BUDGET COMMITTEE

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BUDGET PERSPECTIVE:
Does the Federal Government Need to Protect Wealthy Seniors From Paying Increased Medicare Premiums?

On September 24, the House passed (406-18) H.R. 3631, a bill that would freeze for 2010 the Medicare Part B insurance premiums at the 2009 level of $96.40 per month. Part B is the facet of the Medicare program that pays for the doctor visits of seniors.

Why Did the House Pass Such a Bill?

It was passed in order to protect a very small subset of seniors who would otherwise have to pay more for Medicare next year. Because the average price of goods and services declined during the recession, there will be no automatic upward cost of living adjustment (COLA) to Social Security benefits in January 2010.[1]

But most beneficiaries of the Social Security program also participate in the Medicare program and have their monthly Part B insurance premium deducted from their Social Security check. A flat Social Security benefit in January 2010 combined with a scheduled a Medicare Part B premium increase would mean that beneficiaries would see the net amount of their monthly Social Security check decrease by $6.60, if it weren't for a provision under current law (42 U.S.C. 1395r(f)) that automatically will hold harmless most beneficiaries by also freezing their Part B premiums at $96.40 per month.

Current law, however, also requires Medicare to somehow still collect all of the regularly-scheduled Part B premium increase. While about 73 percent (about 31 million) of Part B beneficiaries are protected from a premium increase in January, the Medicare program is required to collect all of the increased premiums (about $2.8 billion) that Medicare ordinarily would have collected from <u>all</u> Part B beneficiaries from the remaining 27 percent (about 12 million) of Medicare beneficiaries.

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[1] For additional information see the May 5, 2009 *Budget Bulletin*, "The Recession's Impact on Social Security and Medicare Finances." http://budget.senate.gov/republican/analysis/2009/bb03-2009.pdf

Which Beneficiaries are Included in the 27% Subset, and Which of These Beneficiaries Actually Pay the Premiums Themselves?

- About 8 million "dual eligible" seniors who also receive a Medicaid benefit; these seniors **do not pay either the current or increased premiums themselves**. Instead, the federal government and state governments share the cost and pay the premiums on behalf of these beneficiaries.
- About 2 million wealthier seniors (individuals with annual income greater than $85,000 and couples with income greater than $170,000) who already pay more than the 2009 base premium of $96.40 per month under the Part B means-testing program.
- About 1 million beneficiaries who enroll during 2010; they would not experience a premium "increase" because they paid no premium in 2009.
- Less than 1 million beneficiaries who pay premiums on their own, typically because their Social Security check is smaller each month than the Part B premium.

Because dual-eligible beneficiaries account for the largest component of the group on whom the premium increase is calculated, some have erroneously concluded that the poor would bear an unfair portion of the increase. For example, one report argued that "preliminary numbers indicate [that allowing current law to go into effect] could mean Part B premiums as high as $110 to $120 a month, a better than 14 percent increase — effectively cutting into the Social Security checks for these recipients. A big chunk of them are the poorest elderly, already reliant on Medicaid to help pay their bills." But since that "big chunk" of recipients – the ones who receive both Medicaid and Medicare benefits and who are the "poorest elderly" contemplated here – **do not even pay their own Medicare premiums** , it would be mostly the well-off seniors, among Medicare beneficiaries who actually pay Part B premiums, who would pay increased premiums under current law.

Despite these realities, the House passed H.R. 3631 to prevent the scheduled Medicare premium increase from going into effect, with many press releases arguing that is was necessary to protect the poor. The bill has been received by the Senate and referred to the Finance Committee. Last week it was "hotlined," seeking the Senate's unanimous consent to pass the bill and send it to the President to sign into law. Thus far, the Senate has not passed the bill.

What is the Budgetary Impact of the Bill?

By forgoing the scheduled premium increases, the federal deficit would increase by a total of $2.1 billion in 2010 and by $0.7 billion in 2011. The House pretended to comply with their paygo rule by employing a gimmick as an offset. The bill would reduce "spending" from the so-called Medicare Improvement Fund by $3.5 billion in 2014 and 2015, while increasing spending from that fund by $0.5 billion in 2016. The availability of such reduced spending as an offset is further suspect because the health reform bill produced by the Senate Finance Committee already eliminates all “spending” from that fund. Whichever bill is enacted first will get credit for the “offset,” and the other bill would have to acquire a replacement offset in order to satisfy the paygo test.

And whether the bill is enacted with or without a real offset, it would affect only the Medicare premiums to be paid in 2010. Since low inflation is expected to continue for the next two years, it is likely that Social Security recipients will not receive another increased COLA until January 2013. As a result, the same dynamic that affects Medicare Part B premiums in 2010 would occur in 2011 and 2012 as well, so don’t be surprised when a bill like this one comes back a year from now and the year after that.