



CLIENT ACTION Bulletin

Employee Benefits

2010 Cost-of-Living Adjustments for Medicare

SUMMARY

With the release of the September Consumer Price Index (CPI) by the U.S. Bureau of Labor Statistics, the Department of Health and Human Services' Centers for Medicare and Medicaid Services (CMS) has announced cost-of-living adjusted figures for Medicare Part A and Part B for 2010.

In April this year, CMS announced the updated amounts for the Medicare Part D standard prescription drug benefit for 2010. As a convenience, those figures are also provided in this *Client Action Bulletin*.

DISCUSSION

Part A Deductibles, Premiums, and Payroll Tax

For Medicare Part A (hospital insurance), the 2010 deductible for inpatient hospital care – applicable to individuals enrolled in the original fee-for-service Medicare program – will increase to \$1,100, up from the current \$1,068. The Part A deductible is a beneficiary's only cost for up to 60 days of inpatient care during a benefit period. For hospital stays longer than 60 days up through 90 days, the deductible will be \$275 per day (up from \$267 in 2009) in a benefit period; and for stays longer than 90 days (lifetime reserve days), \$550 (up from \$534). For extended care services in a skilled nursing facility, beneficiaries will pay \$137.50 per day (up from \$133.50) for the 21st through 100th day in a benefit period.

The full monthly Part A premium will be \$461 per month (up from \$443) for those individuals who have less than 30 quarters of Medicare-covered employment and for disabled individuals under age 65 who lost disability benefits because of work and earnings. Certain persons under age 65 with disabilities who lost their disability benefits due to earnings above a threshold amount and seniors with 30 to 39 quarters of Medicare-covered employment will pay reduced premiums of \$254 per month (up from \$244).

The Medicare Part A payroll tax remains at 1.45% (paid by employers and employees) on all wages.

Part B Deductible and Premiums

Medicare Part B is supplemental medical insurance and covers physician and outpatient services and durable medical equipment. The Part B deductible for all beneficiaries will be \$155 in 2010.

Since 2007, premiums for Medicare Part B are based on beneficiaries' income levels, with individuals whose modified adjusted gross incomes (AGIs) exceed a threshold level (indexed in 2010 to \$85,000; \$170,000 for couples) being subject to higher premium amounts. This increase was phased in over a three-year period. As a result, higher income beneficiaries pay total premiums ranging from 35% to 80% of the value of Part B. In general, the taxable year used to determine the modified AGI is the one beginning in the second calendar year preceding the year involved (e.g., 2008 income is used to determine the 2010 premium level), with determinations for a more recent year available to individuals upon request.

The Part B premium for 2010 is \$110.50 per month; when adjusted for income, the Part B premium is:

Individual Income in 2008	Joint Income in 2008	2010 Part B Premium
\$85,000 or less	\$170,000 or less	\$110.50
\$85,001 - \$107,000	\$170,001 - \$214,000	\$154.70
\$107,001 - \$160,000	\$214,001 - \$320,000	\$221.00
\$160,001 - \$214,000	\$320,001 - \$428,000	\$287.30
Above \$214,000	Above \$428,000	\$353.60

Part D Standard Benefit

For 2010, the updated amounts for the standard Part D drug benefit are:

Part D Standard Benefit	2010	2009
Deductible	\$310	\$295
Initial Coverage Limit	25% after deductible, up to a coverage limit of \$2,830	25% after deductible, up to a coverage limit of \$2,700
Gap Amount ("Donut Hole")	Between \$2,830 and \$6,440	Between \$2,700 and \$6,153.75
Maximum Out-of-Pocket Threshold	\$4,550	\$4,350
Minimum Copay in Catastrophic Coverage Portion of Benefit*		
▪ Generic/Preferred Multisource Drugs	\$2.50	\$2.40
▪ Other Drugs	\$6.30	\$6.00
Retiree Drug Subsidy Amounts		
▪ Cost Threshold	\$310	\$295
▪ Cost Limit	\$6,300	\$6,000
National Monthly Average Premium	\$31.94	\$30.36

*Beneficiary pays the greater of either 5% or the minimum copay when the catastrophic coverage limit is reached (after the gap amount)

ACTION

Employers that sponsor retiree health programs that are coordinated with Medicare should take into account the adjusted figures and may have to modify their administrative and payroll systems to accommodate the new limits. Employers that pay retirees' Part B premiums, for example, will have to determine how to administer their programs with respect to the income-related premiums. Communications that specify the various Medicare limits also should be reviewed for accuracy and modified if necessary before materials are given to participants.

NOTE: There are congressional efforts - with White House support - to enact the "Emergency Senior Citizens Relief Act" (S.1685/H.R.3597), which would provide a one-time payment of \$250 for Social Security recipients to address the lack of a cost-of-living adjustment under Social Security (see *Client Action Bulletin 09-12*). In addition, the House on September 24 approved the "Medicare Premium Fairness Act" (H.R.3631), which would help offset the increase some Medicare Part B beneficiaries would have to pay for 2010. Those affected include low-income beneficiaries whose Part B premiums are paid by Medicaid, high-income individuals who must pay income-related Part B premiums, and those who reach age 65 in 2010 and are newly enrolled in Medicare.

For additional information about the 2010 cost-of-living adjustments for Medicare Parts A, B, and D, please contact your Milliman consultant.