



CLIENT ACTION Bulletin

Employee Benefits

2018 Cost-of-Living Adjustments for Medicare Benefits

SUMMARY The Department of Health and Human Services' Centers for Medicare and Medicaid Services (CMS) has announced cost-of-living adjusted (COLA) figures for Medicare Part A and Part B for 2018. In April this year, CMS announced the updated amounts (also provided in this *Client Action Bulletin*) for the Medicare Part D standard prescription drug benefit for 2018.

DISCUSSION Part A Premiums, Cost Sharing, and Payroll Tax

Individuals who have at least 40 quarters of Medicare-covered employment – nearly all Medicare beneficiaries – pay no premiums for Part A coverage. For others, the table below summarizes the 2017 and 2018 Medicare Part A premium, deductible, and payroll tax amounts:

Medicare Part A (Hospital Insurance)	2018	2017
Monthly Premium		
Up to 30 quarters of Medicare-covered employment or disabled under age 65 who lost disability benefits because of work and earnings	\$422	\$413
31 to 39 quarters of Medicare-covered employment or disabled under age 65 who lost disability benefits due to earnings above threshold amounts	\$232	\$227
Participant Cost Sharing		
Deductible for up to 60 days of inpatient care	\$1,340	\$1,316
Daily coinsurance for days 61 to 90	\$335	\$329
Daily coinsurance for more than 90 days (lifetime reserve days)	\$670	\$658
Daily coinsurance for extended care services in a skilled nursing facility for days 21 through 100 in a benefit period	\$167.50	\$164.50
Payroll Taxes		
Hospital Insurance (payroll) tax rate (on all wages) for employees and employers	1.45%	1.45%
Hospital insurance (payroll) tax rate on wages over \$200,000 (\$250,000 for joint filers) for <u>employees only</u> *	0.90%	0.90%
*Employers are required to withhold the tax on wages over \$200,000 paid to an employee		

Part B Deductible and Premiums

Medicare Part B is medical insurance that covers physician and outpatient services and durable medical equipment. The Part B deductible in 2018 for all beneficiaries is \$183 (no change from 2017).

Medicare Part B premiums depend on beneficiaries' income levels. Individuals pay a standard premium amount unless their modified adjusted gross incomes (MAGIs) exceed a threshold level (\$85,000, or \$170,000 for couples, to be indexed after 2019). The MAGI generally is based on an individual's tax return from two years earlier (e.g., the 2018 premium is based on 2016 income). For 2018 and later years, the income thresholds were modified by statutes, most recently by the 2015 Medicare Access and CHIP Reauthorization Act (P.L.114-10) and the Bipartisan Budget Act (P.L.114-74). Consequently, the three highest-income categories have reduced income ranges, thereby requiring beneficiaries in those reduced income-range categories to pay larger Part B premiums in 2018 than in 2017.

In recent years, a “hold harmless” provision in the Social Security law prevented Part B premiums from increasing for Social Security recipients if the cost-of-living adjustment (COLA) did not cover the premium increases. But with the 2% COLA announced for 2018, Part B premiums will increase for many, to make up for the years during which there were no increases due to the hold-harmless requirement. The following chart shows the 2018 Medicare Part B monthly premiums based on 2016 income tax filings:

Individual Income in 2016	Joint Income in 2016	2018 Part B Premium
\$85,000 or less	\$170,000 or less	\$134.00
\$85,001 - \$107,000	\$170,001 - \$214,000	\$187.50
\$107,001 - \$133,500	\$214,001 - \$267,000	\$267.90
\$133,501 - \$160,000	\$267,001-\$320,000	\$348.30
Above \$160,000	Above \$320,000	\$428.60

Part D Standard Benefit

The 2018 and 2017 amounts for the standard Part D drug benefits are:

Part D Standard Benefit	2018	2017
Maximum Deductible	\$405	\$400
Initial Coverage Limit	25% after deductible, up to a coverage limit of \$3,750	25% after deductible, up to a coverage limit of \$3,700
Gap Amount (“Donut Hole”) ¹	Between \$3,750 and \$7,508.75	Between \$3,700 and \$7,425.00
Maximum Out-of-Pocket Threshold	\$5,000	\$4,950
Minimum Copay in Catastrophic Coverage Portion of Benefit ²		
Generic/Preferred Multisource Drugs	\$3.35	\$3.30
Other Drugs	\$8.35	\$8.25
Retiree Drug Subsidy Amounts		
Cost Threshold	\$405	\$400
Cost Limit	\$8,350	\$8,250
National Monthly Average Premium (Base beneficiary premium) ³	\$35.02	\$35.63

¹ An Affordable Care Act provision closes the gap by 2020 by providing decreasing participant coinsurance (from 100% to 25%) and discounts in covered drugs in the gap.

² A beneficiary pays the greater of 5% or the minimum copay when the catastrophic coverage limit is reached (after the gap amount).

³ Actual Part D premiums paid by individual beneficiaries equal the base beneficiary premium adjusted by a number of factors and thus vary from one Part D plan to another.

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 updated 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 2018 Medicare COLAs, please contact your Milliman consultant.