



# JOINT ECONOMIC COMMITTEE DEMOCRATS



REPRESENTATIVE PETE STARK (D-CA) – SENIOR DEMOCRAT

ECONOMIC POLICY BRIEF

JULY 2003

## HOUSE MEDICARE “REFORM” PROPOSALS WOULD WIPE OUT SOCIAL SECURITY COLAS FOR MANY SENIORS

### Executive Summary

The Medicare reform bill that passed the House (H.R. 1) contains provisions that would raise the cost of Medicare Part B (covering doctors and other services) to beneficiaries by increasing their deductible and their premium payments.

The impact on the disposable income of affected seniors with average incomes of introducing the so-called “premium support” competitive provision, which begins in 2010, and the Part B deductible increase could wipe out or exceed the Social Security cost of living increase (COLA) for a year.

In addition, on an on-going basis (once premium support is fully phased in), the annual increases in premiums and deductibles for Medicare Part B and the new prescription drug benefit proposed by the House would eat up roughly half of the average senior’s Social Security COLA.

### Key Findings

The Medicare reform bill that passed the House would increase Medicare premiums and deductibles, and thus reduce spendable Social Security income for those remaining in traditional Medicare.

- When fully implemented, the increase in the Part B deductible plus the premium support provision of the House bill could

increase Part B premiums and deductibles by the full amount of the average retired worker’s Social Security COLA (**Table 1**). For a couple, the increase in Part B premiums and deductibles could exceed the Social Security COLA by 30 percent.

- The projected premium and deductible increases could exceed the projected average COLA for black single female retirees by 45 percent and black couples by 52 percent, for Hispanic single female retirees by 51 percent and Hispanic couples by 66 percent (**Chart 1**).
- In addition to facing higher Part B deductibles and premiums, Medicare beneficiaries would also face new premiums and deductibles for the added prescription drug benefit. The annual increases in these direct costs to beneficiaries would continue beyond the initial implementation of the new program and, together with continuing increases in beneficiary costs for Part B coverage, could easily consume 50 percent or more of the Social Security COLA for many seniors each and every year (**Table 2**).
- For an elderly couple receiving the average Social Security benefit, the annual increase in Medicare beneficiary payments would be 65 percent of the expected annual Social Security COLA (**Chart 2**).

Table 1

**Estimated Impact of House Prescription Drug Bill on Medicare Part B Premium and Deductible Compared with Social Security COLAs, 2013**

|   | <b>2013</b> |
|---|-------------|
| <b>Current Law</b>  | dollars     |
| Part B Premium  | 1,342       |
| Part B Deductible   | 100         |
| <b>Total</b>  | 1,442       |
| <b>House Bill (Assumes Full Implementation)</b>                           |             |
| Part B Premium  | 1,677       |
| Part B Deductible   | 164         |
| <b>Total</b>  | 1,841       |
| <b>Increase in Per Capita Premium and Deductible under the House Bill</b> | 399         |
| <b>Average Annual Social Security COLA</b>                                |             |
| Average Retiree   | 380         |
| Average Retired Couple  | 616         |
| <b>Medicare Increase as a Percent of Social Security COLA</b>             |             |
|   | percent     |
| Average Retiree   | 105         |
| Average Retired Couple  | 130         |
| Average Black Single Female - Age 65+                                     | 145         |
| Average Hispanic Single Female - Age 65+                                  | 151         |
| Average Widow - Age 65+   | 108         |
| Average Black Couple - Age 65+  | 152         |
| Average Hispanic Couple - Age 65+   | 166         |

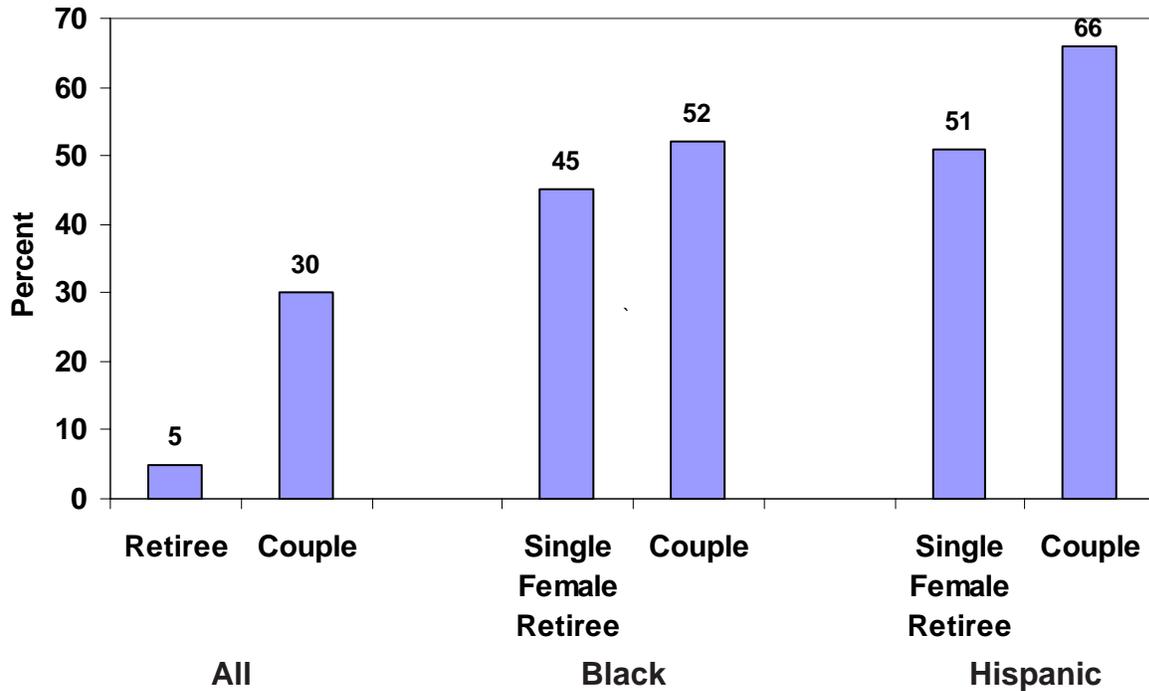
Note: This analysis assumes that the premium support provision is fully phased in and that the retirees described in this analysis live in a "competitive" area where premium support will replace the current system.

Source: JEC Democratic Staff estimates based on data from Department of Health and Human Services, Center for Medicare and Medicaid Services. June 26, 2003. Deductible increases are from H.R.1 Medicare Prescription Drug and Modernization Act of 2003 as passed by the House of Representatives on June 27, 2003. Congressional Budget Office Cost Estimate, July 22, 2003.

Chart 1

**Cost Increases under the House Prescription Drug Bill  
Exceed Social Security COLAs**

Excess of Increase in Medicare Part B Premium and Deductible over Social Security COLA, 2013



Source: Same as Table 1.

Table 2

### Medicare Cost-Sharing Increases in 2013 and Thereafter Under the House Prescription Drug Bill Compared with Social Security COLA Increases

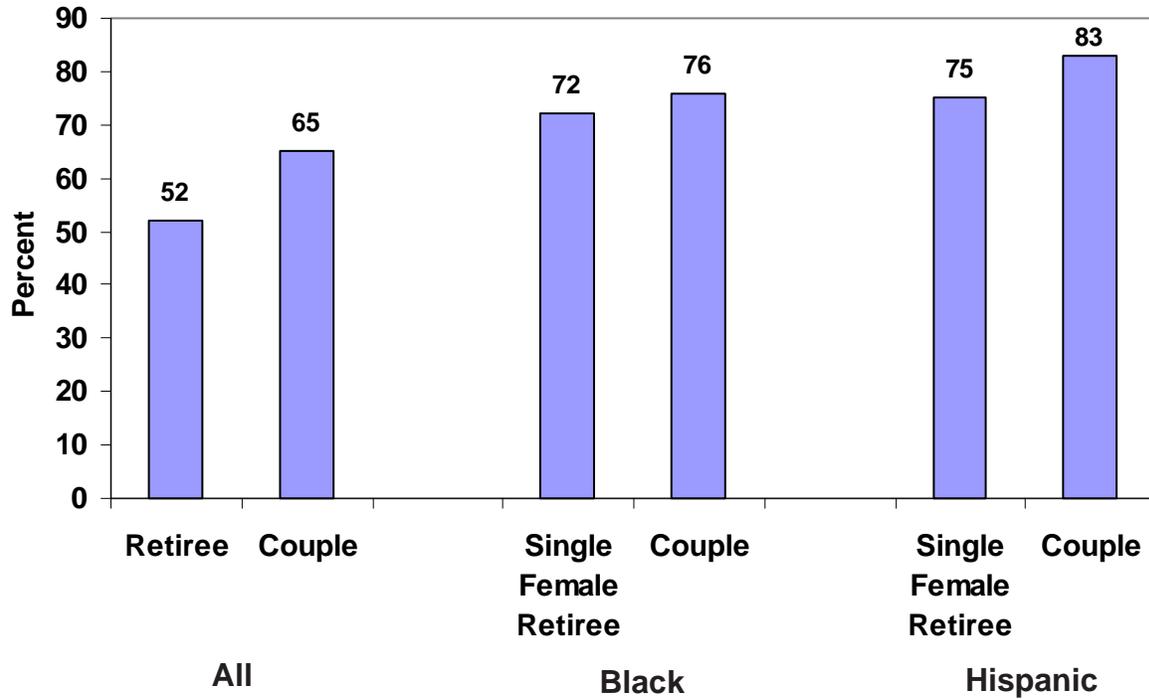
|   | 2012    | 2013    |
|---|---------|---------|
|   | dollars | dollars |
| <b>Part B Premium &amp; Deductible</b>                        | 1,739   | 1,841   |
| <b>Part D Premium &amp; Deductible</b>                        | 1,117   | 1,214   |
| <b>Total</b>  | 2,856   | 3,055   |
| <b>Increase from Previous Year per Person</b>                 |         | 199     |
| <b>Social Security COLA Increase</b>                          |         |         |
| Average Retiree   |         | 380     |
| Average Retired Couple  |         | 616     |
| <b>Medicare Increase as a Percent of Social Security COLA</b> |         | percent |
| Average Retiree   |         | 52      |
| Average Retired Couple  |         | 65      |
| Average Black Single Female - Age 65+                         |         | 72      |
| Average Hispanic Single Female - Age 65+                      |         | 75      |
| Average Widow - Age 65+                                       |         | 54      |
| Average Black Couple - Age 65+                                |         | 76      |
| Average Hispanic Couple - Age 65+                             |         | 83      |

Note: Part D is the new prescription drug benefit.

Source: Same as Table 1.

Chart 2

**Annual Medicare Cost-Sharing Increase as a Percent of Social Security COLA in 2013 and Thereafter**



Source: Same as Table 1.

## Supporting Analysis

### *Background*

Social Security benefits are a significant portion of income for most Medicare beneficiaries; it is the sole source of income for approximately 20 percent of Medicare beneficiaries. The annual cost-of-living increases in Social Security are designed to maintain the purchasing power of Social Security checks over time. In other words, the average increase in the Social Security benefit from one year to the next offsets the price increases for food, energy, housing, and other normal costs of living including out-of-pocket health expenses that an elderly individual or couple faces.

Premiums and deductibles for current Medicare benefits – not counting co-pays and coinsurance – consume a relatively small, but growing, proportion of Social Security benefits. In 2004, the annual premium and deductible will account for about 8 percent of the average retired worker’s Social Security check. Over the next ten years, Social Security checks are projected to increase by about 2.5 percent per year compared with annual growth in Medicare premiums of over 6 percent.

The first part of this analysis examines the increase in the traditional Part B premium due to the so-called “premium support” provisions of the House prescription drug benefit and the increase in the Part B deductible relative to current law.

The second part of the analysis examines a different concept. It examines the annual increase in premiums and deductibles in the new prescription drug benefit plus annual increases in Medicare Part B program premium and deductible. The analysis compares all of these annual increases to the annual increases in Social Security benefits. Both analyses are done using 2013 data because this is the year closest to full implementation (2014) that is within the budget baseline window.

### *Part B Premium and Deductible Increases under the House Prescription Drug Bill*

The House prescription drug bill (H.R.1) includes several changes that would affect the premiums and cost sharing paid by Medicare beneficiaries enrolled in the traditional, fee-for-service program. Beginning in 2010, the so-called FEHBP-style competition provision (also called premium support) would modify the Part B premium amount for some beneficiaries who remain in traditional Medicare. In a fundamental shift from current law, the proposal would cap the Federal contribution for Medicare. If traditional Medicare’s costs exceed the fixed Federal contribution, then beneficiaries must pay the full amount of the excess cost.

In addition, the House bill would index the current \$100 Part B deductible to Part B program growth per beneficiary. This would increase the Part B deductible to \$164 by 2013 and raise more than \$11 billion from beneficiaries. While the bill also adds a co-payment on home health services, this analysis excludes this and other existing co-payments; as such, it understates the impact of Medicare cost sharing on Social Security income for beneficiaries whose utilization levels exceed the Part B deductible.

According to the analysis by the Office of the Actuary at the Center on Medicare and Medicaid Services (CMS), the fully implemented version of the House competition model could increase traditional Medicare premiums by up to 25 percent. The premium impact effects would vary geographically, depending on the number of local private plans, their bids for services, the extent of enrollment in private plans and the number of years that the area has been designated as “competitive”. This is further complicated by widely differing estimates of the impact of the proposal between CMS and the Congressional Budget Office (CBO). For example, CMS assumes enrollment in private plans that is nearly four times higher than that of

CBO; accordingly, CBO assumes a much smaller impact on the Part B premium.

To provide a simple impact analysis of the House competition plan, this paper uses the CMS analysis and assumes that the full premium effect of the proposal is felt by 2013. It uses the upper end of the range of the potential impact of Medicare Advantage competition on the traditional program premium. Given the uncertainty of projections, the actual impact on Part B premiums could be higher or lower – but under either circumstance, beneficiaries, not Medicare, would shoulder the entire risk. Because CMS estimates are not available for other variables, the paper uses CBO estimates of the Part B deductible increase, baseline Part B premiums, and projected Social Security benefits and COLAs.

**Table 1** illustrates the Part B premium and deductible under current law compared with what these levels might be under the House bill. By 2013, the Part B premium and deductible would be almost \$400 higher. The premium and deductible are summed because more than 90 percent of Medicare beneficiaries pay the deductible; this combination represents a lower bound on out-of-pocket expenditures for most Medicare beneficiaries since it excludes any Part A, B, or D cost sharing or the new home health co-payment included in the House bill. This increase is more than 100 percent of the COLA in the average Social Security check received by a Medicare recipient.

In other words, the premium and deductible increases in the House bill will more than consume the full Social Security COLA for one year. The possible Medicare Part B premium and deductible increases would exceed the projected average COLAs for retired widows by 8 percent, for female black single retirees by 45 percent, for Hispanic single female retirees by 51 percent, for black couples by 52 percent, and for Hispanic couples by 66 percent.

### *Annual Medicare Beneficiary Cost Increases Compared with Social Security COLAs*

Another important issue is how annual increases in total Medicare premium and deductibles including those for the new prescription drug benefit compare with the cost-of-living adjustments in Social Security benefits. This is because the impact of H.R.1 is not just a one-time shift to the new system: its annual increases in cost sharing could also affect seniors' income over time.

**Table 2** provides such a comparison. It assumes that Part B premium support provisions of the House bill are already implemented by 2012. Part B premiums and the deductible are shown in Row 1 of the table and the prescription drug (Part D) premium and deductible is shown in Row 2 under the House bill. The Part B and prescription drug deductibles are included because the overwhelming majority of Medicare recipients exceed those deductibles.

It is also important to note that the Part D premiums are not set in statute; thus the analysis relies on CBO's estimate for average Part D premiums. They could be higher. The Part A deductible is not included nor are any other cost sharing amounts under current law or in the proposal (i.e., the home health co-payment). Thus, the analysis is probably a conservative illustration of the out-of-pocket increases that Medicare recipients can expect annually. The increase in these amounts is shown in Row 4.

The average annual increase in Medicare premiums and deductibles for Part B and D services would consume about 50 percent of the Social Security COLA increase in every year. For couples with an average Social Security payment, the Medicare premiums and deductibles would consume about 65 percent of their combined Social Security checks each and every year.

For individuals and couples with smaller Social Security checks, annual Medicare premiums and deductibles would consume a large share of their COLA. Thus, for the average black couple, 76 percent of their annual Social Security COLA will be consumed by annual increase in Medicare premiums and deductibles.

## **Conclusion**

Rising premiums and deductibles under the House Medicare reform bill could wipe out or exceed the annual Social Security cost-of-living adjustments (COLAs) for Medicare beneficiaries. This undermines the concept of the Social Security COLA, which is to maintain the purchasing power of these benefits over time. The reduction and, in some cases, complete erosion of the COLA by the Medicare cost sharing increases would impose significant cost burdens on the elderly.