Insight

2016 Medicare Part B Premium Spike

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Introduction

A little-used social security payment rule and its connection to Medicare Part B premium increases has become a concern for many policymakers. Part B premiums will increase by half for 25 percent of enrollees, while the other 75 percent of beneficiaries will be spared any premium increase at all due to a Hold Harmless provision. A July report on Social Security Cost of Living Adjustment (COLA) indicated there will be no 2016 increase in payments to offset the Medicare Part B premium increase,[1] but a Hold Harmless provision will protect three-quarters of Medicare beneficiaries from these premium increases while shifting the entire burden to the other 25 percent of beneficiaries. This shift will cause monthly premiums to increase from $104.90 to $159.30 for 25 percent of beneficiaries. State Medicaid agencies will pick up a substantial share of the $6 billion tab for dual eligibles in 2016, while high-income beneficiaries could see their premiums spike to over $500.

Background

Medicare Part B covers typical, non-hospital-inpatient services, such as doctors' visits, preventive care, outpatient care, and lab tests. It does not cover the cost of prescription drugs, which are paid for through Medicare Part D. Part B requires beneficiaries to pay a premium to cover 25 percent of the total costs of the program, though individual premiums are adjusted based on a number of criteria. Premiums for beneficiaries eligible for and receiving both Medicare and Social Security (SS) will have their Part B premiums deducted directly from their monthly SS income payments.

High income enrollees, who make up about 5 percent of the program, are required under the Medicare Modernization Act of 2003 and the Deficit Reduction Act of 2005 to pay a higher premium, based on income, reaching as high as an 80 percent cost-share.

The 10 million dual eligibles who also receive Medicaid coverage are assigned a premium value, but that premium is ultimately paid by the beneficiary's state Medicaid agency rather than the beneficiary themselves. Everyone else is intended to be liable for their share of the 25 percent cost of the program.

The Hold Harmless Debacle

In 1975, Congress created an annual COLA for SS benefits. The COLA is the difference between the Consumer Price Indices (CPI) or the third quarter of the current year and the third quarter in the last year in which the COLA was effective. Therefore the COLA may never be negative, with a floor of 0.0 percent.

Because the COLA, and therefore SS payments, are based on CPI and do not account for growth in health care costs, Medicare Part B and Part D premiums may grow significantly faster than SS payments in years with low COLAs. To minimize the impact of this effect, in 1988, Congress created a "Hold Harmless" provision, which

mandates that Medicare Part B premium payments may not cause a decrease in SS benefits. This requirement protects between 70 and 75 percent of Medicare beneficiaries from large premium increases absent corresponding COLA influenced income increases.

The Hold Harmless provision has rarely come into effect where Medicare Part B premiums increased without COLA increases. However, when it does, the effect is very concentrated. Because roughly 75 percent of beneficiaries are covered by Hold Harmless, the other 25 percent are responsible for carrying the entire burden of premium increases for the entire Part B program. For example, due to the recession in 2010 and 2011 COLA remained at 0.0 percent, but Part B premiums increased because only about 25 percent of beneficiaries were not covered by the Hold Harmless provision. Their premiums spiked by 14.6 percent in 2010 and another 4.4 percent in 2011, increasing premiums from about $96 to about $110, while those protected by the provision felt no comparable squeeze.

In 2016, the same 25 percent of beneficiaries will see another premium increase. This time it will be a 52 percent increase.

There are three general categories of beneficiaries who will be squeezed because they are not protected by the Hold Harmless provision, due to their current or former Medicare or SS benefit status.

The first category, high-income enrollees, make up 5 percent of all Medicare Part B beneficiaries and 25 percent of those exempted from the Hold Harmless provision. Since these beneficiaries' premiums are based on their respective incomes, the premium increase will impact them differently, but the highest income brackets – those who pay 80 percent of their Medicare Part B premiums – could face premiums of over $500 (compared to the standard $105 premium paid by others).[2]

The second class is Dual Eligibles, who receive Medicaid benefits in addition to Medicare. Ironically, their low-income status prevents them from being protected by the Hold Harmless provision since the cost of the premium spike is passed on to their state Medicaid agencies. The 52 percent premium spike spread across roughly 10 million Dual Eligibles will cost Medicaid over 6 billion dollars in 2016 alone.[3] Considering the thin margins on which state Medicaid programs are run, this could be a devastating expense. For example, California's Medicaid program (which has the most Dual Eligibles) will have to pay an additional $864 million in 2016 to cover the premium spike, $432 million of which will come from California's state treasury.[4]

States' Share of Premium Increase

The final and perhaps most unfortunate group to be squeezed by the 2016 premium spike will be those who, for one reason or another, were receiving 2015 benefits from only Medicare Part B or SS, or from neither program. If an individual was not enrolled in both programs at the close of the previous year (during November and December), there can be no calculation to determine whether the Part B premium increase will cause a relative decrease in SS benefits, and therefore the Hold Harmless provision cannot apply.

There are a number of ways an individual might fall into this final category. For instance, an individual may have recently become eligible for Medicare by aging into the program because they were born on January 1 rather than December 31, thereby becoming ineligible for the Hold Harmless protections. Some recently eligible beneficiaries may also choose to delay their receipt of their SS benefits until the "full retirement age" of 66 or older in order to continue to work and receive Delayed Retirement Credits later, yet they do choose to receive Medicare Part B benefits during that time.

Furthermore, Medicare beneficiaries are not required to enroll in Medicare Part B in any given year. Beneficiaries may forego Part B and its premiums in their first years of eligibility and decide to enroll later

(although they may be subject to a penalty for late enrollment). They may have other coverage that makes Part B temporarily redundant, such as employer sponsored insurance, Tricare, or VA benefits. Beneficiaries also have the option of enrolling in a Medicare Advantage plan, which does not require any Part B payments, but may in subsequent years opt back into traditional Medicare Parts A and B.

The Problem

The effect of the application of the Hold Harmless provision is not only to punish those who have attempted to be financially responsible by delaying retirement, saving for retirement, or choosing different (often more cost-effective) Medicare or employer sponsored insurance plans by increasing their premiums where others were exempted; it also forces these individuals to carry the additional burden of paying the increases on behalf of those who were 'held harmless.' State Medicaid agencies will likewise be stretched by the cost of the disproportionate increase in premiums for dual eligibles.

As problematic as the uneven application of the premium increase is, the evidence suggests that perhaps Congress was trying to solve the wrong problem with the Hold Harmless provision. In recent years there has been a substantial shift in the way medical care is provided. An emphasis on early screenings and prevention has moved patients from Part A-covered emergency rooms to their doctors' offices. New drugs and the rising industry of outpatient clinics have moved patients from hospital beds to home recovery. And when the time comes, a preference for home health care or hospice care has replaced expensive end of life inpatient treatment. These are all demonstrated shifts from premium-free Part A services, to Part B covered care. Though health care costs are undoubtedly rising for many reasons, including the graying of the boomer generation, much of the increase in Part B costs may be attributable to positive gains in the health care industry since 1988 and earlier. Rather than encouraging continued use of expensive and less efficient hospital services, Congress should incentivize, not punish, increased reliance on these Part B covered services.

Perhaps as the premium spike in October draws nearer, policymakers will view this as an opportunity to consider a substantive modernization to the Medicare program.

[1] http://www.ssa.gov/oact/tr/2015/index.html.