

# CLIENT ACTION Bulletin

Employee Benefits

## 2016 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 2016. 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 2016.

### DISCUSSION Part A Premiums, Cost Sharing, and Payroll Tax

The table below summarizes the 2016 Medicare Part A premium, deductible, and payroll tax amounts:

Medicare Part A (Hospital Insurance)	2016	2015
<b>Monthly Premium</b>		
Up to 30 quarters of Medicare-covered employment or disabled under age 65 who lost disability benefits because of work and earnings	\$411	\$407
31 to 39 quarters of Medicare-covered employment or disabled under age 65 who lost disability benefits due to earnings above threshold amounts	\$226	\$224
<b>Participant Cost Sharing</b>		
Deductible for up to 60 days of inpatient care	\$1,288	\$1,260
Daily coinsurance for days 61 to 90	\$322	\$315
Daily coinsurance for more than 90 days (lifetime reserve days)	\$644	\$630
Daily coinsurance for extended care services in a skilled nursing facility for days 21 through 100 in a benefit period	\$161.00	\$157.50
<b>Payroll Taxes</b>		
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%
<small>*Employers are required to withhold the tax on wages over \$200,000 paid to an employee</small>		

### 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 in 2016 for all beneficiaries is \$166, which is an increase from the Part B deductible in 2015 of \$147.

Medicare Part B premium amounts 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). In general, the MAGI is based on an individual's tax return from two years earlier (e.g., the 2016 premium level is based on 2014 income).

A "hold harmless" provision in the Social Security law prohibits an increase in the Part B premium if doing so reduces the monthly benefits a Social Security beneficiary is already receiving. With the zero COLA for 2016 and the significantly high premiums – a minimum of \$159 – faced by those not held harmless (e.g., new Part B enrollees or enrollees not receiving Social Security benefits, as well as

higher-income enrollees), Congress provided some relief in the budget accord signed into law on Nov. 2. Thus, an estimated 70% of beneficiaries will pay a monthly premium of \$104.90 in 2016 (no change from 2015), while those not held harmless will pay Part B premiums as shown below:

Individual Income in 2014	Joint Income in 2014	2016 Part B Premium
\$85,000 or less	\$170,000 or less	\$121.80
\$85,001 - \$107,000	\$170,001 - \$214,000	\$170.50
\$107,001 - \$160,000	\$214,001 - \$320,000	\$243.60
\$160,001 - \$214,000	\$320,001 - \$428,000	\$316.70
Above \$214,000	Above \$428,000	\$389.80

**Part D Standard Benefit**

For 2016, the updated amounts for the standard Part D drug benefits are:

Part D Standard Benefit	2016	2015
Deductible	\$360	\$320
Initial Coverage Limit	25% after deductible, up to a coverage limit of \$3,310	25% after deductible, up to a coverage limit of \$2,960
Gap Amount ("Donut Hole") <sup>1</sup>	Between \$3,310 and \$7,062.50	Between \$2,960 and \$6,680
Maximum Out-of-Pocket Threshold	\$4,850	\$4,700
Minimum Copay in Catastrophic Coverage Portion of Benefit <sup>2</sup>		
Generic/Preferred Multisource Drugs	\$2.95	\$2.65
Other Drugs	\$7.40	\$6.60
Retiree Drug Subsidy Amounts		
Cost Threshold	\$360	\$320
Cost Limit	\$7,400	\$6,600
National Monthly Average Premium (Base beneficiary premium) <sup>3</sup>	\$34.10	\$33.13

<sup>1</sup> 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.

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

<sup>3</sup> 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 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 2016 Medicare COLAs, please contact your Milliman consultant.