REFORMING MEDICARE

Option: Raise Medicare Premiums for Everyone

Most Medicare beneficiaries pay a monthly premium for doctor visits (Part B) and prescription drug coverage (Part D). The premiums people pay for parts B and D covers about 25 percent of what Medicare spends on these services. Individuals with annual incomes of more than $85,000 and couples with annual income above $170,000 pay higher premiums, which cover more than 25 percent of Medicare spending. Some proposals would increase premiums for everyone in Medicare to cover a larger portion of the program’s costs. Under one proposal, the standard Medicare premiums would go up from 25 to 35 percent of program costs. If that proposal were to go into effect in 2012, the current $99.90 monthly premium for Medicare Part B paid by the typical beneficiary would cost 40 percent more, or an additional $40 per month. Part D premiums, which vary widely by plan and region, would increase similarly.

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Increasing the basic premiums for Medicare Parts B and Part D makes sense. It would help Medicare’s finances and can be done while protecting lower-income older people.

Right now the premium that most older people pay is a basic premium that only covers about a quarter of the total cost of Part B or D services. The rest comes from general taxes paid by mainly by working-age Americans. Higher-income older people (couples with incomes of more than $170,000) do pay higher premiums, but even they do not pay the actual full cost.

Now it does make sense for many or even most seniors to pay more of their Medicare premium costs rather than expecting people like their working-age children to pay instead through taxes. These parts of Medicare are voluntary “add-ons” to the Medicare coverage they receive for hospital services (also know as Part A Medicare), which Americans pay for through the payroll tax. A retired couple with, say, $120,000 of annual income from investments is certainly better able to pay a higher proportion of B and D costs than their $50,000-a-year working-age neighbor can pay in taxes. So it would make sense to raise premiums for many older people with incomes below the level where Medicare currently charges higher premiums. But just raising the basic premium without any other changes would not be fair for all retirees.
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One reason is that many modest-income older people already struggle to pay for their Part B and D premiums. These older people also have to buy extra insurance for costs not covered by Medicare, or else risk crippling medical bills or even bankruptcy. They cannot afford to pay higher premiums, and so if their basic premiums were raised, more of them would decide either not to enroll in Part B and D or to cut back on other necessities. So any general increase in premiums would need in some way to exempt modest-income older people.

Also, some very low-income older people have their Part B and D premiums paid by Medicaid—the federal-state program that pays for health care for poor people of all ages. States cover at least half the cost of Medicaid. So if Medicare raised the basic premium for all, states would have to pay more to Medicare. Many financially strapped states would probably respond by trying to cut back on medical care for low-income older people, such as by cutting the fees of doctors who treat older people or by being tougher in deciding whether older people can qualify for Medicaid. Even if they did not cut back on care for older people, states would likely try to save money by cutting health care for working-age poor families. So any premium increase would need to be combined with steps to avoid these results.

If we are going to avoid the future costs of Medicare imposing an unreasonable burden on our children and grandchildren, many older people will have to pay higher premiums. But simply raising the basic premium without other reforms is not the way to do it.

Henry Aaron

No across-the-board increase in Medicare premiums is justified. To be sure, the cost of medical care has been growing faster than incomes. So too has government spending on Medicare parts B and D. For that reason, these elements of Medicare impose a growing burden on the general taxpayer, just as they do on Medicare enrollees themselves, who must pay premiums, cost-sharing, and other out-of-pocket medical costs that are outpacing their incomes.

Nearly all participants in parts B and D receive insurance protection worth far more than the premiums they are now charged. Roughly three-fourths of the cost of Medicare parts B and D are shouldered by taxpayers. Some better-off enrollees could afford to pay a bit more than they now do without undue hardship. But for too many, even current premiums are burdensome.

Let’s look at the facts. The year 2010 is the most recent one for which the Census Bureau has reported data on incomes. In that year, one-fifth of single older women had incomes below $18,000. One-fifth of older couples had incomes of $27,000 a year or less. Total per person premiums for Medicare parts B and D average roughly $1,600 in 2012, and that does not include other Medicare expenses that people must pay, such as deductibles and other cost-sharing.

For those whose incomes are low enough, Medicaid pays Medicare premium deductibles and other cost-sharing. But few realize how very poor one must be to qualify for this help—$11,170 a year or less for single people and $15,130 or less for couples in 24 states. Some relief is available for some elderly single people with incomes up to a bit over $15,000 a year and for couples with incomes up to $22,695 a year. But older singles and couples with higher incomes must pay premiums themselves—roughly $1,600 a year
for singles and two sets of Part B and Part D premiums for couples—averaging $3,200 a year. Virtually everyone buys Medicare part B even so, because the coverage is so important and the taxpayer subsidy covers three-fourths of the total cost of services rendered.

Current law requires about 5 percent of Medicare beneficiaries to pay more than the normal premium, starting at incomes of $85,000 for single people and $170,000 for couples. No doubt these better-off older people can afford the added cost without hardship. But raising premiums across the board is a terrible idea.

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