

Part B Premium Means Testing Undermines the Medicare Program

Starting in 2007 the Medicare Part B premium (medical insurance) will no longer be the same for everyone. Charging people different premiums based on income hurts Medicare and does little to help the federal treasury.

Medicare's success derives from its universality. Since its inception in 1965, Medicare has offered the same benefits at the same price for everyone enrolled in the program. Means testing the Part B premium undermines support for Medicare by starting to turn Medicare into a welfare program. Besides, people with higher incomes already pay more in taxes for public programs, including Medicare.

President Bush has already proposed eliminating the indexing of the income limits for the Part B premium calculation. (Currently, the income limits are set to rise every year according to the consumer price index.) That would mean that 10 years from now, the same \$80,000 income will buy a lot less and many more people will be paying higher Part B premiums. From there, other cost-cutting measures could include means testing the coinsurance, deductible and even creating different levels of benefits covered by Medicare.

But why stop at Medicare? The logical extension of this misguided policy would be to charge people with more means a higher fee for every public service. Should rich people pay more for garbage collection services, public schools, fire services, police department services? That goes against the traditional goal of our tax system: to make everyone responsible for public goods and services based on ability and to distribute resources so that everyone benefits.

There are much better ways to fortify funding for Medicare. The projected seven-year savings (2007 through 2013) amounts to less than 0.4% of overall projected Medicare expenditures—a drop in the bucket that does nothing to shore up Medicare financing.

1. **If you believe richer people should pay more for government services,** you should push for the elimination of tax cuts for the most affluent Americans. The Bush Administration's February 2001 estimates show the tax cuts will cost more than \$1.6 trillion in revenue over 10 years and would raise the cost of interest payments on the national debt by nearly \$400 billion, for a total cost of \$2.0 trillion.¹ **That's almost 140 times more than means testing the Part B premium is projected to raise.**
2. **If you believe the federal government should support cost-effective Medicare policies,** you should ask that it stop wasting billions of dollars in extra payments to private, for profit health plans (HMOs, PPOs)^{2,3} and that it use its bargaining power to negotiate for lower drug prices.⁴
3. **If you want to bring down the cost of health care overall,** you should support extending Medicare coverage to all Americans. That would eliminate the waste and inefficiencies of our current fractured health care system by, to quote Winston Churchill, **"bringing the magic of averages to the rescue of millions."** Insurance is designed to work by spreading costs across a large number of people. Premiums are based on the average costs for the people in the insured group. This risk-spreading helps make insurance reasonably affordable for most people. It is estimated that bringing all 296 million Americans into one single insurance pool, like Medicare for All, would save the U.S. at least \$200 billion annually.⁵

How will it work?

Currently, everyone pays 25% of the actual cost of Part B coverage; tax-payer money from general federal revenues pays the other 75%. For example, in 2006 Part B coverage costs \$354 per month per person; people with Medicare pay \$88.50 and the government subsidizes the other \$265.50.

Beginning January 1, 2007, the monthly Medicare Part B premium will be higher if your annual income is above \$80,000 (\$160,000 for couples). If so, the government will contribute less towards your Part B coverage according to a sliding scale (see table on the reverse).

How much will you pay for Medicare Part B?

The Deficit Budget Reduction Act changed how quickly the change will be implemented. The increases will be phased in over the next three years (instead of five years as outlined in the Medicare Modernization Act). By 2009, the Part B premium will be calculated according to the sliding scale described in the table below.

Phase-In of Part B Premium Means Testing

Your Annual Income		Percentage of Actual Part B Coverage Cost You Will Pay in 2009	What Your Premium Would Be in 2007* (33.33% of increase)	What Your Premium Would Be in 2008* (66.66% of increase)	What Your Premium Would Be in 2009* (100% of increase)
Individuals	Couples				
Below \$80,000	Below \$160,000	25% (no change)	\$93.50	\$93.50	\$93.50
\$80,000 - \$100,000	\$160,000 - \$200,000	35%	\$105.80	\$118.40	\$130.90
\$100,000 - \$150,000	\$200,000 - \$300,000	50%	\$124.40	\$155.80	\$187.00
\$150,000 - \$200,000	\$300,000 - \$400,000	65%	\$142.90	\$193.20	\$243.10
Above \$200,000	Above \$400,000	80%	\$161.40	\$230.60	\$299.20

* Based on 2007 premium.

Source: <http://www.cms.hhs.gov/ReportsTrustFunds/downloads/Beneficiaryoop.pdf>

¹ “New Joint Tax Committee Estimates Raise Cost of Bush Tax Plan Cost Now Well Over \$2 Trillion,” by Richard Kogan and Robert Greenstein, Center on Budget and Policy Priorities report, Revised March 6, 2001, <http://www.cbpp.org/3-2-01tax.htm>

² “Medicare Advantage Benchmarks and Payments Compared with Average Medicare Fee-For-Service Spending,” Medicare Payment Advisory Commission (MEDPAC) report, June 2006, http://www.medpac.gov/publications/other_reports/MedPAC_briefs_MA_relative_payment.pdf

³ “MEDICARE+CHOICE: Payments Exceed Cost of Fee-for-Service Benefits, Adding Billions to Spending,” General Accounting Office report, August 2000, <http://www.gao.gov/archive/2000/he00161.pdf>

⁴ “The Savings from an Efficient Medicare Prescription Drug Plan,” Dean Baker, Center for Economic and Policy Research, January 2006, http://www.cepr.net/publications/efficient_medicare_2006_01.pdf

⁵ “Proposal of the Physicians' Working Group for Single-Payer National Health Insurance,” *Journal of the American Medicare Association (JAMA)*, Aug 2003; 290: 798 - 805, <http://www.apha.org/journal/nation/singlepayercover1003.htm>