Sibson Consulting

CAPITAL CHECKUP

April 9, 2015

Medicare Part D Amounts Will Increase in 2016

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 6, 2015, the CMS announced the rates for 2016.[1] In 2016, the deductible and out-of-pocket limit for the defined standard Part D plan will be higher than the 2015 amounts.

This *Capital Checkup* features charts comparing the 2016 numbers to the 2015 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 2016 benefit. Coverage for Medicare beneficiaries in the Part D prescription drug coverage gap, or "donut hole," will continue to increase in 2016.

RDS Amounts

For 2016, plan sponsors eligible for the RDS will receive 28 percent of Part D prescription drug expenses between $360 and $7,400.[3] However, CMS will apply a mandatory 2 percent payment reduction of the RDS (a change that went into effect beginning in April 2013). CMS will apply the payment reduction when calculating the final subsidy amount during reconciliation.[4]

---

[1] The press release (http://www.cms.gov/Newsroom/MediaReleaseDatabase/Press-releases/2015-Press-releases-items/2015-04-06-2.html) and announcement (http://www.cms.gov/Medicare/Health-Plans/MedicareAdvtgSpecRateStats/Downloads/Announcement2016.pdf, see Attachment V) are available on the CMS website. These numbers are the same as the projections in the Advance Notice of Methodological Changes for Calendar Year 2016 for Medicare Advantage Capitation Rates, Part C and Part D Payment Policies (http://www.cms.gov/Medicare/Health-Plans/MedicareAdvtgSpecRateStats/Downloads/Advance2016.pdf), which was published on February 20, 2015.

[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.

[3] As a reminder, since 2013, the Affordable Care Act prohibits employers from taking a tax deduction for costs for retiree drug claims that were reimbursed under the RDS program.

[4] Information about the reduction is on the CMS website: http://rds.cms.hhs.gov/downloads/mandatorypaymentreduction.pdf.

The table below compares the 2016 numbers to the numbers for 2015.

RDS Amounts		
	2015	**2016**
Cost Threshold*	$320.00	**$360.00**
Cost Limit**	$6,600.00	**$7,400.00**

* 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.

Standard Benefit Design Parameters

The table below compares the standard benefit design parameters for a Part D plan for 2016 to the amounts for 2015.

Standard Benefit Design Parameters		
	2015	**2016**
Deductible	$320.00	**$360.00**
Initial Coverage Limit*	$2,960.00	**$3,310.00**
Out-of-Pocket Threshold**	$4,700.00	**$4,850.00**
Total Covered Part D Drug Spending before Catastrophic Coverage***	$6,680.00	**$7,062.50**

* 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 ($3,310 in 2016), 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.

The table below compares the copayments in the catastrophic coverage portion of benefits for 2016 to the amounts for 2015.

Copayments in Catastrophic Coverage Portion of Benefit		
	2015	**2016**
Generic/Preferred Multi-Source Drug*	$2.65	**$2.95**
Other Drug	$6.60	**$7.40**

* 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 Prescription Drug Plan (PDP).

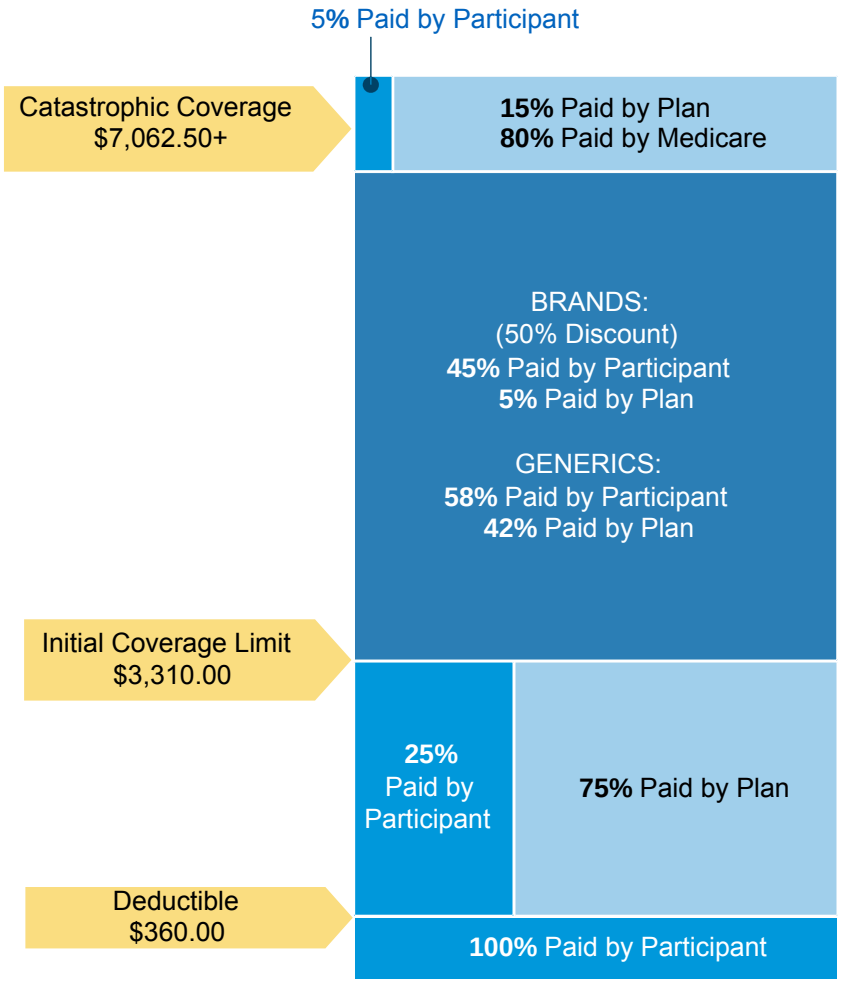
Based on these changes, in 2015, manufacturers will cover 50 percent of the cost of brand-name drugs and the PDP pays another 5 percent, providing seniors with total coverage of 55 percent in the donut hole. Therefore, seniors pay 45 percent of the costs for brand-name drugs in the donut hole. That cost sharing will not change in 2016.

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 PDP will pay 75 percent. In 2016, the Part D PDP will pay 42 percent of the cost of generic drugs in the donut hole leaving seniors responsible for 58 percent.

The chart on the next page shows 2016 cost sharing for individuals in a standard Medicare Part D PDP starting with the deductible at the bottom of the chart and ending with catastrophic coverage at the top of the chart.

Continued on next page.

Expected Medicare Part D Cost Sharing in 2016



Implications for Sponsors of Plans that Provide Prescription Drug Coverage for Retirees

Plan sponsors should note the 2016 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.

Prior to making benefits designs for 2016 final, plan sponsors may wish to analyze the benefits of contracting with a Medicare PDP — also known as an Employer Group Waiver Plan (EGWP) — as opposed to retaining the RDS. In many instances, contracting with an EGWP will produce a greater cost savings than the RDS because the reimbursement that insurers receive from CMS can be greater than what plan sponsors obtain in RDS subsidies. Plan sponsors can review potential savings for an EGWP, and also review potentially new compliance obligations, and determine whether it is an appropriate option for the plan retirees. An EGWP can also offer cash-flow and administrative advantages over the RDS approach for plan sponsors that select a fully insured EGWP product. Also, since 2013, employers have not been able to take a tax deduction for costs for retiree drug claims that were reimbursed under the RDS program, another incentive for certain organizations to consider contracting with an EGWP or exploring other options.

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 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.

• • •

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. Sibson Consulting can be retained to work with plan sponsors and their attorneys on issues related to Medicare Part D.