



update

Compliance News for Multiemployer Plans

June 23, 2017

2018 Medicare Part D Amounts: Modest Increases from 2017

The Medicare Part D standard defined benefit and Retiree Drug Subsidy (RDS) amounts for 2018 will be slightly higher than the 2017 amounts. A [press release](#) and [announcement](#) known as a Call Letter are available on the Centers for Medicare & Medicaid Services (CMS) website.

This *Update* features charts comparing the 2018 numbers to the 2017 numbers. It also reviews changes to the Part D benefit, which were made by the Affordable Care Act, and illustrates the impact of those changes on the 2018 benefit.

Standard Benefit Design Parameters

The table below compares the standard benefit design parameters for a Part D plan for 2018 to the amounts for 2017. The base Medicare Part D premium for 2018 will be announced later this year when next year's standard monthly Part B premium and Part B deductible are announced.

The chart on the next page shows 2018 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.



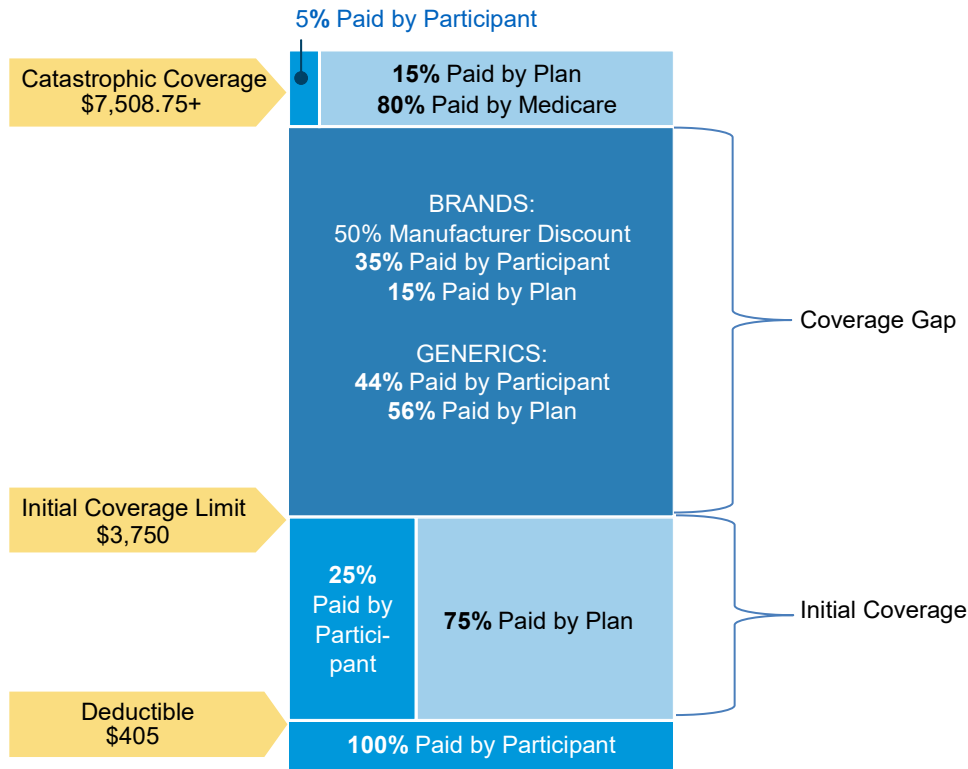
Health Compliance News Highlights:

- The Part D deductible, the Retiree Drug Subsidy (RDS) cost threshold and the RDS cost limit will all increase by less than 2 percent.
- Seniors will pay less in 2018 than they do this year for brand and generic drugs in the "coverage gap."

| Standard Benefit Design Parameters | 2017 | 2018 |
|--|------------|------------|
| Deductible | \$400.00 | \$405.00 |
| Initial Coverage Limit for Drug Expenses Paid by the Individual and the Part D Plan | \$3,700.00 | \$3,750.00 |
| Out-of-Pocket Threshold Paid by Individual | \$4,950.00 | \$5,000.00 |
| Total Covered Part D Drug Spending before Catastrophic Coverage* | \$7,425.00 | \$7,508.75 |
| Minimum Copayment in Catastrophic Coverage Portion of Benefit for Generic/Preferred Multi-Source Drugs | \$3.30 | \$3.35 |
| Copayment in Catastrophic Coverage Portion of Benefit for Other Drugs | \$8.25 | \$8.35 |

* Cost sharing for the catastrophic portion of the benefit is set at the greater of 5 percent coinsurance or fixed copayments set by CMS, which are shown in the last two rows of this table.

Expected Medicare Part D Cost Sharing in 2018



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 PDP. Based on these changes, coverage of brand and generic drugs in the coverage gap (often called the “donut hole”) is increasing annually, as shown in the table below, with seniors paying less out of pocket each year until 2020 when the coverage gap will be eliminated.

Individual’s Responsibility for Prescription Drug Costs in the Coverage Gap

| Year | Brand-Name Drugs | Generic Drugs |
|------|------------------|---------------|
| 2017 | 40% | 51% |
| 2018 | 35% | 44% |
| 2019 | 30% | 37% |
| 2020 | 25% | 25% |

The 25 percent of drug costs that seniors will pay for both brand and generic drugs starting in 2020 is the same percentage of costs that seniors pay now during the initial coverage period.

Retiree Drug Subsidy (RDS) Amounts

For 2018, plan sponsors claiming the RDS will receive 28 percent of Part D prescription drug expenses between \$405 and \$8,350. However, CMS will apply a mandatory 2 percent payment reduction of the RDS (a change due to budget sequestration that went into effect beginning in April 2013). CMS will apply the payment reduction when calculating the final subsidy amount during reconciliation. ([Information about the reduction](#) is on the CMS website.)

The table below compares the 2018 numbers to the numbers for 2017.

| RDS Amounts | 2017 | 2018 |
|-----------------|------------|------------|
| Cost Threshold* | \$400.00 | \$405.00 |
| Cost Limit** | \$8,250.00 | \$8,350.00 |

* 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.

Implications for Plan Sponsors

Plan sponsors should note the 2018 amounts for planning purposes — both with respect to expected RDS income and to the design of any Medicare Part D prescription drug plan that is offered to retirees. Before deciding on benefit designs for 2018, plan sponsors may wish to analyze the benefits of contracting with an Employer Group Waiver Plan (EGWP) as opposed to retaining the RDS. In many instances, contracting with an EGWP will produce greater cost savings than the RDS because the reimbursement those insurers receive from CMS can be greater than what plan sponsors obtain in RDS subsidies. Plan sponsors that already have an EGWP prescription drug plan should review the plan annually to assure that its terms remain advantageous.

“Plan sponsors may wish to analyze the benefits of contracting with an EGWP.”

Plan sponsors that continue to apply for the RDS should take several actions to make sure RDS income continues and that they are prepared for potential audits by the Department of Health and Human Services Office of Inspector General:

- Review RDS income and ensure it meets expectations,
- Ensure 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 ensure that deadlines are met and only appropriate personnel have access to RDS information and the RDS website. Ensure that the RDS website is accessed at least every 60 days so that access status is maintained.

How Segal Can Help

Segal works with trustees and their fund counsel to address issues related to Medicare Part D, including quantifying the savings associated with introducing an insured or self-insured EGWP over the amount received from the RDS. If you decide to apply for the RDS, reach out to us for assistance with all of the recommended steps outlined above.

In addition, we help plan sponsors select Medicare Advantage plans that offer the best fit based on their current and future objectives. With our guidance, you can make informed decisions about which vendors offer the best value and the most competitive

premium rates or self-funded financial terms. If you are interested in measuring retiree access to providers and assessing which programs and vendors offer superior clinical and member services geared towards a retiree population, let us know.

Questions?

For more information about how the 2018 Medicare changes may affect your plan, please contact your Segal consultant or the [Segal office nearest you](#).

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