Treasury Loan Limits Medicare Part B Premium Increase

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Beneficiaries need to repay Treasury loan, and underlying problem likely to persist.

Congress solved a lot of problems with its **Bipartisan Budget Act of 2015**. It avoided a standoff over the budget and the debt ceiling, provided breathing room for the Social Security Disability Insurance program, and eliminated profitable Social Security claiming strategies. It also headed off an immediate dramatic increase in Medicare Part B premiums facing about 30 percent of beneficiaries, but it didn't really solve the underlying problem.

Typically, the Medicare Part B premium is increased each year in line with Part B per capita expenditures. In the absence of any complicating factors, the premium would have increased from $104.90 in 2015 to $120.70 for 2016, as estimated in the 2015 *Medicare Trustees Report* (released this past summer). The problem is that the law contains a hold-harmless provision that limits the dollar increase in the premium to the dollar increase in an individual's Social Security benefit. Since Social Security beneficiaries **did not receive a cost-of-living adjustment** (COLA) for 2016, this provision precludes any increase in Medicare premiums.

This provision, however, applies to only 70 percent of Part B enrollees. The 30 percent not eligible for the hold-harmless provision include new enrollees during the year; enrollees who do not receive a Social Security benefit check; enrollees with high incomes who are subject to the income-related premium adjustment; and dual Medicare-Medicaid beneficiaries, whose full premiums are paid by state Medicaid programs.

According to current law, Part B premiums for other beneficiaries must be raised enough to offset premiums foregone due to the hold-harmless provision. Under the intermediate economic assumptions, the estimated monthly premium in 2016 for these other beneficiaries would have risen from $104.90 to $159.30 – a 52-percent increase. Higher income participants would then have paid multiples of $159.30 depending on their income level. For example, each member of a married couple with household income between $170,000 and $214,000 would have paid a Part B premium in 2016 of $223. Per person premiums would have topped out at $509.80 for couples with more than $428,000 in income.

The budget deal reduces the rate of increase through a loan from the Treasury to the Supplementary Medical Insurance (SMI) Trust Fund, but requires the affected individuals to pay back that loan over time. Specifically, seniors not held harmless will pay a base premium of $118.80 a month in 2016 – essentially the amount the Part B premium would have been for all beneficiaries had the hold harmless provision not applied. The difference between $118.80 and $159.30 would be covered by the Treasury loan. To repay the loan, the affected seniors will pay an additional $3 dollars per month, beginning in 2016, until the loan is repaid. With this additional charge, **the full base premium for 2016 is $121.80**. Medicare beneficiaries who currently pay higher income-related premiums would pay more than $3 per month toward repaying the loan.

If Social Security beneficiaries do not receive a COLA in 2017, the same procedure will take effect again. But the legislation explicitly denies the Secretary of Health and Human Services the ability to use the fix after 2017. In short, the budget legislation avoided an immediate problem in 2016 but, if we are entering an era of persistent low COLAs and high health care costs, we need a more permanent solution.