potentially new compliance obligations, and determine whether the PDP is an appropriate option for the plan retirees.
Plan sponsors that continue to apply for the RDS should take several actions to make sure that RDS income continues and that they are prepared for potential audits by the HHS Office of Inspector General:

➤ Review RDS income and assure it meets expectations,

➤ Assure that the contract with the RDS administrator or pharmacy benefit manager accurately reflects charges for RDS and contains all language required by CMS, and

➤ Review internal policies and controls to assure that deadlines are met and only appropriate personnel have access to RDS information and the RDS website. Assure that the RDS website is accessed at least every 60 days so that access status is maintained.

● ● ●

As with all issues involving the interpretation or application of laws, health plan sponsors should rely on their legal counsel for authoritative advice on the integration of Medicare with their employee benefit plans. Segal Consulting can be retained to work with plan sponsors and their attorneys on issues related to Medicare Part D.

Capital Checkup is Segal Consulting’s periodic electronic newsletter summarizing activity in Washington with respect to health care and related subjects. Capital Checkup is for informational purposes only and should not be construed as legal advice. It is not intended to provide guidance on current laws or pending legislation. On all issues involving the interpretation or application of laws and regulations, plan sponsors should rely on their attorneys for legal advice.

Segal Consulting is a member of The Segal Group (www.segalgroup.net), which is celebrating its 75th anniversary this year.

Copyright © 2014 by The Segal Group, Inc. All rights reserved.