Higher-Income Individuals Pay More for Medicare

Lina Walker
Megan Multack
AARP Public Policy Institute

The Medicare program requires higher-income individuals to contribute more toward the cost of the program than the general population. As Medicare beneficiaries, they pay higher premiums for Medicare Part B (doctors’, other health care professionals’, and outpatient services) and Part D (prescription drugs) coverage. Over time, a larger proportion of people with Medicare will pay higher premiums for Medicare Part B and Part D because the definition of “high-income” is expanding. As workers, high-income individuals also face a higher Medicare tax rate on their earnings.

High-Income Individuals Pay Higher Medicare Part B and Part D Premiums

People on Medicare with incomes greater than $85,000 for an individual, or $170,000 for a couple, pay higher Medicare Part B and Part D premiums (known as income-related premiums). Their premiums vary according to their income (see Table 1).

The standard Part B premium is $1,258.80 a year ($104.90 a month), which covers about 25 percent of Medicare Part B program costs. As Table 1 shows, those with higher incomes pay premiums ranging from $1,762.80 to $4,028.40 a year ($146.90 to $335.70 a month). Income-related premiums are calculated to cover at least 35 percent and as much as 80 percent of program costs. Similarly, higher-income individuals pay higher Part D premiums, which increase at higher levels of income. They pay between $145.20 and $831.60 ($12.10 to $69.30 a month) more a year in Part D premiums than the general population.

### Table 1
Medicare Part B and Part D Premiums for 2014

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>Monthly Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>File Individual Tax Return</td>
<td>File Joint Tax Return</td>
</tr>
<tr>
<td>$85,000 or less</td>
<td>$170,000 or less</td>
</tr>
<tr>
<td>Above $85,000, up to $107,000</td>
<td>Above $170,000, up to $214,000</td>
</tr>
<tr>
<td>Above $107,000, up to $160,000</td>
<td>Above $214,000, up to $320,000</td>
</tr>
<tr>
<td>Above $160,000, up to $214,000</td>
<td>Above $320,000, up to $428,000</td>
</tr>
<tr>
<td>Above $214,000</td>
<td>Above $428,000</td>
</tr>
</tbody>
</table>

More People with Medicare Will Pay Higher Premiums

In 2013, 5 percent (2.4 million) of people with Medicare Part B paid the higher income-related Part B premium, and 4 percent (1.5 million) of those with Medicare Part D paid the higher income-related Part D premium.²

However, these proportions are expected to increase over the next few years. The income thresholds that determine whether individuals must pay income-related Part B and Part D premiums are frozen at current levels through 2019³—meaning, as wages increase each year, more individuals will fall into that category. It has been estimated that by 2019, about 9.6 percent (5.4 million) of Medicare Part B enrollees will pay higher income-related Part B premiums, and 9 percent (4 million) of Part D enrollees will pay higher income-related Part D premiums.⁴

High-Income Workers Pay Higher Taxes

In addition to paying higher premiums, higher-income workers pay more in Medicare payroll taxes. Currently, individuals earning more than $200,000 a year, or couples earning more than $250,000 a year, pay an additional 0.9 percent payroll tax on their wages over the threshold amount. For example, a person earning $250,000 will pay $7,250 in Medicare payroll tax, plus an additional $450 for earnings over the $200,000 threshold. This additional 0.9 percent tax is credited to the Medicare trust fund.⁵

Endnotes

1 The remainder of the cost is largely covered by general fund revenues.
3 In 2020, the thresholds will revert back to annually adjusting for inflation, which will reduce the proportion of older adults paying higher premiums.
4 Ibid.
5 In addition, starting in 2013, higher-income individuals meeting the thresholds above also pay a new 3.8 percent investment income tax. These funds are not credited to the Medicare trust fund.