

# CLIENT ACTION Bulletin

Employee Benefits

## 2017 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 2017. 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 2017.

### 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 Medicare Part A premium, deductible, and payroll tax amounts:

Medicare Part A (Hospital Insurance)	2017	2016
<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	\$413	\$411
31 to 39 quarters of Medicare-covered employment or disabled under age 65 who lost disability benefits due to earnings above threshold amounts	\$227	\$226
<b>Participant Cost Sharing</b>		
Deductible for up to 60 days of inpatient care	\$1,316	\$1,288
Daily coinsurance for days 61 to 90	\$329	\$322
Daily coinsurance for more than 90 days (lifetime reserve days)	\$658	\$644
Daily coinsurance for extended care services in a skilled nursing facility for days 21 through 100 in a benefit period	\$164.50	\$161.00
<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%
*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 supplemental medical insurance and covers physician and outpatient services and durable medical equipment. The Part B deductible in 2017 for all beneficiaries is \$183, which is an increase from the Part B deductible in 2016 of \$166.

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 2017 premium level is based on 2015 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 0.3%

Social Security benefits COLA for 2017, about 70% of beneficiaries see their Part B premium increase to \$109 (from \$104.90); the individuals not held harmless – including new Part B enrollees, enrollees not receiving Social Security benefits, and higher-income enrollees will pay higher premiums, as shown below (unless Congress acts to limit the increase):

Individual Income in 2015	Joint Income in 2015	2017 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 - \$160,000	\$214,001 - \$320,000	\$267.90
\$160,001 - \$214,000	\$320,001 - \$428,000	\$348.30
Above \$214,000	Above \$428,000	\$428.60

### Part D Standard Benefit

For 2017, the updated amounts for the standard Part D drug benefits are:

Part D Standard Benefit	2017	2016
Maximum Deductible	\$400	\$360
Initial Coverage Limit	25% after deductible, up to a coverage limit of \$3,700	25% after deductible, up to a coverage limit of \$3,310
Gap Amount ("Donut Hole") <sup>1</sup>	Between \$3,700 and \$7,425.00	Between \$3,310 and \$7,062.50
Maximum Out-of-Pocket Threshold	\$4,950	\$4,850
Minimum Copay in Catastrophic Coverage Portion of Benefit <sup>2</sup>		
Generic/Preferred Multisource Drugs	\$3.30	\$2.95
Other Drugs	\$8.25	\$7.40
Retiree Drug Subsidy Amounts		
Cost Threshold	\$400	\$360
Cost Limit	\$8,250	\$7,400
National Monthly Average Premium (Base beneficiary premium) <sup>3</sup>	\$35.63	\$34.10

<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 2017 Medicare COLAs, please contact your Milliman consultant.