



# SPECIAL Alert

## In This Issue

*In this third McGrawWentworth Special Alert for 2012, we discuss changes to Medicare Part D plan parameters for 2013. Several provisions of the Standard Medicare Part D benefit plan are increased annually. All employers need to keep these increases in mind when determining creditable coverage status and applying for the retiree drug subsidy.*

*We welcome your comments and suggestions regarding this issue of our Special Alert. For more information on this article, please contact your Account Manager or visit the McGrawWentworth web site at [www.mcgrawwentworth.com](http://www.mcgrawwentworth.com).*

## “2013 Medicare Part D Parameters”

The federal government recently released the 2013 changes to certain provisions of the standard Medicare Part D plan. Carriers can structure their benefit plans in any way they choose, but their standard prescription drug plan must be the actuarial equivalent of the standard Medicare Part D benefit plan.

Medicare Part D impacts employers in two ways:

### 1. Creditable

**Coverage Status:** Any group health plan (for active employees and/or retirees) that provides coverage to a Medicare-eligible individual must determine the plan’s creditable coverage status. The status must be determined at least once per year, and whenever you make a change to your prescription drug benefit plan. Employers are required to communicate their plan’s creditable coverage status annually to Medicare-eligible plan participants.

**2. Retiree Drug Subsidy:** Employers can apply for a subsidy from the federal government if they sponsor a retiree health care plan that includes outpatient prescription drug coverage. The employer’s plan must be as good as or better than the standard Medicare Part D benefits.

Employers need to remember that the government changed the open enrollment period for Medicare Part D plans last year. Open enrollment now runs from October 15<sup>th</sup> to December 7<sup>th</sup>.



Because of this change, the government had previously issued new model notice language, which can be found at <http://www.cms.gov/Medicare/Prescription-Drug-Coverage/CreditableCoverage/Model-Notice-Letters.html>. Em-

ployers may also choose to distribute the creditable coverage notices a little earlier in the year to accommodate the new open enrollment period. The effective date for coverage will still be January 1<sup>st</sup> of the following calendar year.

To see how the standard Part D plan design for 2013 compares to 2012, please see the table at the top of page 2.

While this is the standard benefit plan design, the health care reform legislation did change how brand-name medications are handled after the initial coverage limit is reached and the beneficiary is in the coverage gap. Before health care reform, the beneficiary was responsible for

100% of the drug cost in the gap, until the true out-of-pocket cost limit was met. As of January 1, 2011, Medicare beneficiaries in the gap have been charged only 50% of the discounted rate for brand-name drugs. However, the full discounted rate is applied to the true out-of-pocket limit. This has the effect of reducing the Medicare beneficiary's liability for brand-name drugs in the coverage gap.

### Retiree Drug Subsidy

Employers that extend retiree drug coverage to Medicare-eligible retirees can apply for reimbursement for a portion of their drug expenses, as long as certain requirements are satisfied. First, an actuary must determine that the employer's plan is as good as or better than the Medicare Part D standard plan. (This is referred to as actuarial attestation.) The actuary must use the 2012 plan design during the testing process for the 2012 retiree drug subsidy application.

Standard Part D Comparison	2012	2013
Deductible	\$320	\$325
Initial Coverage Limit	\$2,930	\$2,970
Out-of-Pocket Cost Threshold	\$6,657.50	\$6,733.75
True Out-of-Pocket Cost Limit	\$4,700	\$4,750
Copays for Generic and Brand Drugs after the True Out-of-Pocket Cost Limit is Met	\$2.60 Generic/ \$6.50 Brand	\$2.65 Generic/ \$6.60 Brand

Any drugs that are covered by the standard Medicare Part D plan and fall between the cost threshold and the cost limit can be submitted for the subsidy. The cost threshold and cost limit are also annually indexed:

	2012	2013
Cost Threshold	\$320	\$325
Cost Limit	\$6,500	\$6,600

The subsidy remains tax-favored in 2012; however, as of January 1, 2013, any funds received will be taxed. Therefore, employers affected by this change may want to consider more cost-effective alternatives to the retiree drug subsidy.

### Concluding Thoughts

All employers offering prescription drug coverage need to be aware of the changes to the Medicare Part D standard benefits for 2013. Employers will need to determine the creditable coverage status of their drug plan for 2013 and provide Medicare-eligible participants with a notice of creditable coverage status.

Please contact your McGraw Wentworth Account Manager with any questions. **MW**

Copyright McGraw Wentworth, Inc. Our publications are written and produced by McGraw Wentworth staff and are intended to inform our clients and friends on general information relating to employee benefit plans and related topics. They are based on general information at the time they are prepared. They should not be relied upon to provide either legal or tax advice. Before making a decision on whether or not to implement or participate in implementing any welfare, pension benefit, or other program, employers and others must consult with their benefits, tax and/or legal advisor for advice that is appropriate to their specific circumstances. This information cannot be used by any taxpayer to avoid tax penalties.

McGraw Wentworth, Inc.

3331 West Big Beaver Road, Suite 200  
Troy, MI 48084  
Telephone: 248-822-8000 Fax: 248-822-4131  
www.mcgrawwentworth.com

250 Monroe Ave. NW, Suite 400  
Grand Rapids, MI 49503  
Telephone: 616-717-5647 Fax: 248-822-1278  
www.mcgrawwentworth.com

 <http://www.twitter.com/McGrawWentworth>

 <http://www.linkedin.com/company/McGraw-Wentworth>

 <http://www.facebook.com/McGrawWentworth>