

## THE BASICS

## Medicare Part B Premiums and Social Security Benefits

NOVEMBER 24, 2015

Medicare Part B, which covers physician services and other outpatient services, had expenditures of \$265.9 billion in 2014.<sup>1</sup> The Balanced Budget Act of 1997 required that Part B premium payments cover one-quarter of the projected per capita Part B costs.<sup>2</sup> The remaining three-quarters of funding for Part B comes from general revenues. To determine the change in the Part B premium necessary to comply with the 25 percent premium funding requirement, the Centers for Medicare & Medicaid Services (CMS) projects Part B costs for the next year, using the previous year's costs and modeling the effect of factors that are likely to change spending. Starting in 2007, premiums for Part B have varied, based on beneficiaries' modified adjusted gross income<sup>3</sup> as reported on their federal tax returns.<sup>4</sup> CMS announces the final standard and income-related Part B premiums for the year near the end of the preceding calendar year.

Medicare beneficiaries enrolled in Part B pay the applicable premium each month to maintain their voluntary Part B coverage. In 2014, there were 49.3 million enrollees in Part B. The premiums are deducted from Social Security payments each month for most beneficiaries, except those qualified beneficiaries whose premiums are paid by Medicaid programs or who do not participate in Social Security, for example, some federal and state retirees. Each year, Social Security recipients' payments are adjusted by a measure of inflation—the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W)—to maintain the purchasing power of their benefits. The adjustment, referred to as the cost-of-living adjustment, or COLA, is announced near the end of each calendar year for benefits starting January of the following year.<sup>5</sup>

## HOLD HARMLESS

To ensure that an increase in the Part B premium will not cause a beneficiary’s Social Security check to be less than it was in the prior year, the “hold-harmless” provision was implemented in 1987.<sup>6</sup> When the increase in the Part B premium exceeds the Social Security COLA adjustment, a beneficiary pays the increased premium only up to the amount of the COLA adjustment. Some beneficiaries are not held harmless, however, and must pay increased premiums to cover the amount that is not paid by those who are protected by the hold-harmless provision. To satisfy the requirement that one-quarter of the financing for Part B comes from beneficiary premiums, higher premiums are paid by new beneficiaries; beneficiaries who do not participate in Social Security; beneficiaries with higher incomes, who pay the income-related increase in Part B premiums; and low-income beneficiaries dually eligible for Medicare and Medicaid, on whose behalf Medicaid pays the full part B premium.

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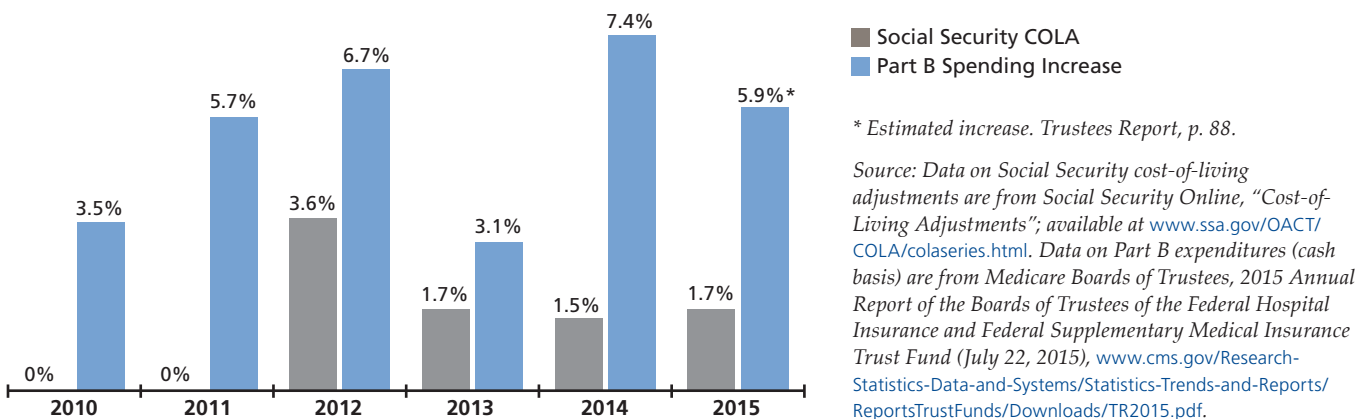
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## Social Security and Premium Increases

The rate of growth of Medicare Part B premiums has been greater than the increase in Social Security benefits in recent years because Part B costs (and medical spending generally) have grown faster than the CPI-W. Between 2010 and 2014, Part B spending grew at an average annual rate of 5.3 percent; the projected growth rate for 2015 is 5.9 percent.<sup>7</sup> During the same period, Social Security COLAs have ranged from a low of zero to a high of 3.6 percent, as shown in **FIGURE 1**.<sup>8</sup> However, even when the rate of

**FIGURE 1: Social Security Cost-of-Living Adjustments (COLAs) and Year-to-Year Medicare Part B Spending Increases, 2010–2015**



premium growth is greater than the COLA, the hold-harmless provision is not triggered in most years for most beneficiaries, because the COLA increase is greater in dollars than the Part B premium increase. The hold-harmless provision is triggered first for beneficiaries who have relatively lower incomes (but are not dually eligible), who will have a larger share of their Social Security payments taken up by a Part B premium increase.

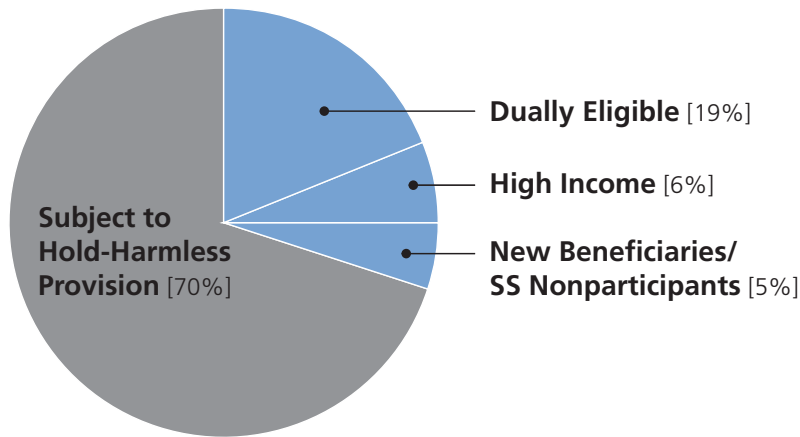
In 2010 more beneficiaries fell within the hold-harmless protection than ever before, because Social Security beneficiaries received a zero cost-of-living adjustment for the first time in 35 years. This zero increase in the COLA meant that any increase in the Part B premium would diminish Social Security income in dollar terms. As a result, all beneficiaries who were eligible to be held harmless paid the same premium as they did in the previous year. In 2010 about three-quarters of Medicare part B enrollees paid \$96.40 per month for the second year in a row. The remaining beneficiaries paid a higher premium that ranged from \$110.50 to \$353.60.<sup>9</sup> The standard \$110.50 premium paid by those who were not held harmless in 2010 was approximately \$8 more per beneficiary per month, or roughly \$96 per year, than it would have been had all beneficiaries borne the premium increase. Social security beneficiaries also received no COLA in 2011, resulting in another year for which most beneficiaries were held harmless.

## 2016 PREMIUMS

On October 15, 2015, the Social Security Administration (SSA) announced there would be no COLA for 2016. The Medicare trustees anticipated this action and published Part B premium estimates in their July 2015 report that applied the hold-harmless provision. The estimate for the Part B premium for those beneficiaries not held harmless was \$159.30 per month, a 52 percent increase over the 2015 standard premium of \$104.90 per month. The report stated that premiums for those not held harmless would have to be raised “substantially to offset premiums foregone due to the hold-harmless provision, to prevent asset exhaustion, and to maintain a contingency reserve that accommodates normal financial variation.”<sup>10</sup> The hold-harmless provision will not apply to about 30 percent of beneficiaries, including about 19 percent of beneficiaries who are duals, about 6 percent who are high-income beneficiaries, and about 5 percent who are new enrollees or who do not receive a Social Security check and pay their premiums directly (**FIGURE 2, NEXT PAGE**).

**FIGURE 2**

**Percentages of Medicare Beneficiaries Exempt from the Hold-Harmless Provision, 2016**



Source: Juliette Cubanski and Tricia Neuman, "What's in Store for Medicare's Part B Premiums and Deductible in 2016, and Why?" Henry J. Kaiser Family Foundation, Issue Brief, November 11, 2015, p. 3, <http://kff.org/medicare/issue-brief/whats-in-store-for-medicares-part-b-premiums-and-deductible-in-2016-and-why>.

After considerable uproar over the projected premium increase for those not held harmless, Congress changed how the Part B premium is calculated for 2016 with a provision in the Bipartisan Budget Act of 2015 (P. L. 114-74), signed into law on November 2, 2015. The new calculation reduces the Part B premium for those not held harmless from the projected \$159.30 to \$121.80 per month, which includes a \$3 "repayment amount" that will be added to premiums over time. For beneficiaries protected by the hold-harmless provision, the standard Part B premium will remain unchanged at \$104.90.

To cover the \$7.4 billion cost of the reduced premiums, general revenues will be transferred to the SMI (Supplementary Medical Insurance) Trust Fund, and the repayment amount will take effect in 2016 for those not held harmless. In 2017—and until the total cost is repaid—the repayment surcharge will be added to the premium paid by all Part B enrollees not protected by the hold-harmless provision. In years when there is a Social Security COLA, the majority of Part B enrollees will pay the surcharge.<sup>11</sup> Beneficiaries who pay an income-related premium will pay a slightly higher repayment amount.

**ENDNOTES**

1. Medicare Boards of Trustees, *2015 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Fund* (July 22, 2015), p. 11, [www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2015.pdf](http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2015.pdf).

2. Patricia A. Davis, "Medicare: Part B Premiums," Congressional Research Service Report R40082, March 12, 2014.
3. Modified adjusted gross income is adjusted gross income plus tax-exempt interest income, income from U.S. savings bonds used to pay higher education tuition and fees, foreign earned income, and income from Guam, American Samoa, Northern Mariana Islands, and Puerto Rico.
4. Social Security Act, section 1839(f).
5. Since 1984, Social Security cost-of-living adjustments (COLAs) have been based on increases in the Consumer Price Index for Urban Wage Earners and Clerical Workers, or CPI-W, from the third quarter of the prior year to the corresponding quarter of the current year in which the COLA became effective. See Social Security (SS) Online, "Cost-of-Living Adjustments," [www.ssa.gov/OACT/COLA/colaseries.html](http://www.ssa.gov/OACT/COLA/colaseries.html).
6. Jim Hahn and Alison M. Shelton, "The Effect of No Social Security COLA on Medicare Part B Premiums," CRS Report R40561, January 20, 2010. See also Davis, "Medicare: Part B Premiums."
7. Medicare Boards of Trustees, *2015 Annual Report of the Boards of Trustees*, p. 88.
8. SS Online, "Cost-of-Living Adjustments."
9. Beneficiaries that do not sign up for Part B when they are first eligible may have to pay a late enrollment penalty for as long they are enrolled in Medicare. The monthly premium for Part B may go up 10 percent for each 12-month period that a person was eligible but not enrolled in Part B.
10. Medicare Boards of Trustees, *2015 Annual Report of the Boards of Trustees*, p. 32.
11. Juliette Cubanski and Tricia Neuman, "What's in Store for Medicare's Part B Premiums and Deductible in 2016, and Why?" Henry J. Kaiser Family Foundation, Issue Brief, November 11, 2015, pp. 7-8, <http://kff.org/medicare/issue-brief/whats-in-store-for-medicares-part-b-premiums-and-deductible-in-2016-and-why>.