

## Means Testing, Medicare Part B

Letter from a correspondent; response with article from [www.ncpssm.org](http://www.ncpssm.org), the National Committee to Preserve Social Security and Medicare, and a letter and comment from our local Social Security expert, Peter d'Anna, and a letter he wrote to Dan Lungren (no reply, of course!)

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Subject: Medicare means testing???

Hi Margie,

One of my DWK women called me yesterday to say that Medicare will begin means testing in 2007--is this true???

Peace,

Helen

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Hi Helen, I am afraid your correspondent is correct; the means testing refers to Medicare Part B and is documented below. This administration is coming back after Social Security as well as Medicare, though they are sneakier than before. The article is from [www.ncpssm.org](http://www.ncpssm.org), the National Committee to Preserve Social Security and Medicare, which works indefatigably to protect our beautiful Social Security and Medicare.

Since I met with you and your organization last Spring, I have adjusted my presentation a bit to further emphasize the current Part D situation and call for political activism. This Bill was a disastrous legislative solution to a real problem, and the solution will have to be legislative as well. Senior Citizens in particular need to be screaming; hence the Gray Panthers roar!

We are going to have a conference in November which will be geared towards increasing activism, particularly among seniors but not limited to them. It is discouraging that there aren't more people in the streets, TV, radio etc. and we are working on this.

Maybe this might be a time to start moving some of your activists into a Gray Panthers chapter? I can come down again at any time.

I am also forwarding this to Peter d'Anna, our most active and articulate advocate for Social Security (after many years working for them). I am willing to bet he has great information and perhaps suggestions for further action!

[http://www.ncpssm.org/news/archive/vp\\_meanstesting/](http://www.ncpssm.org/news/archive/vp_meanstesting/)

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## Means-Testing of the Medicare Part B Premium

The Medicare Modernization Act of 2003 is known for establishing Medicare Part D, a prescription drug benefit managed by private insurance and drug companies. However, the MMA also made far-reaching changes to other parts of Medicare that are not as well known or understood. These changes will have dramatic long-term impacts on how the program operates, and on its relationship to the millions of seniors who depend on the universal, affordable health insurance coverage Medicare provides. As one example, for the first time in the program's history, Medicare Part B premiums will be subject to means testing beginning next year. Over time, linking premium levels to beneficiaries' incomes erodes the social insurance nature of the Medicare program, resulting in increased costs for all seniors.

### Background

Beginning in 2007, an estimated one and a half to two million Medicare Part B beneficiaries will be forced to pay significantly higher premiums than other seniors. This change is the direct result of a provision in the Medicare Modernization Act of 2003 (MMA), which established the Part D prescription drug benefit, to means-test Medicare Part B. Under previous law, all Medicare beneficiaries were required to pay a premium equal to about 25 percent of the Part B program's total costs. The remaining 75 percent of program costs have been financed through general revenues. The MMA, however, radically altered this formula by linking premium amounts to income. As a result, wealthier seniors will begin paying disproportionately higher premiums than other beneficiaries on January 1, 2007. When fully phased in three years later, these increases will result in higher income seniors paying premiums ranging from 35 to 80 percent of the program's total cost, depending on their income levels. This translates into premiums that are double or triple the amount of the standard premium everyone else will be paying.

Monthly Medicare Part B premiums will be determined based on the income reported on previous tax returns . Seniors will not be required to file new paperwork to determine their Medicare Part B premium amount. Rather, the Social Security Administration (SSA) will automatically determine the amount of the Medicare Part B premium using tax records that were filed with the Internal Revenue Service two or three years previously. This means all seniors enrolled in Medicare Part B will have their income tax returns reviewed to determine whether they are above the income thresholds. This fall, seniors should receive a written notice from SSA explaining how much they will pay in monthly Part B premiums in 2007 based on this review of their income. The notice will also explain how to appeal SSA's determination. Seniors can also request a new determination if they believe their current income is lower than previously reported. In this instance, seniors must provide SSA with an updated tax return or with evidence that a major life-changing event significantly reduced their income (i.e., the death of a spouse, marriage, divorce, retirement, or the loss of pension income).

Higher-income seniors will be paying monthly Part B premiums that are double and triple the amount of the standard Part B premium. The federal government is phasing in the means-testing formula in 2007 and 2008. By 2009, the formula will be fully phased-in and higher-income beneficiaries will pay the full disproportionate share of Part B program costs. The chart below illustrates the soaring Part B premium amounts that higher-income seniors can expect to face in the near future.

Chart: Projected Monthly Part B Premium Amounts Based on Income

	Individuals with income of \$80,000 or less  Married couples with income of \$160,000 or less  <i>(25% of program costs)</i>	Individuals with income between \$80,000 - \$100,000  Married couples with income between \$160,000 - \$200,000  <i>(35% of program costs)</i>	Individuals with income between \$100,000 - \$150,000  Married couples with income between \$200,000 - \$300,000  <i>(50% of program costs)</i>	Individuals with income between \$150,000 - \$200,000  Married couples with income between \$300,000 - \$400,000  <i>(65% of program costs)</i>	Individuals with income above \$200,000  Married couples with income above \$400,000  <i>(80% of program costs)</i>
2007	\$98.20	\$111.16	\$130.61	\$150.05	\$169.49
2008	\$98.20	\$124.52	\$163.99	\$203.47	\$242.95
2009	\$98.30	\$137.62	\$196.60	\$255.58	\$314.56
2010	\$102.20	\$143.08	\$204.40	\$265.72	\$327.04
2011	\$105.90	\$148.26	\$211.80	\$275.34	\$338.88
2012	\$109.80	\$153.72	\$219.60	\$285.48	\$351.36

2013	\$113.90	\$159.46	\$227.80	\$296.14	\$364.48
2014	\$117.80	\$164.92	\$235.60	\$306.28	\$376.96
2015	\$122.40	\$171.36	\$244.80	\$318.24	\$391.68

*Source: NCPSSM calculation based on data from The Annual 2006 Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds .*

Note: Income thresholds will rise with the Consumer Price Index beginning in 2008.

## National Committee Position

**Means-testing undermines the social insurance nature of the Medicare program, raising costs for middle and lower-income seniors who are dependent on it.** Over the years, Medicare has developed a large risk pool by providing benefits that are equally available to all beneficiaries. These benefits have attracted all seniors regardless of age, health or income status. Means-testing will dismantle this successful risk pool by making the program increasingly unfair for wealthier beneficiaries—who often tend to be healthier and younger. Eventually, many higher-income beneficiaries will opt out of Part B because they find lower premiums in the private market. The exodus of wealthier seniors from the Medicare Part B program will increase overall costs and threaten public support for the program. Medicare was never intended to be a welfare program. Driving healthier, younger and higher-income seniors away from Medicare will change the program from one providing universal coverage to all beneficiaries to a welfare program with increasingly unsustainable costs.

**Means-testing raises premiums for those who have paid the most into the program.** By the time they retire, higher-income seniors have already paid a greater share of Medicare's cost compared to low- and middle-income seniors. For example, higher-income seniors contribute more in Medicare payroll taxes since there is no income cap, as there is in the Social Security program. Higher-income seniors also pay more income tax which helps to finance the majority of Part B and Part D costs. Finally, these seniors are subject to higher income taxes on their Social Security benefits, which are used to strengthen Medicare's Hospital Insurance trust fund.

### **The flawed means-testing formula could have harmful effects on seniors and their families.**

Implementation of the means-testing provision means higher-income seniors will pay more in Part B premiums regardless of their expenses. Seniors with identical incomes can have substantially different financial obligations. For example, some seniors may decide to keep working so that they can afford to purchase food and housing for multiple generations of family members, pay for high medical bills, or support a spouse with long-term care needs – costs which are irrelevant to the imposition of the higher premiums. Seniors with such obligations would certainly have difficulty paying overly-inflated Part B premiums.

**Means-testing could apply to middle-income seniors over time.** According to the MMA, seniors with incomes higher than \$80,000 in 2007 will be required to pay higher Part B premiums. Each year, that \$80,000 threshold is scheduled to rise with inflation. According to the Congressional Budget Office, means testing will hit 1.2 million seniors with higher premiums in 2007, and even with an adjustment for inflation, will affect at least 2.8 million – or six percent of current beneficiaries – by 2013. However, the President has proposed in his FY 2007 budget to eliminate this inflation-adjustment—meaning that over time, more and more middle-income seniors would be required to pay higher Part B premiums. A similar problem has occurred with the Alternative Minimum Tax (AMT). The AMT was originally designed to prevent high-income taxpayers from using loopholes to avoid paying their fair share of taxes. However, over time more middle-income workers have found themselves unfairly subject to the AMT because the income thresholds were never indexed.

In addition, it is not unreasonable to speculate that Congress set the income thresholds at such relatively high levels in order to minimize opposition to what would otherwise be considered a dramatic change in the program's nature. Because the number of Medicare beneficiaries with income levels above the means-testing thresholds represents a relatively small percentage of the overall population of beneficiaries, the provision as enacted does not raise much money. However, now that the structure of means-testing is in place, lowering the thresholds provides a relatively

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simple mechanism for raising funds, providing a great temptation for future Congresses to lower the point at which the income test begins, thereby affecting many more moderate-income seniors.

**Now that Medicare is means-tested, Social Security could be next.** Our country has begun a journey down a slippery slope designed to undermine the strength of our social insurance programs. Means-testing will transform both Social Security and Medicare from universal insurance programs into welfare programs with increasingly unsustainable costs. From a public policy standpoint, it is imperative that we remove the means-testing provisions from the Medicare program, while at the same time working to protect Social Security from the same fate.

*The National Committee is a nonprofit, nonpartisan organization that acts in the interests of its membership through advocacy, education, services, grassroots efforts and the leadership of the board of directors and professional staff. The work of the National Committee is directed toward developing a secure retirement for all Americans. [www.ncpssm.org](http://www.ncpssm.org)*

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**From Peter d'Anna: Margie et al: See my letter to Congressman Lungren below. He did not reply, which means we have to pound the "Constituent Service Reps "of our Congressional Reps even harder, until the Members feel the heat. Peter D.**

**Peter J. D'Anna – Area Representative, 916-283-6345 – [pdanna@surewest.net](mailto:pdanna@surewest.net)**

Representative Dan Lungren  
11246 Gold River Expressway Dr., Suite 101  
Gold River, CA 95670

April 4, 2006

Dear Congressman Lungren:

I am writing to endorse pending legislation that eliminates the means-testing of the Medicare Part B premium. The Honorable Nita Lowey (D-NY18) is proposing amendments to the Medicare Modernization Act to deal with the lack of an inflation adjustment mechanism in the famously flawed Medicare Prescription Drug Law. We urge you to support Congresswoman Lowey in this effort.

Beginning next year, America's seniors will be subject to a harmful provision in the prescription drug law that dramatically changes the amount of the Medicare Part B premium. As you know, the Part B premium is currently structured to finance 25 percent of total program costs with general revenues financing the remainder. The prescription drug law alters this financing structure by forcing Medicare beneficiaries with higher incomes to pay a disproportionately larger Part B premium. When fully phased in, seniors with incomes above \$80,000 (\$160,000 for couples) would see their Part B premium skyrocket and for many their premiums could even double or triple in price. The Deficit Reduction Act that was signed by the President earlier this year accelerated the means-testing of the Part B premium—meaning that higher-income seniors would be paying a much higher premium sooner than initially thought.

The President proposed another means-testing provision in his Fiscal Year 2007 Budget. His new proposal would eliminate the inflation-adjusted thresholds for the means-testing of Part B premium; ultimately subjecting more and more middle-income seniors to significantly higher premiums. One need only look at the current situation with the Alternative Minimum Tax to see a good example of what happens when provisions intended to impact only higher income beneficiaries are not indexed for inflation. Over time, they begin affecting the heart of the middle class.

The National Committee members in your district have long advocated that Medicare must be available to all Medicare beneficiaries, regardless of their income. Means-testing the Part B premium represents another attempt to undermine the fundamental social insurance principal that has made Medicare such a popular and effective

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program. The unprecedented rise in premiums for middle and high-income Americans would jeopardize the risk pool by making the program an unaffordable option to millions of seniors. Furthermore, upper-income seniors have already paid more into the Medicare program than lower-income seniors through higher Medicare payroll taxes and incomes taxes. They should not be required to also pay higher premiums in addition to their greater tax contributions.

**Yours truly,**

**Peter J. D'Anna**

**Area Representative, National Committee**

**To Preserve Social Security and Medicare**