

Fact Sheet

Higher-Income Individuals Pay More for Medicare

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

Medicare provides health insurance coverage to nearly all Americans ages 65 and older and many younger people with disabilities. A combination of sources finance Medicare, including premiums paid by individuals with Medicare, Medicare payroll taxes paid by workers, general revenue, and other sources.

People with annual incomes greater than \$85,000 for an individual (or \$170,000 for a couple) pay higher premiums for Medicare Part B and Part D—known as income-related premiums—than other people with Medicare.¹ Income-related premiums vary according to income (see table 1). They apply to people who choose to enroll in a Medicare Advantage plan as well as other people with Medicare. Premiums are based on annual income two years earlier, so premiums in 2017 are based on 2015 tax returns.

Premiums for Part B (which covers doctors', other health care professionals', and outpatient services) are set each year to equal about 25 percent of Part B program costs per person.² In 2017, the standard Part B premium is \$134 a month (\$1,608 a year).³ Individuals with higher incomes pay premiums ranging from \$187.50 to \$428.60 a month (\$2,250 to \$5,143 a year). Income-related premiums are calculated to cover between 35 percent and 80 percent of program costs per person, depending on the income group.

Similarly, higher-income individuals pay higher premiums for Part D (which covers prescription drugs). Individuals may obtain Part D coverage either by enrolling in a stand-alone Part D plan or through enrolling in a Medicare Advantage plan that includes prescription drug coverage.⁴ In 2017, higher-income individuals pay \$13.30 to \$76.20 a month (\$159.60 to \$914.40 a year) more in Part D premiums than other people with Part D coverage.

The Medicare program requires higher-income individuals to contribute more toward the cost of the program than others. When enrolled in Medicare, they pay higher premiums for Medicare Part B (doctors', other health care professionals', and outpatient services) and Part D (prescription drug) coverage. Over time, the proportion of people with Medicare who pay higher premiums for Medicare Part B and Part D has grown significantly. As workers, some higher-income individuals also pay a higher Medicare tax rate on their earnings.



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TABLE 1
Medicare Part B and Part D Monthly Premiums for 2017

Annual Income		Monthly Premiums	
File Individual Tax Return	File Joint Tax Return	Part B	Part D
\$85,000 or less	\$170,000 or less	\$134.00	Varies by plan
Above \$85,000 up to \$107,000	Above \$170,000 up to \$214,000	\$187.50	\$13.30 + plan premium
Above \$107,000 up to \$160,000	Above \$214,000 up to \$320,000	\$267.90	\$34.20 + plan premium
Above \$160,000 up to \$214,000	Above \$320,000 up to \$428,000	\$348.30	\$55.20 + plan premium
Above \$214,000	Above \$428,000	\$428.60	\$76.20 + plan premium

Source: “Medicare 2017 Costs at a Glance,” Centers for Medicare & Medicaid Services, accessed October 30, 2017, <https://www.medicare.gov/your-medicare-costs/costs-at-a-glance/costs-at-a-glance.html>.

The Proportion of People with Medicare Paying Higher Premiums Has Grown

The threshold for higher-income premiums has remained the same (\$85,000 for individuals, \$170,000 for couples) since 2010.⁵ As a result, the proportion of the Medicare population affected by these higher premiums has grown as incomes rise with inflation.

In 2017, an estimated 7 percent of people with Medicare Part B are paying the higher income-related Part B premium, up from 3.5 percent in 2011. An estimated 6 percent of Part D enrollees paid the income-related premium in 2017.⁶

In addition, starting in 2018, there will be new income thresholds for some of the income groups that pay income-related premiums.⁷ This change will mean some people who pay income-related premiums will see those premiums increase significantly. Beginning in 2018, the income ranges for individuals in the higher-income categories will be: above \$85,000 up to \$107,000; above \$107,000 up to \$133,500; above \$133,500 up to \$160,000; and above \$160,000.

Beginning in 2020, the thresholds for income-related premiums will be adjusted annually for inflation.

Higher-Income Workers Pay Higher Medicare Taxes

Some people with higher incomes also pay a higher rate in Medicare payroll tax than other workers.⁸ Beginning in 2013, individuals earning more than \$200,000 a year (or couples earning more than \$250,000 a year) pay an additional 0.9 percent of payroll tax on the portion of their wages that exceeds the threshold amount (that is, on wages that exceed \$200,000 for individuals).⁹ This additional 0.9 percent tax is credited to the Medicare Hospital Insurance trust fund.

Another way people with higher incomes contribute more to Medicare financing is through the income taxes they pay on their Social Security benefits. For individuals with incomes above \$34,000 (and couples with incomes above \$44,000), an additional 35 percent of their Social Security benefits is subject to income tax.¹⁰ The revenue generated by that additional tax goes to the Hospital Insurance trust fund.¹¹

Endnotes

- 1 Social Security Administration, “Medicare Premiums: Rules for Higher-Income Beneficiaries,” Social Security Administration, Washington, DC, January 2017, <https://www.ssa.gov/pubs/EN-05-10536.pdf>.
- 2 The rest of Part B costs are largely covered by general revenue. Patricia A. Davis, *Medicare: Part B Premiums* (Washington, DC: Congressional Research Service, August 2016), <https://fas.org/sgp/crs/misc/R40082.pdf>.
- 3 Because of a low 0.3 percent Social Security cost-of-living adjustment in 2017, a hold-harmless provision limited the Part B premium increase for about 70 percent of people with Medicare so they pay less than the standard premium. Their 2017 premiums average about \$109 per month, but vary depending on individual situations. Patricia A. Davis et al., *Medicare Primer* (Washington, DC: Congressional Research Service, August 2017), <https://fas.org/sgp/crs/misc/R40425.pdf>.
- 4 People with traditional Medicare coverage have the option of enrolling in a stand-alone Part D (prescription drug) plan; people enrolled in a Medicare Advantage plan may choose a Medicare Advantage plan that includes prescription drug coverage.
- 5 Davis et al., *Medicare Primer*.
- 6 Julia Cubanski and Tricia Neuman, “Medicare’s Income-Related Premiums: A Data Note,” Kaiser Family Foundation, Washington, DC, June 2015, <https://www.kff.org/medicare/issue-brief/medicares-income-related-premiums-a-data-note/>.
- 7 Cubanski and Neuman, “Medicare’s Income-Related Premiums.”
- 8 The basic Medicare payroll tax rate is 1.45 percent each for employee and employer; self-employed individuals pay 2.9 percent.
- 9 For example, a self-employed individual earning \$300,000 will pay \$8,700 (2.9 percent) in basic Medicare payroll tax, plus an additional \$900 in taxes on earnings over the \$200,000 threshold (0.9 percent of \$100,000).
- 10 Patrick J. Purcell, “Income Tax on Social Security Benefits,” Social Security Administration, Washington, DC, December 2015, <https://www.ssa.gov/policy/docs/issuepapers/ip2015-02.pdf>.
- 11 Purcell, “Income Tax on Social Security Benefits.”

Fact Sheet 638, November 2017

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