

Update

Compliance News

September 29, 2020

Medicare Part D Drug Benefit Program Changes for 2021 May Affect Group Health Plans that Cover Retirees

The Medicare Part D deductible and other standard benefit design parameters will be higher in 2021. The Retiree Drug Subsidy (RDS) amounts that the federal government pays to sponsors of group health plans that provide prescription drug coverage to Medicare-eligible retirees will also increase in 2021.

Charts in this *Update* compare the 2021 numbers to the 2020 numbers. This information is helpful for plan sponsors when reviewing next year's retiree health coverage.

Standard benefit design parameters

The following table compares the standard benefit design parameters for a Part D plan for 2021 to the amounts for 2020.

Part D Standard Benefit Design Parameters		
	2020	2021
Deductible	\$435.00	\$445.00
Initial coverage limit for drug expenses paid by the individual and the Part D plan	\$4,020.00	\$4,130.00
Out-of-pocket threshold (TrOOP)*	\$6,350.00	\$6,550.00
Total covered Part D drug spending before catastrophic coverage**	\$9,038.75	\$9,313.75
Minimum copayment in catastrophic coverage portion of benefit for generic/preferred multi-source drugs***	\$3.60	\$3.70
Copayment in catastrophic coverage portion of benefit for other drugs	\$8.95	\$9.20

* TrOOP stands for True Out-of-Pocket Maximum. In 2020 and beyond, the TrOOP is determined using a pre-ACA calculation.

** In the catastrophic portion of the benefit, beneficiaries pay the greater of 5 percent coinsurance or fixed copayments set by CMS, which are shown in the last two rows of this table.

*** Multi-source drugs are drugs that may be purchased from multiple manufacturers or distributors.

Health Compliance News Highlights

- In 2021, the Part D deductible will increase by just over 2 percent.
- The TrOOP will increase by just over 3 percent.
- The Retiree Drug Subsidy's cost threshold will increase by just over 2 percent while the cost limit will increase nearly 3 percent.

The Centers for Medicare & Medicaid Services (CMS) published the Part D standard benefit design parameters in a [Rate Announcement](#). In a [subsequent announcement](#), the CMS noted the Part D base beneficiary premium will be \$33.06, up from \$32.74 in 2020.

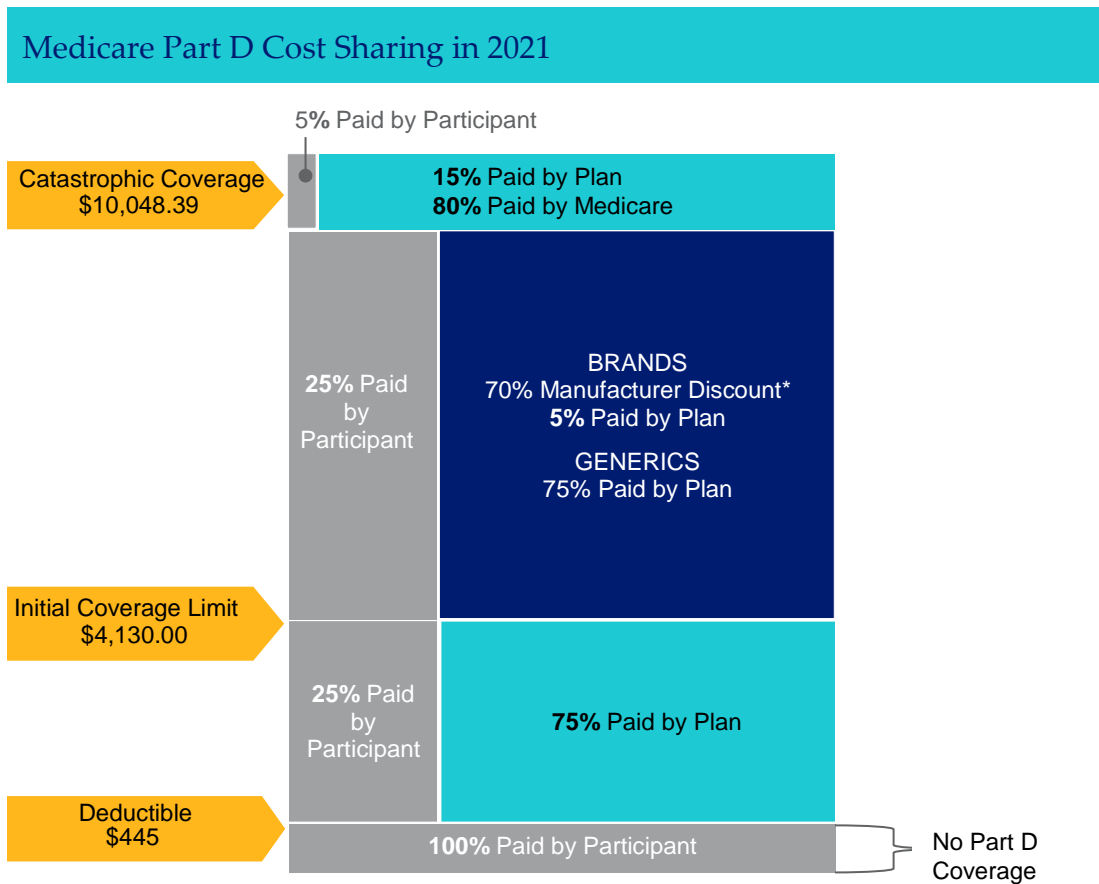
Will the higher TrOOP lower reinsurance payments from CMS?

Some plan sponsors contract with a Medicare Part D Prescription Drug Plan or Medicare Advantage-Prescription Drug Plan. These plans are also known as Employer Group Waiver Plans (EGWPs). EGWPs must meet two parts of the Standard Benefit Design: They may not have a deductible higher than the standard deductible, and they must observe the catastrophic threshold. CMS pays a reinsurance subsidy to plan sponsors that contract with EGWPs.

We expect that annual price increases for many high-cost specialty drugs will likely exceed the annual rate of increase in the TrOOP amount for most plan sponsors. As a result, this will likely generate larger reinsurance payments from CMS to most plan sponsors as more claim dollars qualify for reinsurance.

Impact on cost sharing

The chart below shows 2021 cost sharing for individuals in a standard Medicare Part D prescription drug plan, starting with the deductible at the bottom of the chart and ending with catastrophic coverage at the top of the chart.



* The Bipartisan Budget Act of 2018 increased the percentage that manufacturers of brand-name drugs must pay during 2019 and beyond when Medicare beneficiaries are in the coverage gap, from 50 percent to 70 percent starting in 2019.

2021 RDS amounts

For 2021, plan sponsors are claiming the RDS will receive 28 percent of Part D prescription drug expenses between \$445 and \$9,200. The table below compares the 2021 numbers to the numbers for 2020.

RDS Amounts		
	2020	2021
Cost Threshold*	\$435.00	\$445.00
Cost Limit**	\$8,950.00	\$9,200.00

* 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.

Since 2013, RDS payments have been reduced by 2 percent, a cut mandated by budget sequestration. (For information about how CMS applies the payment reduction when it calculates the final RDS subsidy, see [Mandatory Payment Reduction in CMS' Retiree Drug Subsidy Reconciliation Payments.](#))

The Coronavirus Aid, Relief, and Economic Security Act (the [CARES Act](#)) suspends Medicare sequestration starting May 1, 2020 until December 31, 2020. Consequently, 2021 RDS subsidies noted in the chart above will still be subject to sequestration.

Changes to Medicare related to COVID-19

Although this *Update* focuses on Medicare Part D, it's worth noting that the CARES Act also affects Part A and Part B. Part A pays for inpatient hospital, skilled nursing facility, hospice and certain home health care services. Part B covers physician services, outpatient hospital services, certain home health services, durable medical equipment and other items.

CMS will increase payments under Part A for Medicare beneficiaries who are admitted to a hospital to treat COVID-19 who require hospitalization. The Part B deductible and cost sharing will not apply to COVID-19 vaccines (once they are developed).

Moreover, under the Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020 authorized expanded use of telehealth services for Medicare beneficiaries. (We discussed that law, [Public Law 116-123](#), in our [March 10, 2020 insight.](#)) On March 17, 2020, Department of Health and Human Services Secretary Alex Azar announced expanded Medicare coverage for telehealth visits. HHS published a [fact sheet](#) and [FAQs on Telehealth and HIPAA during the COVID-19 nationwide public health emergency.](#)

Questions?

For more information about recent changes to Medicare including how the 2021 changes to the Medicare Part D program may affect your group health plan's coverage for Medicare-eligible retirees, please contact your Segal consultant.

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