

STRENGTHEN SOCIAL SECURITY

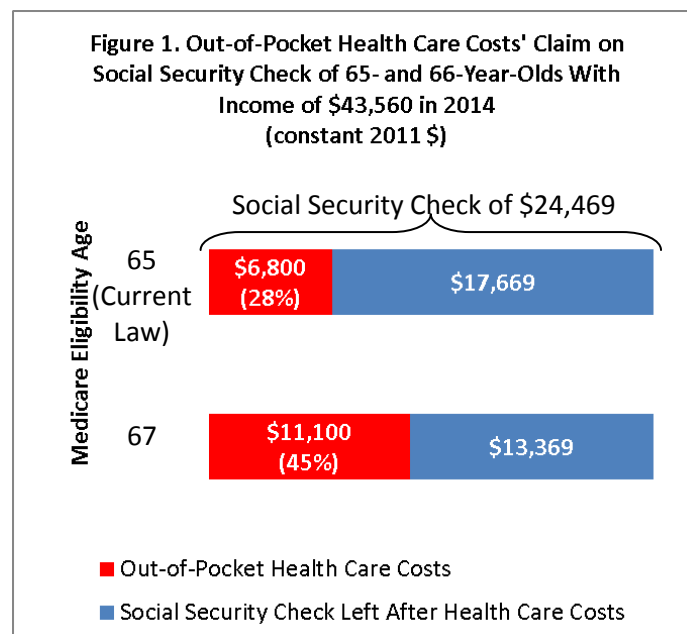
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Higher Health Costs From Raising Medicare Eligibility Age to 67 Would Consume Up to 45% of Social Security Check for Middle-Class Seniors

Raising the Medicare eligibility age from 65 to 67 would substantially increase health care costs for 3.3 million people aged 65 and 66, according to a report by the Kaiser Family Foundation.¹ As a result, out-of-pocket health care costs would take a larger bite out of affected seniors' already modest Social Security checks, and hand more of seniors' hard-earned income over to private insurance companies. For example, out-of-pocket health care costs' claim on many 65- and 66-year-old Social Security beneficiaries with a history of middle-class earnings—\$69,629 in 2011—would increase from 28 percent to 45 percent.

3.3 million people aged 65 and 66² would pay more out-of-pocket for health care if they were no longer eligible for Medicare. Among this population, the amount out-of-pocket costs would increase differs for each of the following four groups:

- **Out-of-pocket health care costs would increase, on average, by \$4,300 in 2014 for 960,000 people aged 65 and 66 who purchase coverage through a health insurance exchange and have incomes exceeding 400 percent of the federal poverty level (\$43,560), making them ineligible for subsidies available to exchange participants with lower incomes.³ Under current law, these 65- and 66-year-old retirees' average out-of-pocket costs would be \$6,800 in 2014,⁴ out of a total Social Security benefit of \$24,469.⁵ If forced out of Medicare and onto the health insurance exchanges, their average out-of-pocket health care costs would grow to \$11,100,⁶ out of a total Social Security benefit of \$24,469. [Figure 1] As a result, if the Medicare eligibility age is raised, out-of-pocket health care costs would go from consuming 28 percent to 45 percent of those 65- and 66-year-old retirees' Social Security check.⁷**



Sources: Social Security Works analysis of estimates from Social Security Trustees, 2011, and Kaiser Family Foundation, 2011.

- **Out-of-pocket costs would increase, on average, by \$1,200 for 240,000 people aged 65 and 66 who purchase coverage through a health insurance exchange and have incomes between 300 and 400 percent of the federal poverty level (\$32,670-\$43,560).** Under current law, these 65- and 66-year-old retirees' average out-of-pocket costs would be \$4,800 in 2014,⁸ out of a total Social Security benefit of \$18,464.⁹ If forced out of Medicare and onto the health insurance exchanges, their average out-of-pocket health care costs would grow to \$6,000,¹⁰ out of a total Social Security benefit of \$18,464. As a result, if the Medicare eligibility age is raised, out-of-pocket health care costs would go from consuming 26 percent to 32 percent of those 65- and 66-year-old retirees' Social Security check.¹¹
- **Out-of-pocket costs would increase, on average, by \$2,200 for 1.1 million retirees with employer-sponsored retiree health plans** – assuming that the increased cost to employers did not cause them to terminate these plans.¹²
- **Out-of-pocket costs would increase, on average, by \$500 for 1 million retirees with employer-sponsored health plans** – assuming that the increased cost to employers did not cause them to terminate these plans.¹³

Another group that would also be financially impacted by raising the Medicare eligibility age to 67 is existing Social Security beneficiaries, aged 67 and older. These beneficiaries would see their out-of-pocket health care costs increase, and consequently, their Social Security benefits effectively reduced. It is estimated that Part B premiums, which are automatically deducted from Social Security checks, would increase by 3 percent in 2014, or \$46, on top of increases produced by rapidly rising health care costs. This would occur, because, on average, the healthiest, least expensive members of the Medicare risk pool, those aged 65 and 66, would be removed.¹⁴

Costs to Social Security beneficiaries could be substantially higher than estimated here. The Kaiser Family Foundation report on which this analysis is based assumes the health insurance exchanges and subsidies enacted under the 2010 Patient Protection and Affordable Care Act (ACA) will be fully implemented by 2014, a prospect that is far from certain. If any or all of four key provisions of the ACA are scaled back or repealed—the expansion of Medicaid eligibility, the creation of health insurance exchanges, subsidies for individuals to purchase private insurance on the exchanges, and the individual health insurance mandate—the increase in out-of-pocket health care costs due to raising the Medicare eligibility age would be significantly higher and consume a much greater proportion of Social Security benefits as a result. Moreover, absent the ACA's coverage expansions, many more 65- and 66-year-olds would be uninsured altogether.

In addition, the out-of-pocket costs discussed in this analysis do not include the cost of medical services that are not covered by Medicare at all, including dental care and most kinds of long-term care, such as permanent residency in a nursing home. Accounting for these medical services would not have any bearing on the amount that out-of-pocket costs would increase if the Medicare eligibility were raised to 67. It would, however, show average out-of-pocket costs to be considerably larger under both current law and if the Medicare eligibility were raised to 67.

¹ Kaiser Family Foundation (KFF), *Raising the Age of Medicare Eligibility: A Fresh Look Following Implementation of Health Reform*, July 2011, pp. 9-10. <http://www.kff.org/medicare/upload/8169.pdf> The analysis expressly assumes “full implementation in 2014, rather than the more gradual assumption of a gradual increase, to illustrate the likely effects, once fully phased in.”

² KFF, *Ibid*, p. 9.

³ The federal poverty level, which is determined by the poverty guidelines of the Department of Health and Human Services (HHS), was \$10,890 for an individual in 2011. 400 percent of that amount is \$43,560. HHS, “The 2011 HHS Poverty Guidelines,” January 20, 2011. <http://aspe.hhs.gov/poverty/11poverty.shtml>

The out-of-pocket healthcare costs in question consist of premiums and cost-sharing for those individuals aged 65 and 66 who purchase health coverage on the insurance exchanges and have income exceeding 400 percent of the federal poverty level (\$43,560), making them ineligible for subsidies. KFF, p. 5.

The cost increase for this group (\$4,300), as well as the number of individuals affected by that increase (960,000), is courtesy of an analysis performed by the Actuarial Research Corporation for the Kaiser Family Foundation. KFF, *Ibid.*, Exhibit 6, p. 10. For more on the Kaiser Family Foundation’s methodology, see the report’s technical appendix on pages 15-24.

⁴ KFF, *Ibid*, p. 10.

⁵ For the purposes of this analysis it was assumed that the beneficiary would have average pre-retirement earnings of around \$69,629, 160 percent of the average wage in 2011. The Social Security Administration classifies a person with this earnings history as a scaled “High” Earner. It is feasible that such an earner would have income in retirement of \$43,560 of which more than half comes from Social Security. The analysis does not account for those 65- and 66-year-olds who would be affected by the \$4,300 increase in out-of-pocket health care costs (those with income above \$43,560, who purchase health insurance on the exchanges), but would receive a Social Security benefit lower than \$24,469 due to lower pre-retirement earnings, or those who would receive a higher Social Security benefit due to higher pre-retirement earnings. The increased out-of-pocket health care costs would consume more and less, respectively, of those beneficiaries’ Social Security checks.

The estimated Social Security benefit used in this analysis (\$24,469) is a projection for 2015, the closest date to 2014 available. Social Security Trustees, “Table VI.F10.—Annual Scheduled Benefit Amounts for Retired Workers With Various Pre-Retirement Earnings Patterns Based on Intermediate Assumptions, Calendar Years 2011-85,” in *2011 Trustees’ Report*, May 13, 2011, p. 201. <http://www.ssa.gov/oact/tr/2011/tr2011.pdf>

For the purposes of this analysis it was also assumed that the individuals aged 65 and 66 already claimed their Social Security benefits. While not all Social Security beneficiaries begin receiving Social Security benefits by age 65 or 66, 1.9 million out of 2.6 million new beneficiaries in 2010 claimed benefits before the full retirement age of 66. Social Security Administration, “Table 6.A4—Number and average monthly benefit for retired and disabled workers, by age and sex, 2010,” and “Table 6.A5—Number and average monthly benefit with reduction for early retirement, by type of benefit, age, and sex, 2010,” in *Annual Statistical Supplement 2011*, February 2011. <http://www.ssa.gov/policy/docs/statcomps/supplement/2011/6a.html#table6.a4>

⁶ KFF, *Ibid*, p. 10.

⁷ Social Security Trustees, *Ibid*; KFF, *Ibid*, p. 10.

⁸ KFF, *Ibid*, p. 10. Individuals with incomes between 300 and 400 percent of the federal poverty level, who purchase insurance on the exchanges, would see their out-of-pocket costs increase less than those with incomes above 400 percent of the federal poverty level, because they would remain eligible for partial subsidies under ACA.

⁹ For the purposes of this analysis it was assumed that the beneficiary would have average pre-retirement earnings of around \$43,518, the average wage in 2011. The Social Security Administration classifies a person with this earnings history as a scaled “Medium” Earner. It is feasible that such an earner would have income in retirement of \$32,670 of which more than half comes from Social Security. The analysis does not account for those 65- and 66-year-olds who would be affected by the \$1,200 increase in out-of-pocket health care costs (those with incomes between \$32,670 and \$43,560, who purchase health insurance on the exchanges), but would receive a Social Security benefit higher than \$18,464 due to lower pre-retirement earnings, or those who would receive a higher Social Security benefit due to higher pre-retirement earnings. The increased out-of-pocket health care costs would consume more and less, respectively, of those beneficiaries’ Social Security checks.

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<http://www.ssa.gov/policy/docs/statcomps/supplement/2011/6a.html#table6.a4>

¹⁰ KFF, *Ibid*, p. 10.

¹¹ Social Security Trustees, *Ibid*; KFF, *Ibid*, p. 10.

¹² KFF, p. 10. The out-of-pocket healthcare costs in question consist of premiums and cost-sharing under an employer plan for those individuals aged 65 and 66 who receive health coverage through an employer-provided retirement plan. The impact on a Social Security check is not included for this group of retirees, because there is no information available about their pre-retirement earnings history.

The cost increase for this group (\$2,200), as well as the number of individuals affected by that increase (1.1 million), is courtesy of an analysis performed by the Actuarial Research Corporation on behalf of the Kaiser Family Foundation. KFF, *Ibid.*, Exhibit 6, p. 10. For more on the Kaiser Family Foundation’s methodology, see the report’s technical appendix on pages 15-24.

¹³ KFF, p. 10. The out-of-pocket healthcare cost in question is the cost of purchasing supplemental insurance of the kind currently available to active 65- and 66-year-old workers through Medicare. The impact on a Social Security check is not included for this group of retirees, because it is assumed that an active worker has not yet claimed Social Security benefits.

The cost increase for this group (\$500), as well as the number of individuals affected by that increase (1million), is courtesy of an analysis performed by the Actuarial Research Corporation on behalf of the Kaiser Family Foundation. KFF, *Ibid.*, Exhibit 6, p. 10. For more on the Kaiser Family Foundation’s methodology, see the report’s technical appendix on pages 15-24.

¹⁴ KFF, *Ibid*, p. 12.