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Medicare Part B Premiums Could Increase State Costs by $1.1 Billion in 2017

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Summary

A recent Medicare Trustees report projects a 22% increase in monthly Part B premiums for dual eligibles and certain other Medicare beneficiaries in calendar year (CY) 2017. If this occurs, FFIS estimates a $1.1 billion increase in the state share of Medicaid costs.

Specifically, the trustees' report finds that Medicare's hold-harmless provision could be triggered in CY 2017 based on early data showing the potential for a 0.2% Social Security cost-of-living adjustment (COLA). The hold-harmless provision limits monthly Part B premiums to the increase in Social Security for beneficiaries who have their Medicare premiums deducted from their monthly Social Security benefits (approximately 70% of Part B enrollees). Because Part B premiums must cover 25% of the program's cost, those beneficiaries not protected by the hold-harmless provision would bear a larger increase. The report estimates that monthly premiums for this group (which includes dual eligibles) will increase 22%, from $121.80 to $149.00. Provisions in last year's Bipartisan Budget Act (BBA, P.L. 114-74)—which provided relief from large premium increases in CY 2016—would apply in 2017 only if there is no COLA.

The final adjustment will be announced in the fall based on updated data.

Part B Premiums

The standard monthly Part B premium is $121.80 in CY 2016, a 16% increase from CY 2015. The increase would have been higher—approximately 52%—without a fix included in the BBA because the 0% COLA for Social Security triggered the hold-harmless provision. The BBA specified that Part B premiums for beneficiaries not covered by the hold-harmless would be determined as if the hold-harmless provision did not apply. To finance this change, a monthly surcharge of $3.00 was added to premiums, beginning in CY 2016 and continuing until the cost is offset. (The surcharge is larger for those with high incomes and does not apply to those held harmless.)

The provisions of the BBA also apply to CY 2017 if there is no COLA adjustment. However, according to the 2016 Medicare Trustees Report (p. 34-35), "Under the intermediate assumptions, the 2017 Social Security COLA is 0.2 percent. The BBA provisions do not apply under these assumptions, but the COLA is not large enough to allow for full payment of the estimated 2017 premium by those Part B enrollees subject to the hold-

harmless provision. As a result, Part B premiums for other beneficiaries need to be raised substantially, and the estimated monthly premium for 2017 is therefore $149.00."

If there is no Social Security COLA in CY 2017 or the COLA is large enough to allow all Part B enrollees to pay the full 2017 premiums, the report estimates that the 2017 premiums would be roughly the same as the 2016 premiums.

Medicaid impact. Table 1 shows the estimated state impact of the premium increase on Medicaid if the hold-harmless provision is triggered and monthly premiums for dual-eligibles are $149.00. Overall, the state share of Medicaid would increase by approximately $1.1 billion in CY 2017.

The estimates rely on fiscal year (FY) 2016 total expenditures for Medicare Part B premiums as reported in the May 2016 CMS-37 report. The state share is determined by applying final FY 2017 Federal Medical Assistance Percentages (FMAPs) for January 1, 2017-September 30, 2017, and FFIS projections of FY 2018 FMAPs for October 1, 2017-December 31, 2017.

Vermont, **Puerto Rico**, and **American Samoa** reported $0 expenditures in both reports so FFIS was unable to calculate estimates for these jurisdictions. Vermont is operating a Global Commitment to Health waiver so its expenditures aren't reported separately. Of note, **Montana's** total expenditure is significantly lower than prior years so it is likely that FFIS estimates don't reflect the full state cost.

In addition, the estimates don't include individuals who receive assistance as Qualifying Individuals (QIs). The federal government covers 100% of their costs, up to a state's allotment. Beginning in CY 2017, the funding provided for the QI program is based in part on the growth in Part B premiums. As a result, the projected increase in monthly premiums shouldn't affect the number of beneficiaries who are served under QI.

Part B deductible. The trustees' report also projects that the annual Part B deductible will increase from $166 in CY 2016 to $204 in CY 2017. Premium and deductible amounts are indexed to increase at the same rate. The changes to the calculation of the monthly Part B premium made in the BBA also reduced the deductible in CY 2016. However, there is no hold-harmless provision for the annual deductible. As a result, the projected deductible increase would affect almost all Medicare beneficiaries. According to the May CMS-37, the total cost for Medicare coinsurance and deductibles was $1.1 billion in FY 2016, with the state share at $431 million. Because the report combines coinsurance and deductibles, FFIS is unable to estimate the projected increase.

Part B Details and Trends

Overview. Medicare Part B is the voluntary portion of Medicare that pays all or part of the cost of physicians' services, outpatient hospital services, certain home health services, services furnished by rural health clinics, ambulatory surgical centers, outpatient rehabilitation facilities, and other medical and health services not covered by Part A, Hospital Insurance.

Medicare beneficiaries share in the cost of the program through the payment of premiums and cost-sharing. Low-income individuals may qualify for subsidies through Medicaid. In addition, some may qualify for full

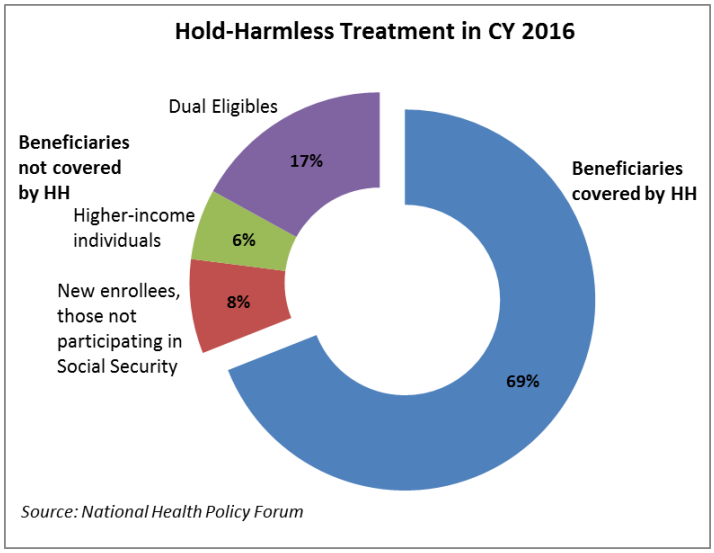
Medicaid benefits whereby Medicaid provides coverage of additional benefits not offered under Medicare, such as long-term services and supports. The table below shows Medicaid's role in providing Part B assistance for the major dual-eligible categories.

Details on Dual-Eligible Groups			
Group	**Income**	**Medicaid Part B Role**	**Federal Share**
Qualified Medicare Beneficiaries (QMBs)	at or below the federal poverty level (FPL)	pays for premiums, deductibles, and coinsurance	FMAP
Specified Low-Income Beneficiaries (SLIMBs)	between 100% and 120% of FPL	pays for premiums	FMAP
Qualifying Individuals (QIs)	between 120% and 135% of FPL	pays for premiums	100%, up to capped allotment

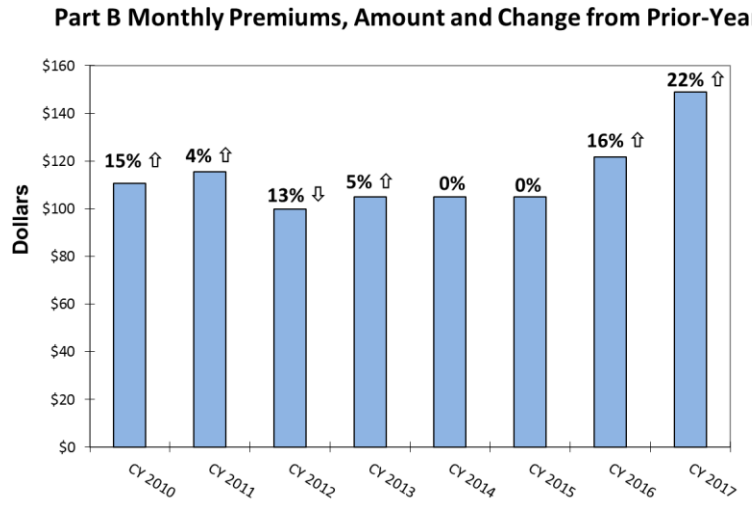
Determination of Part B premiums. The Department of Health and Human Services (HHS) determines monthly Part B premiums on a calendar year, based on the amount required to cover 25% of the expected average total cost of Part B coverage for aged enrollees, which includes a contingency reserve. Federal general revenues cover the remaining Part B program costs.

The Social Security Act includes a hold-harmless provision that prevents Medicare beneficiaries who have their premiums deducted from their monthly Social Security benefits from seeing a reduction in Social Security payments compared to the previous year as a result of Medicare Part B premium increases. When the hold-harmless provision is triggered, beneficiaries not covered by the hold-harmless provision must pay an even higher premium to satisfy the requirement that 25% of the financing comes from beneficiary premiums.

In most years, the hold-harmless provision affects only a small number of beneficiaries—those with relatively low Social Security payments. As a result, it has little effect on the program's financing. However, when the COLA is at or near 0%, a large number of beneficiaries are covered by the hold-harmless provision (and those beneficiaries not covered can see much higher increases). The next chart illustrates those covered by the hold-harmless provision and those not protected in 2016 when there was no COLA.



Trends in Part B premiums. The next chart shows trends in Part B monthly premiums. It does not reflect premiums for those covered by the hold-harmless provision—which was triggered in 2010, 2011, and 2016 for most beneficiaries because there was no Social Security COLA—or other amounts that certain beneficiaries must pay, such as those with high incomes.



Source: 2016 Medicare Trustees Report

Next Steps

On October 18, the Bureau of Labor Statistics will release the final data needed for the Social Security Administration to calculate the CY 2017 COLA adjustment. HHS will announce the final standard and income-related Part B premiums for 2017 by the end of this calendar year; typically, the announcement is made in October. The final monthly premiums and annual deductibles will take effect on January 1, 2017, barring congressional action.

Table 1

Estimated Medicaid Impact of Part B Premium Increase, CY 2017

(dollars in thousands)

State	*Total FY 2016 Medicaid Spending on Medicare - Part B Premiums*	Estimated Premium Increase *Total*	*State Share*
Alabama	$233,021	$52,034	$15,537
Alaska	21,126	4,717	2,359
Arizona	250,963	56,040	17,197
Arkansas	145,686	32,532	9,862
California	1,566,679	349,839	174,920
Colorado	128,286	28,646	14,319
Connecticut	217,312	48,526	24,263
Delaware	34,479	7,699	3,520
District of Columbia	40,219	8,981	2,694
Florida	948,271	211,749	82,275
Georgia	292,792	65,380	21,031
Hawaii	33,704	7,526	3,390
Idaho	43,325	9,674	2,756
Illinois	380,925	85,061	41,405
Indiana	219,502	49,015	16,308
Iowa	102,259	22,834	9,813
Kansas	88,746	19,817	8,640
Kentucky	218,160	48,715	14,417
Louisiana	191,525	42,768	16,107
Maine	112,571	25,137	8,934
Maryland	170,948	38,173	19,086
Massachusetts	308,181	68,817	34,408
Michigan	339,400	75,788	26,497
Minnesota	162,744	36,341	18,170
Mississippi	198,974	44,431	11,260
Missouri	198,357	44,293	16,280
Montana*	2,817	629	216
Nebraska	47,130	10,524	5,048
Nevada	70,757	15,800	5,576
New Hampshire	25,850	5,772	2,886
New Jersey	274,520	61,300	30,650
New Mexico	95,938	21,423	6,189
New York	910,376	203,287	101,643
North Carolina	344,743	76,981	25,398
North Dakota	13,537	3,023	1,511
Ohio	369,035	82,406	31,055
Oklahoma	134,607	30,058	12,019
Oregon	145,820	32,562	11,610
Pennsylvania	490,584	109,547	52,799
Rhode Island	47,687	10,649	5,224
South Carolina	130,135	29,059	8,335
South Dakota	22,614	5,050	2,249
Tennessee	273,558	61,086	21,398
Texas	807,472	180,308	78,980
Utah	42,457	9,481	2,857
Vermont*	N/A	N/A	N/A
Virginia	226,701	50,622	25,311
Washington	214,500	47,898	23,949
West Virginia	99,588	22,238	6,242
Wisconsin	173,413	38,723	16,059
Wyoming	8,200	1,831	916
Puerto Rico*	N/A	N/A	N/A
Virgin Islands	209	47	21
American Samoa*	N/A	N/A	N/A
Guam	956	213	96
Northern Mariana Islands	545	122	55
TOTAL	**$11,621,904**	**$2,595,171**	**$1,093,742**

Note: FFIS calculations based on total FY 2016 expenditures for Medicare Part B premiums as reported by states in the May 2016 CMS-37 report. No expenditures were reported for Vermont, Puerto Rico, and American Samoa. Montana's expenditures were significantly lower than prior years.