



How Would Medicare Part B Premiums Be Affected If There Is No Social Security COLA?

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Summary

Current projections indicate that there will be no Social Security cost-of-living adjustment (COLA) in 2010, 2011, and 2012. Over the same period, total Medicare Part B program costs are expected to increase. Part B premiums, which are automatically deducted from Social Security checks, must cover 25% of projected Part B costs. The Social Security Act includes a provision that holds most Social Security beneficiaries harmless for increases in the Medicare Part B premium. Affected beneficiaries' Part B premiums are reduced to ensure that their Social Security checks do not decline from one year to the next. In a typical year, the hold harmless provision affects a small fraction of beneficiaries and has a limited impact on program finances. However, in a scenario where Medicare Part B premiums increase but Social Security benefits do not, the effects of the hold harmless provision are larger and more complex.

If there is no Social Security COLA, Medicare Part B premiums would be affected in two ways. For about three-quarters of Part B participants, the hold harmless provision would prevent their Part B premiums from increasing, and so their Social Security checks would remain flat. For the other one-quarter of beneficiaries, the hold harmless provision would not apply. These beneficiaries would shoulder the entire beneficiary share of the increase in Part B costs. In other words, their collective premium increase would be nearly four times greater than if there were no hold harmless provision.

There are three groups of beneficiaries to whom the hold-harmless provision would not apply:

- low-income beneficiaries whose Part B premiums are paid by the Medicaid program (currently 17% to 18% of beneficiaries, expected to increase),
- high-income beneficiaries who are subject to income-related Part B premiums (about 5% of beneficiaries), and
- new enrollees (about 2% of beneficiaries).

The substantial majority of those not held harmless are low income beneficiaries whose Part B premiums are paid by Medicaid. As a result, in the absence of any intervention by Congress, most of the cost of the increase in Part B premiums in 2010, 2011, and 2012 would be paid by the federal-state Medicaid program, not directly by beneficiaries.

In the absence of a Social Security COLA, unless Part B premiums are increased substantially on those who are not held harmless, the Supplementary Medical Insurance trust fund, which finances Part B, is at risk of exhaustion.

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Background

This section outlines how Medicare Part B premiums and Social Security cost-of-living adjustments (COLAs) are calculated, and how the COLA affects Part B premiums. The following section examines a scenario in which Medicare Part B premiums rise but Social Security benefits do not.

Medicare Part B Premiums¹

Medicare beneficiaries who voluntarily elect Part B coverage, which covers services provided by physicians as well as a variety of other health care services, are charged a monthly premium. Social Security beneficiaries, as well as railroad retirees and civil service annuitants, have their Part B premiums deducted from their monthly checks, when possible.

Standard Part B Premium

Medicare Part B premiums typically rise or fall with Part B program costs. The Balanced Budget Act of 1997 (BBA 97, P.L. 105-33) permanently set the standard Medicare Part B premium at 25% of estimated program costs for the aged, which include a contingency reserve.² Federal general revenues account for the remaining Part B program costs. In other words, every \$1 in Part B premiums for aged enrollees is matched by \$3 in general revenues. In 2009, the standard Medicare Part B premium is \$96.40 per month. All income for Part B is credited to the Supplementary Medical Insurance (SMI) trust fund.

Part B Premium Formula Includes Cuts to Physician Payments

Medicare physician payments, which account for about half of Part B costs, are updated from year to year according to a statutory formula, commonly referred to as the sustainable growth rate (SGR). Strict application of this formula would result in cuts to physician fees of about 21% in 2010, and then about 5% in each of the following four years.³ However, these cuts are seen as unlikely to be implemented. Congressional action has overridden the SGR system and prevented cuts to physician fees for 2003 to 2009. Many Members of Congress were concerned about the impact of potential payment reductions on beneficiaries' access to services. The Medicare trustees acknowledge that "multiple years of significant reductions in physician payments per service are very unlikely to occur before legislative changes intervene."⁴

¹ CRS Report R40082, *Medicare: Part B Premiums*, by Jim Hahn.

² Disabled Medicare beneficiaries under age 65 pay the same premium amount as those aged 65 or older, though their per capita Part B costs are higher.

³ Congressional Budget Office letter to Energy and Commerce Chairman Dingell, June 24, 2008.

⁴ Centers for Medicare and Medicaid Services, *2008 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, March 25, 2008, p. 23, at <http://www.cms.hhs.gov/ReportsTrustFunds/downloads/tr2008.pdf>. Hereinafter referred to as "2008 Medicare Trustees Report."

Income-Related Part B Premiums

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA, P.L. 108-173) increased the Part B premium percentage for high-income enrollees beginning in 2007.⁵ The Part B premiums for high-income beneficiaries are based on a greater beneficiary share of total expenditures that increases with income. For 2009 and future years, higher-income individuals pay total premiums ranging from 35% to 80% of the value of Part B. In 2009, the four income-related Medicare Part B premium categories range from \$134.90 to \$308.30 per month, on a graduated scale for individuals whose incomes exceed \$85,000 per year and for couples whose incomes exceed \$170,000 per year.

Part B Premium Subsidies for Low-Income Beneficiaries

Low-income individuals may qualify for subsidies, which cover all or part of their Part B premiums. About one in five Medicare beneficiaries receive full Part B subsidies. These subsidies are paid by the federal-state Medicaid program. To qualify for subsidies, beneficiaries must have limited income and assets. Beneficiaries may qualify for full Part B premium subsidies if they have incomes of less than 135% of the federal poverty line and assets of less than \$4,000 for an individual or \$6,000 for a couple.⁶

Social Security COLAs

After a person becomes entitled to receive Social Security benefits, his or her monthly benefit amount is increased annually to maintain purchasing power over time.⁷ At the end of each year, the Social Security Administration (SSA) announces the cost-of-living adjustment (COLA) payable in January of the following year. The amount of the COLA is based on inflation as measured by the Consumer Price Index—Urban Wage Earners and Clerical Workers (CPI-W). If the CPI-W rises, Social Security benefits for the next year increase proportionately.⁸ If the CPI-W falls, Social Security benefits stay the same. Automatic COLAs began in 1975 (P.L. 92-336).⁹ Since the Social Security COLA was linked to the CPI, the lowest implemented COLA was 1.3% in 1987 and 1999.

⁵ The income-related subsidy provision was later modified by the Deficit Reduction Act of 2005 (DRA, P.L. 109-171).

⁶ The federal poverty line varies depending on family size. For a family of two, the poverty guideline for the purposes of determining Medicaid eligibility is \$14,570 in 2009. (See *The 2009 HHS Poverty Guidelines* at <http://aspe.hhs.gov/POVERTY/09poverty.shtml>.)

⁷ For more information, see CRS Report 94-803, *Social Security: The Cost-of-Living Adjustment in January 2009*, by Gary Sidor.

⁸ A Social Security COLA will not be triggered until the CPI-W for the third quarter of a year exceeds its level in the third quarter of 2008, even if year-over-year price increases occur. For this reason, CBO projects that the CPI will increase during 2010 and 2011, but that the next Social Security COLA will not occur until 2012, when these price increases offset earlier declines (Douglas Elmendorf, *Director's Blog*, Congressional Budget Office, "Why CBO Projects No Social Security COLA for 2010 to 2012 Under Current Law," April 22, 2009, <http://cboblog.cbo.gov/?p=235>.)

⁹ Starting in 1975, COLAs have been applied annually, with the exception being when their effective date was switched from July to January, and there was no COLA applied in the months between July 1982 and January 1984.

Interaction Between Medicare Premiums and Social Security Benefits¹⁰

Deduction of Part B Premiums from Social Security Checks

Ultimately, everyone who is eligible for Social Security retirement or disability benefits qualifies for Medicare. Most people who elect to participate in the Part B program pay the Medicare Part B premium.¹¹ By law, the Medicare Part B premium is automatically deducted from the Social Security benefits of those enrolled in Part B (including Medicare Advantage participants, who are enrolled in private health-care plans in lieu of traditional Medicare).¹²

Hold Harmless Provision for Increases in Part B Premiums

A hold harmless provision reduces the Part B premium for beneficiaries whose Social Security COLAs are not sufficient to cover the standard Part B premium increase.¹³ If, in a given year, the increase in the standard Part B premium would cause a beneficiary's Social Security check to be less than it was the year before, the premium is reduced to ensure that the amount of the individual's Social Security check does not decline. Whether a beneficiary is held harmless depends on the amount of the standard Part B premium increase relative to the amount of his or her Social Security COLA in a given year. The number of people held harmless has varied in recent years.¹⁴ Typically, the hold harmless provision has affected a relatively small number of beneficiaries and has had minimal impact on Part B financing.

Not all beneficiaries are affected by the hold harmless provision. Low-income beneficiaries whose Part B premiums are paid by the Medicaid program are not held harmless. High-income individuals who must pay income-related Part B premiums are not subject to the hold harmless provision. This means that for these high-income beneficiaries, Social Security checks can be reduced from one year to the next as a result of an increase in the Part B premium. Finally, new beneficiaries are not affected by the provision during the first year in which they receive both Social Security and Medicare Part B benefits.

¹⁰ For more information, see CRS Report RL33364, *The Impact of Medicare Premiums on Social Security Beneficiaries*, by Kathleen Romig.

¹¹ Some beneficiaries do not pay Medicare premiums, either because they receive low-income assistance or because they choose not to enroll in Medicare Part B.

¹² Social Security Act §1840(a)(1). Part B premiums are also deducted from Railroad Retirement benefits (Social Security Act §1840(b)(1)).

¹³ Social Security Act §1839(f). The hold harmless provision was first implemented in January 1987.

¹⁴ For more information, see Social Security Administration, *Variable Supplementary Medical Insurance Premiums*, Actuarial Note No. 147, by Jacqueline A. Walsh and Burt M. Kestenbaum, March 2006, at http://www.ssa.gov/OACT/NOTES/pdf_notes/note147.pdf.

What Happens If There Is No Social Security COLA?

Since 1975, when the automatic Social Security COLA was established, a COLA has been paid every year. However, the Congressional Budget Office (CBO) baseline for January 2009 projects that there will be no increase in the CPI, and thus no COLA for Social Security benefits in 2010, 2011, and 2012.¹⁵ The Centers for Medicare and Medicaid Services (CMS) actuaries, using the assumptions in the FY2010 President's Budget documents released in February 2009, concur, saying that "the COLA for 2010 is virtually certain to be 0 percent" and that COLAs in 2011 and 2012 are unlikely.¹⁶ The Social Security COLA is based on inflation (as measured by the CPI-W) in the prior fiscal year. For example, the 2010 COLA will be based on inflation during FY2009. During the first six months of FY2009, the CPI-W has decreased by four percentage points.¹⁷

Potential Impact on Beneficiaries

Most Beneficiaries Would Be Held Harmless

If Part B premiums increase but Social Security benefits do not, about three-quarters of Social Security beneficiaries would be held harmless for the increase in Part B premiums.¹⁸ Thus, they would continue to pay the same Part B premiums as they did in 2009, and the amount of their Social Security checks would not change (assuming no other changes to their circumstances).

Some Beneficiaries Would Not Be Held Harmless

Not all beneficiaries would be affected by the hold harmless provision, however. About one-quarter of Part B beneficiaries would not be held harmless under current law.¹⁹

- **Lower-Income Beneficiaries:** Lower-income beneficiaries who receive premium subsidies would not be held harmless for premium increases, but the Medicaid program would pay the full amount of any increase in their Part B premiums. Currently, about 17% to 18% of Medicare beneficiaries receives full Part B subsidies, but this number is expected to increase because of the economic downturn.²⁰

¹⁵ CBO anticipates that the year-over-year change in the CPI-W from the third quarter of 2008 to the third quarter of 2009, on which the Social Security COLA for 2010 is based, will decline. If this is the case, Social Security benefits would stay the same. CBO, *The Budget and Economic Outlook: Fiscal Years 2009 to 2019*, January 2009, at <http://cbo.gov/ftpdocs/99xx/doc9957/01-07-Outlook.pdf>.

¹⁶ Letter from Rick Foster, Chief Actuary, CMS, to Jim Hahn, Analyst in Health Care Financing, CRS, April 8, 2009. (Hereinafter referred to as "CMS Actuary Letter, 4/8/09.")

¹⁷ March 2009 marked the first year-over-year decline in the CPI since 1955. (Reuters, "Consumer Prices Fall as Energy Demand Slumps," *Washington Post*, April 15, 2009.)

¹⁸ CMS Actuary Letter, 4/8/09.

¹⁹ Ibid.

²⁰ Ibid.

- **Higher-Income Beneficiaries:** Higher-income beneficiaries who are required to pay income-related Part B premiums would not be held harmless for premium increases. They would pay the full amount of any increase in their Part B premiums. About 5% of Medicare beneficiaries are subject to income-related premiums.²¹
- **New Beneficiaries:** Beneficiaries who are receiving Social Security and/or Medicare for the first time in 2010 would not be affected by the hold harmless provision.²² They would pay the full amount of their Part B premiums during their first year in which they receive both Social Security and Part B benefits, after which they would be subject to the hold harmless provision. Roughly 2% of Medicare beneficiaries were new to the rolls in 2007.²³

The Entire Increase in Part B Premiums Would Be Borne by Those Not Held Harmless

Since every \$1 of Part B premiums collected is matched with \$3 in federal general revenues, the hold harmless provision could reduce SMI trust fund income not only from premiums but also from general revenues. According to the CMS actuary, “under current law, the only way to offset the lost revenue would be to increase the Part B premiums for these years substantially above normal requirements.”²⁴

Since three-quarters of beneficiaries would be held harmless, the entire increase in beneficiary costs would be borne by the remaining one-quarter. In other words, premiums for beneficiaries not held harmless would increase nearly four times as much as they would have if there was no hold harmless provision.²⁵ The Social Security Act provides the Secretary of Health and Human Services with the legal authority to adjust Part B premiums as necessary so that the *aggregate* amount of beneficiaries’ contributions provides 25% of estimated Part B program costs for the aged.²⁶

Using assumptions from the FY2010 President’s Budget, the CMS actuaries project that enrollees who are not held harmless would see their monthly Part B premiums increased by \$8 in 2010, by \$16 in 2011, and by \$50 in 2012.²⁷ They estimate that premiums would *decline* in 2013, the next year in which Social Security beneficiaries are projected to receive a COLA. The reason for the projected decline is that a much smaller group of beneficiaries would be held harmless and so the premium increase could be spread among a substantially larger group. For 2013, the actuaries

²¹ Ibid.

²² To be held harmless in a given year, a Social Security beneficiary must have had Part B premiums deducted from both the December check of the prior year and the January check of the current year.

²³ 2008 Medicare Trustees Report.

²⁴ CMS Actuary Letter, 4/8/09.

²⁵ Douglas Elmendorf, *Director’s Blog*, Congressional Budget Office, “Effect of a Zero Social Security COLA on Part B Premiums in Medicare,” April 23, 2009, <http://cboblog.cbo.gov/?p=236>. (Hereinafter cited as 4/23/09 CBO Director’s blog post.)

²⁶ Sec. 1839(a) of the Social Security Act (42 U.S.C. §1395r).

²⁷ CBO projects similar increases in Part B premiums. CBO projects that the standard Part B premium for beneficiaries not held harmless would be \$119 per month in 2010, \$123 in 2011, and \$128 in 2012, then would decline after 2012. (4/23/09 CBO Director’s blog post.)

project that the standard Part B premium would be \$119 per month (an increase of more than \$22 from the 2009 monthly premium of \$96.40). This increase would likely absorb most or all of any COLA in 2013, thus keeping most Social Security checks flat for another year. CBO projects similar increases in Part B premiums. These estimates are sensitive to the assumptions used; actual amounts could vary widely depending on inflation and Part B program costs.

Potential Impact on Medicare/Medicaid Financing and the Federal Budget

Medicare Part B (SMI) Trust Fund Impact

If there is no Social Security COLA, Part B premiums must be increased substantially on those who are not held harmless in order to prevent potential SMI trust fund exhaustion. The CMS actuaries state the following:

In the absence of much higher premiums, the assets of the Part B trust fund account would decline significantly below the level considered appropriate for a contingency reserve. A significant probability would exist that the trust fund would become exhausted during the 2010-2012 period.²⁸

The CMS actuaries also point out that neither substantial increases in Part B premiums nor trust fund exhaustion would be necessary if Congress allowed physician payments to be cut as scheduled under current law.²⁹ However, the 21% decrease in physician fees in 2010 dictated by the SGR would be a significant reduction that could jeopardize Medicare beneficiary access to participating physicians. Congress is seen as almost certain to act to address this situation. All of the estimates regarding the effects of the hold harmless provision assume that Congress overrides these cuts as it has done every year since 2002.

Medicaid Impact

Low-income beneficiaries who receive premium subsidies make up the substantial majority of those who are not held harmless. The Medicaid program would pay the entire amount of these beneficiaries' Part B premiums, including any increase. As a result, Medicaid costs would increase substantially if there were no Social Security COLA.

²⁸ CMS Actuary Letter, 4/8/09.

²⁹ Ibid.

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