

Paying More for Less: Means Testing Medicare

Medicare guarantees access to health care for older adults and people with disabilities. Together with the Affordable Care Act (ACA) and Medicaid, Medicare builds health security and well-being for Americans of all ages. Any changes to Medicare must aim for healthier people, better care, and smarter spending—**not paying more for less.**

Some policymakers support “means testing” the Medicare program—that is, making higher income people pay more or get less—by raising premiums or cutting benefits for people above a certain income level. Such proposals not only threaten to undermine the Medicare guarantee—that those who contributed to the system will have access to high quality health care as they get older—but also fail to recognize that older adults with higher incomes already pay more for Medicare during their working lives and/or after retirement. Instead of looking to make some people pay more for their earned Medicare benefits, policymakers must focus on bringing down costs for all beneficiaries.

Higher Income Beneficiaries Already Pay More for Medicare

- Medicare has always had means-tested features and has gradually added more over time.ⁱ
- The Medicare program has two separate trust funds—the Hospital Insurance (HI) Trust Fund for Part A and the Supplementary Medical Insurance (SMI) Trust Fund for Parts B and D. Both trust funds are structured in ways that ensure higher-income people with Medicare pay more for their Medicare benefits than lower-income people.

HI Trust Fund for Part A (Inpatient/Hospital Coverage)

- The HI Trust Fund is funded primarily by a dedicated payroll tax of 2.9% on covered earnings, split equally between employers and employees. Since 1994, the HI payroll tax has been levied without a cap. This means that unlike Social Security taxes—which are collected on annual wages up to a maximum amount (\$128,400 in 2018)—there is no upper limit on wages subject to Medicare payroll taxes.ⁱⁱ The more someone earns, the more they pay into Medicare.
- Some high-income earners pay even more. Since 2013, an additional HI payroll tax of 0.9% has been imposed on individual earnings over \$200,000 (\$250,000 for a couple). Many of these taxpayers also pay an additional Medicare contribution of 3.8% on unearned income, such as dividends and capital gains.ⁱⁱⁱ

People with Medicare: Just the Facts

Most people with Medicare cannot afford to pay more. In 2016, half of all Medicare beneficiaries had incomes below **\$26,200** and one quarter had incomes below **\$15,250**.

People of color live on even less. The median income for black beneficiaries is **\$17,350 per year** and just **\$13,650** for Hispanic beneficiaries.

Older people of color are more likely to live in poverty. The poverty rate is **18%** for black adults over 65 and **20%** for Hispanic adults compared to **7%** for white adults.

People with Medicare already pay a significant amount towards health care. In 2016, they paid **14%** of household expenses towards health care costs, more than double that of non-Medicare households (**6%**).

SMI Trust Fund for Part B (Outpatient/Medical Coverage) and Part D (Prescription Drug Coverage)

- Unlike the HI portion of Medicare, the SMI program was not intended to be supported through dedicated sources of income. Instead, it relies primarily on general taxes and beneficiary premiums as revenue sources.
- Approximately 75% of SMI is financed by general revenues, which are derived from personal income taxes. Since the personal income tax is progressive, people with higher incomes pay a larger share of their income in taxes for SMI.
- The remaining 25% of SMI is largely financed by beneficiary premiums. Through the Income-Related Monthly Adjustment Amount (IRMAA), higher-income enrollees pay higher premiums to cover a higher percentage of part B and Part D costs:
 - Since 2007, high-income beneficiaries have paid higher Part B premiums. In 2018, beneficiaries subject to IRMAA—those with annual incomes above \$85,000 (\$170,000 for couples)—paid the standard Part B monthly premium (\$134) as well as an income-related surcharge that ranged from \$53.50 to \$294.60 a month.
 - Since 2011, high-income beneficiaries have also paid more for their Medicare prescription drug coverage. The IRMAA thresholds for Part D are the same as for Part B, but the surcharge is lower, ranging from \$13.00 to \$74.80 a month in 2018.
 - Beginning in 2019, certain high-income Medicare beneficiaries will pay even more for their Part B and Part D coverage. The *Bipartisan Budget Act of 2018* increased the income-related surcharge for individuals with annual incomes over \$500,000 (\$750,000 for couples) to 85% of program costs, up from 80% today.

Further Means Testing would Further Undermine Medicare

- Recent proposals to further means test Medicare would do so by increasing the share of beneficiaries subject to IRMAA (e.g., lowering the IRMAA threshold) and/or by increasing the share of program costs higher-income beneficiaries would pay (e.g., raising income-related premium percentages).
- Such changes could cause higher-income, relatively healthy Medicare beneficiaries to self-insure—worsening Medicare’s risk pool and increasing health care costs for beneficiaries.^{iv}
- Most people with Medicare cannot afford to pay more for care. Beneficiaries with high needs—those with multiple chronic conditions or functional limitations that are either physical or cognitive in nature—are at particular financial risk. Nearly one-third of Medicare beneficiaries with three or more chronic conditions and 38% of beneficiaries with physical and/or cognitive limitations spend 20% or more of their annual incomes on premiums and medical care.^v

ⁱVan de Water, Paul, *Medicare is Already Means Tested* (May 19, 2011), <https://www.cbpp.org/blog/medicare-is-already-means-tested>

ⁱⁱ Internal Revenue Service, *Topic Number: 751—Social Security and Medicare Withholding Rates*, (last visited January 23, 2018), <https://www.irs.gov/taxtopics/tc751>

ⁱⁱⁱ Internal Revenue Service, *What is the Additional Medicare Tax?*, (last visited January 23, 2018), <https://www.irs.gov/newsroom/what-is-the-additional-medicare-tax>

^{iv} Cubanski, Juliette and Tricia Neuman, *Medicare’s Income-Related Premiums Under Current Law and Proposed Changes*, Kaiser Family Foundation (November 2, 2017), <https://www.kff.org/medicare/issue-brief/medicares-income-related-premiums-under-current-law-and-proposed-changes/>

^vShoen, Cathy, et al, *Medicare Beneficiaries’ High Out-of-Pocket Costs: Cost Burdens by Income and Health Status* (May 12, 2017)

<https://www.commonwealthfund.org/publications/issue-briefs/2017/may/medicare-beneficiaries-high-out-pocket-costs-cost-burdens-income>