REFORMING MEDICARE

Option: Raise the Medicare Eligibility Age

**Since Medicare’s creation in 1965, the eligibility age has been 65 for people without disabilities. Some proposals would gradually raise Medicare’s eligibility age from 65 to 67. So instead of receiving health coverage through Medicare, 65- and 66-year-olds would need to enroll in coverage through an employer plan or a government program (such as Medicaid) or purchase their own coverage on the individual market or through a health insurance exchange.**

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Raising the Medicare eligibility age is a good idea, given the budget problems we face and the fact that Americans are living longer. But it must be done carefully, to make sure that older workers still have health insurance.

Both Medicare and Social Security were intended for retired Americans. So it would make sense to set the normal eligibility age of each program at the age where we have decided as a nation that retirement typically begins. And since working Americans generate the money to pay benefits, it’s also important for the eligibility age to be set where the number of years Americans work is enough to pay retirement benefits.

With Americans living longer, we have already slowly raised the normal age for Social Security benefits from the original 65 to age 67 (you can claim Social Security as early as 62, but the check is much smaller). Many argue for raising it to 70 over the next 20 years or so.

But the Medicare eligibility age has not kept up. Americans can sign up for that program at 65, despite the fact that an American reaching 65 these days can typically expect to live nearly another 20 years. With more Americans living longer, and health spending on older people rising, we just can’t afford Medicare at 65. It makes sense to increase the eligibility age slowly over 10 or 15 years to at least 67—the Social Security normal retirement age—and for the eligibility age of both programs to rise gradually after that as Americans live longer.
If we raised the Medicare eligibility age in this way, it would reduce Medicare’s costs by about 5 percent over the next 20 years. Not a magic bullet, but one important step to solving the Medicare cost problem.

What would this mean and how can raising the age be done fairly?

With Medicare’s eligibility age the same as for full Social Security, most Americans in the future would work a year or two longer. That would ease the burden on Medicare’s finances, and the wages or salaries for that extra time working would make retirement more financially secure for older people. It would also mean a more sensible balance between years in the workforce and years in retirement.

A concern for older workers would be whether they could get health insurance for an extra two years. If the new health law remains in place, or is repealed and replaced with another method of ensuring coverage, that would not be a problem. In any case, the vast majority could expect to continue, as today, to be covered by their employer’s plan, that of their spouse’s employer, or other coverage.

What about those who just couldn’t continue working for an extra couple of years because of ill health? Well, Medicare already provides health services for disabled Americans who qualify for Social Security disability payments. If we raise the Medicare eligibility age, we should make sure that older workers with such special needs, short of full disability, can get coverage through Medicare.

Henry Aaron

In order to slow the growth of Medicare spending, some people have suggested increasing the age of eligibility for Medicare from 65 to 67. That change would be unwise at this time. It would save the federal government little money. It would raise total health care spending. It would impose significant financial burdens on many financially vulnerable older people. And it would impose new costs on businesses and state governments.

When Medicare was created, the age of eligibility for benefits was set at 65. That was also the age at which full Social Security benefits were paid. Full Social Security benefits are now available only at age 66. For people born after 1961, full Social Security benefits will not be available until age 67. Given that background, increasing the age of eligibility for Medicare at first blush seems sensible.

It isn’t. Although “full” Social Security benefits are not payable until age 66, most people claim them earlier—60 percent of new Social Security retirement benefits in 2010 went to claimants younger than age 65. And employment based health insurance ends with retirement for most people. Millions who have retired or become unemployed for other reasons are without health insurance until they reach age 65 and become Medicare-eligible. Having to wait until age 65 for Medicare coverage is a serious problem even now. Raising the age of eligibility for Medicare makes the wait longer and the problem worse.

Even so, that step might be desirable if it helped lower the federal budget deficit. But the overall federal savings would be small and total health care spending would rise. The reason is that for every dollar the federal government would save from raising the
Medicare eligibility age to 67, other costs would go up by $1.10. The more-than-offsetting increases would go for increased federal and state Medicaid spending, higher subsidy payments under the new health care law, and added spending by businesses and older people themselves. Furthermore, raising the age of eligibility for Medicare would raise premiums for all other Medicare beneficiaries. The reason is that 65- and 66-year-olds are less costly than older Medicare enrollees, and premiums are based on average costs.

If the new health care law is rolled back, federal savings from raising the Medicare eligibility age would be larger, but more currently covered 65- and 66-year-olds would be uninsured or have to pay much more than now for health insurance.

Once the new health care law is up and running and helping people buy health insurance, it will be time to revisit the question of the age at which Medicare eligibility should start. People are living longer. The decades-long trend to earlier retirement has reversed. Those who can work longer should be encouraged to do so. But now is not the time to put at risk the health insurance coverage for millions of 65- and 66-year-olds, in the mistaken belief that doing so will contribute significantly to lowering the federal deficit.

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