Interactions Between the Social Security COLA and Medicare Part B Premiums

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Summary

On October 15, 2010, the Social Security Administration announced there will be no Social Security cost-of-living adjustment (COLA) in 2011. In addition, there was no Social Security COLA in 2010. The last positive Social Security COLA took effect in January 2009 and was 5.8% for all of 2009. Meanwhile, over the past five years, Medicare Part B program costs have increased an average of 8.3% per year and are expected to continue to grow. By statute, Part B premiums, which are automatically deducted from Social Security checks for those who receive Social Security, must cover 25% of projected Part B costs for aged beneficiaries. The Social Security Act includes a provision that holds most Social Security beneficiaries harmless for increases in the Medicare Part B premium: affected beneficiaries' Part B premiums are reduced to ensure that their Social Security checks do not decline from one year to the next. In a typical year, the hold harmless provision affects a small fraction of beneficiaries and has a limited impact on program finances. However, in a year when Medicare Part B premiums increase but Social Security benefits do not, the effects of the hold harmless provision are larger and more complex.

The absence of a Social Security COLA affects Medicare Part B premiums in two ways under current law. For about three-quarters of Part B participants, the hold harmless provision prevents their Part B premiums from increasing and so the amount of their Social Security checks remains flat, all other things being equal. Under current law, the only way to collect the 25% of Part B costs that are required to be covered by beneficiary premiums is to increase Part B premiums on beneficiaries who are not protected by the hold harmless provision. The one-quarter of beneficiaries who are not held harmless therefore shoulder the entire beneficiary share of the increase in Part B costs. In other words, their collective premium increase can be nearly four times greater than if there were no hold harmless provision.

The one-quarter of Part B enrollees to whom the hold harmless provision does not apply can be divided into three groups: (1) low-income beneficiaries whose Part B premiums are not withheld from their Social Security benefits but instead are fully paid by the Medicaid program (currently about 17.5% of Part B enrollees, expected to increase); (2) high-income beneficiaries who are subject to income-related Part B premiums (about 5% of Part B enrollees); and (3) beneficiaries for whom there is insufficient history of Social Security payments with corresponding deductions for the Part B premium (about 5% of Part B enrollees), which would include both new enrollees to either Social Security or Medicare and Part B enrollees who do not participate in Social Security. The substantial majority of Part B enrollees (17.5%) not held harmless in 2010 were low-income beneficiaries whose Part B premiums are paid by Medicaid. As a result, in the absence of any intervention by Congress, most of the cost of the increase in Part B premiums in 2010 and 2011 will be paid by the federal-state Medicaid program, not directly by beneficiaries.

As of the date of this report, Congress has not passed legislation to address this issue. Speaker of the House Pelosi has announced that she will ask the House to consider H.R. 5987, which would provide a one-time, $250 payment to Social Security beneficiaries (including persons on Social Security disability) and retired veterans and railroad workers, when Congress returns after the November elections. Senate Majority Leader Reid has announced he will ask the Senate to consider legislation to provide a one-time, $250 payment when Congress returns after the elections. On October 15, 2010, the White House press office announced that the President supports efforts to provide a $250 payment to seniors, veterans, and people with disabilities.

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Background

This section outlines how Medicare Part B premiums and Social Security cost-of-living adjustments (COLAs) are calculated and how the COLA affects Part B premiums. The following section examines what happens when Medicare Part B premiums rise but Social Security benefits do not.

Medicare Part B Premiums[1]

Medicare beneficiaries who voluntarily elect Part B coverage, which covers services provided by physicians as well as a variety of other health care services, are charged a monthly premium. If a person is enrolled in both Part B and Social Security, the Part B premium must be deducted from the person's Social Security check by law.[2] In addition, railroad retirees and civil service annuitants have their Part B premiums deducted from their monthly checks when possible.

Standard Part B Premium

Medicare Part B premiums typically rise or fall with Part B program costs. Over the past five years, Part B costs have increased an average of 8.3% per year, and the Centers for Medicare and Medicaid Services (CMS) Office of the Actuary (OACT) projects an annual increase of 4.8% over the next five years based on current law.[3] The Balanced Budget Act of 1997 (BBA 97, P.L. 105-33) permanently set the standard Medicare Part B premiums to total 25% of estimated program costs for the aged.[4] Federal general revenues account for the remaining Part B program costs. In other words, Medicare beneficiaries receive a 75% subsidy for Part B, with every $1 in Part B premiums (for aged enrollees) matched by $3 in general revenues. In 2009, the standard Medicare Part B premium was $96.40 per month for an individual. In 2010, most (73%) of beneficiaries who are protected by the hold harmless provision continue to pay the same premium of $96.40, however, others face an increased premium of $110.50 per month.[5] All income for Part B is credited to the Supplementary Medical Insurance (SMI) trust fund.

Because there will be no COLA in 2011, those who were held harmless in 2010 would continue to be held harmless at the $96.40 level in 2011. Those beneficiaries who became eligible for Medicare and/or Social Security for the first time in 2010 (i.e., they had no history prior to 2010 with both the Medicare and Social Security programs) and who paid a premium of $110.50 would be protected by the hold harmless provision at that level in 2011. An additional category of

[1] For further information, see CRS Report R40082, *Medicare: Part B Premiums*, by Jim Hahn.

[2] Section 1840(a)(1) of the Social Security Act (42 U.S.C. §1395r).

[3] The projection is "unrealistically constrained due to multiple years of physician fee reductions that would occur under current law." Should the Congress continue "to override these reductions, as they have for 2003 through November of 2010, the Part B growth rate would instead average roughly 8 percent." For a detailed explanation, see The Boards of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *2010 Annual Report*, Washington, DC, August 5, 2010, p. 6, https://www.cms.gov/ReportsTrustFunds/downloads/tr2010.pdf. (Hereafter referred to as "The Board of Trustees, 2010 Annual Report.")

[4] Disabled Medicare beneficiaries under the age of 65 pay the same premium amount as those aged 65 or older, though their per capita Part B costs are higher.

[5] See CMS press release, "CMS Announces Medicare Premiums, Deductibles For 2010," at http://www.cms.hhs.gov/apps/media/press/factsheet.asp?counter=3534.

beneficiaries, those new to the program in 2011, will not be protected in the absence of any legislative action on this issue and will face a monthly premium in excess of $110.50. The CMS OACT projects that under intermediate economic assumptions, the monthly Part B premium will be $120.10 and $113.80 for 2011 and 2012, respectively.[6] The actual premium amount for 2011 has yet to be announced as of the date of this report.

Part B Premium Formula Includes Cuts to Physician Payments

Medicare physician payments, which account for about half of Part B costs, are updated from year to year according to a statutory formula commonly referred to as the sustainable growth rate (SGR).[7] Strict application of this formula would have resulted in cuts to physician fees each year since 2003; however, congressional action has overridden the SGR system and prevented cuts to physician fees each year since 2003. Many Members of Congress have been concerned about the impact of potential payment reductions on beneficiaries' access to services. The Medicare trustees acknowledge that "multiple years of significant reductions in physician payments per service are very unlikely to occur before legislative changes intervene."[8] The most recent legislation related to this issue, the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 (P.L. 111-192), forestalls the SGR-mandated payment reductions through November 30, 2010.

Income-Related Part B Premiums

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA, P.L. 108-173) increased the percentage share of Part B costs for high-income enrollees beginning in 2007.[9] The Part B premiums for high-income Part B enrollees are based on a greater beneficiary share of total expenditures (and a correspondingly reduced subsidy) that increases with income. Starting in 2009 when the policy was fully implemented and in subsequent years, higher-income individuals pay total premiums ranging from 35% to 80% of the projected per capita Part B expenditures.[10] In 2010, the four income-related Medicare Part B premium categories range from $154.70 to $353.60 per month, on a graduated scale for individuals whose incomes exceed $85,000 per year and for couples whose incomes exceed $170,000 per year.[11]

The Patient Protection and Affordable Care Act (P.L. 111-148) froze the income thresholds for determining income-related premiums at 2010 levels through 2019. Although the income levels had previously been indexed for inflation, this decade-long freeze means that more beneficiaries

[6] See The Boards of Trustees, 2010 Annual Report, p. 97.

[7] For detail about the SGR, Medicare physician payments, and the history of Congressional actions that have overridden the payment cuts indicated by the statutory update formula, see CRS Report R40907, *Medicare Physician Payment Updates and the Sustainable Growth Rate (SGR) System*, by Jim Hahn.

[8] See, for example, The Boards of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *2008 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, March 25, 2008, p. 23, at http://www.cms.hhs.gov/ReportsTrustFunds/downloads/tr2008.pdf. (Hereinafter referred to as "2008 Medicare Trustees Report.")

[9] The income-related subsidy provision was later modified by the Deficit Reduction Act of 2005 (DRA; P.L. 109-171).

[10] See Figure 2, Percentage of Costs Paid by Beneficiaries with Income-Related Premiums, 2006-2009 in CRS Report R40082, *Medicare: Part B Premiums*, by Jim Hahn.

[11] See CMS press release, "CMS Announces Medicare Premiums, Deductibles For 2010", http://www.cms.hhs.gov/apps/media/press/factsheet.asp?counter=3534.

will be subject to the higher Part B premiums if income levels increase over time, as they have historically.

Part B Premium Subsidies for Low-Income Beneficiaries

Low-income individuals may qualify for subsidies which cover all or part of their Part B premiums. About one in five Medicare beneficiaries receive full Part B subsidies. These subsidies are paid by the federal-state Medicaid program. To qualify for subsidies, beneficiaries must have limited income and assets. Beneficiaries may qualify for full Part B premium subsidies if they have incomes of less than 135% of the federal poverty line and assets of less than $4,000 for an individual or $6,000 for a couple.[12]

Social Security COLAs

After a person becomes eligible to receive Social Security benefits, his or her monthly benefit amount is increased annually to maintain purchasing power over time. During the last quarter of each year, the Social Security Administration (SSA) announces the COLA payable in January of the following year.[13] The amount of the COLA is based on inflation as measured by the Consumer Price Index—Urban Wage Earners and Clerical Workers (CPI-W).[14] The Social Security COLA reflects the percentage change in the average CPI-W from the third calendar quarter of the last year a COLA was determined to the third calendar quarter of the current year.

If the CPI-W rises as described above, Social Security benefits for the next year increase proportionately. If the CPI-W falls, Social Security benefits stay the same—Social Security benefits do not decline if the CPI-W falls from one year to the next. Automatic COLAs began in 1975 (P.L. 92-336).[15] Since the Social Security COLA was linked to the CPI in 1975, the lowest implemented COLA was 1.3% in 1987 and 1999.[16] No COLA was implemented in 2010 or 2011.

Why Is There No Social Security COLA in 2010 and 2011?

In 2008, the CPI-W rose sharply through September, triggering a COLA of 5.8% that became payable starting in January 2009. The CPI-W subsequently fell during the last quarter of 2008, largely reflecting the decline in energy prices from their historical highs earlier in 2008. Moderate inflation resumed in 2009 and 2010, but this was not enough to offset price declines in late 2008.

[12] The federal poverty line varies depending on family size. For a family of two, the poverty guideline for the purposes of determining Medicaid eligibility is $14,570 in 2010. (See *The 2010 HHS Poverty Guidelines* at http://aspe.hhs.gov/POVERTY/10poverty.shtml.)

[13] The 2011 COLA became known on October 15, 2001, when the Bureau of Labor Statistics announced the September 2010 CPI-W.

[14] For more information, see CRS Report 94-803, *Social Security: Cost-of-Living Adjustments*, by Gary Sidor.

[15] Starting in 1975 COLAs have been applied annually, with the exception being when their effective date was switched from July to January in conjunction with a delay in COLA application from July 1982 and January 1984.

[16] The 1972 Social Security Amendments introduced the COLA to Social Security payments. Initially, the provision provided for an automatic COLA only if the increase in the CPI-W was at least 3%. Although inflation regularly exceeded this level in the 1970s, inflation began to wane in the 1980s. In 1986, Congress enacted legislation (P.L. 99-509) to eliminate the 3% trigger, forestalling what would have been the first year with no COLA.

When Will Social Security Next Pay a COLA?

The next COLA will be triggered when the CPI-W for the third quarter of a future year exceeds its average of 215.5 in the third quarter of 2008. The CPI-W averaged 211.0 during the third quarter of 2009 and 214.1 during the third quarter of 2010.

The Social Security Trustees project there will be a COLA of 1.2% in 2012,[17] while the Congressional Budget Office (CBO) projects there will be a COLA of 0.4% in 2012.[18] Since the average Social Security retired worker benefit in June 2010 was $1,170,[19] the average retired worker benefit would increase to $1,184 under SSA's COLA projections or to $1,175 under CBO's projections in 2012. Thus, under this simplified calculation (which doesn't include additional factors, such as the impact of wage growth, on the average benefit level), the average worker might be entitled to a $5-$14 increase in Social Security benefits, but this might be partially or totally offset by the need to pay a small Part B premium increase in 2012.

Interaction Between Medicare Premiums and Social Security Benefits[20]

Deduction of Part B Premiums from Social Security Checks

Ultimately, everyone who is eligible for Social Security retirement or disability benefits qualifies for Medicare. Most people who elect to participate in the Part B program pay the Medicare Part B premium.[21] By law, a Social Security beneficiary who is also enrolled in Medicare Part B must have the Part B premium automatically deducted from his or her Social Security benefits.[22] Automatic deduction from the Social Security benefit check also applies to Medicare Advantage participants, who are enrolled in private health-care plans in lieu of traditional Medicare.

About 63% of Social Security beneficiaries (32 million persons) have Medicare Part B premiums deducted from their benefit checks.[23] Social Security beneficiaries who do not pay Medicare Part B premiums include those who are under the age of 65, receive low-income assistance from Medicaid to pay the Part B premium, have started to receive Social Security disability insurance (SSDI) but are not eligible for Medicare Part B because they have not received SSDI for 24 months, or chose not to enroll in Medicare Part B.

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[17] Social Security Administration, *2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, Table V.C1, available at http://www.ssa.gov/OACT/TR/2010/tr10.pdf.

[18] Congressional Budget Office, *The Budget and Economic Outlook:An Update*, August 18, 2010, p. 66, available at http://www.cbo.gov/ftpdocs/117xx/doc11705/08-18-Update.pdf.

[19] Social Security Administration, *Fact Sheet on the Old-Age, Survivors, and Disability Program, June 30, 2010*, Washington, DC, July 1, 2010, http://www.ssa.gov/OACT/FACTS/.

[20] For more information, see CRS Report RL33364, *The Impact of Medicare Premiums on Social Security Beneficiaries*, by Alison M. Shelton.

[21] Some beneficiaries do not pay Medicare premiums, either because they receive low-income assistance or because they choose not to enroll in Medicare Part B.

[22]Section 1840(a)(1) of the Social Security Act (42 U.S.C. §1395r). Part B premiums are also deducted from Railroad Retirement benefits (Social Security Act §1840(b)(1)).

[23] Figures provided to CRS by the Social Security Administration, August 20, 2009.

Part B Enrollees Who Do Not Receive Social Security Benefits

About 2% of Medicare Part B enrollees do not receive Social Security benefits. For example, persons who spent their careers in employment that was not covered by Social Security, including certain federal,[24] state, or local government workers, and certain other categories of workers, do not receive Social Security benefits. These workers are still eligible to enroll in Medicare Part B, however they generally pay their premiums directly to CMS.[25]

Hold Harmless Provision for Increases in Part B Premiums

A hold harmless provision reduces the Part B premium for most beneficiaries whose Social Security COLAs are not sufficient to cover the standard Part B premium increase.[26] If, in a given year, the increase in the standard Part B premium would cause a beneficiary's Social Security check to be less than it was the year before, the premium is reduced to ensure that the amount of the individual's Social Security check does not decline.

Whether a beneficiary is held harmless depends on the dollar amount of the standard Part B premium increase relative to the dollar amount of his or her Social Security COLA in a given year. Whether a beneficiary is held harmless also depends on whether the beneficiary has a previous history of paying Part B premiums and receiving Social Security: to be held harmless in a given year, a Social Security beneficiary must have received Social Security benefit checks in both December of the previous year and January of the current year, and must also have had Part B premiums deducted from both checks.[27] The hold harmless provision operates by comparing the net dollar amounts of the two monthly benefit payments: if the net Social Security benefit for January of the current year is lower than in December of the previous year, then the hold harmless provision takes effect for the affected individuals.

The following groups are not affected by the hold harmless provision.

- **Lower-Income Beneficiaries.** Lower-income beneficiaries who receive premium subsidies are not held harmless for premium increases; however, the Medicaid program pays the full amount of any increase in their Part B premiums. In 2009, 17.5% of Part B enrollees received full Part B subsidies, but this number was expected to increase because of the economic downturn.[28]
- **Higher-Income Beneficiaries.** Higher-income beneficiaries who are required to pay income-related Part B premiums are not held harmless for premium increases. They are required to pay the full amount of any increase in their Part B

[24] Generally, employees of the federal government hired before 1984 are covered by the Civil Service Retirement System (CSRS) and are not covered by Social Security. Most federal workers first hired into federal service on or after January, 1984, participate in the Federal Employees' Retirement System (FERS) which includes Social Security coverage.

[25] Nonpayment results in termination of the Part B benefit, subject to a grace period.

[26] Section 1839(f) of the Social Security Act (42 U.S.C. §1395r). The hold harmless provision was first implemented in January 1987.

[27] Section 1839(f) of the Social Security Act (42 U.S.C. §1395r). Note that Social Security benefit checks reflect benefit entitlements for the previous month while Part B premiums are deducted in advance.

[28] CMS Actuary Letter, April 8, 2009, and communication with CMS staff, January 8, 2010.

premiums. About 5% of Part B enrollees are subject to income-related premiums.[29]

- **Beneficiaries with no history of Social Security benefit checks with deductions to cover the Medicare Part B premium,** including new enrollees in either Social Security or Medicare Part B**,** and Part B enrollees who do not receive Social Security benefits. As noted above, in order to be held harmless in a given year a Social Security beneficiary must have received Social Security benefit payments in both December of the previous year and January of the current year, and must have had Part B premiums deducted from both checks. Three percent of Part B beneficiaries are receiving Social Security or Medicare, or both, for the first time in a given month during 2010 and are not protected by the hold harmless provision in 2010.[30] They pay the full amount of their Part B premiums during the first year in which they receive both Social Security and Part B benefits, after which they would be subject to the hold harmless provision. Another 2% of Part B enrollees do not receive Social Security benefits, generally because they worked in employment that was not covered by Social Security.[31]

Some people protected by the hold harmless provision may still see a decrease in their Social Security checks due to an increase in Medicare Part D premiums. Part D premiums are not covered by the hold harmless provision, although beneficiaries with low-income subsidies will not be affected.

The number of people held harmless has varied in recent years.[32] Typically, the hold harmless provision has affected a relatively small number of beneficiaries and has had minimal impact on Part B financing.

What Happens in the Absence of a Social Security COLA?

Since 1975, when the automatic Social Security COLA was established, a COLA has been paid every year through 2009. However, there was no Social Security COLA in 2010 and SSA announced on October 15, 2010, that there will be no Social Security COLA in 2011.

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[29] Ibid.

[30] Communication with CMS staff, January 8, 2010. This category includes beneficiaries of the Social Security Disability Insurance (SSDI) program who are receiving SSDI benefits but are still in the 24-month waiting period for Medicare.

[31] A person who is entitled to Social Security spousal benefits, based on a spouse's work record instead of his or her own work record, may or may not be covered by the hold harmless provision. If the government pension offset (GPO) reduces spousal benefits to zero, then the individual does not meet the hold harmless provision's requirement of having benefit checks for December of the previous year and January of the current year, and therefore this person would not be held harmless. If the person receives a Social Security spousal benefit for a positive dollar amount, then he or she would be covered by the hold harmless provision. Source: telephone conversation between one of the authors and Tim Kelly of the Social Security Administration, January 20, 2010. For more on the GPO, see CRS Report RL32453, *Social Security: The Government Pension Offset (GPO),* by Alison M. Shelton.

[32] For more information, see Social Security Administration, *Variable Supplementary Medical Insurance Premiums*, Actuarial Note No. 147, by Jacqueline A. Walsh and Burt M. Kestenbaum, March 2006, at http://www.ssa.gov/OACT/NOTES/pdf_notes/note147.pdf.

Impact on Beneficiaries

Most Beneficiaries Will Be Held Harmless

Although Part B premiums have increased but Social Security benefits have not, about three-quarters of Part B enrollees are held harmless for the increase in Part B premiums.[33] Thus, they will continue to pay the same Part B premiums in 2010 and 2011 as they did in 2009, and the amount of their Social Security checks will not change (assuming no other changes to their circumstances). Additionally, those beneficiaries who were new to Medicare in 2010 and paid the higher premium of $110.50 will be held harmless at that level in 2011.

Some Beneficiaries Will Not Be Held Harmless

Not all beneficiaries are affected by the hold harmless provision, however. As described above, about 27% of Part B enrollees are not held harmless in 2010 under current law.[34] Persons who are not held harmless include lower-income beneficiaries whose premiums are paid by Medicaid, higher-income beneficiaries who pay income-related Part B premiums, new enrollees to either Medicare Part B or Social Security, and persons who do not receive Social Security checks.

The Entire Increase in Part B Premiums Is Borne by Those Not Held Harmless

Because every $1 of Part B premiums collected is matched with $3 in federal general revenues, the hold harmless provision has the potential, if other action were not taken, to reduce SMI trust fund income not only from premiums but also from general revenues unless beneficiaries are charged different premiums. The Social Security Act provides the Secretary of Health and Human Services with the legal authority to adjust Part B premiums as necessary so that the *aggregate* amount of beneficiaries' contributions provides 25% of estimated Part B program costs for the aged.[35] As the CMS actuary wrote in 2009, "under current law, the only way to offset the lost revenue would be to increase the Part B premiums for these years substantially above normal requirements."[36] This was indeed the course of action taken.

Because roughly three-quarters of Part B enrollees were held harmless in 2010, the entire increase in beneficiary costs was borne by the remaining one-quarter. In other words, premiums for beneficiaries not held harmless increased nearly four times as much, in aggregate, as they would have if there had been no hold harmless provision.[37] As the trustees point out in the *2010 Medicare Annual Report*, "This approach to preventing exhaustion of the Part B trust fund account is the only one available under current law," despite the "serious equity issues" this method raises.

[33] CMS Actuary Letter, 4/8/09, and communication with CMS staff, January 8, 2010.

[34] Ibid.

[35] Sec. 1839(a) of the Social Security Act (42 U.S.C. §1395r).

[36] CMS Actuary Letter, 4/8/09.

[37] Douglas Elmendorf, *Director's Blog*, Congressional Budget Office, "Effect of a Zero Social Security COLA on Part B Premiums in Medicare," April 23, 2009, http://cboblog.cbo.gov/?p=236. (Hereinafter cited as 4/23/09 CBO Director's blog post.)

Using intermediate economic assumptions, the CMS OACT projects substantial differences in the 2011 Part B premiums across different types of beneficiaries. Those held harmless since 2009 would continue to pay $96.40, while those new beneficiaries who were not held harmless in 2010 but for whom the provision applies in 2011 would pay $110.50. New beneficiaries in 2011 and other beneficiaries for whom the hold harmless provision would not apply would pay an estimated $120.10 in 2011, about 25% more than beneficiaries who were Medicare eligible in 2009 or earlier. Beneficiaries who pay an income-related premium would face monthly premiums estimated to range from $168.10 to $384.20 in 2011.[38] They also estimated that premiums would *decline* in the future, when economic circumstances improve and Social Security beneficiaries were to receive a COLA. The reason for the projected decline is that a much smaller group of beneficiaries would be held harmless and so the premium increases could be spread among a substantially larger group, as has been the case in prior years when the COLA was positive.

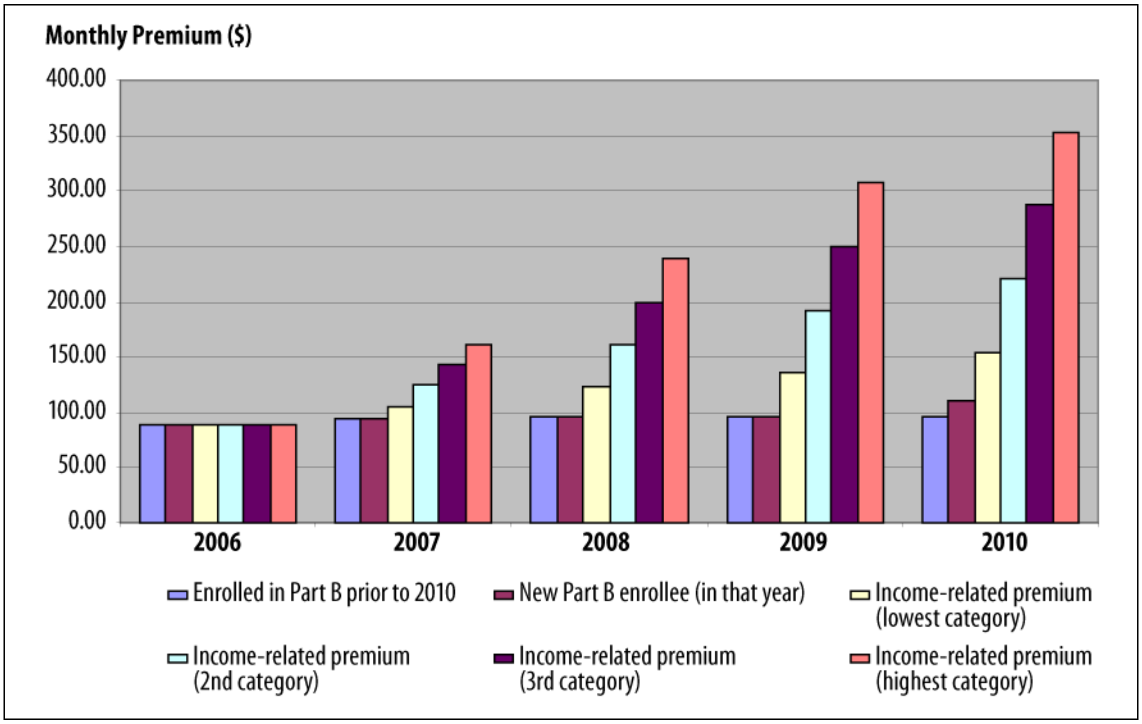
As a consequence of the introduction of an income-related premium and the hold-harmless provision combined with no COLA in 2010, the number of different amounts that beneficiaries paid for the monthly Medicare Part B premiums increased from one in 2006 (when everyone paid the same amount, regardless of when he or she became eligible for Medicare or what his or her income was) to six in 2010: one for beneficiaries held harmless at the 2009 level, one for new beneficiaries and those without hold-harmless protection in 2010, and four levels of income-related premiums. (See **Figure 1**.) Because there will be no COLA for 2011, there will be seven categories in 2011. In addition to those protected at the $96.40 (2009) level, those beneficiaries new to Medicare in 2010 (and who received Social Security benefits) would be protected at the $110.50 level, but beneficiaries new to the program in 2011 would face an estimated premium of $120.10.[39] There would still be four income-related premium levels.

[38] See The Medicare Board of Trustees, 2010 Annual Report, p. 97.

[39] CMS OACT estimate using "intermediate economic assumptions." See Board of Trustees, 2010 Annual Report, p. 113.

Figure 1. Monthly Part B Premiums, 2006-2010

By beneficiary category



Source: CRS figure from CMS data.

Notes: There are four income thresholds for determining the income-related premium. For 2010, individual beneficiaries with a yearly income of less than $85,000 or couples filing jointly with less than $170,000 in yearly income did not have to pay an income-related premium. The other three threshold levels for increasing beneficiary contribution to the premium (lower federal subsidy) are at $107,000 for an individual ($214,000 for a couple), $160,000 for an individual ($320,000 for a couple), and $214,000 for an individual ($428,000 for a couple).

Impact on Medicare/Medicaid Financing and the Federal Budget

Medicare Part B (SMI) Trust Fund Impact

In the absence of a Social Security COLA, Part B premiums must be increased substantially on those who are not held harmless to prevent potential SMI trust fund exhaustion. The CMS actuaries state the following:

> In the absence of much higher premiums, the assets of the Part B trust fund account would decline significantly below the level considered appropriate for a contingency reserve. A significant probability would exist that the trust fund would become exhausted during the 2010-2012 period.[40]

The CMS actuaries also point out that neither substantial increases in Part B premiums nor trust fund exhaustion would be necessary if Congress allowed physician payments to be cut as

[40] CMS Actuary Letter, 4/8/09.

scheduled under current law.[41] Although the reduction has been forestalled until the end of November 2010, Congress would still have to pass additional legislation to override the substantial payment reduction (about 23%) that will be required beginning December 1, 2010, and an additional reduction (about 6%) that will be applied beginning January 1, 2011, as dictated by the SGR system in the absence of further congressional action. This would be a significant reduction that could jeopardize Medicare beneficiary access to participating physicians. Congress is seen as almost certain to act to address this situation. All of the estimates regarding the effects of the hold harmless provision assume that Congress overrides these cuts as it has done every year since 2003.

Medicaid Impact

Low-income beneficiaries who receive premium subsidies make up the substantial majority of those who are not held harmless. Under current law, state Medicaid programs pay the entire amount of these beneficiaries' Part B premiums, including any increase. As a result, Medicaid costs increase substantially in the absence of a Social Security COLA, with the burden falling on states as well as the Treasury (as a result of the federal match).

Recent Legislative Activity

The interaction between Social Security benefits and Medicare premiums is a complex one that raises a number of issues. These issues may include the impact of having no Social Security COLA on seniors who are projected to face higher Part D premiums and higher out-of-pocket medical costs, the impact of the hold harmless provision on the Part B premiums paid by beneficiaries who are not held harmless, and other issues. Several bills before the 111th Congress would address one or more of these issues. None of the bills propose any relief to states, which bear the additional burden of increased Part B premiums for the Medicaid eligibles.

Changes to Medicare

Several bills considered during the 111th Congress contained provisions to address Medicare Part B financing issues created as a result of having no cost-of-living increase to the Social Security benefits in 2010. However, only one bill related to this issue was ever voted on (and passed) by the House; as of the date of this report, the Senate has yet to pass any bills on this issue in the 111th Congress.

On March 31, 2009, Representative Wexler introduced H.R. 1832, the Medicare Prescription Drug Affordability Act of 2009, which would amend the Social Security Act to limit the increase in premium costs for beneficiaries under the Medicare prescription drug program to no more than the Social Security cost-of-living adjustment, among other provisions. The bill was referred to the Ways and Means and Energy and Commerce committees.

On July 14, 2009, Representative Dingell introduced H.R. 3200, America's Affordable Health Choices Act of 2009. The discussion draft of H.R. 3200 contained a proposal to suspend, temporarily, the requirement that the Part B premium revenues cover 25% of Medicare Part B,

[41] Ibid.

protecting all Medicare beneficiaries from the effect of the projected Part B premium increase and covering the resulting financing shortfall using general revenues. CBO estimated that this proposal (Section 1233 of Division B of the House Tri-Committee Health Reform Discussion Draft, as released on June 19, 2009) would have required $1.8 billion in additional outlays in 2010 and $0.6 billion in 2011.[42] However, this provision was not included in any of the versions of the health care bill reported out of the three committees of jurisdiction.

On September 23, 2009, Representative Titus introduced H.R. 3631, the Medicare Premium Fairness Act, which would freeze the 2010 monthly Medicare Part B Premium at the 2009 premium level. This premium freeze would be offset by transferring $576 million from the Medicare Improvement Fund, which was established in 2008 under P.L. 110-252. H.R. 3631 passed the House on September 24, 2009, by a vote of 406-18.

Changes to Social Security

Several bills introduced in the 111th Congress would provide either a COLA for Social Security benefits or a one-time payment to beneficiaries. Most of these bills do not directly address the issue of Part B premiums but rather focus on payments to Social Security beneficiaries, veterans, and retired railroad workers.

Bills to Provide a COLA Increase to Social Security and Other Beneficiaries

Several bills in the 111th Congress would provide a positive COLA increase. A positive COLA increase in 2010 would result in fewer beneficiaries being held harmless from Medicare Part B premium increases.

Representative Kagen introduced H.R. 3211, the Cost of Living Equity Act, which would amend the Social Security Act to provide that the COLA applied to Social Security benefits should in no case be less than the percentage increase in compensation provided to Members of Congress.

Representative Jones introduced H.R. 3557, which would provide a COLA increase in 2010 equal to the average increase in the 10 calendar years preceding 2009 (about 2.6%).

Representative Alexander introduced H.R. 3572 , the COLA Assistance Act of 2009, which would deem the 2010 COLA to be 2.9% (half the 2009 COLA).

Bills to Base the Social Security COLA on the CPI-E

Representative DeFazio has introduced H.R. 2365, the Consumer Price Index for Elderly Consumers Act of 2009, to require BLS to publish a monthly CPI-E representing consumption typical for individuals who are age 62 and over.

[42] See CBO, "Preliminary Estimate of the Effects on Direct Spending and Revenues of Division B, Titles I-VII and Section 1872, of the House Tri-Committee Health Reform Discussion Draft," released July 8, 2009, and accessible at http://www.cbo.gov/ftpdocs/104xx/doc10446/PreliminaryEstimateDivisionB.pdf.

Representative Gonzalez has introduced H.R. 2429, the Consumer Price Index for Elderly Consumers Act of 2009, to call on BLS to publish a revised, complete CPI-E. Representative Duncan introduced H.R. 5305, the CPI for Seniors Act of 2010, to establish a CPI-S specifically for senior citizens that would address concerns with the CPI-E methodology.

Representative Deutch introduced H.R. 5834, "Preserving Our Promise to Seniors Act," which among other provisions would direct BLS to publish a CPI-E that accurately tracks changes in seniors' consumption over time and would base the Social Security COLA on the CPI-E. H.R. 5834 contains several other provisions, including a one-time payment in each year that Social Security pays no COLA. The Social Security Administration (SSA) scored H.R. 5834 using the assumption that the CPI-E would result in an average annual COLA of 3.0% per year, which is 0.2 percentage points higher than the average annual increase assumed for the CPI-W under the Trustees' intermediate assumptions. SSA found that the provision to base the Social Security COLA on the CPI-E instead of the CPI-W would decrease (worsen) the long-range balance by an estimated 0.34% of taxable payroll;[43] SSA's score for the entire package is discussed below.

Senator Lincoln introduced S. 2926, the Economic Fairness for Seniors Act, which, among other provisions including a one-time payment of $250 to beneficiaries in 2010 (discussed below), would also require the BLS to study and report on the potential use of the CPI-E.

Bills to Provide a One-Time Payment to Social Security and Other Beneficiaries

Several other bills would provide one-time additional Social Security payments in 2010. Representative McCarthy introduced H.R. 3536, the Social Security COLA Fix for 2010 Act, which would provide a one-time Social Security benefit increase of $150 in 2010 to all Social Security beneficiaries who were entitled for both the month of enactment and a month 180 days after enactment. SSA found that H.R. 3536 would result in payments to about 50.2 million OASDI beneficiaries for a total expenditure of $7.5 billion, reducing the OASDI actuarial balance by less than 0.005% of taxable payroll.[44] Representative McCarthy also introduced H.R. 3672, the Social Security COLA Fix for 2010 Act, which would provide a one-time benefit increase of $150 in 2010 and also eliminate the requirement that there be a Social Security COLA for an adjustment to the Social Security contribution and benefit base to occur.

Representative DeFazio introduced H.R. 3597, the Emergency Senior Citizens Relief Act of 2009, and Senator Sanders has introduced a companion bill, S. 1685, in the Senate. Both H.R. 3597 and S. 1685 would provide a one-time additional payment of $250 in 2010 to all adult Social Security recipients (including SSDI beneficiaries), adult railroad retirees, beneficiaries of Supplemental Security Income, and adults receiving veterans' benefits. SSA scored S. 1685, as discussed below under the description of S. 1685. Representative DeFazio has also introduced H.R. 3810, which would provide a one-time $250 payment to be financed by a temporary application, in 2010, of the FICA tax to wages and self-employment income in excess of $1,290,000.

[43] Memorandum dated October 8, 2010 from Stephen C. Goss, Chief Actuary of the Social Security Administration, to the Honorable Ted Deutch.

[44] Letter dated September 11, 2009 from Stephen C. Goss, Chief Actuary of the Social Security Administration, to the Honorable Carolyn McCarthy.

Representative Granger introduced H.R. 3677, the Save Our Seniors' Social Security Act of 2009, which would provide a one-time payment of $280 to individuals who had received Social Security or Railroad Retirement benefit payments in any of the months of December 2009, January 2010, or February 2010 to be financed with unobligated monies from the American Recovery and Reinvestment Act of 2009 (P.L. 111-5, known as ARRA).

Representative Brown-Waite introduced H.R. 3691, the Seniors and Veterans Economic Stimulus ("SAVES") Act of 2009, to provide a $250 payment (as provided by ARRA in 2009) to seniors and veterans in 2010; this additional amount would be paid for by redirecting unobligated ARRA funds.

Representative Adler introduced H.R. 4429, the Restoring the Social Security COLA Act, which would increase benefits for certain federal programs, including Social Security, by $250 for one month in 2010, intended to be equivalent to the 2% COLA received by federal employees in 2010. Funding would be provided from unobligated ARRA monies.

Representative Deutch introduced H.R. 5834 to provide a payment of $250 (indexed to the CPI-E) to beneficiaries of Social Security, Supplemental Security Income, railroad retirement pensions, and veterans disability compensation or pension benefits in each year, including 2011, when there is no COLA. The bill would also require BLS to base the Social Security COLA on changes in the CPI-E, extend the Social Security payroll tax of 12.4% to all earnings starting in 2017, pay benefits on additional earnings subject to tax using a modified benefit formula, and raise a point of order against privatization of Social Security benefits. SSA scored H.R. 5834 and found that it would be expected to reduce the 75-year actuarial imbalance from -1.92% of taxable payroll (under intermediate assumptions) to -0.13% of payroll.[45]

Representative Pomeroy introduced H.R. 5987, the Seniors Protection Act of 2010, to provide a one-time $250 payment for all Social Security beneficiaries including children and disabled beneficiaries receiving SSDI, railroad retirees, SSI recipients, and veterans in the event that no COLA is payable in 2011. The one-time payment would be disregarded for the purposes of all federal and federally assisted programs and would not be considered income for the purposes of taxation.

Representative Richardson introduced H.R. 6294, the Social Security Safety Dividend Act, to provide a payment of $250 to all Social Security beneficiaries including children and disabled beneficiaries receiving SSDI, SSI recipients, railroad retirees, and veterans in the event that no COLA is payable in calendar year 2011. The one-time payment would be disregarded for the purposes of all federal and federally assisted programs and would not be considered income for the purposes of taxation.

Representative Rothman has circulated a letter to President Obama calling on the President to include a one-time payment of $500 to Social Security beneficiaries in lieu of a COLA in 2010 and 2011.[46]

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[45] Memorandum dated October 8, 2010 from Stephen C. Goss, Chief Actuary of the Social Security Administration, to the Honorable Ted Deutch.

[46] See http://www.rothman.house.gov/index.php?option=com_content&task=view&id=1330&Itemid=1.

Senator Lincoln has introduced S. 2926, the Economic Fairness for Seniors Act, to provide a one-time $250 payment to persons who received a $250 payment under ARRA (P.L. 111-5), as well as a $250 tax credit for certain government retirees. The bill would also require BLS to study and report on whether the CPI-E reflects the elderly's cost of living more accurately than the CPI-W.

Senator Sanders introduced S. 1685, the Emergency Senior Citizens Relief Act of 2009, to provide an emergency benefit payment of $250 to various persons who were entitled to benefits in August, September, or October of 2009. This is the companion bill to H.R. 3597, discussed above. The Social Security Administration estimated that S. 1685 would result in 2010 payments to 55.6 million individuals (48.9 million adult OASDI beneficiaries, 5.1 million SSI recipients who are not also OASDI beneficiaries, 1.4 million veterans compensation and pension beneficiaries, and 0.2 million adult railroad retirement and disability beneficiaries) and that payments would total about $13.9 billion, of which $12.2 billion would be to adult Social Security beneficiaries. H.R. 3597 and S. 1685 would fully pay for the one-time $250 payment by applying the Social Security payroll (FICA) tax to household earnings above $250,000 and below $359,000 in 2010, with no credit of the additional tax contributions towards benefits. SSA estimates that the bill would have essentially no effect on the federal unified budget balance, while OASDI would experience a negligible positive effect.[47]

On March 3, 2010, the Senate rejected a procedural motion concerning Senator Sanders' proposed amendment (S.Amdt. 3353) to H.R. 4213 to provide an emergency payment of $250 to seniors, veterans, and persons with disabilities in 2010. Also on March 3, a similar amendment offered by Senator Burr (S.Amdt. 3390) was rejected on procedural grounds.

In October 2010, Speaker of the House Nancy Pelosi and Senate Majority Leader Harry Reid announced their support for consideration of a one-time, $250 payment to Social Security and certain other beneficiaries when Congress returns after the November elections.[48] On October 15, 2010, the White House press office announced that the President supports efforts to provide a $250 payment to seniors, veterans, and people with disabilities.[49]

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[47] Letter dated September 11, 2009 from Stephen C. Goss, Chief Actuary of the Social Security Administration, to the Honorable Bernard Sanders.

[48] Speaker Pelosi's announcement can be found here: http://pelosi.house.gov/news/press-releases/2010/10/pelosi-statement-supporting-the-seniors-protection-act-providing-relief-for-seniors.shtml. Senate Majority Leader Reid's intention to support legislation in late 2010 can be found here: http://reid.senate.gov/newsroom/pr_10_19_10_costliving.cfm.

[49] See http://www.whitehouse.gov/the-press-office/2010/10/15/statement-press-secretary-robert-gibbs-social-security-economic-recovery.

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