

Client Action Bulletin

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2020 Cost-of-Living Adjustments for Medicare

SUMMARY

The Department of Health and Human Services' Centers for Medicare and Medicaid Services (CMS) has announced cost-of-living adjustments (COLAs) for Medicare Parts A and B for 2020. In April this year, CMS announced the 2020 amounts (also provided in this Client Action Bulletin) for the Medicare Part D standard prescription drug benefit.

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 2019 and 2020 Medicare Part A premium, deductible, and payroll tax amounts:

Medicare Part A (Hospital Insurance)	2020	2019
Monthly Premium		
Up to 30 quarters of Medicare-covered employment or disabled under age 65 who lost disability benefits because of work and earnings	\$458	\$437
31 to 39 quarters of Medicare-covered employment or disabled under age 65 who lost disability benefits due to earnings above threshold amounts	\$252	\$240
Participant Cost Sharing		
Deductible for up to 60 days of inpatient care	\$1,408	\$1,364
Daily coinsurance for days 61 to 90	\$352	\$341
Daily coinsurance for more than 90 days (lifetime reserve days)	\$704	\$682
Daily coinsurance for extended care services in a skilled nursing facility for days 21 through 100 in a benefit period	\$176.00	\$170.50

Regarding payroll taxes, the Medicare hospital insurance tax rate on all wages remains 1.45% for both employees and employers. This tax rate has not changed since 1986. Since 2013, employees also pay an additional 0.9% tax on wages over \$200,000 (\$250,000 for joint filers), requiring an employer to withhold the additional amounts when the employees' wages reach that threshold.

Part B Deductible and Premiums

Part B is medical insurance that covers physician and outpatient services and durable medical equipment. The Part B deductible in 2020 for all beneficiaries is \$198 (up from \$185 in 2019).

Medicare Part B premiums depend on beneficiaries' income levels. Individuals generally pay a "standard" premium amount if their modified adjusted gross incomes (MAGIs) are less than or equal to a specified threshold (\$87,000, or \$174,000 for couples, in 2020). Higher-income enrollees pay more (to cover a higher percentage of Part B costs), based on their MAGIs. And some lower-income beneficiaries may qualify for cost-sharing or premium assistance. In addition, if the Social Security benefit COLA is not enough to cover the Part B premiums, the Social Security law's "hold harmless" provision prevents the premiums from increasing for some Social Security recipients.

The MAGI generally is based on an individual's tax return from two years earlier (e.g., the 2020 premium is based on 2018 income). The income thresholds and/or the percentage of program costs borne by beneficiaries have been

modified by statutes, most recently by a 2018 law. The following chart shows the 2020 Medicare Part B monthly premiums based on 2018 income tax filings:

Individual Income in 2018	Joint Income in 2018	2020 Part B Premium
\$87,000 or less	\$174,000 or less	\$144.60
\$87,001 - \$109,000	\$174,001 - \$218,000	\$202.40
\$109,001 - \$136,000	\$218,001 - \$272,000	\$289.20
\$136,001 - \$163,000	\$272,001 - \$326,000	\$376.00
\$163,001 - \$500,000	\$326,001 - \$750,000	\$462.70
Above \$500,000	Above \$750,000	\$491.60

Part D Standard Benefit

The 2020 and 2019 standard Part D drug benefits are:

Part D Standard Benefit	2020	2019
Maximum Deductible	\$435	\$415
Initial Coverage Limit	25% after deductible, up to a coverage limit of \$4,020	25% after deductible, up to a coverage limit of \$3,820
Coverage Gap Amount ("Donut Hole") ¹	Between \$4,020 and \$9,038.75	Between \$3,820 and \$7,653.75
Maximum Out-of-Pocket Threshold	\$6,350	\$5,100
Minimum Copay in Catastrophic Coverage Portion of Benefit ²		
Generic/Preferred Multisource Drugs	\$3.60	\$3.40
Other Drugs	\$8.95	\$8.50
Retiree Drug Subsidy Amounts		
Cost Threshold	\$435	\$415
Cost Limit	\$8,950	\$8,500
National Monthly Average Premium (Base beneficiary premium) ³	\$32.74	\$33.19

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 2020 Medicare COLAs, please contact your Milliman consultant.

Other Recent Milliman Publications You May Be Interested in:

- ***Health and Group Benefits News and Developments, October 2019***
- ***Monthly Benefit News and Developments, October 2019***
- ***Pension Funding Index, October 2019***
- ***Multiemployer Pension Funding Study, Fall 2019***
- ***What can plan sponsors do with plummeting interest rates?*** This article presents perspectives on the challenges of the current interest rate environment.
- ***Market commentary, 3rd Quarter 2019*** Markets were mixed for the quarter as investors digested potential risks and opportunities in the market.
- ***Designing benefits packages that attract and retain employees*** In today's tight labor market, companies need to look beyond salary in order to attract and retain employees.
- ***How employers can address plan selection bias with risk adjustment*** Employers should adjust health plan options for morbidity in order to reduce the selection bias.
- ***Navigating two decades of funded status*** This paper examines the sources of funded status volatility seen over the past two decades and discusses how plan sponsors of defined benefit pension plans have adapted.
- ***Millennials and retirement: What do employers need to know?*** Employers may benefit from learning more about Millennials' changing relationship with retirement planning.



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