

FURTHER INCOME-RELATING (MEANS TESTING) MEDICARE PREMIUMS WOULD SHIFT MORE COSTS ONTO THE MIDDLE CLASS

Background:

The Medicare program provides vital health insurance coverage to approximately 50 million seniors and people with disabilities. While Medicare offers coverage for a range of health care services, it is neither comprehensive in scope nor is it without cost to beneficiaries. In addition to cost-sharing for certain services, most people pay a monthly Part B premium of \$104.90 (2013) and many also pay additional premiums for coverage under a Medicare Advantage plan, a Medicare Part D prescription drug plan, a Medigap plan or some other type of supplemental insurance.

Among the proposals to address the nation's long-term deficit by lowering Medicare spending is to further income-relate, or means test, Medicare premiums based upon beneficiaries' income. Medicare beneficiaries with incomes above \$85,000 (\$170,000 for a couple), however, already pay higher Part B premiums due to a provision in the Medicare Modernization Act of 2003. The Affordable Care Act of 2010 required higher-income individuals to also start paying higher Part D premiums in 2011 and froze the income limits (\$85,000 individual/\$170,000 couple) through 2019 so that each year more middle class people will be subject to higher premiums for Parts B and D.

Our Position:

LCAO is opposed to further income-relating (means testing) Medicare premiums. Over the last several years, Congress imposed greater costs on higher-income individuals through higher Part B and D premiums. Going further down this path will negatively impact more middle-income individuals and will do nothing to rein in overall health care costs.

LCAO recognizes the need to bring down the nation's deficit and reduce health care spending. With respect to Medicare, we support savings mechanisms that address system wide health care inflation and build on the cost savings and efficiencies of the Affordable Care Act. Further income-relating Medicare premiums, however, would only create federal savings by shifting additional costs onto Medicare beneficiaries.

Our Rationale:

Wealthier Medicare beneficiaries already pay more. Medicare beneficiaries with incomes above \$85,000 for an individual/\$170,000 for a couple already pay higher premiums for Medicare Parts B and D. In 2013, higher-income individuals pay between \$146.90 and \$335.70 per month for Part B and an extra \$11.60 to \$66.60 per month for Part D premiums. Today, income-related Part B premiums apply to approximately 5% of Medicare beneficiaries.ⁱ

Income levels are frozen under current law so each year more people will be subject to higher premiums. Under current law, income thresholds for higher premiums are frozen until 2019, meaning they are not indexed to increase annually. At that time, it is estimated that approximately 10% of Medicare beneficiaries will have incomes above this threshold and will be subject to higher premiums.ⁱⁱ If higher premiums were applied to Medicare beneficiaries with the top 10% of income today, it would affect people earning approximately \$63,000.^{iii iv}

Some proposals to expand means testing could apply to individuals earning as little as \$47,000 today. Some proposals to expand Medicare means testing would increase income-related premiums under Parts B and D until 25% of beneficiaries are subject to these premiums.^v According to a study by the Kaiser Family Foundation, if such a proposal were implemented today, this would affect individuals with income equivalent to \$47,000 for an individual and \$94,000 for a couple.^{vi} In other words, this would impact individuals earning almost half of the current income threshold of \$85,000.

Medicare costs are already high. In addition to any Medicare premiums required of beneficiaries, under the Traditional Medicare program, individuals are responsible for a 20% coinsurance for Part B services after meeting a \$147 deductible (2013); cost-sharing under Part A includes a hospital deductible of \$1,184. Health care costs are already a significant expense for Medicare beneficiaries, and are increasing; families on Medicare already pay more of their household budgets for health care (15% on average, compared to 5% for non-Medicare households).^{vii} Requiring more people with less income to pay more of their Medicare premiums will only increase these burdens.

Further means testing undermines the integrity and universality of Medicare. Medicare has enjoyed consistent, broad-based support as insurance for people over 65 and certain individuals under 65 with disabilities. Additional means testing would further undermine the social insurance nature of Medicare and could ultimately raise costs for middle and lower-income individuals who rely on it. As noted by the Kaiser Family Foundation, “there is a possibility that proposals [to further means test Medicare] could lead some higher-income beneficiaries to drop out of Medicare Part B and self-insure, which could result in higher premiums for all others who remain on Medicare ...”^{viii}

ⁱ According to the Kaiser Family Foundation, in 2012, 5.1% of Part B enrollees (2.4 million beneficiaries) were estimated to pay the income related Part B premium. See “Income-Relating Medicare Part B and Part D Premiums Under Current Law and Recent Proposals: What are the Implications for Beneficiaries?” Kaiser Family Foundation, February 2012, available at: <http://www.kff.org/medicare/8276.cfm>.

ⁱⁱ The share of Medicare beneficiaries required to pay the income-related Part B premium is projected to rise to 9.7% in 2019 (5.5 million beneficiaries); once income thresholds begin to rise with inflation again in 2020, this number is projected to fall back to 6.6% of beneficiaries. See “Income-Relating Medicare Part B and Part D Premiums Under Current Law and Recent Proposals: What are the Implications for Beneficiaries?” Kaiser Family Foundation, February 2012, available at: <http://www.kff.org/medicare/8276.cfm>.

ⁱⁱⁱ According to Urban Institute/Kaiser Family Foundation analysis in 2011, the 90th percentile of income among Medicare beneficiaries in 2010 was \$63,251. See “Projecting Income and Assets: What Might the Future Hold for the Next Generation of Medicare Beneficiaries?” Kaiser Family Foundation, June 2011, available at: <http://www.kff.org/medicare/upload/8172.pdf>.

^{iv} Note that some proposals suggest keeping the share of beneficiaries subject to higher premiums at roughly the levels they will reach in 2019. For example, the Center for American Progress’ “Senior Protection Plan” (November 2012) suggests that the share of beneficiaries who pay higher premiums for Part B and D should remain constant at 10% beyond 2019 (in addition, they call for the amount that higher-income individuals pay to increase by 15% starting in 2014). See <http://www.americanprogress.org/issues/healthcare/report/2012/11/14/44590/the-senior-protection-plan/>.

^v See, e.g., President Obama’s FY 2013 Budget (February 2012) available at <http://www.whitehouse.gov/omb/budget> and the Office of Management and Budget, “Living Within our Means and Investing in our Future: The President’s Plan for Economic Growth and Deficit Reduction” (September 2011) available at: <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/jointcommitteereport.pdf>.

^{vi} “Income-Relating Medicare Part B and Part D Premiums Under Current Law and Recent Proposals: What are the Implications for Beneficiaries?” Kaiser Family Foundation, February 2012, available at: <http://www.kff.org/medicare/8276.cfm>.

^{vii} For more information about fiscal challenges facing Medicare beneficiaries, see LCAO’s Fact Sheet “Medicare Beneficiary Characteristics and Out-of-Pocket Costs” (October 2012), available at: <http://www.lcao.org/docs/LCAO-Medicare-Characteristics-Costs-Issue-Brief-10-12.pdf>.

^{viii} “Income-Relating Medicare Part B and Part D Premiums Under Current Law and Recent Proposals: What are the Implications for Beneficiaries?” Kaiser Family Foundation, February 2012, available at: <http://www.kff.org/medicare/8276.cfm>.