

## Fact Sheet

# Medicare Part B Premiums and Deductible in 2016: The Effect of No Cost-of-Living Increase in Social Security Benefits

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### Background

Each year, Medicare officials determine what the monthly premiums will be for doctor and most outpatient services—Medicare Part B services—for the following year. By law, they must set the premiums so that the total amount Medicare collects from people enrolled in Part B covers about one-quarter of Medicare’s spending for those services. The Medicare trustees expect average Part B spending per person to increase in 2016.<sup>1</sup> Usually, the increase in the total amount collected through premiums is spread over all Medicare Part B enrollees. But the situation in 2016 will be very unusual.

### Most Enrollees Will Pay the Same Premium in 2016 as in 2015

The federal government recently announced that there will be no increase in Social Security benefits (no cost-of-living adjustment) because of low inflation.<sup>2</sup> Federal law includes a hold-harmless provision that prevents the amount an individual pays for the Medicare Part B premium from increasing from one year to the next by more than the increase in his or her Social Security benefit.<sup>3</sup>

About 70 percent of Medicare enrollees are protected by the hold-harmless provision.<sup>4</sup> Given the zero percent increase in Social Security benefits, their 2016 Medicare Part B premiums will be frozen at the 2015 level. Their Part B premiums will remain at \$104.90 per month in 2016, the same as in 2015, 2014, and 2013.

### Hold Harmless Does Not Apply to All Medicare Enrollees

The law excludes about 30 percent of Part B enrollees from the hold-harmless protection. The increase in premium revenue required in 2016 will be borne entirely by these enrollees. Combined, they make up about 16.5 million people.<sup>5</sup>

*Unless federal policy makers enact changes, Medicare premiums for doctor and outpatient services (Part B services) will increase by 52 percent for about 30 percent of people with Part B coverage—approximately 16.5 million people. State governments will pay that increase for about 9 million of them. Premiums for the other 70 percent of Medicare enrollees will remain at the 2015 level. A hold-harmless provision in federal law freezes their premiums when the Social Security cost-of-living adjustment is zero, as it is for 2016. However, the hold-harmless provision protects only against changes to premiums. The estimated annual deductible for Part B coverage in 2016 will increase by 52 percent for everyone, going from \$147 to \$223.*



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They are

- People who newly enroll in Part B in 2016 (about 2.8 million, or 5 percent of enrollees);
- Medicare enrollees who do not receive a Social Security check—for example, people who enroll in Medicare at age 65 but delay claiming Social Security benefits while they continue to work (about 1.6 million, or 3 percent of enrollees);
- Higher-income enrollees (individuals with income above \$85,000 or couples with income above \$170,000) who pay higher premiums (about 3.1 million, or 6 percent of enrollees); and
- Low-income persons who enroll in Medicaid or a Medicare Savings Program<sup>6</sup> for whom their state pays their Part B premium (about 9 million, or 16 percent of enrollees).

### Steep Increase in Part B Premiums for Affected Enrollees in 2016

Premiums for these four groups of individuals will increase by 52 percent in 2016, according to estimates by the Medicare trustees. The first two groups—new enrollees and those not receiving a Social Security check—will pay \$159.30 per month in 2016, according to the Medicare trustees' estimate. This means that in 2016, they will pay about \$653 more in premiums for the year. Yet, their peers who are protected by the hold-harmless provision—such as those currently enrolled—will continue to pay \$104.90.

Enrollees who pay higher premiums because they have higher incomes will also see a premium increase of 52 percent. As currently estimated, individuals with incomes of \$85,001 to \$107,000 (\$170,001 to \$214,000 for couples) will see their monthly premiums grow from \$146.90 in 2015 to \$223 in 2016. Medicare enrollees who pay the highest premium—those with incomes of more than \$214,000 (\$428,000 for couples)—will see it increase from \$335.70 to \$509.80 a month.<sup>7</sup>

### States Will Incur Higher Costs

State governments also bear some of the increase in premiums. The fourth group of enrollees are low-income individuals who receive financial assistance from their state's Medicaid program to

cover Medicare costs. About 9 million people are in this group. While they will not be directly affected (since they pay no premium themselves), the state programs will be hit with the 52 percent increase in the standard Part B monthly premium and therefore pay about \$653 more per person in 2016 than in 2015.

### Why Is the Increase So Large?

The increase, for those affected, is especially steep for two reasons. First, the total increase in premium revenue required in 2016 will be spread out among only the 30 percent of enrollees not covered by the hold-harmless provision rather than among all enrollees. Second, even without the hold-harmless provision, the increase would be unusually high—about 15 percent. This increase reflects both expected growth in spending per person in 2016 (including replenishment of a Medicare reserve fund) and higher than expected 2015 spending.

### Hold Harmless Does Not Apply to the Part B Deductible

In addition to premiums, Medicare also requires deductibles and cost sharing for Part B services. The hold-harmless provision only protects enrollees from premium increases. Federal law does not offer similar protections from increases in Part B deductibles.

The Medicare trustees estimate that the annual Part B deductible will also increase by 52 percent in 2016, rising from \$147 to \$223. Medicare makes payments for Part B services only after an enrollee, or the state (for some low-income people), pays the deductible. Consequently, all enrollees could incur higher Part B costs through the higher deductible. Although some enrollees will not pay the deductible directly because they have supplemental insurance (Medigap) that covers it, for them the higher cost will likely be passed along in higher Medigap premiums.

### In 2017, the Pattern Is Expected to Reverse

The Social Security cost-of-living adjustment is expected to be about 3 percent in 2017,<sup>8</sup> so enrollees protected by the hold-harmless provision in 2016 will likely see an increase in their Part B premiums

in 2017. The other groups will likely see a decline. The Part B standard monthly premium is currently projected to be \$120.70 in 2017.<sup>9</sup>

Similarly, the annual deductible is estimated to decrease from \$223 in 2016 to \$169 in 2017.

## Policy Makers Should Act to Prevent Steep Increases in 2016

There is no good policy rationale for having new enrollees pay significantly more than existing enrollees, or for asking people who delay claiming Social Security benefits to pay more than people who have their premiums deducted from their Social Security check. Under these scenarios, neighbors could pay very different amounts. Potentially, spouses could pay different amounts as well, if one is a new enrollee and one is not. Federal policy makers should consider options to address this imbalance.

- 1 2015 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds (2015 Medicare Trustees Report), July 22, 2015, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2015.pdf>.
- 2 Social Security Administration, "Law Does Not Provide for a Social Security Cost-of-Living Adjustment for 2016," press release, October 15, 2015, <http://www.ssa.gov/news/#/post/10-2015-1>.
- 3 Specifically, to be eligible for hold-harmless protection in a given year, a person must receive Social Security benefit checks in both December of the previous year and January of the current year and must have his or her Medicare premium deducted from both checks. Higher-income individuals who pay income-related premiums are excluded from hold-harmless protection. For more information, see Patricia A. Davis, *Medicare: Part B Premiums* (Washington, DC: Congressional Research Service, September 29, 2015), <https://fas.org/sgp/crs/misc/R40082.pdf>.
- 4 2015 Medicare Trustees Report, [www.cms.gov](http://www.cms.gov).
- 5 Estimated numbers of affected enrollees in each group are from Phil Galewitz, "Good News, Bad News in Medicare Trustees Report," *Kaiser Health News*, July 23, 2015, <http://khn.org/news/good-news-bad-news-in-medicare-trustees-report/>.
- 6 For a brief description of the Medicare Savings Program and eligibility standards, see Centers for Medicare & Medicaid Services, "Medicare Savings Programs," <https://www.medicare.gov/your-medicare-costs/help-paying-costs/medicare-savings-program/medicare-savings-programs.html#collapse-2625>.

7 2015 Medicare Trustees Report.

8 Social Security Administration, "COLA Estimates," October 25, 2015, <http://www.ssa.gov/cgi-bin/bri.cgi>.

9 2015 Medicare Trustees Report. Medicare enrollees with high income (individuals with income above \$85,000 or couples with income above \$170,000) who pay more than the standard premium will also see their premiums fall in 2017. They will pay between \$168.90 and \$386.10, as estimated by the Medicare trustees.

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