

Client Action Bulletin

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2021 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 2021. In April this year, [CMS announced the 2021 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 2021 and 2020 Medicare Part A premium, deductible, and payroll tax amounts:

MEDICARE PART A (HOSPITAL INSURANCE)	2021	2020
MONTHLY PREMIUM		
Up to 30 quarters of Medicare-covered employment or disabled under age 65 who lost disability benefits because of work and earnings	\$471	\$458
31 to 39 quarters of Medicare-covered employment or disabled under age 65 who lost disability benefits due to earnings above threshold amounts	\$259	\$252
PARTICIPANT COST SHARING		
Deductible for up to 60 days of inpatient care	\$1,484	\$1,408
Daily coinsurance for days 61 to 90	\$371	\$352
Daily coinsurance for more than 90 days (lifetime reserve days)	\$742	\$704
Daily coinsurance for extended care services in a skilled nursing facility for days 21 through 100 in a benefit period	\$185.50	\$176.00

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 2021](#) for all beneficiaries is \$203 (up from \$198 in 2020).

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 (\$88,000, or \$176,000 for couples, in 2021). 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 2021 premium is based on 2019 income). The income thresholds and/or the percentage of program costs borne by beneficiaries have been modified by statutes, most recently by a 2019 law. The following chart shows the 2021 Medicare Part B monthly premiums based on 2019 income tax filings:

INDIVIDUAL INCOME IN 2019	JOINT INCOME IN 2019	2021 PART B PREMIUM
\$88,000 or less	\$176,000 or less	\$148.50
\$88,001 - \$111,000	\$176,001 - \$222,000	\$207.90
\$111,001 - \$138,000	\$222,001 - \$276,000	\$297.00
\$138,001 - \$165,000	\$276,001 - \$330,000	\$386.10
\$165,001 - \$499,999	\$333,001 - \$749,999	\$475.20
\$500,000 and higher	\$750,000 and higher	\$504.90

Part D Standard Benefit

The 2021 and 2020 standard Part D drug benefits are:

PART D STANDARD BENEFIT	2021	2020
Maximum Deductible	\$445	\$435
Initial Coverage Limit	25% after deductible, up to a coverage limit of \$4,130	25% after deductible, up to a coverage limit of \$4,020
Coverage Gap Amount ("Donut Hole") ¹	Between \$4,130 and \$9,313.75	Between \$4,020 and \$9,038.75
Maximum Out-of-Pocket Threshold	\$6,550	\$6,350
Minimum Copay in Catastrophic Coverage Portion of Benefit ²		
Generic/Preferred Multisource Drugs	\$3.70	\$3.60
Other Drugs	\$9.20	\$8.95
Retiree Drug Subsidy Amounts		
Cost Threshold	\$445	\$435
Cost Limit	\$9,200	\$8,950
National Monthly Average Premium (Base beneficiary premium) ³	\$33.06	\$32.74

¹ An Affordable Care Act provision closes the gap by 2021 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 2021 Medicare COLAs, please contact your Milliman consultant.



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