

# CLIENT ACTION Bulletin

Employee Benefits

## 2013 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 figures for Medicare Part A and Part B for 2013. In April this year, CMS announced the updated amounts for the Medicare Part D standard prescription drug benefit for 2013. As a convenience, those figures are also provided in this *Client Action Bulletin*.

### DISCUSSION **Part A Premiums, Deductibles, and Payroll Tax**

The following table summarizes the Medicare Part A premium, deductible, and payroll tax amounts for 2013:

Medicare Part A (Hospital Insurance)	2013	2012
Monthly Premium		
Less than 30 quarters of Medicare-covered employment or disabled under age 65 who lost disability benefits because of work and earnings	\$441	\$451
31 to 39 quarters of Medicare-covered employment or disabled under age 65 who lost disability benefits due to earnings above threshold amounts	\$243	\$248
Extended care services in a skilled nursing facility for days 21 through 100 in a benefit period	\$148.00	\$144.50
Deductible		
Up to 60 days of inpatient care	\$1,184	\$1,156
Daily deductible for days 61 to 90	\$296	\$289
More than 90 days (lifetime reserve days)	\$592	\$578
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%	N/A

\* 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 2013 for all beneficiaries will increase to \$147 (up from \$140 in 2012).

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 2011 to \$85,000; \$170,000 for couples) are subject to the higher premium amounts. The Patient Protection and Affordable Care Act (PPACA), however, froze 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., 2011 income is used to determine the 2013 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 2013:

Individual Income in 2011	Joint Income in 2011	2013 Part B Premium
\$85,000 or less	\$170,000 or less	\$104.90
\$85,001 - \$107,000	\$170,001 - \$214,000	\$146.90
\$107,001 - \$160,000	\$214,001 - \$320,000	\$209.80
\$160,001 - \$214,000	\$320,001 - \$428,000	\$272.70
Above \$214,000	Above \$428,000	\$335.70

### Part D Standard Benefit

For 2013, the updated amounts for the standard Part D drug benefits are:

Part D Standard Benefit	2013	2012
Deductible	\$325	\$320
Initial Coverage Limit	25% after deductible, up to a coverage limit of \$2,970	25% after deductible, up to a coverage limit of \$2,930
Gap Amount ("Donut Hole") <sup>1</sup>	Between \$2,970 and \$6,733.75	Between \$2,930 and \$6,657.50
Maximum Out-of-Pocket Threshold	\$4,750	\$4,700
Minimum Copay in Catastrophic Coverage Portion of Benefit <sup>2</sup>		
Generic/Preferred Multisource Drugs	\$2.65	\$2.60
Other Drugs	\$6.60	\$6.50
Retiree Drug Subsidy Amounts		
Cost Threshold	\$325	\$320
Cost Limit	\$6,600	\$6,500
National Monthly Average Premium (Base beneficiary premium) <sup>3</sup>	\$31.17	\$31.08

<sup>1</sup> A PPACA 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 2013 cost-of-living adjustments for Medicare Parts A, B, and D, please contact your Milliman consultant.