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Applying a Premium Cap in Medicare Part B and Part D

Anuj Gangopadhyaya, John Holahan, Bowen Garrett, Adele Shartzer

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Even with existing support programs, some Medicare beneficiaries can face high premiums as a percent of income for Part B and Part D. Medicare Savings Programs, administered by state Medicaid programs, provide financial assistance with Part B premium obligations to many low-income Medicare beneficiaries who are not eligible for full Medicaid benefits. Likewise, the federal Low-Income Subsidy program provides many low-income enrollees in Part D with subsidies to assist with premium payments and cost-sharing for prescription drugs. Even with these programs, low-income beneficiaries may still face very high financial burdens from premiums and cost-sharing (i.e., deductibles, and copayments) income and asset limits, and the state-administered Medicare Savings Programs often are less generous than federal laws allow. In an earlier brief, we estimated the effects and costs of policies that would limit the financial burden of premiums and cost-sharing for Part B (Gangopadhyaya et al. 2022). In this brief, we estimate the effects and costs of two national policies that would limit the financial burdens of premiums for Part B and Part D faced by Medicare enrollees with low incomes.

We find a cap on premiums at 8.5 percent of income would provide some financial assistance to nearly all enrollees with incomes below the federal poverty level (FPL) and many with incomes between 100 and 200 percent of FPL without substantially raising

Medicare program spending. Applying the more generous income caps that the Inflation Reduction Act sets for the ACA would provide financial assistance to all Medicare enrollees with incomes below 200 percent of FPL and nearly half of enrollees with incomes between 200 and 400 percent of FPL but would raise total Medicare Part B and Part D program spending by about 8 percent.

About US Health Reform—Monitoring and Impact

With support from the Robert Wood Johnson Foundation, the Urban Institute has undertaken US Health Reform—Monitoring and Impact, a comprehensive monitoring and tracking project examining the implementation and effects of health reforms. Since May 2011, Urban Institute researchers have documented changes to the implementation of national health reforms to help states, researchers, and policymakers learn from the process as it unfolds. The publications developed as part of this ongoing project can be found on both the Robert Wood Johnson Foundation's and Urban Institute Health Policy Center's websites.

Introduction

In this paper we analyze two policies that would cap Part B and Part D premiums and provide improved financial assistance to Medicare enrollees with low-incomes. This builds upon a recently published brief that analyzed similar caps on Part B premiums (Gangopadhyaya et al. 2022). The first policy would cap total Part B and Part D premiums for all Medicare beneficiaries at 8.5 percent of income, applying the ACA's maximum premium cap to all beneficiaries. The second would cap Part B and Part D premiums using the more generous income cap schedule provided in the Inflation Reduction Act (IRA), which fully subsidizes premiums for people with incomes up to 150 percent of the federal poverty level (FPL) and then gradually increases household spending on Part B and Part D premiums to 8.5 percent of income for those with incomes at or above 400 percent of FPL.

Most Medicare enrollees qualify for premium-free Part A through their work history, but Part B and Part D have monthly premiums that increase with income.[1] There are existing programs that provide some financial protection to Medicare beneficiaries, but these programs have various eligibility pathways and enrollment processes that can lead to confusion for beneficiaries. In addition, the current structure of these programs—Medicare Savings Programs (MSPs) for Part B and the Low-Income Subsidy for Part D—result in a disproportionately high financial burden on some Medicare beneficiaries with low incomes.

Premiums in Part B and Part D

Medicare beneficiaries with low incomes—like most other beneficiaries—are required to pay premiums for Part B that cover 25 percent of the costs of services, unless they enroll in one of the MSPs that Congress established to provide financial help. In 2023, the monthly premium for Part B starts at $164.90 and increases to $560.50 for individuals with incomes over $500,000 (or couples with incomes over $750,000).[2] Under current law, Part B premiums alone would represent about 15 percent of the annual income of an unmarried beneficiary over the age of 65 with an income right at the FPL.[3]

Beneficiaries in traditional Medicare can purchase a stand-alone Part D plan, and Medicare Advantage (MA) enrollees can purchase a stand-alone plan or an MA plan with prescription drug coverage (MA-PDP). A competitive bidding process determines Part D plan premiums; Medicare subsidizes about 75 percent of the plan premium, and enrollee premiums are tied to the plan bids. Medicare calculates a base premium rate, which is the average premium for basic coverage across all prescription drug plans (PDPs) and MA-PDPs in a region. The base premium amount for beneficiaries is $32.74 per month in 2023 (MedPAC 2022). Plans can offer Part D coverage that differs from the standard Part D benefit so long as it is actuarially equivalent, and plans can offer more generous coverage, too.

The actual monthly Part D premium amount that beneficiaries pay varies by region, beneficiary plan selection, and income.[4] To enroll in a Part D plan, Medicare beneficiaries pay the base premium rate plus any difference between their plan's bid and the average bid. Medicare beneficiaries with higher modified adjusted gross incomes are subject to higher premiums, as for Part B.[5] In 2023, the income threshold for the premium surcharge is $97,000 for an individual and $194,000 for couples. Beneficiaries may also pay a late enrollment penalty if they do not enroll in Part D when it is first available to them.

Medicare Savings Programs

State-run Medicaid programs wrap around Medicare coverage for eligible beneficiaries, and those enrolled in both Medicare and Medicaid are called "dual eligibles." Medicaid provides different levels of assistance (MSPs) for different types of dual eligibles, but participation in MSPs is limited, and many beneficiaries with low incomes continue to face high out-of-pocket spending burden. To qualify for an MSP, beneficiaries must apply through their state and have income and resources below certain limits. States vary in income limits for MSPs and which types of income and resources are counted. Enrollment in MSPs differs across states—from 7 percent of the Medicare population in North Dakota to 33 percent in Washington, DC—in part because of differences in eligibility requirements and poverty rates among the Medicare population (Freed et al. 2022). A November 2022 Urban Institute brief examining approaches to providing premium and cost-sharing assistance in Part B gives additional background on Part B premiums and MSPs (Gangopadhyaya et al. 2022).

Because federal financial assistance through an MSP is not available to beneficiaries with incomes above 135 percent of FPL, the burden of these premiums is quite substantial for beneficiaries with incomes just above that cutoff. Beyond the financial burden these Part B premiums represent, low-income enrollees without MSP protections also face a $226 deductible and 20 percent cost sharing for Part B services, unless they have protection from a supplemental plan.

The Part D Low-Income Subsidy Program

The Low-Income Subsidy (LIS, also called Extra Help) was established when Congress authorized the Medicare Part D program in 2004. Eligible beneficiaries can receive assistance with Part D premiums, deductibles, and other cost-sharing requirements through the LIS. In 2023, beneficiaries with the full LIS benefit paid no premiums or deductibles, with cost sharing limited to $4.15 per prescription for generic drugs and $10.35 for brand name drugs. There is also partial LIS assistance, which provides help with premiums and cost sharing that varies by income. In 2023, with the partial LIS benefit, beneficiaries pay a percentage of their Part D premium, no more than a $104 deductible, and no more than 15 percent of the cost of each covered drug. The maximum amount that LIS contributes to a beneficiary's Part D premium is tied to the local benchmark.

Some beneficiaries automatically qualify for the LIS, including beneficiaries with full Medicaid coverage, beneficiaries enrolled in MSPs, and beneficiaries who receive Supplemental Security Income (SSI) benefits. Other beneficiaries with low incomes may apply for the LIS. In 2023, the income eligibility limits were 135 percent of FPL for full LIS benefits and 150 percent for partial LIS benefits. The IRA of 2022 expanded the full LIS benefit and eliminated the partial LIS benefit category; starting in 2024, the eligibility for full LIS benefits will be 150 percent of FPL. In 2020, CMS reported that 13.1 million beneficiaries were enrolled in the LIS, which is about 28 percent of all Part D enrollees.

Policymakers took a different approach when providing premium subsidies for nongroup coverage purchased through the Marketplaces established under the Affordable Care Act (ACA). Under the ACA, subsidies covered the full premium for people with incomes at 100 percent of FPL and gradually phased out until incomes reach 400 percent of FPL, where payments were capped at 8.5 percent of income. Under the American Rescue Plan Act (ARPA), the subsidy schedule was made more generous, and the 8.5 percent cap was extended through the entire income distribution. The IRA, passed in August 2022, extends the ARPA subsidy schedule through 2025. Why Medicare and the Marketplaces take such different approaches to providing financial help with the costs of coverage for those with low and moderate incomes has never been seriously debated.

In this brief, we explore two approaches to providing premium assistance to Medicare beneficiaries to overcome some of the existing challenges of MSPs. We first provide background describing the level of Part B and Part D premiums, the income burden these premiums represent, and how the various state-administered MSPs provide protection for certain low-income Medicare enrollees. We then explore two alternative national policies to limit burdens on low-income people:

- **Policy alternative 1:** Cap Part B and Part D premiums for all Medicare enrollees at 8.5 percent of income. This would only apply the ACA's maximum premium cap to all Medicare enrollees.

- **Policy alternative 2:** Cap Part B and Part D premiums using the IRA income caps that have no premiums for people with incomes up to 150 percent of FPL, and then gradually increase premiums to 8.5 percent of income for those with incomes above 400 percent of FPL.

Each of these policy alternatives retains the MSP premium and cost-sharing subsidies under current law but goes further by expanding income eligibility ranges and not requiring asset tests. We model these policy alternatives with full take-up among eligible enrollees. For non-elderly adults purchasing coverage in the ACA Marketplaces, the IRA premium cap schedule provides fully subsidized premiums for enrollees with incomes at 150 percent of FPL or below. Between 150 and 200 percent of FPL, the income cap schedule gradually increases from 0 to 2 percent of income. For households with incomes ranging from 200 to 300 percent of FPL, the IRA premium cap gradually increases from 2 to 6 percent of income. Finally, for households with incomes ranging from 300 to 400 percent of FPL, the premium cap gradually increases from 6 to 8.5 percent of income, and then is held at 8.5 percent of income for all households with incomes above 400 percent of FPL. Our proposed policy alternative 2 would follow this schedule, making the premium schedule in Medicare consistent with that used in the ACA Marketplaces.

Data and Methods

We use the Urban Institute's Medicare policy simulation model, MCARE-SIM, to estimate 2023 Part B and Part D premium spending under current law and to predict the effects of implementing policy options that would provide enhanced subsidies for Part B and Part D premiums. MCARE-SIM uses data from the 2015–18 Medicare Current Beneficiary Survey (MCBS) and projects Medicare enrollment and spending estimates to 2023. We estimate 2023 Part B and Part D enrollment by reweighting each wave of the MCBS to match 2020 enrollment, reported in the Centers for Medicare & Medicaid Services (CMS) program statistics,[6] and then applying population growth rates from the Urban Institute's Mapping America's Futures database.[7] We determine enrollee Part B premium spending by applying 2023 CMS Part B premium rules[8] based on enrollee family income, marital status, and enrollment in any MSP. Individual premiums for Part D plans are directly reported in the MCBS. We apply Part D premium growth rates based on CMS data on standard plan premiums from 2010 and 2020. Finally, nominal income-based surcharges are applied to Part D premiums using 2023 CMS rules. Medicare premium rules are applied on an individual basis. Accordingly, our analysis focuses on affordability for individual enrollees. A family with two enrollees would pay the premium amount we report twice and face twice the burden. For additional detail on our approach, see Appendix A.

Results

Current Subsidies Significantly Reduce Premiums for Those Who Receive Them, but There Are Substantial Gaps

Table 1 shows current subsidy amounts by income both for those who receive MSP and/or LIS benefits and for those who do not. For those with incomes at or below 100 percent of FPL, 70.1 percent receive MSP and/or LIS benefits. However, 93.4 percent of this income group were enrolled in Part D, meaning that a significant number purchase Part D coverage without subsidies. Full premiums for those at or below 100 percent of FPL are $2,230, but enrollees in this income group pay $772 on average because of the subsidies (for married couples, *each* beneficiary pays this amount). For those with incomes between 100 and 200 percent of FPL, 85.6 percent are enrolled in Part D, but only 27.4 percent receive MSP or LIS benefits. Overall premiums for Part B and Part D are $2,219, of which individuals pay $1,720 given available subsidies. Across all enrollees, with and without subsidies, premiums as a percent of income are 6.9 percent for those with incomes at or below 100 percent of FPL, 7.4 percent for those with incomes between 100 percent and 200 percent of FPL, and 4.7 percent for those with incomes between 200 percent and 400 percent of FPL. As incomes increase, the share of the population on Part D remains between 75 and 80 percent, but the share receiving subsidies rapidly decreases.

TABLE 1

Average Annual Part B and Part D Premiums, by Medicare Savings Program Participation and Income Group, 2023

	At or below 100% of FPL	100–200% of FPL	200–400% of FPL	400% of FPL
All enrollees				
Full Part B and Part D premiums (excluding MSP and LIS benefits)	$2,230	$2,219	$2,226	$2,770
Average annual Part B and Part D premiums paid (including MSP and LIS benefits)	$772	$1,720	$2,188	$2,761
Average family income (2022 estimate)	$11,219	$23,112	$46,436	$134,766
Average premiums as a share of average family income	6.9%	7.4%	4.7%	2.0%
Share enrolled in Part D	93.4%	85.6%	79.9%	76.9%
Share receiving MSP and/or LIS benefits	70.1%	27.4%	1.9%	---[a]
Number of enrollees (millions)	10.5	16.2	18.1	16.9
Enrollees with MSP and/or LIS benefits				
Full Part B and Part D premiums (excluding MSP and/or LIS benefits)	$2,244	$2,236	$2,247	--- [a]
Average annual Part B and Part D premiums paid (including MSP and LIS benefits)	$163	$416	$307	--- [a]
Average family income (2022 estimate)	$11,052	$19,526	$39,790	--- [a]
Average premiums as a share of average family income	1.5%	2.1%	0.8%	--- [a]
Share enrolled in Part D	100.0%	100.0%	100.0%	--- [a]

Number of enrollees (millions)	7.4	4.4	0.4	--- [a]
Enrollees without MSP benefits or LIS benefits				
Full Part B and Part D premiums	$2,198	$2,213	$2,226	$2,767
Average family income (2022 estimate)	$11,609	$24,468	$46,568	$134,787
Average premiums as a share of average family income	18.9%	9.0%	4.8%	2.1%
Share enrolled in Part D	78.0%	80.1%	79.5%	76.8%
Number of enrollees (millions)	3.1	11.7	17.8	16.9

Source: MCARE-SIM 2023 projected estimates using 2015–2018 Medicare Current Beneficiary Survey.

Notes: FPL = federal poverty level; MSP = Medicare Savings Program; LIS = Low-Income Subsidy.

[a] Data suppressed due to small sample size (fewer than 50 respondents).

The second panel shows subsidies for enrollees who receive MSP or LIS benefits. Premiums for Part B and Part D, before considering subsidies, remain in the range of $2,240, varying slightly depending on individuals' Part D premiums. Those with incomes at or below 100 percent of FPL who receive subsidies pay premiums of $163. Those with incomes between 100 and 200 percent of FPL pay $416. These amounts are about 1 to 2 percent of income. Even those with incomes between 200 and 400 percent who receive subsidies pay less than 1 percent of income. For those receiving subsidies, 100 percent are enrolled in Part D. All enrollees receiving subsidies under an MSP program are automatically enrolled in the LIS program.

The third panel shows premium payments for those without MSP or LIS benefits. Premiums again are in the neighborhood of $2,200. For those with incomes at or below 100 percent of FPL, premiums as a share family income are 18.9 percent, compared with 1.5 percent for those receiving subsidies. For those with incomes between 100 and 200 percent of the FPL, premiums as a share of family income are 9.0 percent, compared with 2.1 percent for those receiving subsidies. For those without subsidies, the share enrolled in Part D is in the range of 80 percent.

Alternative Subsidy Policies Would Further Increase Financial Assistance to Older Americans with Low Incomes

Table 2 provides data on two alternative policies and compares them to current law. The first policy caps Part B and Part D premiums at 8.5 percent of income. The second policy applies the IRA premium subsidy schedule to Medicare enrollees and is a much more generous subsidy schedule. Under current law, 70.1 percent of those with incomes below 100 percent of FPL (7.4 million enrollees) receive subsidies for Part B and Part D; 27.4 percent of those between 100 and 200 percent of FPL receive subsidies (4.4 million enrollees). The value of subsidies under current law for those with incomes at or below 100 percent of FPL is $2,081 and for those with incomes between 100 and 200 percent of FPL is $1,821. Spending as a percent of income is the same as shown in table 1.

TABLE 2

Changes in per Capita and Total Expenses for Part B and Part D Premiums, by Beneficiary Income Group and Policy Alternative

	Current Law	Policy Alternative 1	Policy Alternative 2
	MSP or LIS is sole source of subsidies for Part B or Part D premium payments	Part B and Part D premiums subject to 8.5% income cap (in addition to MSP and LIS support)	IRA premium tax credit schedule applied to Medicare enrollees (with MSP and LIS support)
Share receiving Part B and/or Part D premium subsidy, by income group (%)			
At or below 100% of FPL	70.1	99.8	100.0
100–200% of FPL	27.4	71.7	100.0
200–400% of FPL	1.9	3.3	49.7
Above 400% of FPL	---[a]	---[a]	---[a]
Number of enrollees receiving premium subsidy, by income group (millions)			
At or below 100% of FPL	7.4	10.5	10.5
100–200% of FPL	4.4	11.6	16.2
200–400% of FPL	0.4	0.6	9
Above 400% of FPL	---[a]	---[a]	---[a]
Subsidy amount among those receiving subsidy, by income group ($)			
At or below 100% of FPL	2,081	1,876	2,230
100–200% of FPL	1,821	1,021	2,105
200–400% of FPL	1,941	1,228	989
Above 400% of FPL	---[a]	---[a]	---[a]
Premiums as a share of family income, by income group (%)			
At or below 100% of FPL	6.9	3.2	0.0
100–200% of FPL	7.4	6.4	0.5
200–400% of FPL	4.7	4.7	3.7
Above 400% of FPL	---[a]	---[a]	---[a]

Source: MCARE-SIM 2023 projected estimates using 2015–2018 Medicare Current Beneficiary Survey.

Notes: MSP = Medicare Savings Program; LIS = Low-Income Subsidy; IRA = Inflation Reduction Act; FPL = federal poverty level.

[a] Data suppressed due to small sample size (fewer than 50 respondents).

AN 8.5 PERCENT OF INCOME CAP

The first alternative policy, which provides the 8.5 percent income cap, would give subsidies to almost all those with incomes at or below 100 percent of FPL (99.8 percent), compared with 70.1 percent under current law. Of those with incomes between 100 and 200 percent of the FPL, 71.7 percent would receive subsidies, compared with 27.4 percent under current law. Under this policy, 10.5 million of those with incomes at or below 100 percent of FPL and 11.6 million of those between 100 and 200 percent of FPL would receive some financial assistance. Because more people receive partial assistance, the average subsidy amount declines to $1,876 for those at or below 100 percent of FPL and to $1,021 for those between 100 and 200 percent of FPL. The subsidy amounts for the small number at higher incomes receiving subsidies are in the same range. Spending on premiums as a percent of income for those with incomes at or below 100 percent of FPL falls from 6.9 percent under current law to 3.2 percent. For those with incomes between 100 and 200 percent of FPL, premiums as a percentage of income fall from 7.4 percent under current law to 6.4 percent.

INFLATION REDUCTION ACT SUBSIDIES

The second alternative, which uses the IRA premium tax credit schedule, is shown in the third column. Under this policy, 100 percent of those with incomes at or below 100 percent of FPL and between 100 and 200 percent of FPL would receive at least some financial assistance. Even 50 percent of those with incomes between 200 and 400 percent receive some assistance. Many more now benefit because of the more generous subsidy schedule. The number of individuals benefiting are 10.5 million with incomes at or below 100 percent of FPL, 16.2 million of those with incomes between 100 and 200 percent of FPL, and 9.1 million of those with incomes between 200 and 400 percent of FPL. Those whose incomes are at or below 100 percent of FPL have subsidies averaging $2,230 while those with incomes between 100 and 200 percent have subsidies averaging $2,105 dollars. For those with incomes between 200 and 400 percent of FPL, subsidies are nearly $1,000. Premium spending relative to income falls to 0 percent for those with incomes at or below 100 percent of FPL and to 0.5 percent for those with incomes between 100 and 200 percent of FPL, from 6.9 and 7.4 percent, respectively, under current law.

The 8.5 Percent Cap Increases Federal Spending by $8 Billion and the More Generous IRA Premium Schedule Increases Federal Spending by $42 Billion

Table 3 provides data on total premium spending under current law. Total premium spending is $146.6 billion ($129.6 billion for Part B and $17.0 billion for Part D). Of this total, beneficiaries pay $122.3 billion. MSP and LIS subsidies for both Part B and Part D account for the remaining $24.3 billion, split between Part B and Part D, with far more spending on Part B than D. The amount spent on subsidies under current law for those with incomes below 100 percent of FPL is $15.4 billion, with another $8.1 billion spent for those with incomes between 100 and 200 percent of FPL (not shown in table).

TABLE 3

Total 2023 Spending for Part B and Part D Premiums under Current Law and Policy Alternatives Overall, by Payer

	Current law ($billions)	Policy alternative 1: 8.5% of income cap on Part B premiums ($billions)	Policy alternative 2: Applying ARPA PTC subsidies for Part B premiums ($billions)
Total spending for Part B and Part D premiums (all payers)			
Total premium spending	*146.6*	*146.6*	*146.6*
Part B premiums	129.6	129.6	129.6
Part D premiums	17.0	17.0	17.0
Beneficiary spending	*122.3*	*114.2*	*80.0*
Part B premiums	108.5	101.3	70.4
Part D premiums	13.8	12.9	9.6
MSP or LIS spending	*24.3*	*24.3*	*24.3*
Part B premiums (MSP spending)	21.1	21.1	21.1
Part D premiums (LIS spending)	3.2	3.2	3.2
Additional federal spending to support Part B and Part D premium subsidies	*N/A*	*8.2*	*42.3*
Part B premiums	N/A	7.3	38.1
Part D premiums	N/A	0.9	4.2
Total subsidy amount	**24.3**	**32.4**	**66.6**
Subsidy amounts, by income group			
At or below 100% of FPL	15.4	19.7	23.5
100–200% FPL	8.1	11.8	34.0
200–400% of FPL	0.7	0.7	8.9
Above 400% of FPL	---[a]	---[a]	---[a]
Total subsidy amount	**24.3**	**32.4**	**66.6**

Source: MCARE-SIM 2023 projected estimates using 2015–2018 Medicare Current Beneficiary Survey.

Notes: ARPA = American Rescue Plan Act; PTC = premium tax credit; MSP = Medicare Savings Program; LIS = Low-Income Subsidy; FPL = federal poverty level.

[a] Data suppressed due to small sample size (fewer than 50 respondents).

With the policy alternative that provides an 8.5 percent cap on total Part B and Part D premiums, total premium spending remains the same. Beneficiary spending falls to $114.2 billion from $122.3 billion. MSP and LIS spending also remains the same. Overall subsidy spending would increase to $32.5 billion, about $8.2 billion higher than under current law. This additional spending represents approximately a 1.6 percent increase in total Part B and Part D spending.[9] The amount spent on subsidies increases to $19.7 billion for those who are below FPL and $11.8 billion for those with incomes between 100 and 200 percent of FPL (not shown in table).

Under the policy alternative that applies the IRA premium tax credit subsidies, beneficiary spending would fall from $122.3 to $80.0 billion, split between Part B and Part D. MSP and LIS spending remains the same. With this more generous policy, the overall cost of subsidies would increase to $66.6 billion, an increase of $42.3 billion compared with current law. This represents about an 8.3 percent increase in total Part B and Part D spending. Of this amount, subsidies paid to those with incomes at or below 100 percent of FPL would be $23.5 billion, with another $34.0 billion for those with incomes between 100 and 200 percent of FPL (not shown in table).

Discussion

In this paper we examine two policies that would greatly reduce the cost of Part B and Part D subsidies for low-income populations. Under current law there are two subsidy programs that help low-income people pay for Part B and Part D premiums. MSPs provide premium subsidies for Part B, and those receiving MSP benefits automatically receive Part D LIS benefits. A small share of additional people receive LIS without benefiting from an MSP. The current system of subsidies leaves a large number of people with either no or limited financial assistance, primarily because of asset tests or ineffective state administration. Moreover, financial assistance phases out at fairly low incomes. As a result, many lower-income Medicare enrollees face very high premium burdens.

As we have shown in this paper, about 70 percent of those with incomes at or below 100 percent of FPL receive MSP or LIS benefits. Only 27 percent of those with incomes between 100 and 200 percent of FPL receive MSP or LIS benefits, and for those with incomes between 200 and 400 percent of FPL only 2 percent receive assistance. About 7.4 million of those at or below the FPL receive financial assistance, while 3.1 million do not. As a result of these current patterns, low-income Medicare beneficiaries can face very high burdens of paying premiums for Part B and Part D.

A policy that would cap premiums at 8.5 percent of income would provide assistance to nearly all (99.8 percent) of those with incomes at or below 100 percent of FPL, compared with 70.1 percent under current law. Of enrollees with incomes between 100 and 200 percent of FPL, 71.7 percent would receive financial assistance. Under the policy that caps premiums at 8.5 percent of income, 23 million enrollees would receive financial assistance as opposed to 12.5 million under current law. Premiums as a percentage of income would be considerably less. The cost to the federal government would be $8.2 billion. Total subsidies, including MSP and LIS payments, would be $32.4 billion, compared with $24.3 billion under current law.

The second policy, which applies the IRA premium tax credit schedule and uses a more generous sliding scale, would have much broader effects. All enrollees with incomes below 200 percent of FPL would receive financial assistance. About half of those with incomes between 200 and 400 percent of FPL would receive some assistance. Thus, 36 million of the Medicare population of 61 million would receive some amount of financial assistance with Part B and Part D premiums, with assistance phasing out as incomes increase. Premiums as a percent of income would be close to zero for those below 200 percent of FPL and would fall to 3.7 percent for those with incomes between 200 and 400 percent of FPL. Overall, the federal government would spend about $58 billion dollars on those with incomes below 200 percent of FPL, compared with $23 billion under current law. The additional cost of the policy to the federal government would be $42.3 billion; with MSP/LIS payments, total subsidies would be $66.6 billion.

Either of the policies we modeled would significantly help low-income older Americans. The IRA premium schedule would make premium caps in Medicare similar to the income-related premium caps in the ACA that benefit lower-income people under age 65. The 8.5 percent of income cap on premium outlays also has a precedent in the ACA. Compared with current law, both policies represent a more consistent approach to capping premiums exceeding a specified share of income as people transition to Medicare coverage.

Appendix A. Detailed Methods

We use the Urban Institute's Medicare policy simulation model, MCARE-SIM, to estimate 2023 Part B and Part D premium spending under current law and to predict the effects of implementing policy options that would provide subsidies for Part B and Part D premiums. MCARE-SIM uses data from the 2015–18 MCBS and projects Medicare enrollment and spending estimates to 2023.

We estimate 2023 Part B and Part D enrollment by reweighting enrollee groups by survey year in a combined 2015–18 MCBS analytic file to match 2020 Medicare Advantage and original Medicare Part B and Part D enrollment, separately among enrollees who are and are not supported by MSPs and the LIS program, as reported in CMS program statistics. We then apply population growth rates for each age and racial-ethnic group, calculated from 2010 and projected 2030 estimates from the Urban Institute's Mapping America's Futures database. We preserve each enrollee's income as a percentage of FPL in their survey year and assign their 2022 nominal income as the equivalent needed to maintain the same income-to-poverty ratio based on the most recently available poverty guidelines. We use this calculated income as an estimate for enrollee income in 2023.

To calculate each enrollee's annual Part B premium spending, we apply 2023 CMS Part B premium rules based on enrollees' estimated 2023 family income and marital status. Nearly all MSPs fully subsidize Part B premium payments; therefore, for beneficiaries enrolled in an MSP, we impute beneficiary spending on Part B premiums as $0. For each policy alternative, we assume MSPs remain in place. Because MSP protections for those eligible are always at least as generous as any of the policy alternatives discussed here, we assume that those enrolled in an MSP under current law will continue to receive MSP benefits under each policy alternative and are therefore unaffected by each new option. Eligibility for MSPs is generally based on income and assets; in most states, these programs are unavailable for those with incomes above 135 percent of FPL. Among enrollees with reported income above 200 percent of FPL, we impute those who are not in an institutionalized setting or with end-stage renal disease as not having MSP benefits.

Individual premiums for Part D plans are directly reported in the MCBS. We apply Part D premium growth rates based on CMS data on standard plan premiums from 2010 and 2020. We apply nominal income-based surcharges to Part D premiums using 2023 CMS rules. For beneficiaries enrolled in the LIS program, we assume the enrollee has enrolled in a benchmark plan and therefore their Part D premiums are waived. For each policy alternative, we assume LIS benefits remain in place. For beneficiaries who are not enrolled in any Part D plan, we assume these enrollees have the option to enroll in a Part D plan for a premium equal to the average estimated premium among non-LIS enrollees.

For beneficiaries whose total premium spending exceeds the caps in either of the policy alternatives, we allocate excess payments back to Part B and Part D Medicare programs based on the share of overall premium payments that each Part represents. For example, if an enrollee spent 90 percent of premium spending on Part B premiums and the remaining 10 percent on Part D premiums, and if they exceeded an income cap by $100, that enrollee would be subsidized $100, with $90 attributed to Part B premium savings and $10 attributed to Part D premium savings.

Notes

1 The Part B premium is determined by modified adjusted gross income as reported on the IRS tax return two years prior—that is, 2022 premiums are determined by the 2020 modified adjusted gross income.

2 "2023 Medicare Parts A & B Premiums and Deductibles 2023 Medicare Part D Income-Related Monthly Adjustment Amounts," Centers for Medicare & Medicaid Services (CMS), news release, September 27, 2022, https://www.cms.gov/newsroom/fact-sheets/2023-medicare-parts-b-premiums-and-deductibles-2023-medicare-part-d-income-related-monthly.

3 The 2022 poverty guideline is $13,590 for a one-person household and $18,310 for a two-person household ("Poverty Guidelines," US Department of Health and Human Services, accessed November 8, 2022, https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines).

4 "An Overview of the Medicare Part D Prescription Drug Benefit," KFF, October 19, 2022, https://www.kff.org/medicare/fact-sheet/an-overview-of-the-medicare-part-d-prescription-drug-benefit/.

5 "2023 Medicare Parts A & B," CMS.

6 "CMS Program Statistics," CMS, accessed November 4, 2022, https://data.cms.gov/collection/cms-program-statistics.

7 "Mapping America's Futures," Urban Institute, updated December 1, 2017, https://apps.urban.org/features/mapping-americas-futures/.

8 "2023 Medicare Parts A & B," CMS.

9 Medicare Part B expenditures totaled $406 billion in 2021. Part D expenditures totaled $105 billion in 2021. See: table II.B1 of the Medicare Trustees Report (2022).

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About the Authors

Anuj Gangopadhyaya is a senior research associate in the Health Policy Center at the Urban Institute. His research focuses on the impact of safety net programs on health and well-being, family income, and education achievement outcomes for children in low-income families. He has focused on the impact of Medicaid eligibility expansion on children's education achievement, maternal and child health effects of the earned income tax credit program, and the impact of the Affordable Care Act Medicaid expansion on adult labor supply and fertility rates of women of reproductive age. He also helps lead Urban's Medicare simulation model (MCARE-SIM), estimating potential impacts of proposed policy changes on program spending, beneficiary spending, and use of services. Gangopadhyaya received his PhD in economics from the University of Illinois at Chicago.

John Holahan is an Institute fellow in the Health Policy Center, where he previously served as center director for over 30 years. His recent work focuses on health reform, the uninsured, and health expenditure growth, developing proposals for health system reform most recently in Massachusetts. He examines the coverage, costs, and economic impact of the Affordable Care Act (ACA), including the costs of Medicaid expansion as well as the macroeconomic effects of the law. Holahan has also analyzed the health status of Medicaid and exchange enrollees, and the implications for costs and exchange premiums. He has written on competition in insurer and provider markets and implications for premiums and government subsidy costs as well as on the cost-containment provisions of the ACA. Holahan has conducted significant work on Medicaid and Medicare reform, including analyses on the recent growth in Medicaid expenditures, implications of block grants and swap proposals on states and the federal government, and the effect of state decisions to expand Medicaid in the ACA on federal and state spending. Recent work on Medicare includes a paper on reforms that could both reduce budgetary impacts and improve the structure of the program. His work on the uninsured explores reasons for the growth in the uninsured over time and the effects of proposals to expand health insurance coverage on the number of uninsured and the cost to federal and state governments.

Bowen Garrett is an economist and senior fellow in the Health Policy Center. His research focuses on health reform and health policy topics, including health insurance and labor markets and Medicare financing. He leads the development of the Urban Institute's Medicare policy simulation model (MCARE-SIM). Previously, Garrett was chief economist of the Center for US Health System Reform and McKinsey Advanced Health Analytics at McKinsey and Company. Garrett received his PhD in economics from Columbia University and was a postdoctoral research fellow in the Robert Wood

Johnson Foundation's Scholars in Health Policy Research Program at the University of California, Berkeley.

Adele Shartzer is a senior research associate in the Health Policy Center, where her work focuses on health coverage, access to care, and the health care delivery system; her research has been published in notable health policy journals. Before joining Urban, she worked as a program analyst in the Office of Health Policy in the Office of the Assistant Secretary of Planning and Evaluation at the US Department of Health and Human Services. She has also worked in health policy at several nonprofits in the Washington, D.C., area. Shartzer holds a bachelor's degree in bioethics from the University of Virginia and an MPH in health policy from George Washington University. She received her PhD in health services research from the Johns Hopkins Bloomberg School of Public Health. While there, she received a doctoral dissertation award in patient-reported outcomes and was a National Research Service Award trainee.

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500 L'Enfant Plaza SW
Washington, DC 20024

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