Means-testing in Medicare

Country: USA
Partner Institute: Johns Hopkins Bloomberg School of Public Health, Department of Health Policy and Management
Survey no: (9)2007
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Health Policy Issues: Political Context, Funding / Pooling, Access, Remuneration / Payment

Current Process Stages

| Idea | Pilot | Policy Paper | Legislation | Implementation | Evaluation | Change |

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1. Abstract

Means-testing of Medicare Part B premiums was adopted under the 2003 Medicare Modernization Act. Beginning in 2007, high income Medicare beneficiaries pay a higher percentage of the premium. Since only a small number of beneficiaries are affected initially, this is unlikely to substantially reduce Medicare spending. It does represent a fundamental change in policy.

2. Purpose of health policy or idea

The Medicare program provides health insurance to all adults in the United States over the age of 65. Medicare Part B covers outpatient physician and hospital visits, diagnostic tests, and ambulance services.

The financial sustainability of the Medicare program has been a long standing concern. Means-testing of Part B premiums was adopted as a cost containment mechanism in the 2003 Medicare Prescription Drug, Improvement, and Modernization Act (MMA).

In the past, all beneficiaries paid the same Part B premium - 25 percent of total program costs. The remaining 75% is financed through general government revenues. Beginning in 2007, enrollees with an annual individual income of $80,000 or joint income of $160,000 or more pay a higher percentage of the Part B premium. Initially, it is expected that only 4 percent of Medicare enrollees will be affected. The Congressional Budget Office estimates that Medicare spending will be reduced by $13.3 billion over a ten year period.

Main objectives
Means-testing of Medicare Part B premiums.

Type of incentives
Financial

Groups affected
3. Characteristics of this policy

- **Degree of Innovation**: traditional, innovative
- **Degree of Controversy**: consensual, highly controversial
- **Structural or Systemic Impact**: marginal, fundamental
- **Public Visibility**: very low, very high
- **Transferability**: strongly system-dependent, system-neutral

Although means-testing affects only a small number of beneficiaries at present, it represents a philosophical shift in the Medicare program.

4. Political and economic background

Rising health care costs and an aging population have led to substantial concern over the financial health of the Medicare program. This was heightened with the addition of a drug benefit in 2003. Medicare cost containment measures therefore find support among members of both the Republican and Democratic parties. However, this policy was controversial because it reduced the solidarity for Medicare financing.

Complies with

Other - Under the 2003 MMA, means-testing of Part B premiums is to be implemented in phases between 2007-2009.

5. Purpose and process analysis

**Origins of health policy idea**

Means testing has been on the Medicare reform agenda for over a decade. It was proposed in Clinton's unsuccessful 1993 Health Security Act and the 1995 Balanced Budget Act, which was later vetoed by Clinton. It was also included in the 1997 Balanced Budget Act, but was eliminated from final legislation. The addition of a prescription drug benefit heightened concerns about the financial viability of the Medicare program. The 2003 Medicare Prescription Drug, Modernization, and Improvement Act (MMA) contained two cost containment provisions. First, no more than 45% of total Medicare costs can be financed through general government revenues. One method to achieve this is to increase beneficiary cost sharing. The second cost containment provision was required means-testing of the Part B premium beginning in 2007.

**Initiators of idea/main actors**

- Government: President George W. Bush signed the 2003 MMA into law which included the means-testing
provision. Means-testing is generally supported by fiscally conservative Republicans who want to control Medicare spending.

- Patients, Consumers: High income enrollees could opt out of Medicare if their means-tested Part B premiums are equivalent to those obtained in the private insurance market.

- Private Sector or Industry: Many employers pay their retirees’ share of the Part B premium. Employers currently pay the same amount for all employees. There is concern that employers may drop retiree coverage if they have to pay a higher premium for high income retirees.

- Political Parties: There is mixed support among Democrats. Those who oppose means-testing argue that it will change Medicare from a social insurance program to a welfare program. Supporters propose that it is a progressive way to finance Medicare without cutting benefits.

**Approach of idea**

The approach of the idea is described as: renewed: Means-testing was first proposed in 1993 by President Clinton and in the 1995 and 1997 Balanced Budget Acts. It was finally passed as a provision in the 2003 MMA.

**Stakeholder positions**

The elderly, especially the most affluent elderly, are opposed to this policy. Individuals who are concerned about the long run viability of the Medicare program are supportive.

**Actors and positions**

Description of actors and their positions

**Government**

Republican administration

very supportive

strongly opposed

**Patients, Consumers**

Medicare beneficiaries-AARP

very supportive

strongly opposed

**Private Sector or Industry**

Employers

very supportive

strongly opposed

**Political Parties**

Democrats

very supportive

strongly opposed

**Influences in policy making and legislation**

Means-testing Medicare Part B premiums was adopted in the 2003 MMA.

**Legislative outcome**

success

**Actors and influence**

Description of actors and their influence

**Government**

Republican administration

very strong

none

**Patients, Consumers**

Medicare beneficiaries-AARP

very strong

none

**Private Sector or Industry**
Adoption and implementation

The Social Security Administration is responsible for collecting Part B premiums. The Internal Revenue Service will provide the SSA with income information from beneficiaries’ most recent tax return. 2007 premiums are based on 2005 tax returns. If income has decreased over the last year, beneficiaries will need to appeal to the SSA.

Monitoring and evaluation

Monitoring and evaluation will only happen through the political process.

Results of evaluation

N/a.

6. Expected outcome

Means-testing Part B premiums is expected to reduce Medicare spending by approximately $13 billion over a 10 year period. This will not substantially alleviate the program’s financial problems. It is unlikely, but possible, that high-income beneficiaries will opt out of the program.
Means-testing will not substantially reduce Medicare spending.

7. References

Sources of Information


Author/s and/or contributors to this survey
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Suggested citation for this online article