

Retirement expert: Medicare already means-tested

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The Obama administration's controversial proposal to means-test Medicare recipients has one small problem -- the Medicare program is already means-tested, says law professor Richard L. Kaplan, a University of Illinois expert on retirement benefits. Credit: L. Brian Stauffer

(Medical Xpress)—The Obama administration's controversial proposal to "means-test" Medicare recipients is ostensibly aimed at generating more cash for the government from those who can afford it – or squeezing more money out of upper-income seniors, depending upon one's point of view. But according to a University of Illinois expert on retirement benefits, the Medicare program is already means-tested.

[Law professor](#) Richard L. Kaplan says whenever the issue of cutting Medicare emerges, one of the first ideas to "fix" the program is to make its upper-income beneficiaries pay more.

"Indeed, the claim is often advanced that it is silly – if not offensive – to have low-income workers pay higher taxes so that wealthy beneficiaries can receive subsidized benefits from the Medicare program," said Kaplan, the Peer and Sarah Pedersen Professor at Illinois. "But the underlying premise is that Medicare is not already means-tested, and that is simply not the case."

Medicare Part A is financed by a 2.9 percent [payroll tax](#) imposed on all wages, salaries and income from self-employment, so higher-earning people already pay more for their Part A benefits. Starting this year, individuals with annual earnings above \$200,000 and [married couples](#) with annual earnings above \$250,000 will owe an additional 0.9 percent in Medicare tax, according to Kaplan.

Those taxpayers also will owe a 3.8 percent Medicare tax on their investment income in excess of those same thresholds.

Medicare Part B and Part D employ a more direct form of means-testing –namely, increased premiums based on taxable income during one's retirement years, Kaplan said.

"Eschewing the precise mechanics of the applicable provisions, any Medicare beneficiary whose income exceeds an annually determined threshold pays an increased amount for coverage under these components of Medicare," Kaplan said.

"Thus, once [taxable income](#) with certain adjustments reaches the specified threshold, the amount paid by enrollees in either Medicare Part B or Medicare Part D is increased according to a four-step rate

schedule."

Moreover, the formula was made more severe when the health care reform legislation enacted in 2010 froze the applicable income thresholds for the next 10 years, Kaplan said.

"Those thresholds are not indexed for inflation and will therefore affect more people over time," he said. "Furthermore, the Obama administration has proposed adding additional brackets – a total of nine brackets versus the four we have now – so that charges rise faster as income goes up."

Kaplan said that unlike Social Security benefits, which bear a close relationship to one's pre-retirement earnings, there is no correlation between one's pre-retirement earnings and the benefits a person receives from Medicare Part A.

"The value of Medicare benefits received correlates with a person's health, not wealth, so a less-healthy retiree will receive more from Medicare than a healthier retiree," he said. "To the extent that wealthy retirees are healthier than their poorer counterparts, there is an inverse relationship between income prior to retirement and benefits received from the [Medicare program](#)."

According to Kaplan, some policymakers oppose the very concept of means-testing benefits, regardless of the specific formula employed, arguing that Medicare is a social insurance program and should provide equal benefits to all participants regardless of their individual resources.

"Means-testing benefits, in their view, risks converting Medicare into another welfare-oriented program, with the possible erosion of popular support and potential exposure to the sort of reductions that such programs often suffer in difficult economic times," Kaplan said. "Other

policymakers oppose means-testing Medicare because they regard reducing promised benefits on the basis of [income](#) as a disguised tax, a penalty on 'success,' in their view."

Thus, the idea that Medicare [benefits](#) should be means-tested raises genuine philosophical issues and is not a policy "slam dunk."

"The bottom line is that the individual components of Medicare are means-tested currently," Kaplan said. "Some lawmakers, no doubt, might prefer that the degree to which Medicare is means-tested be increased, but the fact remains that Medicare is already means-tested."

Kaplan's paper, "Top Ten Myths of [Medicare](#)," was published in *The Elder Law Journal*.

More information: The article, "Top Ten Myths of Medicare," is available [online](#).

Provided by University of Illinois at Urbana-Champaign

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