Everything You Need to Know

Debt Debate for DUMMIES

Learn About:

Social Security COLA

Balanced Budget Amendment & Social Security

Budgetary Spending Caps

House GOP Budget

Ryan Plan & Medicare

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Medicaid & Seniors

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Debt Debate for Dummies

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After months of negotiations, Congress and President Obama agreed to increase the Nation's borrowing limit, narrowly avoiding a catastrophic default on our debt. As with any compromise, there is both good news and bad news for seniors in this agreement.

The Good News:

Debt Ceiling: President Obama was given the authority to raise the debt limit, preventing a default or any disruption in sending out Social Security and veterans' benefit checks. The new limit should provide enough borrowing room to get through all of 2012 without further Congressional action, thus protecting Social Security and Medicare from being taken hostage again by a debt limit deadline during the middle of a very political election year.

Medicare & Medicaid: As a result of the effective advocacy by the National Committee and other seniors' groups, Social Security and low-income programs such as Medicaid are exempt from cuts either in the initial package of spending cuts or in the potential automatic cuts that could come later in the process. Medicare is exempt from the initial package of cuts, and is limited to no more than 2% in cuts to provider reimbursements in the second round of cuts.

Spending Cuts: The agreement includes $1 trillion in spending cuts that result from the establishment of 10 year caps on spending. This will result in about $10 billion in cuts to discretionary programs over the first two years of the plan (Fiscal years 2012 and 2013), split evenly between domestic and security programs.

The Bad News:

The New 'Super Committee': The plan creates a new Joint Committee of 12 Members of Congress, divided evenly between the House and Senate and each political party. This "Divine Dozen" will have until November 23, 2011 to produce a plan reducing the deficit by at least $1.2-$1.5 trillion. It only takes 7 out of the

Seniors must convince the Super Committee not to propose cuts in Social Security, Medicare, Medicaid and discretionary spending programs that are important to vulnerable older adults.

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12 Members to approve any plan – which will then be 'fast-tracked' through Congress by the end of this year with limited debate, a simple majority to pass and no amendments allowed. No programs are protected from the reach of this Super Committee, and numerous Members of Congress have made it clear they expect most of the deficit reduction to come from 'entitlement reform' – which is code for cuts in Social Security, Medicare and Medicaid.

More Domestic Spending Cuts: As a way of putting pressure on Congress to approve the Super Committee's proposal, the agreement includes a 'penalty' for inaction. The penalty takes the form of a second round of automatic spending cuts to discretionary programs (which include, for example, Older American's Act programs such as Meals-on-Wheels, Senior Centers and transportation) up to a total of $1.2 trillion over the next decade. This second round of cuts is also intended to be split evenly between domestic and security programs, and exempts Social Security, and low-income programs such as Medicaid. Medicare cuts are limited to 2% in lower provider reimbursements – Medicare benefits that go directly to seniors are protected.

Revenues: Raising revenue is not included in the first round of cuts, nor is it included in the automatic cuts that would result if the Super Committee is not successful in producing a deficit reduction plan that is signed into law. Although increased revenue could be part of the Super Committee's recommendations, Republican Congressional Leaders have made it clear they only intend to appoint Members to the Super Committee who oppose tax increases, even to close tax loopholes or to require the extremely wealthy to contribute to deficit reduction. If they are successful in imposing this limit, just as they were successful in keeping revenue out of any of the spending cuts in the debt limit plan, all of our Nation's deficit reduction will come at the expense of the poor and middle-income Americans. Social Security, Medicare and Medicaid will see deep cuts, not just for future beneficiaries but also for today's seniors.

What Happens Next?

¬ The initial round of spending cuts will be enacted through the regular

appropriations process for Fiscal Year 2012 (which begins on October 1st, 2011).

- Congressional Leaders will appoint a 12-member, bipartisan Joint Select Committee on Deficit Reduction (the so-called "Super Committee"). Its mission will be to create a package by November 23rd which reduces the deficit by at least $1.2 trillion over the next decade. If the Committee members fail to reach agreement, or if their recommendations are not approved by Congress by December 23rd, automatic across-the-board cuts will start by January 1, 2013. The automatic cuts will equal $1.2 trillion minus any cuts recommended by the Super Committee that are enacted into law.

- Social Security and low-income programs such as Medicaid are exempt from the automatic cuts. Medicare beneficiaries will also be exempt but providers of Medicare services will see their reimbursements cut up to 2%.

- Congress is also required to vote on a Balanced Budget Amendment, but there is no penalty if it does not pass.

What can we do?

It's clear that advocacy by individual seniors and our advocacy groups made a difference in protecting Social Security, Medicaid and Medicare beneficiaries from short-term and automatic cuts. However, much work remains in the weeks ahead, when we must:

- Convince the Super Committee not to propose cuts in Social Security, Medicare, Medicaid and discretionary spending programs that are important to vulnerable older adults.
- Press the Super Committee to include increased revenue for deficit reduction from those who can most easily afford it.

The Gang of Six Plan

What Does it Include?

Gang of Six Targeting Seniors Programs

The bipartisan Gang of Six released the broad outlines of a deficit-trimming plan on July 19. The details of the plan are not clear, but the plan includes some generalities about program and procedural changes. Following are some proposals included in the broad outline:

- Shift to a chained CPI government-wide starting in 2012, for all government programs except SSI.
  - This would apply to the calculation of Social Security cost-of-living-adjustments (COLAs)
  - SSI would be exempt from the COLA change for five years, and then phased in to the chained CPI over the next five years.
- Consider Social Security reform only if the comprehensive deficit reduction bill has already received 60 votes.
  - Reform must ensure 75-year solvency.
  - If the Social Security overhaul receives 60 votes, it will be combined with the deficit reduction bill and sent to the House as a single bill.
- Require the Senate Finance Committee to reform or replace the Medicare Sustainable Growth Rate formula, which affects physician's payment rates, by finding $298 billion in savings from health care programs.
  - In addition, find another $202 billion in health savings.
- Repeal the Community Living Assistance Services and Support (CLASS) Program
  - The CLASS Program was enacted as part of federal health care reform legislation to create a voluntary national insurance program for long-term services and supports.
  - Enrollment for this program has not yet begun.

The Gang of Six Plan

What Does it Include?

Gang of Six Targeting Seniors Programs

How Will The Gang of Six Plan Affect Seniors?

<u>The Chained CPI</u>

Shifting to a chained CPI will reduce Social Security benefits for current and future beneficiaries. The chained CPI produces lower estimates of inflation than the current CPI does, averaging about 0.3 percentage points lower than the increases in the current CPI since December 2000. The Chief Actuary of the Social Security Administration estimates that this reduced COLA would result in a decrease of about $130 per year (0.9 percent) in benefits for a typical 65 year-old. By the time that senior reaches 95, the annual benefit cut will be almost $1400, a 9.2 percent reduction from currently scheduled benefits.

The cumulative effect of these reductions means that the disproportionate impact will be felt by Social Security's oldest beneficiaries. These are often women who have outlived their other sources of income, and rely on Social Security as their only lifeline to financial stability.

Younger beneficiaries, who have sources of income other than Social Security, may find themselves hit from another direction as well - increased taxes. Moving to a chained CPI for purposes of indexing the income tax would reduce the yearly adjustments for personal exemptions, the standard deduction, and income thresholds dividing the tax brackets, thereby increasing the amount of taxes owed. Most of these tax increases will fall on the poor and middle class.

<u>Social Security Reform</u>

Although proposals for the reform of Social Security are not included in the outline released by the Gang of Six, the plan would link a reform package to a

The Gang of Six Plan

What Does it Include?

Gang of Six Targeting Seniors Programs

deficit reduction bill.

Medicare Sustainable Growth Rate

Stabilizing physician payments will help ensure seniors' access to physicians. The outline, however, is not clear regarding where the health care savings to pay for this "doctor fix" would be found.

CLASS Program

Repeal of this program would not affect any current seniors, since the program has not yet begun, but will deny future seniors the opportunity to participate in this voluntary program and benefit from its long-term services and supports.

NATIONAL COMMITTEE POSITION

The National Committee opposes use of the chained CPI-U for calculating Social Security COLAs. This is a benefit cut for current and future beneficiaries, pure and simple. Any discussion of Social Security should be off the table in debt reduction discussions.

The National Committee also opposes the proposal to link a Social Security reform bill with the deficit reduction bill. This represents a misguided effort to use Social Security as a bargaining chip in debt reduction negotiations.

While the National Committee supports the reform or replacement of the Medicare Sustainable Growth Rate formula, we do not support reforms that result in increased out-of-pocket costs for seniors. Finally, the National Committee believes the CLASS Program should remain available for individuals who want to participate.

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Social Security COLA

Cost of Living Adjustment Should be Improved Not Cut

CHAINED CPI IS A BENEFIT CUT

Currently, a Social Security beneficiary receives an increase in his or her Social Security check each year based on the previous year's increase in the cost-of-living.

This COLA is intended to offset the beneficiary's additional expenses resulting from inflation.

The Social Security COLA is measured based on the increase in the cost of a market basket of goods and services from the third quarter of one year to the third quarter of the next year.

The size of the COLA is announced by the Social Security Administration, usually in October, and beneficiaries see the change in their January Social Security payment.

For the past two years, senior citizens have not received any Social Security COLA at all.

The 2011 Social Security Trustees' Report projects that seniors will receive a 0.7 percent COLA for 2012, although the COLA may end up slightly higher depending on gas prices this summer.

The average senior will not see an increase in his or her benefit because Medicare premium increases will absorb all or most of the increase from the COLA.

Seniors spend a significant portion of their income on out-of-pocket health care expenses not covered by Medicare.

Many analysts believe that the current Consumer Price Index (CPI) may understate the growth in the cost of living for the elderly, because the elderly spend a higher percentage of their income on health care.

Many believe the method for calculating the COLA should be reformed.

Seniors have not received a COLA increase in two years... yet some argue the COLA is too generous and want a new formula that would cut benefits

Social Security COLA

Cost of Living Adjustment Should be Improved Not Cut

CHAINED CPI IS A BENEFIT CUT

A CPI focused on the purchasing patterns of Americans 62 years of age and older would address this issue.

- Since 1982 this measure, called the CPI-E, has been 0.3 percentage points higher than inflation as measured under the current method.
- Using this index to calculate COLAs would result in significant increases in Social Security benefits over time, as the impact compounds each year.
- More and more Social Security benefit checks are being eaten up by rising health care costs.
- Seniors can't afford to have their COLA calculated using an index that does not accurately gauge the spending patterns that are unique to them.o
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Social Security COLA

Cost of Living Adjustment Should be Improved Not Cut

CHAINED CPI IS A BENEFIT CUT

Legislation that would base the Social Security COLA on a consumer price index that reflects the purchasing patterns of seniors would make sure that seniors' buying power does not erode over time.

Other analysts believe the current CPI may overstate increases in costs because it does not fully adjust to changes in spending as prices increase. They believe a chained-CPI would address this issue.

- For example, if the price of apples increases while the price of bananas remains constant and consumers respond by buying fewer apples and more bananas, some economists argue the current index does not fully account for the substitution, while a chained-CPI would.

Implementation of a chained-CPI would affect all beneficiaries, current and future.

- The chained-CPI produces lower estimates of inflation than the current CPI does, averaging about 0.3 percentage points lower than the increases in the current CPI since December 2000.
- The loss of purchasing power stemming from this provision becomes increasingly severe as beneficiaries age.
- The Social Security benefits paid to someone collecting benefits for 10 years would be about 3 percent lower, on average, if the chained-CPI is used for the COLA instead of the current CPI.
- After 20 years the reduction would reach 6 percent from the change in the formula alone.

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2011 Social Security Trustees Report

Social Security Isn't in Crisis

THE TRUTH ABOUT SOCIAL SECURITY

Throughout our nation's recent recession, Social Security has shown its strength by paying benefits to everyone who is entitled to them. Despite the economic hard times, there is good news for working Americans and for seniors in the Trustees report. Here are some of the highlights:

- **Social Security remains strong.** Despite the lingering effects of the recession, the Trustees say that Social Security has the funding needed to be able to pay full benefits for the next 25 years—until 2036. Thereafter, the trust funds will have sufficient tax revenue to pay about 77 percent of benefits.

- **Social Security still has a surplus.** Despite the gloom and doom rhetoric of those who want to cut Social Security to balance the budget, the program continues to run an annual surplus. That surplus is projected by the Trustees to be about $69 billion in 2011. In fact, the Trustees project that the program will continue to run surpluses until 2022.

- **The Trust Funds currently have a surplus of $2.6 trillion.** This surplus is projected to grow until 2022. At that time, the Trustees project that the balance in the Trust Funds will be about $3.7 trillion.

- **This is real money that will help pay benefits in the future.** These surplus funds are the result of the Congress's decision back in 1983 to partially advance fund the retirement of the baby boom generation. They have been invested in special issue U.S. Treasury bonds that are backed by the full faith and credit of the United States. When needed to pay benefits they can be

redeemed for cash, just like the savings bonds that many of us hold.

- **Social Security's long-term funding shortfall is modest.** The 2011 Trustees Report shows that, over the next 75 years, the Trust Funds face a shortfall in funding needed to pay full benefits.

- **And modest changes will fix it.** Clearly, it is important that action be taken to strengthen the financial soundness of Social Security so that it remains available to all Americans, both now and in the future. There are many different options for strengthening the program, and developing a consensus remains a challenge that must be met by the nation's leaders.

- **Thankfully, we have time.** Because of the decision made in 1983 to build up a significant balance in the Trust Funds, we have time to develop that consensus. We don't need to try to fix it in these challenging economic times, and we don't need to mix reforming Social Security with balancing the budget.

July 2011

Balanced Budget Amendment

What does it Mean for Social Security, Medicare & Medicaid?

BBA is Bad news for America's Seniors

H.J. Res. 1 would limit annual federal spending to 18 percent of GDP. By writing an arbitrary and unrealistic cap on federal spending into the Constitution, H.J. Res. 1 would force draconian cuts in programs like Medicare and Social Security.

The last time federal spending averaged 18 percent of GDP was in 1965. Coincidentally, that was the same year that the Medicaid and Medicare programs were established.

By altering established Congressional voting procedures it increases the likelihood that the fiscal policies adopted in coming decades will favor the well-off at the expense of middle and low income Americans.

The amendment would require a two-thirds vote of the full membership of the House and Senate to raise taxes. Spending cuts, by contrast, would continue to require only a majority of those present and voting and could be passed on a voice vote.

Not only would this essentially rule out any revenue contribution to deficit reduction, it also would mean that once a new tax cut opened up, it would become virtually impossible to close.

Those radical requirements would prevent policymakers from closing even the most outrageous tax loopholes and force them to make extreme program cuts like those in the Republican Study Committee's (RSC) draconian budget plan.

The RSC budget would turn Medicare into a voucher program and raise its eligibility age to 67, raise the Social Security retirement age to 70, cut core programs for the poor (including Medicaid) in half, and, by 2021, cut domestic discretionary spending (everything from veterans' medical care to border security to medical research to education) by about 70 percent.

Congress should reject a constitutional balanced budget amendment (BBA) because it would threaten the economy, create serious problems for Social Security, and likely force huge cuts in Medicare, Medicaid, and programs that provide basic assistance to the most vulnerable Americans.

The Problems for Social Security

Because the BBA would require that spending in any year be offset by revenues collected in the same year, Social Security and programs like it could not use their reserves to pay benefits — and that might force cuts in benefits for millions of Americans.

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Balanced Budget Amendment

What does it Mean for Social Security, Medicare & Medicaid?

BBA is Bad news for America's Seniors

The same would be true for military retirement and civil service retirement programs.

The BBA's mandate that total government expenditures in any year can not exceed total revenues collected in the same year poses far-reaching implications for Social Security.

Under a BBA, the budget would be considered balanced when the deficit outside Social Security exactly offset the surplus inside Social Security— expenditures for Social Security benefits — could not exceed total revenues collected in the same year.

Drawing down any part of those balances would mean the trust funds were spending more in benefits in those years than they were receiving in taxes.

Social Security could not draw down its reserves from previous years to pay benefits in a later year (unless there were offsetting surpluses in the rest of the budget) but, instead, could be forced to cut benefits even if it had balances in its trust funds, as it does today.

The requirement that the constitutional amendment would impose in this area is akin to requiring a family to pay for a child's college tuition for a given year entirely out of that same year's earnings, rather than allowing the family to save money for this purpose in prior years or to borrow money for college that is paid back after the child graduates.

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Budgetary Spending CAPS

What do They Mean for Social Security, Medicare & Medicaid?

BUDGET CAPS POSE A THREAT TO America's Seniors

Policymakers are considering a number of budget enforcement mechanisms that set limits on the amount of spending by the federal government. These mechanisms include:

- Balanced budget amendments
- Specific dollar caps on spending
- Caps based on spending as a percentage of Gross Domestic Product (GDP).

These enforcement mechanisms pose a dangerous threat for retirees both today and in the future.

- They would require across-the-board spending cuts to close the gap between projected spending and the level at which the cap has been set, if the cap were to be exceeded.

Social Security and Medicare have never before been included in such proposals.

If the cuts to reach the 20.6 percent of GDP target, called for in the cap proposed by Senator Bob Corker, were to come entirely through an automatic mechanism, they would total

- $1.3 trillion for Social Security
- $860 billion for Medicare.

If these caps are implemented, seniors may open their mail to find they are being notified of a reduction in their monthly Social Security check, creating significant hardship to millions of seniors who rely on fixed incomes in retirement.

It would be equally unacceptable to subject Medicare to reductions tied to arbitrary global spending caps, affecting current beneficiaries and the health care providers who serve them.

We need to reduce our deficit but not on the backs of today's seniors and future retirees

Budgetary Spending CAPS

What do They Mean for Social Security, Medicare & Medicaid?

BUDGET CAPS POSE THREAT TO America's Seniors

- o Payments to doctors and hospitals would have to be reduced by the percentage necessary to bring spending under the cap levels.
- o Seniors may be asked to pay out-of-pocket for these expenses.
- o Many providers, no longer able to tolerate the uncertainty in their reimbursement rates, would likely stop treating Medicare patients, potentially leaving millions of seniors to forego the care that they need.

Spending caps do nothing to address the appropriate level of federal revenue, or the $1 trillion in tax expenditures that add to our deficit.

The nation's debt problems must be addressed, Social Security's long-term financing issues must be solved and health care costs must be brought under control.

- o These problems can be solved by policymakers developing thoughtful solutions to specific problems, not by simply passing budget enforcement mechanism laws that mandate across-the-board cuts.

We need to reduce our deficit but not on the backs of today's seniors and future retirees.

House GOP BUDGET

What Does it Mean for Social Security?

Making it easy to pass future Benefit Cuts

The Ryan/Republican budget for FY 2012 proposes no direct reduction in benefits for Social Security beneficiaries.

However, the House Republican budget lays the ground work for benefit cuts by shortcutting the process Congress employs for enacting Social Security legislation.

The Budget plan includes a new trigger mechanism for Social Security that would force the development of proposals to cut Social Security benefits and then expedite them through Congress using "fast track' legislative procedures.

Using fast track procedures for Social Security is unprecedented in the history of budget resolutions. Past budget resolutions protected Social Security by keeping it off-limits, assuring that any changes made to the program would be supported by broad, bi-partisan majorities.

Changing these rules sets the stage for enactment of major Social Security benefit cuts that would have little chance for enactment if traditional procedure was followed.

Chairman Ryan makes clear his expectation that only benefit cuts should be considered under his proposal, stating that raising taxes would cause "...profound economic damage."

The GOP Social Security trigger proposal would help fast track benefit cuts through Congress

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Ryan Plan
& MEDICARE

Destroying Medicare for Americans 55 and Younger

Ryan Plan is not Medicare "Reform"

The Ryan/Republican budget for FY 2012 destroys Medicare and makes health care unaffordable for America's seniors.

The plan ends traditional Medicare - with its guaranteed benefits - for everyone who is currently younger than 55.

Beginning in 2022, Medicare would be converted from a government program to a program which provides vouchers to beneficiaries to purchase private insurance.

The Congressional Budget Office (CBO) found that the Ryan Medicare proposal would substantially increase total health care spending. In the first year alone, out-of-pocket costs would more than double for seniors and people with disabilities.

Out-of-pocket costs would skyrocket for beneficiaries for two reasons: It is much more expensive to provide health care through private insurance companies, and the government vouchers would not keep pace with health care inflation.

Seniors are already paying nearly 30 percent of the average Social Security benefit for Medicare Parts B and D cost sharing. With half of Medicare beneficiaries having incomes below $22,500, they cannot afford to pay more for health care.

In addition to privatizing Medicare, the Ryan budget would increase the age of eligibility for Medicare from 65 to 67. This would likely increase the number of uninsured Americans because the Ryan plan also repeals the health insurance reforms included in the Affordable Care Act.

The GOP/Ryan plan replaces Medicare with a voucher program designed to pass healthcare costs directly to seniors

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Ryan Plan

& MEDICARE

Destroying Medicare for Americans 55 and Younger

Ryan Plan is not Medicare "Reform"

Medicare beneficiaries 55 and older would be adversely affected by privatizing Medicare. As younger retirees enter the new program, the oldest and sickest would remain in traditional Medicare. With a shrinking pool of increasingly costly beneficiaries, Medicare spending would go up and seniors who remain in traditional Medicare would likely see their costs go up as well.

The Ryan budget would harm current Medicare beneficiaries by repealing provisions of the Affordable Care Act that improve Medicare, such as:

- Closing the Part D donut hole and lowering drug costs for people in the donut hole
- Eliminating copays and deductibles for preventive tests and screenings
- Providing free annual wellness visits
- Coordinating care to improve quality

Ryan Plan
& MEDICAID

Medicaid Cuts Threaten Seniors

Low Income Seniors hurt by Medicaid Cuts

The Ryan/Republican budget for FY 2012 includes dramatic federal funding reductions and changes to Medicaid that would adversely affect low-income seniors and their families. States, already struggling with their own budget shortfalls, would be forced to make deep cuts in critical health care services.

Under the Ryan budget, federal Medicaid spending would be reduced by more than $771 billion, or more than a third, over 10 years.

The Ryan plan would turn Medicaid into a block grant program in 2013, terminating Medicaid's current joint federal/state financing. The federal government would provide each state with a fixed dollar amount, and states would be left to deal with the problem of covering increasing numbers of patients and increasing medical costs.

Older adults and people with disabilities account for two-thirds of all Medicaid spending; Medicaid pays for about 62 percent of all long-term services and supports. Many recipients are former middle-income seniors who have spent their life savings for nursing home care which averages $75,000 per year.

The proposed changes to Medicaid – turning it into a block grant program to the states and reducing federal funding – would jeopardize the availability and quality of both nursing home care and home- and community-based services.

States could deal with their funding shortfalls in any number of ways that would be harmful to nursing home residents and their families, including:

- Asking spouses of patients to cover the cost of nursing home care, leading them to exhaust their savings.
- Asking children or other family members to cover the cost of nursing home care.
- Establishing waiting lists once funding for the year has been exhausted.

Two-thirds of all Medicaid spending goes to older Americans and people with disabilities

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Ryan Plan
& MEDICAID

Medicaid Cuts Threaten Seniors

Low Income Seniors hurt by Medicaid Cuts

- Scaling back quality and service in nursing homes, which could endanger the lives of vulnerable seniors.

Medicaid currently pays the Medicare premiums, deductibles or copayments for almost 5 million low-income beneficiaries. If states do not have the resources to cover these payments:

- Millions of seniors will not only see their Medicaid benefits diminish, but will be at risk of losing their Medicare coverage if they are unable to pay the premiums.
- Millions of seniors may forego necessary care if they are unable to afford the deductible or the copayment.

Medicaid

& SENIORS

Medicaid Cuts Threaten Seniors

THE MEDICARE Medicaid CONNECTION

Many Medicare beneficiaries view Medicaid as a program that is completely distinct from Medicare and believe they will not be affected by proposals to change the Medicaid program. However, the two programs are closely intertwined and changes to the Medicaid program could have an enormous impact on Medicare beneficiaries.

The proposed changes to Medicaid – turning it into a block grant program to the states and reducing federal funding – would jeopardize the availability and quality of both nursing home care and home- and community-based services. Many of those affected would be Medicare beneficiaries who also receive assistance from Medicaid.

- Older adults and people with disabilities account for two-thirds of all Medicaid spending;
- Medicaid pays for about 62 percent of all long-term services and supports.
- Many recipients are former middle-income seniors who have spent their life savings for nursing home care which averages $75,000 per year.

If forced to operate under a block grant, states could deal with resulting funding shortfalls in ways that would be harmful to nursing home residents and their families, including:

Medicare and Medicaid are closely intertwined. Proposed cuts in Medicaid will impact millions of seniors

THE MEDICARE Medicaid CONNECTION

- Asking spouses of patients to cover the cost of nursing home care, leading them to exhaust their savings.
- Asking children or other family members to cover the cost of nursing home care.
- Establishing waiting lists once funding for the year has been exhausted.
- Scaling back quality and service in nursing homes, which could endanger the lives of vulnerable seniors.

In addition to helping finance long-term care for Medicare beneficiaries, Medicaid currently pays the Medicare premiums, deductibles or copayments for more than eight million low-income beneficiaries. If states do not have the resources to cover these payments:

- Millions of seniors, who rely on Medicaid to help with Medicare's out-of-pocket costs, will be at risk of losing their Medicare coverage if they are unable to pay the premiums.
- Millions of seniors may forego necessary care if they are unable to afford the deductible or the copayment that is currently being paid for by Medicaid.
- Medicare will lose funding if the premiums are not paid by Medicaid and seniors are unable to pay these premiums themselves.

Medicare Means Testing

Undermines Medicare's Mission

MEDICARE MEANS TESTING Raises Costs

Recent discussions about how to address the nation's long-term deficit have included proposals calling for means-testing Medicare – that is, requiring higher-income beneficiaries to pay more of Medicare's costs.

Although the financing of Medicare through premiums and contributions is progressive, it is not and was never meant to be a welfare program. People pay into Medicare and they are eligible to receive benefits. Additional mean-testing would transform Medicare into a welfare program.

- All Medicare beneficiaries should remain eligible for the same services, even though higher income beneficiaries pay more for their benefits.

Means-testing will undermine the social insurance nature of Medicare, and ultimately raise costs for middle and lower-income seniors who depend on it.

- If mean-testing results in Medicare becoming increasingly unfair to higher-income beneficiaries, they may opt out and purchase their own policy on the private market. The departure of these higher-income beneficiaries, who tend to be younger and healthier, would increase overall costs, reduce public support for the program.

These proposals fail to recognize that Medicare already includes income-based premiums and has always included means-tested features.

- Higher-income beneficiaries have been required to pay higher premiums for Supplemental Medical Insurance (Part B), the part that covers physician's bills, since 2007.

Medicare Means Testing

Undermines Medicare's Mission

MEDICARE MEANS TESTING Raises Costs

- The standard Part B premium is $115.40 per month in 2011.
- Beneficiaries with incomes above $85,000, or couples with incomes above $170,000, pay premiums ranging from $161.50 to $369.10 per month, depending on their level of income.
- The number of beneficiaries subject to this means-tested premium is expected to increase from 2.4 million in 2011 to 7.8 million in 2019, an increase from 5 percent to 14 percent of Part B enrollees.

- Starting in 2011, higher-income beneficiaries are required to pay higher premiums for their Supplemental Medical Insurance (Part D) prescription drug benefit.
    - The same Part B thresholds apply - $85,000 for individuals and $170,000 for couples.
    - The additional premium amounts range from $12.00 to $69.10 per month.
    - Three percent of all Part D enrollees (1.2 million beneficiaries) will be subject to this means-tested premium in 2011, rising to 9 percent (4.2 million) in 2019.
- Medicare Part B has been financed by general revenues for three-quarters of its costs since its inception in 1965. General revenues are derived from personal income taxes, whose progressive formula requires higher-income people to pay a larger share of their income, thereby contributing a larger share of the general revenue funding to Medicare.

Medicare Means Testing

Undermines Medicare's Mission

MEDICARE MEANS TESTING Raises Costs

- Medicare Hospital Insurance (Part A) is financed with payroll taxes of 1.45 percent on employees, matched by employers, with self-employed individuals paying the full 2.9 percent.

Since 1994, this payroll tax has been levied on all covered wages and self-employment without a limit. Therefore, the higher an individual's earnings, the more he or she will contribute to Medicare Part A.

- The Part A payroll tax will increase in 2013 by an additional 0.9 percent on covered earnings above $200,000 for an individual and $250,000 for a couple.

These same income thresholds will also apply to a 3.8 percent surtax on unearned income, such as interest, dividends and capital gains, which will be applied to Medicare.

June 2011

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