Medicare (Title XVIII of the Social Security Act) is the federal health insurance program administered by the Centers for Medicare & Medicaid Services for Americans aged 65 and older and for younger adults with permanent disabilities and persons of any age with end-stage renal disease. Medicare consists of four parts:

- **Part A**, the Hospital Insurance program, pays for hospital stays, skilled nursing facility care, hospice, and some home health care.

- **Part B**, the Supplementary Medical Insurance program, pays for physician services, laboratory and blood tests, wheelchairs and other medical equipment, outpatient hospital services, some home health care, and other services.

- **Part C**, known as Medicare Advantage, covers Part A and B services and most often prescription drugs for beneficiaries who enroll in private health insurance plans. MA plans are projected to enroll 32.5 percent of beneficiaries in 2016.1

- **Part D** provides prescription drug coverage through private drug plans.

Since Medicare began in 1965, the number of people enrolled in the program has more than doubled; over 57.4 million Americans are projected to be covered in 2016.2 Medicare spending is expected to total about $688 billion in 2016, according to the Medicare Trustees.3

**WHO IS ELIGIBLE?**

Individuals who receive Social Security cash benefits on the basis of age or disability are automatically entitled to Medicare Part A benefits. Others may pay a monthly premium to enroll.
Part B enrollment is voluntary, and about 91 percent of those eligible do enroll. Beneficiaries must pay a monthly premium ($104.90 in 2016; more for beneficiaries with incomes over $85,000 for a single person and $170,000 for a couple) for Part B coverage.

Individuals eligible for Part A or enrolled in Part B may voluntarily enroll in Part D. Beneficiaries enrolled in Part D pay a monthly premium, the amount of which varies depending on the Part D plan chosen, and more for beneficiaries with higher incomes.

- **At age 65**, individuals become eligible if they or their spouse paid Social Security taxes for at least 40 calendar-year quarters (or about 10 years of work) or if they qualify for Railroad Retirement Benefits. In 2014, 45 million beneficiaries aged 65 and older participated in Medicare.

- Individuals **under age 65** can become eligible for Medicare if they received Social Security Disability Insurance (SSDI) payments for at least 24 months. In most cases, to qualify for SSDI, an applicant’s medical
condition must be evaluated and determined to be a total and permanent
disability as defined by the Social Security Administration. In addition to
workers who are disabled, Medicare also covers certain disabled widows
and widowers and disabled adult children of retired, deceased, or disabled
workers. In 2014, 9 million beneficiaries qualified through disability.7

- Individuals under age 65 with end-stage renal disease are eligible for
Medicare if they or their spouse paid into the Social Security system for
at least 40 quarters or if they qualify for Railroad Retirement Benefits.
About 273,000 persons under age 65 with this disease were enrolled in
Medicare in 2013.8

WHAT ARE THE COST-SHARING REQUIREMENTS
FOR BENEFICIARIES?

Beneficiaries are responsible for cost-sharing requirements, including
deductibles, coinsurance, and copayments on most services. For example,
in 2016, beneficiaries pay a $1,288 inpatient hospital deductible and a $166
annual deductible for Part B–covered services.9

Under Medicare Advantage, private plans must cover both Part A and B
services. The cost-sharing requirements may differ as long as the average
projected liability per person is no greater than under the traditional
program. Beneficiaries who enroll in Medicare Advantage may also
receive some benefits and services not covered by traditional Medicare.

HOW IS MEDICARE FINANCED?

Part A is financed primarily through payroll taxes; in 2016, employees
and employers each pay 1.45 percent of wage earnings (self-employed
individuals pay 2.9 percent). High-income workers pay an additional 0.9
percent of their earnings over a threshold ($200,000 for single taxpayers
and $250,000 for married couples).10 Revenue from the payroll tax is held
in the Hospital Insurance Trust Fund and is used to pay Part A benefits.

Part B is financed by beneficiary premiums and by federal general
revenues. Premiums collected from beneficiaries cover about 25 percent
of total annual costs for Part B services.

Part D is financed through general revenues, premiums paid by Part D
enrollees, and state contributions to Medicare drug costs.
ENDNOTES


