

FEBRUARY 2012

## Income-Relating Medicare Part B and Part D Premiums Under Current Law and Recent Proposals: What are the Implications for Beneficiaries?

As policymakers consider ways to slow the growth in Medicare spending as part of broader efforts to reduce the federal debt or offset the cost of other spending priorities, some have proposed to increase beneficiary contributions through higher premiums.<sup>1</sup> Some proposals would increase Medicare premiums paid by *all* beneficiaries, while others would raise premiums only for beneficiaries with higher incomes.

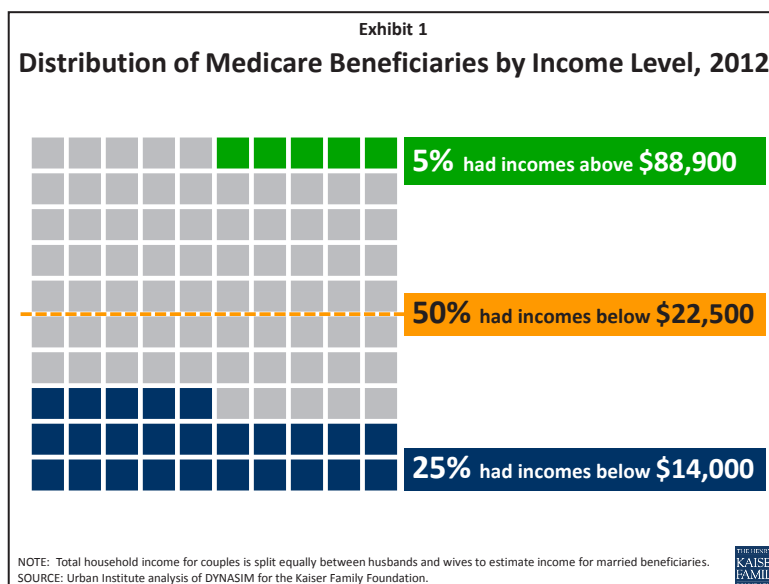
This issue brief explains provisions of current law that impose income-related premiums under Medicare Part B and Part D, describes recent proposals that would modify these current-law requirements, and analyzes the potential implications of these proposals for the Medicare population. The analysis incorporates enrollment estimates released by the Centers for Medicare & Medicaid Services Office of the Actuary (OACT) and estimates and projections from the DYNASIM microsimulation model developed by researchers at the Urban Institute (more detail about the methodology is provided on page 10).<sup>2</sup>

### Income-Related Medicare Premiums Under Current Law

#### Part B Premiums

Beneficiaries enrolled in Part B are generally required to pay a monthly premium (\$99.90 in 2012). Medicare Part B premiums are calculated as a share of Part B program costs. For most beneficiaries, Part B premiums are set to equal 25 percent of the projected annual Part B expenditures per enrollee ages 65 and over and the remaining 75 percent of Part B program costs is funded by general revenues.<sup>3</sup> Until 2007, all Medicare beneficiaries enrolled in Part B were subject to the same monthly Part B premium.

The Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003 included a provision that required Medicare beneficiaries with relatively high incomes to pay a greater share of Part B costs, beginning in 2007. The distribution of income among Medicare beneficiaries is highly skewed, with half estimated to have income of about \$22,500 or less in 2012 and the top 5 percent having income of \$88,900 or more (**Exhibit 1**).<sup>4</sup> The MMA indexed the income thresholds to increase annually with the rate of inflation (CPI-U), so that about 5 percent of all Medicare beneficiaries



would pay the higher, income-related premium each year. According to OACT, the share of Part B enrollees paying the income-related premium was 4.2 percent in 2007, 4.8 percent in 2008, 5.2 percent in 2009, 4.4 percent in 2010, and 3.5 percent in 2011.<sup>5</sup>

Beneficiaries are required to pay the higher Part B premium in 2012 if their income is equal to or greater than \$85,000 for an individual and \$170,000 for a couple. Part B premiums for beneficiaries with incomes above the threshold range from 35 percent to 80 percent of Part B program costs, depending on their income.

The Patient Protection and Affordable Care Act (ACA) of 2010 modified current law related to the Part B income-related premium.<sup>6</sup> The law imposed a freeze on the income thresholds that were in place in 2010 from 2011 through 2019, rather than allowing the thresholds to rise with inflation. This provision will increase the number and share of beneficiaries who will pay the higher income-related Part B premium over these years.<sup>7</sup> In 2020 and subsequent years, the income thresholds will once again be indexed to inflation as if they had not been frozen between 2011 and 2019.

Under current law:

- In 2012, 5.1 percent of Part B enrollees (2.4 million beneficiaries) are estimated to pay the income-related Part B premium.
- The share of Medicare beneficiaries required to pay the income-related Part B premium is projected to rise from 5.1 percent in 2012 (2.4 million) to 9.7 percent in 2019 (5.5 million), before falling back to 6.6 percent in 2021 (3.8 million) after the income thresholds are once again adjusted for inflation in 2020 and as if they had not been frozen at 2010 levels in 2011 (**Table 1**).
- In 2012, the income-related Part B premium ranges from \$139.90 per month (for individuals with incomes between \$85,001 and \$107,000, and couples with incomes between \$170,001 and \$214,000) to \$319.70 per month (for individuals with incomes above \$214,000, and couples with incomes above \$428,000), depending on beneficiaries' income.<sup>8</sup> By 2020, the HHS Office of the Actuary projects income-related Part B premium amounts will range from \$222.04 to \$507.52 per month, assuming no change in current law (**Table 2**).<sup>9</sup>

### **Part D Premiums**

Higher-income Medicare beneficiaries enrolled in Part D prescription drug plans are also required to pay higher Part D premiums as a result of changes made in the ACA. In the years after the Medicare Part D benefit was implemented in 2006, but prior to 2011, premiums varied by drug plan but all enrollees in the same plan within the same region paid the same premium.<sup>10</sup> The monthly premium paid by enrollees was set to cover 25.5 percent of the national average cost of the standard drug benefit, based on bids submitted by Part D plans for their expected benefit payments. Medicare subsidized the remaining 74.5 percent of the Part D premium.

The ACA modified these features by establishing an income-related premium for Part D coverage, which took effect in 2011. The Part D income-related monthly adjustment amount (IRMAA) is calculated as a percent of the national average cost of the standard drug benefit, using the same surcharge percentages (35 percent to 80 percent) and income thresholds (\$85,000 for an individual and \$170,000 for a couple) as for Part B. Similar to the income thresholds for Part B premiums, the income thresholds for the Part D income-related premium are fixed until 2019; that is, they are not indexed to increase annually.<sup>11</sup>

Unlike Part B, actual premium amounts paid by higher-income Part D enrollees depend on the particular plan they select and the premium charged for that plan. The national average monthly Part D premium in 2012, according to the Centers for Medicare & Medicaid Services (CMS), is \$31.08, although actual monthly premiums vary across plans and regions (from a low of \$15.10 to a high of \$131.80 in 2012).<sup>12</sup> The Part D income-related monthly adjustment amount is collected separately from the premium that higher-income enrollees pay to their Part D plan. The income-related adjustment amount is withheld from the enrollee's Social Security or Railroad Retirement benefit payments in the same manner that the Part B premium is withheld.<sup>13</sup>

Under current law<sup>14</sup>:

- Three percent of all Part D enrollees<sup>15</sup> (1.2 million beneficiaries) are subject to the income-related Part D premium in 2012.
- By 2019, approximately 8 percent of all Part D enrollees (3.4 million beneficiaries) are projected to be subject to the income-related Part D premium. If the income thresholds are adjusted for inflation in 2020 and beyond, as scheduled to occur under current law, the share of Part D enrollees paying the income-related Part D premium is estimated to be 6 percent in 2021 (2.8 million enrollees).
- Based on the 2012 national average Part D premium of \$31.08 and 2012 income-related monthly adjustment amounts ranging from \$11.60 to \$66.40,<sup>16</sup> the income-related Part D premiums range from \$43 to \$98 per month in 2012. Based on projections, the income-related Part D premium is estimated to range from \$75 to \$172 per month in 2020, assuming a national average premium of \$55 per month that year and no change in current law (**Table 3**).<sup>17</sup>

Fewer beneficiaries pay the income-related Part D premium than the income-related Part B premium because fewer beneficiaries are enrolled in Part D plans than in Part B. Also, a smaller number of Part D enrollees have relatively high incomes because higher-income Medicare beneficiaries are more likely to receive prescription drug coverage from an employer-sponsored retiree health plan.<sup>18,19</sup>

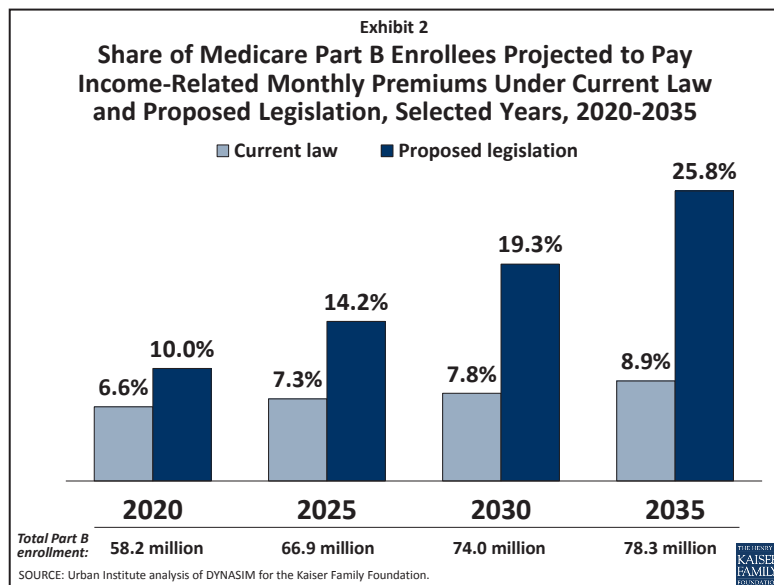
### Recent Proposals to Modify the Current Income-Related Premiums

Modifications to Medicare's current income-related premiums have been proposed both as part of the Obama Administration's broader set of recommendations to the Joint Select Committee on Deficit Reduction, and as part of the House Republican's proposed legislation to extend the Social Security payroll tax reduction for 2012 (along with other provisions).<sup>20,21</sup> Under these proposals, the current freeze on income thresholds enacted in the ACA would be extended beyond 2019 until such time when 25 percent of beneficiaries pay an income-related premium. The House Republican bill would also reduce the income-related threshold for individuals from \$85,000 to \$80,000 and the threshold for couples from \$170,000 to \$160,000. In addition, these proposals would increase the surcharge percentages for the income-related Part B and Part D premiums by 15 percent, beginning in 2017, such that beneficiaries subject to the income-related premium would pay premiums ranging from 40.25 percent to a cap of 90 percent of Part B program costs, depending on their income.

### How many beneficiaries would be subject to higher premiums, and by when?

With the income-related premium thresholds held constant at their current levels beyond 2019, it is estimated that by 2035, just over one-quarter of all Medicare beneficiaries enrolled in Part B (20.2 million beneficiaries) will be required to pay the income-related Part B premium, because their incomes are projected to exceed \$85,000 per individual or \$170,000 per couple that year (Exhibit 2).<sup>22</sup>

The income thresholds for the higher-income Part B and D premiums in 2035 are equivalent to about \$47,000 for individuals and \$94,000 for couples in today's inflation-adjusted dollars. In other words, if the proposal to have 25 percent of beneficiaries pay the income-related premium was implemented in 2012, rather than reached gradually by holding the income thresholds constant over time, beneficiaries with incomes at or above \$47,000 for individuals and \$94,000 for couples would be paying higher income-related Medicare premiums this year.



By design, these proposals would gradually increase the number and share of Medicare beneficiaries paying an income-related premium. It is estimated that:

- In 2020, 10.0 percent of all Medicare beneficiaries (5.8 million) would pay an income-related premium, compared to 6.6 percent (3.8 million) under current law – an increase of 2.0 million beneficiaries who would be paying higher premiums that year.
- In 2025, 14.2 percent of all Medicare beneficiaries (9.5 million) would pay an income-related premium, compared to 7.3 percent (4.9 million) under current law – an increase of 4.6 million beneficiaries who would be paying higher premiums that year.
- In 2030, 19.3 percent of all Medicare beneficiaries (14.3 million) would pay an income-related premium, compared to 7.8 percent (5.8 million) under current law – an increase of 8.5 million beneficiaries who would be paying higher premiums that year.
- In 2035, 25.8 percent of all Medicare beneficiaries (20.2 million) would pay an income-related premium, compared to 8.9 percent (7.0 million) under current law – an increase of 13.2 million beneficiaries who would be paying higher premiums that year.

As might be expected, these findings are sensitive to assumptions about the future growth of the economy:

- If the economy grows at a more rapid rate than is currently projected under intermediate-cost assumptions, then one-quarter of beneficiaries would pay an income-related premium in 2032, three years sooner than projected under intermediate assumptions of economic growth.

- Conversely, if economic growth is slower than is currently projected under intermediate economic growth assumptions, it would take an additional two years – until 2037 – for 25 percent of beneficiaries to be paying the income-related premium.

***How much more would higher-income beneficiaries pay in premiums compared to what they will pay under current law?***

Under these proposals, beneficiaries subject to the income-related premium would be required to pay a larger share of the Part B and D premiums than they do under current law. Effective in 2017, the proposals would increase the 35 percent level to 40.25 percent, the 50 percent level to 57.5 percent, the 65 percent level to 74.75 percent, and the 80 percent level to 90 percent (**Tables 2/3**).

For example:

- Under current law, single Part B enrollees with income of \$86,000 in 2017 are estimated to pay \$186 per month, or 35 percent of program costs that year, based on current projections. Under the proposals, they would pay \$214, or 40.25 percent of program costs – an increase of \$28 per month, or \$336 for the year. Their Part D premium would increase from \$62 to \$72 per month – an increase of \$9 per month. Their combined Part B and Part D premium would increase from \$248 to \$285 per month – an increase of \$37 per month or \$447 for the year.
- A single individual with income of \$110,000 in 2017 who is enrolled in both Part B and Part D would pay around \$355 per month in combined premiums under current law projections (50 percent of both programs' costs that year). Under the proposals, they would pay 57.5 percent of costs, or nearly \$408 in monthly premiums for both programs – an increase of \$53 per month, or \$636 for the year.
- For a married couple with income of \$175,000 in 2017, where both spouses are enrolled in both Part B and Part D, they would pay 35 percent of program costs that year, or a total of more than \$496 in monthly Medicare Part B and Part D premiums for enrollment in both programs (\$248 each). Under the proposals they would pay 40.25 percent of program costs, or nearly \$571 per month combined. The combined premium increase for the couple would be more than \$74 per month, or nearly \$894 for the year.

In each of these examples, the increase in Medicare premiums amounts to less than 1 percent of annual (pretax) income in 2017.

## Conclusion

Some recent proposals to reduce the federal budget deficit have included recommendations to reduce the growth in Medicare spending by increasing beneficiaries' contributions towards their health care costs. These include proposals to increase the share of beneficiaries who would pay Medicare's Part B and Part D income-related premiums and/or increase the portion of program costs they would pay.

Part of the appeal of proposals that would require higher-income beneficiaries to pay a greater share of Medicare costs is that they would impose higher costs only on those beneficiaries who arguably have greater financial means to bear the additional expenses. In the context of current deficit discussions, some consider an approach that includes this type of progressive financing to be preferable to one that imposes higher premiums or cost sharing across the board, without regard to beneficiaries' incomes.

There is some concern, however, that the income thresholds used to trigger the imposition of higher premiums for higher-income Medicare beneficiaries (\$85,000/individual, \$170,000/couple) are substantially lower than the thresholds often used to define higher-income individuals in other policy discussions. For example, the ACA imposed higher Medicare Part A payroll taxes on individuals with income of \$200,000 and couples with income of \$250,000.

For beneficiaries with high incomes, the proposed increase in Medicare premiums might not be a problem. However, if the income thresholds are frozen over a longer period of time, then a growing share of elderly and disabled people who would not be considered high income by today's standards would face higher premiums, and as the income-related premium amounts increase over time, they would consume a larger share of income. In addition, there is some possibility that such proposals could lead some higher-income beneficiaries to drop out of Medicare Part B and instead self-insure, which could result in higher premiums for all others who remain on Medicare if the dropout group is large and relatively healthy.

Amid federal debt and deficit concerns and the instability of the nation's economy, policymakers are likely to wrestle with the challenge of shoring up the nation's fiscal health while at the same time being mindful of the financial vulnerability of many people on Medicare and the difficulty they may have paying for rising health care costs on limited budgets. Requiring higher-income beneficiaries to pay more might seem to be a reasonable approach to addressing fiscal concerns about Medicare. Yet given the relatively low incomes of most people on Medicare<sup>23</sup>, significant savings from such proposals are only possible by going relatively far down the income scale to reach a sizeable share of beneficiaries – at which point the affordability of these additional costs could be called into question.

*This brief was prepared by Juliette Cubanski, Tricia Neuman, and Gretchen Jacobson of the Kaiser Family Foundation, and Karen E. Smith of the Urban Institute.*

**TABLE 1**  
**Estimates of Medicare Beneficiaries Paying Income-Related Premiums**  
**Through 2035 Under Current Law and Proposed Legislation**

YEAR	Part B enrollment (in millions)	CURRENT LAW: Income thresholds frozen through 2019; indexing thereafter		PROPOSED LEGISLATION: Income thresholds frozen beyond 2019 until 25% of beneficiaries pay income-related premiums		Difference between current law and proposed legislation (in millions)
		Number of beneficiaries paying income-related premiums (in millions)	Percent of total Part B enrollment	Number of beneficiaries paying income-related premiums (in millions)	Percent of total Part B enrollment	
2012	46.4	2.4	5.1%	2.4	5.1%	--
2013	48.1	2.6	5.3%	2.6	5.3%	--
2014	49.5	3.0	6.1%	3.0	6.1%	--
2015	51.0	3.4	6.7%	3.4	6.7%	--
2016	52.3	3.7	7.1%	3.7	7.1%	--
2017	53.8	4.3	8.0%	4.3	8.0%	--
2018	55.1	4.8	8.7%	4.8	8.7%	--
2019	56.6	5.5	9.7%	5.5	9.7%	--
2020	58.2	3.8	6.6%	5.8	10.0%	2.0
2021	59.8	4.0	6.7%	6.6	11.1%	2.6
2022	61.6	4.3	6.9%	7.3	11.8%	3.0
2023	63.5	4.6	7.3%	8.2	12.9%	3.6
2024	65.0	4.6	7.1%	8.8	13.5%	4.2
2025	66.9	4.9	7.3%	9.5	14.2%	4.6
2026	68.3	5.0	7.3%	10.4	15.2%	5.4
2027	69.9	5.3	7.5%	11.2	16.0%	5.9
2028	71.3	5.2	7.3%	12.1	17.0%	6.9
2029	72.5	5.6	7.8%	13.4	18.4%	7.8
2030	74.0	5.8	7.8%	14.3	19.3%	8.5
2031	74.8	5.9	7.9%	15.5	20.7%	9.6
2032	75.9	6.0	7.9%	16.7	21.9%	10.7
2033	76.7	6.4	8.3%	17.5	22.8%	11.1
2034	77.7	6.6	8.5%	18.7	24.1%	12.1
2035	78.3	7.0	8.9%	20.2	25.8%	13.2

SOURCE: Urban Institute analysis of DYNASIM for the Kaiser Family Foundation.

**TABLE 2**  
**Estimates of Income-Related Medicare Part B Premiums Through 2020**  
**Under Current Law and Proposed 15% Increase**

<i>Income</i>							
	Ultimate percentage of program costs represented by premium						
	<i>Standard</i>	<i>Income-related</i>					
	25.0%	35.0%	50.0%	65.0%	80.0%		
<b>Singles</b>	\$85,000 or less	\$85,001-107,000	\$107,001-160,000	\$160,001-214,000	\$214,001 or more		
<b>Couples</b>	\$170,000 or less	\$170,001-214,000	\$214,001-320,000	\$320,001-428,000	\$428,001 or more		
<i>Historical Part B premium amounts under current law</i>							
Calendar year	Ultimate percentage of program costs represented by premium					Total per capita Part B costs	Annual growth rate
	<i>Standard</i>	<i>Income-related</i>					
	25.0%	35.0%	50.0%	65.0%	80.0%		
<b>2007</b>	\$93.50	\$105.80	\$124.40	\$142.90	\$161.40	\$374.00	
<b>2008</b>	\$96.40	\$122.20	\$160.90	\$199.70	\$238.40	\$385.60	3.1%
<b>2009</b>	\$96.40	\$134.90	\$192.70	\$250.50	\$308.30	\$385.60	0.0%
<b>2010</b>	\$110.50	\$154.70	\$221.00	\$287.30	\$353.60	\$442.00	14.6%
<b>2011</b>	\$115.40	\$161.50	\$230.70	\$299.90	\$369.10	\$461.60	4.40%
<b>2012</b>	\$99.90	\$139.90	\$199.800	\$259.70	\$319.70	\$399.60	-13.4%
<i>Part B premium amounts under current law intermediate estimates</i>							
Calendar year	Ultimate percentage of program costs represented by premium					Total per capita Part B costs	Annual growth rate
	<i>Standard</i>	<i>Income-related</i>					
	25.0%	35.0%	50.0%	65.0%	80.0%		
<b>2013</b>	\$110.50	\$154.70	\$221.00	\$287.30	\$353.60	\$442.00	10.6%
<b>2014</b>	\$115.80	\$162.12	\$231.60	\$301.08	\$370.56	\$463.20	4.8%
<b>2015</b>	\$120.80	\$169.12	\$241.60	\$314.08	\$386.56	\$483.20	4.3%
<b>2016</b>	\$126.00	\$176.40	\$252.00	\$327.60	\$403.20	\$504.00	4.3%
<b>2017</b>	\$132.70	\$185.78	\$265.40	\$345.02	\$424.64	\$530.80	5.3%
<b>2018</b>	\$140.30	\$196.42	\$280.60	\$364.78	\$448.96	\$561.20	5.7%
<b>2019</b>	\$148.40	\$207.76	\$296.80	\$385.84	\$474.88	\$593.60	5.8%
<b>2020</b>	\$158.60	\$222.04	\$317.20	\$412.36	\$507.52	\$634.40	6.9%
<i>Part B premium amounts under intermediate estimates with proposed 15% increase</i>							
Calendar year	Ultimate percentage of program costs represented by premium					Total per capita Part B costs	Annual growth rate
	<i>Standard</i>	<i>Income-related</i>					
	25.0%	40.25%	57.5%	74.75%	90.0%		
<b>2017</b>	\$132.70	\$213.65	\$305.21	\$396.77	\$477.72	\$530.80	5.3%
<b>2018</b>	\$140.30	\$225.88	\$322.69	\$419.50	\$505.08	\$561.20	5.7%
<b>2019</b>	\$148.40	\$238.92	\$341.32	\$443.72	\$534.24	\$593.60	5.8%
<b>2020</b>	\$158.60	\$255.35	\$364.78	\$474.21	\$570.96	\$634.40	6.9%
<i>Difference between current-law income-related Part B premium and proposed 15% increase</i>							
<b>2017</b>	\$0.00	\$27.87	\$39.81	\$51.75	\$53.08	--	--
<b>2018</b>	\$0.00	\$29.46	\$42.09	\$54.72	\$56.12	--	--
<b>2019</b>	\$0.00	\$31.16	\$44.52	\$57.88	\$59.36	--	--
<b>2020</b>	\$0.00	\$33.31	\$47.58	\$61.85	\$63.44	--	--

SOURCE: Kaiser Family Foundation analysis of current-law estimates from the 2011 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds and proposed changes based on the President's Plan for Economic Growth and Deficit Reduction and H.R. 3630, the "Middle Class Tax Relief and Job Creation Act of 2011," as introduced on December 9, 2011.



**TABLE 3**  
**Estimates of Income-Related Medicare Part D Premiums Through 2020**  
**Under Current Law and Proposed 15% Increase**

<i>Income</i>							
	Ultimate percentage of program costs represented by premium						
	<i>Standard</i>	<i>Income-related</i>					
	25.5%	35.0%	50.0%	65.0%	80.0%		
<b>Singles</b>	\$85,000 or less	\$85,001-107,000	\$107,001-160,000	\$160,001-214,000	\$214,001 or more		
<b>Couples</b>	\$170,000 or less	\$170,001-214,000	\$214,001-320,000	\$320,001-428,000	\$428,001 or more		
<i>Historical Part D premium amounts under current law</i>							
Calendar year	Ultimate percentage of program costs represented by premium					Total per capita Part D costs	Annual growth rate
	<i>Standard</i>	<i>Income-related</i>					
	25.5%	35.0%	50.0%	65.0%	80.0%		
<b>2007</b>	\$27.35	n/a	n/a	n/a	n/a	\$107.25	
<b>2008</b>	\$27.93	n/a	n/a	n/a	n/a	\$109.53	2.1%
<b>2009</b>	\$30.36	n/a	n/a	n/a	n/a	\$119.06	8.7%
<b>2010</b>	\$31.94	n/a	n/a	n/a	n/a	\$125.25	5.2%
<b>2011</b>	\$32.34	\$44.34	\$63.44	\$82.44	\$101.44	\$126.82	1.3%
<b>2012</b>	\$31.08	\$42.66	\$60.94	\$79.22	\$97.51	\$121.88	-3.9%
<i>Part D premium amounts under current law intermediate estimates</i>							
Calendar year	Ultimate percentage of program costs represented by premium					Total per capita Part D costs	Annual growth rate
	<i>Standard</i>	<i>Income-related</i>					
	25.5%	35.0%	50.0%	65.0%	80.0%		
<b>2013</b>	\$35.75	\$49.07	\$70.10	\$91.13	\$112.16	\$140.20	15.0%
<b>2014</b>	\$37.51	\$51.48	\$73.55	\$95.61	\$117.68	\$147.10	4.9%
<b>2015</b>	\$40.11	\$55.05	\$78.65	\$102.24	\$125.84	\$157.29	6.9%
<b>2016</b>	\$42.61	\$58.48	\$83.55	\$108.61	\$133.68	\$167.10	6.2%
<b>2017</b>	\$45.51	\$62.46	\$89.24	\$116.01	\$142.78	\$178.47	6.8%
<b>2018</b>	\$48.45	\$66.50	\$95.00	\$123.50	\$152.00	\$190.00	6.5%
<b>2019</b>	\$51.39	\$70.54	\$100.76	\$130.99	\$161.22	\$201.53	6.1%
<b>2020</b>	\$54.84	\$75.27	\$107.53	\$139.79	\$172.05	\$215.06	6.7%
<i>Part D premium amounts under intermediate estimates with proposed 15% increase</i>							
Calendar year	Ultimate percentage of program costs represented by premium					Total per capita Part D costs	Annual growth rate
	<i>Standard</i>	<i>Income-related</i>					
	25.5%	40.25%	57.5%	74.75%	90.0%		
<b>2017</b>	\$45.51	\$71.83	\$102.62	\$133.41	\$160.62	\$178.47	6.8%
<b>2018</b>	\$48.45	\$76.48	\$109.25	\$142.03	\$171.00	\$190.00	6.5%
<b>2019</b>	\$51.39	\$81.12	\$115.88	\$150.64	\$181.38	\$201.53	6.1%
<b>2020</b>	\$54.84	\$86.56	\$123.66	\$160.76	\$193.55	\$215.06	6.7%
<i>Difference between current-law income-related Part D premium and proposed 15% increase</i>							
<b>2017</b>	\$0.00	\$9.37	\$13.39	\$17.40	\$17.85	--	--
<b>2018</b>	\$0.00	\$9.98	\$14.25	\$18.53	\$19.00	--	--
<b>2019</b>	\$0.00	\$10.58	\$15.11	\$19.65	\$20.15	--	--
<b>2020</b>	\$0.00	\$11.29	\$16.13	\$20.97	\$21.51	--	--

SOURCE: Kaiser Family Foundation analysis of current-law estimates from the 2011 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds and proposed changes based on the President's Plan for Economic Growth and Deficit Reduction and H.R. 3630, the "Middle Class Tax Relief and Job Creation Act of 2011," as introduced on December 9, 2011.

## METHODOLOGY

The analysis of Medicare beneficiaries estimated to pay the income-related Part B premium under current and proposed law are based on the Urban Institute's Dynamic Simulation of Income Model (DYNASIM3). DYNASIM3 starts with a self-weighting sample of 103,072 individuals from the 1990 to 1993 panels of the Survey of Income and Program Participation (SIPP) and ages this starting sample in yearly increments to 2085 using parameters estimated from longitudinal data sources. The model integrates many important trends and differences among groups in life course processes, including birth, death, schooling, leaving home, first marriage, remarriage, divorce, disability, work, retirement, and earnings. Projections of fertility, disability, mortality, net immigration, employment, average earnings, and price changes are aligned to be consistent with 2011 OASDI Trustees projections, based on the intermediate demographic and economic assumptions (available at <http://www.ssa.gov/oact/tr/2011/trTOC.html>). For a fuller description of DYNASIM3, see Melissa M. Favreault and Karen E. Smith. 2004. "A Primer on the Dynamic Simulation of Income Model (DYNASIM3)." Discussion Paper, the Retirement Project at the Urban Institute.

The estimates of Medicare beneficiaries expected to pay the income-related Part D premium under current law are based on enrollment estimates from the Centers for Medicare & Medicaid Services Office of the Actuary (OACT) (December 2010). DYNASIM does not have the ability to separately identify Part D enrollees in order to derive estimates of Part D enrollees paying income-related premiums under current or proposed law.

While OACT has released estimates of actual and projected Part B and Part D enrollees paying income-related premiums under current law, OACT not released projections of how many Medicare beneficiaries would pay income-related premiums for Part B or Part D under the legislative proposals analyzed in this brief. DYNASIM produces estimates of enrollees paying income-related premiums for 2007-2019 that are very similar to, but not exactly the same as, what OACT has estimated under current law.

The sensitivity analysis of the projected year when one-quarter of Medicare Part B enrollees would be paying the income-related premium is based on DYNASIM projections using the low-cost and high-cost economic growth assumptions from the 2011 OASDI Trustees report. For the purpose of this sensitivity analysis, only the immigration and economic assumptions (consumer price index, average wage index, taxable payroll, gross domestic product, and compound interest rates) were modified; the fertility, mortality, disability, and employment assumptions were unchanged from the intermediate scenario. The low-cost scenario assumes low price and wage growth, but high immigration and interest rates. The high-cost scenario assumes high price and wage growth, but low immigration and interest rates.

## ENDNOTES

<sup>1</sup> For a summary of several recent major deficit reduction proposals, see Kaiser Family Foundation, “Comparison of Medicare Provisions in Deficit and Debt Reduction Proposals,” September 23, 2011 [<http://www.kff.org/medicare/8124.cfm>].

<sup>2</sup> Urban Institute analysis of DYNASIM3 for the Kaiser Family Foundation; Centers for Medicare & Medicaid Services Office of the Actuary, December 2010; Centers for Medicare & Medicaid Services, “Medicare Premiums, Deductibles for 2012,” October 27, 2011.

<sup>3</sup> For beneficiaries with low incomes, Medicaid pays the Part B premium on their behalf.

<sup>4</sup> Urban Institute tabulations of DYNASIM for the Kaiser Family Foundation. See also: Kaiser Family Foundation. *Projecting Income and Assets: What Might the Future Hold for the Next Generation of Medicare Beneficiaries?* June 2011 [<http://www.kff.org/medicare/8172.cfm>].

<sup>5</sup> Centers for Medicare & Medicaid Services Office of the Actuary, December 2010. The decline in the share of Part B enrollees paying the income-related premium in calendar years 2010 and 2011 is likely related to the economic downturn and an associated reduction in income among beneficiaries and the Worker, Retiree, and Employer Recovery Act of 2008 that waived required minimum distributions from certain retirement plans.

<sup>6</sup> The Patient Protection and Affordable Care Act (P.L. 111-148), as modified by the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152).

<sup>7</sup> The Congressional Budget Office estimated this provision in the ACA would generate savings to the federal government of \$25.0 billion from 2010 to 2019.

<sup>8</sup> Centers for Medicare & Medicaid Services, “Medicare Premiums, Deductibles for 2012,” October 27, 2011.

<sup>9</sup> Estimates are based on the 2011 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

<sup>10</sup> With the exception of beneficiaries receiving low-income subsidies, who pay no or low premiums, with subsidy levels set on a sliding scale.

<sup>11</sup> The Congressional Budget Office estimated this provision in the ACA would generate savings to the federal government of \$10.7 billion from 2010 to 2019.

<sup>12</sup> Kaiser Family Foundation, “Medicare Part D: A First Look at Part D Plan Offerings in 2012,” October 2011 [<http://www.kff.org/medicare/8245.cfm>].

<sup>13</sup> If the benefit payment is insufficient to allow the Part D-IRMAA withholding, or an individual is not receiving benefit payments from SSA, RRB, or OPM, the Part D-IRMAA will be collected directly from these beneficiaries. CMS has issued a proposed rule outlining the process for establishing and collecting the Part D IRMAA; see CMS, “Medicare Program; Proposed Changes to the Medicare Advantage and the Medicare Prescription Drug Benefit Programs for Contract Year 2012 and Other Proposed Changes,” November 10, 2010.

<sup>14</sup> Estimates of Part D enrollees paying income-related premiums are from the Centers for Medicare & Medicaid Services Office of the Actuary, December 2010.

<sup>15</sup> Excluding those who receive the Retiree Drug Subsidy (RDS).

<sup>16</sup> Centers for Medicare & Medicaid Services, “Annual Release of Part D National Average Bid Amount and other Part C & D Bid Related Information,” August 3, 2011.

<sup>17</sup> 2011 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

<sup>18</sup> OACT projects that the number of beneficiaries with the RDS will decline over time.

<sup>19</sup> Kaiser Family Foundation analysis of the CMS Medicare Current Beneficiary Survey 2006 Cost and Use file.

<sup>20</sup> Office of Management and Budget, “Living Within Our Means and Investing in the Future: The President’s Plan for Economic Growth and Deficit Reduction,” September 19, 2011

<sup>21</sup> H.R. 3630, “Middle Class Tax Relief and Job Creation Act of 2011,” as introduced on December 9, 2011 [[http://rules.house.gov/Media/file/PDF\\_112\\_1/legislativetext/HR\\_1209.pdf](http://rules.house.gov/Media/file/PDF_112_1/legislativetext/HR_1209.pdf)].

<sup>22</sup> While the House bill would reduce the initial high-income threshold from \$85,000 for singles and \$170,000 for couples to \$80,000 and \$160,000, respectively, we did not model the impact of setting the income-related thresholds at these lower amounts.

<sup>23</sup> Kaiser Family Foundation, “Projecting Income and Assets: What Might the Future Hold for the Next Generation of Medicare Beneficiaries?” June 2011, [<http://www.kff.org/medicare/8172.cfm>].

This publication (#8276) is available on the Kaiser Family Foundation’s website at [www.kff.org](http://www.kff.org).



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