

CRS Report for Congress

Medicare: Part B Premiums

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Summary

Medicare is the nation's health insurance program for individuals aged 65 and over and certain disabled persons. Medicare consists of four distinct parts: Part A (Hospital Insurance [HI]); Part B (Supplementary Medical Insurance [SMI]); Part C (Medicare Advantage [MA]); and Part D (the new prescription drug benefit added by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 [MMA]). The Part A program is financed primarily through payroll taxes levied on current workers and their employers; these are credited to the HI trust fund. The Part B program is financed through a combination of monthly premiums paid by current enrollees and general revenues. Income from these sources is credited to the SMI trust fund. Beneficiaries can choose to receive all their Medicare services through managed care plans under the MA program; payment is made on their behalf in appropriate parts from the HI and SMI trust funds. A separate account in the SMI trust fund accounts for the new Part D drug benefit; Part D is financed through general revenues and beneficiary premiums.

When Medicare began in 1966, the Part B monthly premium paid by beneficiaries was set at a level to finance 50% of Part B costs; general revenues financed the remainder. Legislation enacted in 1972 limited annual premium increases. As a result, beneficiary contributions dropped to below 25% of program costs by the early 1980s. Since the early 1980s, Congress regularly voted to set Part B premiums at levels to cover 25% of program costs. The Balanced Budget Act of 1997 (BBA 97) permanently set the Part B premium at 25% of program costs. Certain low-income beneficiaries are entitled to assistance in paying their Part B premiums. Beginning in 2007, certain high-income Medicare enrollees pay a higher percentage of their Part B premiums.

The 2007 basic monthly premium is \$93.50, an increase of 5.6% over the 2006 amount of \$88.50. The 2008 monthly premium will be \$96.40, an increase of 3.1% over the 2007 amount. Annual premium increases are attributable to increases in benefit costs as well as increases needed to assure adequate trust fund reserves. The 2008 increase is the smallest percentage increase since 2000. This report will be updated when the 2009 premium is announced.

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Medicare: Part B Premiums

Financing Medicare Part B

Introduction

Medicare Part B is financed through a combination of beneficiary premiums and federal general revenues. In general, beneficiary premiums equal 25% of estimated program costs for the aged. (The disabled pay the same premium as the aged.) Federal general revenues account for the remaining 75%. Beginning in 2007, higher-income enrollees pay a higher percentage of Part B costs. The Centers for Medicare and Medicaid Services (CMS, the agency that administers Medicare) estimated that approximately 4% of beneficiaries would pay a higher premium in 2007,¹ and 5% would pay a higher premium in 2008.²

The 2007 standard monthly Part B premium is \$93.50, an increase of \$5.00 or 5.6% over the 2006 amount. The 2008 standard monthly premium will be \$96.50 or 3.1% over the 2007 amount. The increases reflect the increase in the costs of health care services funded under Part B. CMS reports that the 2008 premium increase is the same as had been projected earlier in the year. It is lower than the projected 6.1% increase in per capita national health spending for 2008.³

Individuals receiving Social Security benefits have their Part B premium payments automatically deducted from their Social Security benefit checks. In general, their Social Security checks cannot go down from one year to the next as a result of the annual Part B premium increase.⁴ However, this protection does not apply to higher-income persons subject to higher income-related premiums.

Social Security payments are subject to an annual cost-of-living adjustment, or COLA. The 2007 increase of 3.3% represents an average monthly increase of \$33 per retired worker. As of this writing, the 2008 COLA has not been announced.

¹ CMS, Medicare Premiums and Deductibles for 2007, Fact Sheet, September 12, 2006

² CMS, CMS Announces Medicare, Premiums, Deductibles for 2008, Fact Sheet, October 1, 2007.

³ [<http://www.cms.hhs.gov/NationalHealthExpendData/downloads/proj2006.pdf>]

⁴ Specifically, the law provides that if the Part B premium increase is greater than the dollar increase in the annual Social Security cost-of living adjustment, the premium owed by the individual would be reduced to the amount needed to assure no reduction in the Social Security cash payment.

Premium Calculations for 2008

Each year, Medicare actuaries estimate total per capita incurred costs for the following year. These amounts are established prospectively. Actual spending for the year may be different; and, as a result, income for the year may not equal program costs. Trust fund assets must be maintained at a level to cover a moderate degree of variation between actual and projected costs. This is achieved through a contingency reserve adjustment. The following outlines the calculations for 2008.

Calculation.^{5,6} The monthly premium for 2008 was calculated as follows. Total monthly benefit costs of \$431.10 were reduced by \$70.02 for required beneficiary cost-sharing. The resulting amount of \$361.08 was increased by \$5.42 for administrative expenses and reduced by \$4.80 for interest earnings. This total of \$361.70 was further *increased* by \$23.70 for the contingency margin adjustment; this has the effect of increasing the reserves. Twenty-five percent of the resulting net per capita amount of \$385.40 yields a 2007 standard premium amount (when rounded to the nearest \$0.10) of \$96.40.

Factors Affecting the Calculation. The premium increase from 2007 to 2008 is attributable to a number of factors. CMS cites the growth in a number of service categories, including home health, physician-administered drugs, ambulatory surgical centers, durable medical equipment, independent labs, and physician office labs, as well as the growth in the Medicare Advantage (MA) program.⁷ Increases attributed to the MA program reflect the increase in the average risk of enrolled beneficiaries (which increases average per capita payments), as well as the impact of fee-for-service cost growth on MA county benchmarks.

Contingency Reserve. Another factor contributing to the premium increase is the adjustment for the contingency reserve. The contingency reserve is the amount set aside to cover an appropriate degree of variation between actual and projected costs. The 2008 adjustment is intended to restore these funds to an adequate level.

CMS notes that in recent years, Part B expenditures have been higher than expected. In some cases, legislation that has the effect of increasing expenditures for the year has been enacted after the premium for the year has been set. The primary example of this is in the area of physician payments. The law includes a formula for calculating the annual update to the conversion factor used to determine payments under the physician fee schedule. Use of this formula was expected to result in a *reduction* of 5.0% in 2007. The Tax Relief and Health Care Act of 2006 (TRHCA,

⁵ Department of Health and Human Services, CMS, Medicare Program: Medicare Part B Monthly Actuarial Rates, Premium Rates, and Annual Deductible Beginning January 1, 2008, Federal Register, vol.72, no.193, October 5, 2007, 57039.

⁶ The actual calculation presented in the regulation shows the numbers for the “monthly actuarial rate” which equals 50% of costs.

⁷ Payments to Medicare Advantage plans are made in appropriate part from the Medicare Part A Hospital Insurance Trust Fund and from the Medicare Part B Supplementary Insurance Trust Fund.

P.L. 109-432) overrode the reduction by freezing the conversion factor at the 2006 level. However, the 2007 premium calculation was made prior to enactment of TRHCA; thus, the financial effect of the legislation is first reflected in the 2008 premium.

The current law formula would provide for a negative update to the conversion factor for the physician fee schedule of 10% in 2008 and 5% in each of the subsequent 10 years. However, Congress has generally overridden the reductions that were slated to occur. CMS, citing the possibility that Congress may override the reduction for 2008 (thereby significantly increasing Part B expenses), has provided for the maintenance of a somewhat higher contingency reserve than would otherwise be necessary.

Income-Related Premium

Beginning in 2007, Part B premiums are increased for higher-income enrollees. The increase is phased in over three years. In 2007, individuals whose modified adjusted gross income (AGI) exceeds \$80,000, and couples whose modified AGI exceeds \$160,000, are subject to higher premium amounts. When fully phased in, higher-income individuals will pay total premiums ranging from 35% to 80% of the value of Part B (See **Table 1**).

Table 1. Percentage of Part B Costs Paid by High-Income Beneficiaries
(in percent)

Modified AGI Income category ^a		Year		
Single	Couple	2007	2008	2009
\$80,001-\$100,000 ^b	\$160,001-\$200,000 ^b	28.3	31.7	35
\$100,001-\$150,000 ^c	\$200,001-\$300,000 ^c	33.3	41.7	50
\$150,001-\$200,000 ^d	\$300,001-\$400,000 ^d	38.3	51.7	65
more than \$200,000 ^e	more than \$400,000 ^e	43.3	61.7	80

- Beginning in 2008, the income levels are increased by the increase in the consumer price index for urban consumers, rounded to the nearest \$1,000.
- The 2008 income levels in this category are \$82,000 -\$102,000 for a single and \$164,000 - \$204,000 for a couple.
- The 2008 income levels in this category are \$102,001-\$153,000 for a single and \$204,001 - \$306,000 for a couple.
- The 2008 income levels in this category are \$153,001 -\$205,000 for a single and \$306,001 - \$410,000 for a couple.
- The 2008 income levels in this category are \$205,000 for a single and \$410,000 for a couple.

Table 2 shows the 2007 premium amounts. CMS estimates that approximately 4% of Part B enrollees will pay a higher premium in 2007, with less than 1% paying the highest premium amount of \$161.40. Note that when both members of a couple are enrolled in Part B, both pay the applicable premium amount.

Table 2. Beneficiary Premiums, 2007

Modified Adjusted Gross Income (AGI)		Premium
Single	Couple	
\$80,000 or less	\$160,000 or less	\$93.50
\$80,001-\$100,000	\$160,001-\$200,000	\$105.80
\$100,001-\$150,000	\$200,001-\$300,000	\$124.40
\$150,001-\$200,000	\$300,001-\$400,000	\$142.90
more than \$200,000	more than \$400,000	\$161.40

Note: Married persons who lived with their spouse at some point during the year but who filed separate returns are subject to different premium amounts. Those with incomes greater than \$80,000 and less than or equal to \$120,000 have premiums of \$143.40. Those with incomes greater than \$120,000 have premiums of \$162.10.

Table 3 shows the 2008 premium amounts. CMS estimates that approximately 5% of Part B enrollees will pay a higher premium in 2008; it has not indicated what portion of beneficiaries would fall within each category. Note that when both members of a couple are enrolled in Part B, both pay the applicable premium amount.

Table 3. Beneficiary Premiums, 2008

Modified Adjusted Gross Income (AGI)		Premium
Single	Couple	
\$82,000 or less	\$164,000 or less	\$96.40
\$82,001-\$102,000	\$164,001-\$204,000	\$122.20
\$102,001-\$153,000	\$204,001-\$306,000	\$160.90
\$153,001-\$205,000	\$306,001-\$410,000	\$199.70
more than \$205,000	more than \$410,000	\$238.40

Note: Married persons who lived with their spouse at some point during the year but who filed separate returns are subject to different premium amounts. Those with incomes greater than \$82,000 and less than or equal to \$123,000 have premiums of \$199.70. Those with incomes greater than \$123,000 have premiums of \$238.40.

The term “modified AGI” means adjusted gross income as defined under the Internal Revenue Code plus the following:

- tax-exempt interest income;
- income from U.S. savings bonds used to pay higher education tuition and fees;
- foreign-earned income;
- income derived from sources within Guam, American Samoa, or the Northern Mariana Islands; and
- income from sources within Puerto Rico.⁸

⁸ Social Security Administration, *Medicare Part B Income-Related Monthly Adjustment* (continued...)

In general, the taxable year to be used is that beginning in the second calendar year preceding the year involved. Thus, 2006 income is used to calculate the 2008 premium amount. It should be noted that if a person had a one-time increase in income in 2006 (such as from the sale of income producing property), that increase will be considered in determining the individual's total income for that year and liability for the income-related premium for 2008. It will not be considered in the calculations for future years.

In the case of certain major life-changing events that result in a significant reduction in modified AGI, an individual may request to have the determination made for a more recent year than the second preceding year. Major life-changing events are defined as:

- death of a spouse;
- marriage;
- divorce or annulment;
- partial or full work stoppage for the individual or spouse;
- loss by individual or spouse of income from income-producing property when the loss is not at the individual's direction (such as in the case of a natural disaster);
- reduction or loss for individual or spouse of pension income due to termination or reorganization of the plan or scheduled cessation of the pension.⁹

The current law provision, which specifies that a beneficiary's check cannot go down from one year to the next as a result of the Part B premium increase, does not apply to persons subject to an income-related increase in their Part B premiums.

History of Part B Premium Calculation

Annual Update

When the program first went into effect in July 1966, the Part B monthly premium was set at a level to finance 50% of Part B program costs. Legislation enacted in 1972 limited the annual percentage increase in the premium to the same percentage by which Social Security benefits were adjusted for changes in cost-of-living (i.e., COLAs). Under this formula, revenues from premiums soon dropped from 50% to below 25% of program costs. This was because Part B program costs increased much faster than inflation as measured by the Consumer Price Index on which the Social Security COLA is based.

From the early 1980s, Congress regularly voted to set Part B premiums at a level to cover 25% of program costs, in effect, overriding the COLA limitation. The 25%

⁸ (...continued)
Amount, vol.71n no.208, October 27, 2006, 62923.

⁹ *Ibid.*, 62937.

provisions first became effective January 1, 1984. General revenues covered the remaining 75% of Part B program costs. Congress took this general approach again in the Omnibus Budget Reconciliation Act of 1990 (OBRA 90). However, OBRA 90 set specific dollar figures, rather than a percentage, in law for 1991-1995. These dollar figures reflected Congressional Budget Office (CBO) estimates of what 25% of program costs would be over the five-year period. Program costs grew more slowly than anticipated, in part due to subsequent legislative changes. As a result, the 1995 premium of \$46.10 actually represented 31.5% of program costs.

Omnibus Budget Reconciliation Act of 1993 (OBRA 93) extended the policy of setting the Part B premium at a level to cover 25% of program costs for 1996-1998. As was the case prior to 1991, a percentage rather than a fixed dollar figure was used. This meant that the 1996 premium (\$42.50) and the 1997 premium (\$43.80) were lower than the 1995 premium (\$46.10).

BBA 97 permanently set the premium at 25% of program costs. *If Part B costs increase or decrease, the premium rises or falls accordingly.*¹⁰ (See **Table 4** for a history of Part B premiums.)

¹⁰ BBA 97 made a change that had the effect of increasing the Part B premium over time. Prior to BBA 97, both Parts A and B of Medicare covered home health services. Payments were made under Part A, except for those few persons who had no Part A coverage. In order to extend the solvency of the Part A (hospital insurance) trust fund, BBA 97 gradually transferred coverage of some home health visits from Part A to Part B. Beginning January 1, 2003, Part A covers only post-institutional home health services for up to 100 visits, except for those persons with Part A coverage only who are covered without regard to the post-institutional limitation. Part B covers other home health services.

Table 4. Monthly Part B Premiums, 1966-2008

Year	Monthly premium	Effective date	Governing policy; legislative authority
1966	\$3.00	7/66	Fixed dollar amount; Social Security Amendments (SSA) of 1965
1967	\$3.00		Fixed dollar amount; SSA of 1965
1968	\$4.00	4/68	Fixed dollar amount through March; Medicare Enrollment Act of 1967. Beginning April: 50% of costs; SSA of 1965
1969	\$4.00		50% of costs; SSA of 1967
1970	\$5.30	7/70	50% of costs; SSA of 1967
1971	\$5.60	7/71	50% of costs; SSA of 1967
1972	\$5.80	7/72	50% of costs; SSA of 1967
1973	\$6.30	9/73	50% of costs; SSA of 1967 (COLA limit, added by SSA of 1972, could have applied, but was not needed). Limitations imposed by Economic Stabilization program set 7/73 amount at \$5.80 and 8/73 amount at \$6.10.
1974	\$6.70	7/74	50% of costs; SSA of 1967 (COLA limit, added by SSA of 1972, could have applied, but was not needed)
1975	\$6.70		Technical error in law prevented updating
1976	\$7.20	7/76	COLA limit; SSA of 1972
1977	\$7.70	7/77	COLA limit; SSA of 1972
1978	\$8.20	7/78	COLA limit; SSA of 1972
1979	\$8.70	7/79	COLA limit; SSA of 1972
1980	\$9.60	7/80	COLA limit; SSA of 1972
1981	\$11.00	7/81	COLA limit; SSA of 1972
1982	\$12.20	7/82	COLA limit; SSA of 1972
1983	\$12.20		Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) had set 25% rule for updates in 7/83 and 7/84. However, SSA of 1983 froze premiums 7/83-12/83 and changed future updates to January.
1984	\$14.60	1/84	25% of costs; TEFRA, as amended by SSA of 1983
1985	\$15.50	1/85	25% of costs; TEFRA, as amended by SSA of 1983
1986	\$15.50	1/86	25% of costs; Deficit Reduction Act (DEFRA) of 1984
1987	\$17.90	1/87	25% of costs; DEFRA of 1984
1988	\$24.80	1/88	25% of costs, Consolidated Omnibus Budget Reconciliation Act of 1985
1989	\$31.90	1/89	25% of costs, OBRA 87, <i>plus</i> \$4 catastrophic coverage premium added by Medicare Catastrophic Coverage Act of 1988
1990	\$28.60	1/90	25% of costs; OBRA 89. Medicare Catastrophic Coverage Repeal Act of 1989 repealed additional catastrophic coverage premium, effective 1/90
1991	\$29.90	1/91	Fixed dollar amount; OBRA 90
1992	\$31.80	1/92	Fixed dollar amount; OBRA 90
1993	\$36.60	1/93	Fixed dollar amount; OBRA 90
1994	\$41.10	1/94	Fixed dollar amount; OBRA 90

Year	Monthly premium	Effective date	Governing policy; legislative authority
1995	\$46.10	1/95	Fixed dollar amount; OBRA 90
1996	\$42.50	1/96	25% of costs; OBRA 93
1997	\$43.80	1/97	25% of costs; OBRA 93
1998	\$43.80	1/98	25% of costs; OBRA 93 and BBA 97
1999	\$45.50	1/99	25% of costs; BBA 97
2000	\$45.50	1/00	25% of costs; BBA 97
2001	\$50.00	1/01	25% of costs; BBA 97
2002	\$54.00	1/02	25% of costs; BBA 97
2003	\$58.70	1/03	25% of costs; BBA 97
2004	\$66.60	1/04	25% of costs; BBA 97
2005	\$78.20	1/05	25% of costs; BBA 97
2006	\$88.50	1/06	25% of costs; BBA 97
2007	\$93.50 ^a	1/07	25% of costs; BBA 97 (MMA and DRA authorize higher premiums for high-income enrollees.)
2008	\$96.40 ^a	1/08	25% of costs; BBA 97 (MMA and DRA authorize higher premiums for high-income enrollees.)

Source: Various Annual Reports. The 2007 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Fund, March 2007, and 72 *Federal Register* 57039, October 5, 2007.

a. Approximately 4% of high-income enrollees will pay higher premiums in 2007 and 5% in 2008.

Income-Related Premium

Since the inception of Medicare, all Part B enrollees have paid the same Part B premium, regardless of their income level. For a number of years, proposals were offered to increase the share of Part B costs borne by higher-income individuals. Many observers suggested that it was inappropriate for taxpayers to pay (through general revenue financing) three-quarters of Part B costs for these persons. They pointed out that low income and middle income working persons might be subsidizing higher-income elderly persons.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA, P.L. 108-173) increased the Part B premium percentage for high-income enrollees, beginning in 2007. MMA would have phased in the increase over five years. However, DRA shortened the phase-in period to three years.

At the time of enactment of the MMA provision, the Congressional Budget Office (CBO) estimated that 1.2 million persons (3% of beneficiaries) would pay higher premiums in 2007; and 2.8 million persons (6% of beneficiaries) would pay higher premiums in 2013. CBO further estimated that the MMA provision would reduce federal outlays by \$13.3 billion over the 2007-2013 period. CBO estimated

that the DRA provision accelerating the phase-in would increase premium collections by \$1.6 billion over the 2007-2010 period.¹¹

It should be noted that when CMS announced the 2007 premium levels in September 2006, it estimated that 4% of enrollees would be subject to the higher premium amounts. When it announced the 2008 premium amounts in October 2007, it estimated 5% of enrollees would be subject to a higher amount. While some persons have labeled the premium change as means testing, the same Part B benefits are available to all enrollees, regardless of income.

Changes in 2010

MMA also required the Secretary to establish a six-year program, beginning in 2010, for the application of comparative cost adjustment (CCA) in CCA areas. The CCA program will introduce competition between traditional fee-for-service (FFS) Medicare and local private plans. As a result, an individual residing in a CCA area who is enrolled in Part B of Medicare, but not enrolled in a managed care plan, can have an adjustment to his or her Part B premium, either as an increase or a decrease. No premium adjustment will be made for certain low-income persons. The annual adjustment for a year cannot exceed 5% of the amount of the basic monthly Part B premium, as otherwise determined.

Assistance for Low Income

Certain low-income beneficiaries are entitled to assistance in paying their Part B premiums. Eligible persons fall into one of the following three coverage groups:

- **Qualified Medicare Beneficiaries (QMBs).** QMBs are aged or disabled persons with incomes at or below the federal poverty level. In 2007, the monthly level is \$871 for an individual and \$1,161 for a couple¹² and assets below \$4,000 for an individual and \$6,000 for a couple. QMBs are entitled to have their Medicare cost-sharing charges, including the Part B premium, paid by the federal-state Medicaid program. Medicaid protection is limited to payment of Medicare cost-sharing charges (i.e., the Medicare beneficiary is *not* entitled to coverage of Medicaid plan services) unless the individual is otherwise entitled to Medicaid.

¹¹ The MMA estimate and the DRA estimate were each made by CBO at the time of enactment of each law. Both estimates were based on the CBO budget baseline in effect at the time. As is the case for all CBO estimates, the earlier estimates are incorporated into subsequent CBO baselines. Therefore the two savings estimates cannot be added together.

¹² The annual HHS poverty guidelines for 2007 are \$10,210 for an individual and \$13,690 for a couple; the monthly figures are \$851 for an individual and \$1,141 for a couple. The qualifying levels are higher because, by law, \$20 per month of unearned income is disregarded in the calculation. See [<http://www.cms.hhs.gov/MedicaidEligibility/Downloads/POV07ALL.pdf>].

- **Specified Low-Income Medicare Beneficiaries (SLIMBs).** These are persons who meet the QMB criteria, except that their income is over the QMB limit. The SLIMB limit is 120% of the federal poverty level. In 2007, the monthly income limits are \$1,041 for an individual and \$1,389 for a couple.¹³ Medicaid protection is limited to payment of the Medicare Part B premium (i.e., the Medicare beneficiary is *not* entitled to coverage of Medicaid plan services) unless the individual is otherwise entitled to Medicaid.
- **Qualifying Individuals (QI-1).** These are persons who meet the QMB criteria, except that their income is between 120% and 135% of poverty. Further, they are *not* otherwise eligible for Medicaid. In 2007 the monthly income limit for QI-1 for an individual is \$1,169 and for a couple \$1,561. Medicaid protection for these persons is limited to payment of the monthly Medicare Part B premium. The program is currently slated to expire September 30, 2007.¹⁴

Current Issues

Premium Amount

The size of Part B premiums has received considerable attention. As noted, an individual's Social Security check cannot go down from one year to the next as a result of an increase in the Part B premium (except for those subject to the income-related premium). However, some observers have suggested that beneficiaries should not face the prospect of losing a large portion of their cost-of-living (COLA) increase.¹⁵ Further, the hold harmless provision does not apply to the premiums for the Part D prescription drug program. Individuals enrolled in a Part D plan with a higher premium or newly enrolling in a plan in 2008 might see a reduction in their social security checks.¹⁶

The 2008 premium calculation was based on current law provisions that include a formula for calculating the annual update to the physician fee schedule. As noted earlier, use of this formula will result in a reduction in the fee schedule conversion

¹³ This is calculated the same way as the QMB level. See the preceding footnote.

¹⁴ In general, Medicaid payments are shared between the federal government and the states according to a matching formula. However, expenditures under the QI-1 program are paid for (100%) by the federal government (from the Part B trust fund) up to the state's allocation level. A state is only required to cover the number of persons that would bring its spending on these population groups in a year up to its allocation level. Any expenditures beyond that level are paid by the state. Total allocations are \$400 million for both FY2006 and FY2007. The program was initially slated to terminate December 31, 2002, but was extended several times and is now slated to expire September 31, 2007.

¹⁵ See CRS Report RL33364, *The Impact of Medicare Premiums on Social Security Beneficiaries*, by Kathleen Romig

¹⁶ MMA added a new Medicare Part D drug benefit, effective January 1, 2006. It should be emphasized that the cost of this drug benefit is accounted for separately and has no effect on the Part B premium.

factor for 2008. Congress overrode similar reductions that were slated to occur in 2003-2007 under the Consolidated Appropriations Resolution (CAR, P.L. 108-7, enacted in February 2003), the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA, P.L. 108-173), the Deficit Reduction Act of 2005 (DRA, P.L.109-171, enacted February 8, 2006) and the The Tax Relief and Health Care Act of 2006 (TRHCA, P.L. 109-432, enacted December 20, 2006). CAR increased physician payments for 2003; MMA increased physician payments for 2004 and 2005; DRA froze 2006 physician payments at the 2005 level (thereby overriding a scheduled reduction), and TRHCA continued the freeze for an additional year.¹⁷

Under the current law formula, reductions in the conversion factor are slated to occur in 2008 and for a number of subsequent years. As of this writing, it is not clear what actions the 110th Congress will take on this issue. If changes are made to avert the scheduled reductions, this will have the effect of increasing overall Part B costs, and by extension the Part B premium. Because the 2008 premium amount has already been announced, the effect will first be reflected in the 2009 premium.

Income-Related Premium

The income-related premium was enacted in response to the concern that lower-income taxpayers should not be financing 75% of Part B costs for the aged. However, some observers have suggested that this might actually represent a first step in moving away from the entitlement nature of the Medicare program. Further, some individuals have suggested that higher-income enrollees might be tempted to drop Medicare Part B coverage. However, at this time, there are few alternatives available for this population in the private insurance market.

President's Budget

Part B Income-Related Premium. In 2007, the income threshold for higher Part B premiums is \$80,000 for an individual and \$160,000 for a couple. In subsequent years, the income levels are increased by the percentage increase in the consumer price index (CPI) for urban consumers.

When the President's FY2008 Budget was submitted in February 2007, CMS estimated that under current law, 5.4% of beneficiaries (2.2 million) would be subject to higher premiums in 2008; this number would rise to an estimated 5.9% (2.7 million) in 2012 and 6.3% (3.3 million) in 2017. The President's budget proposed eliminating the annual CPI adjustments. This would mean that each year the number of beneficiaries subject to the higher premium would increase. Under the proposal an estimated 5.6% of beneficiaries (2.3 million) would be subject to the increased premium in 2008; the number would rise to 6.9% (3.1 million) in 2012 and 9.6% (5.0 million) by 2017. The proposal would therefore increase the number of individuals subject to the higher premium by 0.1 million in 2008, 0.5 million in 2012, and 1.7 million in 2017. The President's budget estimated that this change would save \$543 million in FY2008 and \$7.1 billion over the FY2008-FY2012 period.

¹⁷ For a discussion of these payment issues, see CRS Report RL31199, *Medicare: Payments to Physicians*, by Jennifer O'Sullivan.

Part D Income-Related Premium. The President's Budget also recommended income-relating Part D prescription drug premiums. Medicare Part D is financed through a combination of beneficiary premiums and federal general revenues. (In addition, certain transfers are made from the states.) Beneficiaries pay different premiums depending on the plan they have selected. On average, beneficiary premiums account for 25.5% of expected total Part D costs for basic coverage. Except for persons entitled to low-income subsidies, all persons selecting a particular Part D plan pay the same monthly premium amount.

The President's FY2008 Budget proposal would establish income-related premiums for Part D.¹⁸ Under the proposal, the income thresholds would be the same as those established for income-relating Part B premiums and therefore affect the same people. Further, as proposed for Part B, the income thresholds would not be updated in future years. Consequently, each year the number of beneficiaries subject to the higher premium would increase. The budget included estimated savings of \$357 million in FY2008 and \$3.242 billion over the five-year budget period.

At the time the proposal was presented, CMS estimated that it would affect 4.3% of beneficiaries in 2008, rising to 6.7% of beneficiaries in 2017. The smaller percentage affected by the Part D proposal than by the Part B proposal reflects the fact that many high-income enrollees have alternative sources of prescription drug coverage, such as through coverage provided by former employers.

¹⁸ Though specifics were not provided, it was expected that the percentage increases would be tied to a benchmark premium amount for basic coverage.