

**REFORMING MEDICARE**

**Option: Raise Medicare Premiums for Higher-Income Beneficiaries**

Most Medicare beneficiaries pay a separate monthly premium for doctor visits (Part B) and prescription drug coverage (Part D) in Medicare. The premiums people pay for parts B and D cover about 25 percent of what Medicare spends on these services. Individuals with annual incomes of more than \$85,000 and couples with annual incomes above \$170,000 pay higher premiums, up to three times the standard premium depending on income level. Under several proposals, these higher-income beneficiaries would be required to pay as much as 15 percent more than they currently pay.

*Argument for:*

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*Argument against:*

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The best way to generate more premium revenue to help pay for Medicare Parts B and D is to raise premiums for higher-income beneficiaries. That would improve Medicare’s finances by bringing in more premium revenue, but without imposing burdens on modest-income beneficiaries.

Right now upper-income beneficiaries already pay higher premiums than others. Today a single beneficiary with an annual income of \$85,000 or less (\$170,000 for couples) pays \$99.90 monthly for Part B coverage. Beneficiaries with incomes above those levels pay a premium that goes up according to their income, hitting a maximum of \$319.70 a month for single people with incomes above \$214,000. Yet even these higher premiums cover only about 80 percent of the actual cost of Part B services, with the rest coming from general taxes. Part D premiums are treated in a similar way.

Basing Medicare premiums on income makes a lot of sense. When Medicare was created in 1965, the vision was that the health benefits beneficiaries received should be adequate for all and should also be roughly the same for rich and poor alike. But even if that made sense at the time, the costs of Medicare are rising at a rapid clip, and we just cannot afford that vision any more. That’s why we’ve already accepted the principle that better-off beneficiaries should pay more for their Part B and D benefits. Still, while America’s Warren Buffets do pay higher premiums to cover a higher proportion of those benefits, about 20 percent of the cost of their benefits is still picked up by taxpayers.

## Medicare Reform Option: Raise Premiums for Higher-Income Beneficiaries

So rather than focus on raising the standard premium for modest-income beneficiaries, we should instead raise them further on higher-income beneficiaries. Now some people claim that would be unfair. They say that because working Americans pay a flat Medicare payroll tax on their entire paycheck, richer beneficiaries have already paid much more into Medicare. But the payroll tax doesn't actually go to pay Medicare B and D. It only goes toward the part of Medicare that pays for hospital services. Well-off beneficiaries enrolled in B and D still get large subsidies from other taxpayers, and that's unfair.

But if we generate more revenue for Medicare through higher premiums on better-off beneficiaries, we need to do two things to make the result fair.

First, beneficiaries with very high incomes should pay the full cost of their taxpayer-subsidized Part B and D, not just a little more. The Warren Buffets can pay full freight. And second, to generate enough revenue from premium increases, we have to reexamine what "higher income" actually means. Many older couples with annual incomes below \$170,000 (\$85,000 for singles)—the current level for higher premiums—should pay more than a quarter of the actual cost of B and D (the proportion they cover today). It's only fair that a couple with \$100,000 of annual income should pay more for premiums than a couple living on \$50,000. So the income threshold for higher premiums needs to come down, while protecting modest-income beneficiaries from unduly high premiums.

## Avalere Health

On the surface, it may seem reasonable to charge Medicare beneficiaries with higher incomes more for the same Part B and D coverage. However, in reality, many of these proposals will also push costs onto more middle-class beneficiaries, particularly if the income level at which individuals are subject to the higher premium continues to be frozen, or even reduced. Higher-income beneficiaries already pay more money into the Medicare program before retirement through higher payroll and income taxes, and they already are required to pay up to three times more in premiums for Medicare Part B and D—so they should not have to pay even more for the same coverage as other beneficiaries. Higher-income Medicare beneficiaries are also required to pay higher premiums regardless of their expenses, which can vary substantially (for example, some may be supporting a spouse with expensive long-term care needs). In addition, raising Medicare premiums for higher-income beneficiaries could create a disincentive for individuals to work and save.

Some propose to keep the income level at which beneficiaries must pay the higher premiums, already frozen for 10 years, at the same threshold for even longer. Over time, this means that more Medicare beneficiaries will be required to pay the higher premiums each year. Others have proposed that thresholds be lowered. Under both proposals, more middle-class beneficiaries would hit the income level that triggers higher premiums. It is estimated that 25 percent of all Medicare beneficiaries may have to pay Part B income-related premiums by 2035. The number of Medicare beneficiaries subject to Part D income-related premiums will similarly increase.

Some higher-income beneficiaries may decide it is more advantageous to drop out of Parts B and D if they are able to buy less expensive private coverage or simply to self-pay for the physician visits and medications covered under Parts B and D. This will make

## Medicare Reform Option: Raise Premiums for Higher-Income Beneficiaries

it more difficult for the federal government to manage risk within the Medicare program. Higher-income beneficiaries tend to be younger and healthier and are needed in the program to balance the costs of sicker and less wealthy enrollees. If enough higher-income beneficiaries drop out of Parts B and D, the premiums for Medicare Parts B and D will need to increase for beneficiaries who remain in the program, making Medicare participation more expensive for almost everyone.

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***Avalere Health, LLC** is a leading advisory company focused on health care business strategy and public policy.*

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