November 12, 2010

CAB 10-24

2011 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 2011.

In April this year, CMS announced the updated amounts for the Medicare Part D standard prescription drug benefit for 2011. 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 2011 deductible for inpatient hospital care – applicable to individuals enrolled in the original fee-for-service Medicare program – will increase to $1,132, up from the current $1,100. 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 $283 per day (up from $275 in 2010) in a benefit period; and for stays longer than 90 days (lifetime reserve days), $566 (up from $550). For extended care services in a skilled nursing facility, beneficiaries will pay $141.50 per day (up from $137.50) for the 21st through 100th day in a benefit period.

The full monthly Part A premium will be $450 per month (down from $461) 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 $248 per month (down from $254).

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 $162 in 2011.

Since 2007, Medicare Part B has included a standard premium and an adjusted premium based on beneficiaries’ income levels. Individuals whose modified adjusted gross incomes (AGIs) exceed a threshold level (indexed in 2010 to $85,000; $170,000 for couples) are subject to the higher premium amounts. The Patient Protection and Affordable Care Act (PPACA), however, freezes the income threshold for higher-income beneficiaries at the 2010 income levels through 2019.

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., 2009 income is used to determine the 2011 premium level), with determinations for a more recent year available to individuals upon request.
The following table shows the standard and adjusted Part B premiums for 2011:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$85,000 or less</td>
<td>$170,000 or less</td>
<td>$115.40</td>
</tr>
<tr>
<td>$85,001 - $107,000</td>
<td>$170,001 - $214,000</td>
<td>$161.50</td>
</tr>
<tr>
<td>$107,001 - $160,000</td>
<td>$214,001 - $320,000</td>
<td>$230.70</td>
</tr>
<tr>
<td>$160,001 - $214,000</td>
<td>$320,001 - $428,000</td>
<td>$299.90</td>
</tr>
<tr>
<td>Above $214,000</td>
<td>Above $428,000</td>
<td>$369.10</td>
</tr>
</tbody>
</table>

**Part D Standard Benefit**

For 2011, the updated amounts for the standard Part D drug benefit are:

<table>
<thead>
<tr>
<th>Part D Standard Benefit</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductible</td>
<td>$310</td>
<td>$310</td>
</tr>
<tr>
<td>Initial Coverage Limit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial Coverage Limit</td>
<td>25% after deductible, up to a coverage limit of $2,840</td>
<td>25% after deductible, up to a coverage limit of $2,830</td>
</tr>
<tr>
<td>Gap Amount (“Donut Hole”)¹</td>
<td>Between $2,840 and $6,447.50</td>
<td>Between $2,830 and $6,440.00</td>
</tr>
<tr>
<td>Maximum Out-of-Pocket Threshold</td>
<td>$4,550</td>
<td>$4,550</td>
</tr>
<tr>
<td>Minimum Copay in Catastrophic Coverage Portion of Benefit²</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generic/Preferred Multisource Drugs</td>
<td>$2.50</td>
<td>$2.50</td>
</tr>
<tr>
<td>Other Drugs</td>
<td>$6.30</td>
<td>$6.30</td>
</tr>
<tr>
<td>Retiree Drug Subsidy Amounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost Threshold</td>
<td>$310</td>
<td>$310</td>
</tr>
<tr>
<td>Cost Limit</td>
<td>$6,300</td>
<td>$6,300</td>
</tr>
<tr>
<td>National Monthly Average Premium</td>
<td>$32.34</td>
<td>$31.94</td>
</tr>
</tbody>
</table>

¹ The PPACA provided a $250 rebate to beneficiaries who reached the coverage gap in 2010. In 2011, drug manufacturers will provide a 50% discount on brand-name drugs and the government will provide a 7% discount on generic drugs for those who fall into the coverage gap. The donut hole will be completely eliminated in 2020.

² A 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 the income-related premiums in mind. Communications that specify the various Medicare limits also should be reviewed for accuracy and modified if necessary before materials are given to participants.

For additional information about the 2011 cost-of-living adjustments for Medicare Parts A, B, and D, please contact your Milliman consultant.