

## UPPER-INCOME MEDICARE BENEFICIARIES ALREADY PAY MORE UNDER CURRENT LAW

Many people are unaware that upper-income Medicare beneficiaries already pay substantially more than the average beneficiary. However, a key secret to Medicare's success since 1965 has been that everyone pays in and everyone benefits, irrespective of income or health needs. This principle has made it a crown jewel of American social programs and critical component of retirement planning. Moving to even more aggressively means-test the program runs a serious risk of undermining Medicare's historically broad-based support and unraveling its effectiveness.

- **The Medicare Program is *Already* Income-Related.** Upper-income beneficiaries currently pay higher premiums for both Medicare Part B (which covers physicians' and other outpatient items and services) and Part D (which covers prescription drugs). *See attached chart for premium amounts.*
- **Under Current Law, More People are Subject to Higher Premiums Over Time.** In 2012, about 1.8 million upper-income beneficiaries are paying the higher Part B premiums and 1.2 million are paying the higher Part D premiums. Because the income thresholds at which the higher premiums apply are not indexed until 2019, an increasing number of beneficiaries will have to pay the higher amounts each year. In fact, from 2012 to 2019, the number of Medicare beneficiaries who pay the Part B income related premium is expected to *more than double* to 4.5 million. For Part D, the number of Medicare beneficiaries who pay income related premium is expected to *nearly triple* to 3.4 million. (*2011 Medicare Trustees Report*).
- **Under the House Republican Plan, Means-Testing Will Reach Middle-Class Seniors.** Under current law, the income thresholds for increased premiums are frozen until 2019. The lack of an inflation adjustment means that more and more beneficiaries will fall into the category of "wealthy." If proposals that apply income-related premiums to 25 percent of Medicare beneficiaries were fully implemented today, then individuals with incomes just around \$40,000 would be subject to the higher premiums. *Extending this freeze beyond current law means that eventually middle-class seniors will pay higher premiums.*
- **Disparity Between Definition of Upper-Income for Tax Policy Versus Medicare.** Definitions of "upper-income" for purposes of tax policy seem to start at incomes of \$250,000, \$500,000 or even \$1 million. Why for retirees and people with disabilities does it start at \$85,000 (or lower in the case of the recent House Republican proposal)?
- **New Beneficiaries Most Likely Affected by Means-Testing.** Because newly enrolled beneficiaries are younger and tend to have higher incomes when they first become eligible for Medicare at age 65, they are more likely to pay higher premiums. By 2019, nearly one in five new enrollees will pay an income-related Part B premium – increasing from 8 percent in 2010 to 18 percent in 2019 (*Kaiser Family Foundation*).

- **Upper-income Beneficiaries Already Paid a Greater Share Toward Medicare Prior to Retirement.** Compared to low- and middle-income seniors, upper-income seniors contribute substantially more during their working years in the Medicare payroll tax. That's because there is no income cap on Medicare tax contributions like there is in Social Security. In addition, the ACA increased the amount of payroll tax for returns with incomes above \$250,000 and imposed an additional tax on unearned income for families with gross earnings above \$250,000. In many cases, these individuals also pay higher income taxes while they are working. Given both the higher tax burden and current income-related premium policy, Congress should not impose additional taxes by asking this group to pay even more for a benefit earned over a lifetime of hard work. Furthermore, asking upper-income individuals to pay even more for Medicare is both a work and saving disincentive.
- **Additional Means-Testing Undermines the Medicare's Social Insurance Nature.** Additional aggressive means-testing runs the risk of discouraging participation among upper-income, generally healthier patients, leaving behind a lower-income population with higher health care costs, and eventually turning Medicare into federal analog to Medicaid. Upper-income seniors may choose to opt out of voluntary Parts B and D coverage if they find lower cost coverage in the private market. In addition, it is possible that younger people likely to be subject to higher premiums would demand to be exempt from payroll taxes in order to opt out of Part A coverage.

**Medicare Means-Testing under Current Law: Income-Related Premiums**

Income-related Premium Thresholds	Premiums as Percent of Total Spending	Part B Monthly Premium		Part D Monthly Premium***	
		2012	2020**	2012	2020**
Most beneficiaries (i.e., individuals with income < \$85k and couples with income < \$170k) pay the standard Part B premium and a Part D premium that is dependent on their selected prescription drug plan.*	Part B: 25 percent Part D: 25.5 percent	standard = \$99.90	standard = \$158.60	avg. premium = \$30	avg. premium = \$59
Individuals: \$85k < income < \$107k	35	\$139.90 (standard + \$40)	\$222.00 (standard + \$63.40)	plan premium + \$11.60	plan premium + \$20.40
Married couples: \$170k < income < \$214k	50	\$199.80 (standard + \$99.90)	\$317.10 (standard + \$158.50)	plan premium + \$29.90	plan premium + \$52.70
Individuals: \$160k < income < \$214k	65	\$259.70 (standard + \$159.80)	\$412.20 (standard + \$253.60)	plan premium + \$48.10	plan premium + \$85
Married couples: \$320k < income < \$428k	80	\$319.70 (standard + \$219.80)	\$507.40 (standard + \$348.80)	plan premium + \$66.40	plan premium + \$117.20

\* Medicare is an individual benefit so married couples pay this premium for each of them if they are both Medicare-eligible.  
 \*\* These projections are based on the May 2011 Trustees Report and will likely change in the 2012 Report due to new data.  
 \*\*\* Part D premiums depend on a beneficiary's prescription drug plan selection.