COMMITTEE ON
WAYS AND MEANS
CHAIRMAN DAVE CAMP

The President's and Other Bipartisan Proposals to Reform Medicare: Modernizing Beneficiary Cost-Sharing

Summary

Current Law

Medicare Part B
Under current law, Medicare Part B is financed through a combination of beneficiary premiums and federal general revenues, which are deposited into the Supplemental Medical Insurance (SMI) trust fund. Beneficiary premiums generally equal 25 percent of estimated annual Part B program costs. Federal general revenues subsidize the remaining 75 percent. Part B generally pays 80 percent of the approved amount for the cost of a procedure, and the beneficiary is responsible paying for the remaining 20 percent (after paying an annual deductible, which is set at $147 for 2013), referred to as coinsurance. Additional subsidies are provided to low-income beneficiaries. Beneficiaries who choose not to enroll in Part B, and do not maintain "creditable coverage," are subject to a late-enrollment penalty (assessed to the premiums) upon enrollment. As part of the Medicare Modernization Act (MMA), Congress enacted income-related premiums for Medicare Part B. MMA established four income bracket thresholds each with its own Part B premium level (the higher the income bracket, the higher the premium). The income thresholds were indexed to inflation. The chart below shows the current Part B premium:

Monthly Premium:

Yearly Income		2013 Monthly Premium
File Individual Tax Return	File Joint Tax Return	
$85,000 or below	$170,000 or below	$104.90
$85,001-$107,000	$170,001-$214,000	$146.90
$107,001-$160,000	$214,001-$320,000	$209.80
$160,001-$213,000	$320,001-$426,000	$272.70
above $213,000	above $426,000	$335.70

Medicare Part D
Under current law, the average monthly Part D premium paid by beneficiaries is approximately $30. The standard benefit includes a $325 deductible, coverage for 75 percent of allowable drug expenses up to an initial benefit limit of $2,970, a $4,750 catastrophic limit on true out-of-pocket spending (or nearly $6,955 in total drug

expenses), and coverage for 95 percent of allowable drug expenses above the catastrophic limit. Beneficiaries do not receive a federal subsidy for drug spending, under a standard benefit design, between $2,970 and $4,750. This spending range is often referred to as the "donut hole." The Affordable Care Act (ACA) changed this standard design, such that by 2020, once a beneficiary pays their deductible, the government will cover 75 percent of the donut hole cost-sharing (of which 50 percent will be covered by manufacturer discounts in the donut hole) until beneficiaries reach the catastrophic limit at which point the beneficiary is only responsible for 5 percent of their drug costs.

Also as part of the ACA, income-related premiums were extended to Part D beginning in 2011, and the income-related brackets are frozen through 2019.

Home Health

Under current law, beneficiaries who are generally restricted to their homes and need skilled care (from a nurse or physical or speech therapist) on a part-time or intermittent basis are eligible to receive certain medical services at home. Home health agency personnel can provide skilled nursing care; physical, occupational, and speech therapy; medical social work; and home health aide services.

Home health agencies are paid a pre-determined daily rate for each 60-day episode of care, based on patients' conditions and service use, and then adjusted to reflect the level of market input prices in the geographical area where services are delivered. Medicare made home health payments totaling nearly $18.4 billion in 2011.

Beneficiaries are not required to make any copayments for home health services.

Assumptions

Staff did not make any policy assumptions in the interpretation of the Fiscal Year 2014 President's budget proposals on modernizing beneficiary cost-sharing. Staff requested specifics from the Administration to enable the drafting of the policies. When possible, staff updated legislative language that was previously drafted by the Administration for purposes of negotiations during Joint Committee in 2011.

Fiscal Year 2014 (FY14) President's Budget Provisions

To address concerns with the sustainability of the Medicare trust funds, the Obama Administration has identified several key policies to modernize cost-sharing within the Medicare program. In the President's FY14 budget, the Administration focused on three key cost-sharing policies: (1) increasing income-related premiums for Medicare Parts B & D; (2) increasing the annual Medicare Part B deductible; and (3) establishing a home health co-pay.

Increasing Income-Related Premiums for Medicare Parts B & D

In his FY14 budget, President Obama proposed to re-structure income-related premiums beginning in 2017. The proposal would increase the lowest income-related premium by 5 percentage points (from 35 to 40 percent) and increase other income brackets until capping the highest tier at 90 percent. This proposal would remain in place until 25 percent of beneficiaries under Medicare Parts B & D are subject to these premiums. The proposal would expand the current 5 income brackets to 9 income brackets. The chart* below shows future Part B premiums under the proposal:

Modified Adjusted Gross Income	**Premium Percentage (2017 or a subsequent year)**
More than $85,000 but not more than $92,333	40 percent
More than $92,333 but not more than $99,667	46.5 percent
More than $99,667 but not more than $107,000	53 percent
More than $107,000 but not more than $124,667	59.5 percent
More than $124,667 but not more than $142,333	66 percent
More than $142,333 but not more than $160,000	72.5 percent
More than $160,000 but not more than $178,000	79 percent
More than $178,000 but not more than $196,000	85.5 percent
More than $196,000	90 percent

**Provided by the Centers for Medicare & Medicaid Services*

The FY14 President's budget estimated that this policy would save $50 billion over 10 years. The Congressional Budget Office estimated that this policy would save $56.3 billion over 10 years.

Increasing the Annual Medicare Part B Deductible

In his FY14 budget, President Obama proposed to apply a $25 increase to the Part B deductible in 2017, 2019 and 2021 for new beneficiaries (policy would begin in 2017). This policy would essentially have two cohorts: (1) old beneficiaries (no change) and (2) new beneficiaries, for Part B deductibles depending on when beneficiaries enter the Medicare program. New beneficiaries, enrolling in 2017, would experience three different deductibles over a period of five years.

The FY14 President's budget estimated that this policy would save $3.3 billion over 10 years. The Congressional Budget Office also estimated that this policy would save $3.3 billion over 10 years.

Establishing a Home Health Co-Pay

In his FY14 budget, President Obama proposed to institute a $100 home health co-pay per home health episode, for new beneficiaries (policy would begin in 2017). The proposal would exempt the co-pay if the home health episode was directly preceded by a hospital or inpatient post-acute stay.

The FY14 President's budget estimated that this policy would save $730 million over 10 years. The Congressional Budget Office estimated that this policy would save $700 million over 10 years.