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Analysis of Alternative Approaches to Increasing Part B Financial Assistance to Medicare Beneficiaries with Low Incomes

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Medicare Savings Programs (MSPs) provide financial assistance with premium obligations and cost-sharing expenses to many low-income Medicare beneficiaries who are not eligible for full Medicaid benefits. However, these programs have income and asset limits that are often less generous than federal laws allow, and even in the most generous programs, low-income beneficiaries may still face very high financial burdens from premiums, deductibles, and copayments. In this brief, we estimate the effects and costs of three national policies that would limit the financial burdens faced by low-income Medicare enrollees. Unlike MSPs, none of the three approaches uses asset tests to determine eligibility. The first approach would cap Part B premiums for all Medicare enrollees at 8.5 percent of income. The second would cap Part B premiums using the Inflation Reduction Act (IRA) income cap schedule, 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 premiums to 8.5 percent of income for those with incomes at or above 400 percent of FPL. The third approach would also use the IRA premium schedule but eliminate Part B cost sharing for beneficiaries with incomes at or below 100 percent of FPL. We find an 8.5 percent cap would provide some financial assistance to nearly all enrollees with incomes below the poverty level and many with incomes between 100 and 200 percent of FPL without substantially raising Medicare payments. Applying IRA income caps 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 doing so would raise total Medicare Part B program spending by 9 percent.

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Introduction

Medicare beneficiaries with low incomes—like all 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. However, these MSPs are not easily accessible because they are administered by state Medicaid programs, have eligibility requirements that can vary by state, and have low participation. For example, for most enrollees, the 2023 monthly premium for Part B coverage will be $164.90 ($1,979 annually). At this level, 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.[1] Because federal financial assistance through an MSP is not available to any beneficiary with income 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.

Policymakers took a very different approach when providing subsidies for nongroup coverage purchased through the Marketplaces established under the Affordable Care Act. Under the Affordable Care Act, 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, 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 American Rescue Plan 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 alternative approaches to providing premium and cost-sharing assistance to Medicare beneficiaries to overcome some of the existing challenges of MSPs. We first provide background describing the level of Part B 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 three alternative national policies to limit burdens on low-income people:

- **Policy alternative 1:** Cap Part B premiums for all Medicare enrollees at 8.5 percent of income.
- **Policy alternative 2:** Cap Part B 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.
- **Policy alternative 3:** Cap Part B premiums using the IRA income caps that have no premiums for people with incomes up to 150 percent of FPL, gradually increase premiums to 8.5 percent of income for those with incomes above 400 percent of FPL, and eliminate cost sharing for those with incomes at or below 100 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.

Background

Most Medicare enrollees qualify for premium-free Part A through their work history, but Part B has monthly premiums that increase with income.[2] In 2023, the monthly premium for Part B will start at $164.90 and increase to $560.50 for individuals with incomes over $500,000 (or couples with incomes over $750,000). Table 1 shows the current annual premium amounts by income level and the financial burden of those premiums at income levels within each band for married and unmarried beneficiaries.

In addition to premiums, both Parts A and B have cost-sharing obligations (copayments and deductibles) that can create financial burdens for Medicare beneficiaries with low or modest incomes without additional assistance. In traditional Medicare in 2023, the Part A deductible for a hospital stay is $1,600. The deductible for physician and other services under Part B is $226, and after the deductible is met beneficiaries are responsible for 20 percent of allowable charges for Part B covered services.

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 for different types of dual eligibles. Some beneficiaries can enroll in MSPs for financial help that may only cover premiums or may also cover deductibles, coinsurance, and copayments (“partial benefit Medicaid”). Other beneficiaries may qualify for full Medicaid benefits including additional services and help with Medicare cost sharing under separate non-MSP pathways.

TABLE 1

Part B Premiums and Premiums as a Share of Income for Married and Unmarried Medicare Beneficiaries, by Income Range, 2023

Marital status and income level	Annual premium ($)	Premium as a percentage of income at middle of range
Married beneficiaries		
Income range		
Less than or equal to $194,000	1,979	2.0
$194,000–246,000	2,770	1.3
$246,000–306,000	3,956	1.4
$306,000–366,000	5,143	1.5
$366,000–750,000	6,330	1.1
Greater than or equal to $750,000	6,726	0.9
Unmarried beneficiaries		
Income range		
Less than or equal to $97,000	1,979	1.0
$97,000–123,000	2,770	2.5
$123,000–153,000	3,956	2.9
$153,000–183,000	5,143	3.1
$183,000–500,000	6,330	1.9
Greater than or equal to $500,000	6,726	1.4

Source: Centers for Medicare & Medicaid Services, "2023 Medicare Parts A and B Premiums and Deductibles 2023 Medicare Part D Income-Related Monthly Adjustment Amounts," 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#:~:text=The%20standard%20monthly%20premium%20for,deductible%20of%20%24233%20in%202022.

Notes: Annual premiums for married beneficiaries are reported at the individual level. For married couples who are both enrolled in Medicare Part B, the household annual premium total and the premium as a percentage of income will be twice the amounts reported here.

There are four main types of MSPs. Under the Qualified Medicare Beneficiary (QMB) program, people receive full subsidies for Part A premiums (if required, which is not common), Part B premiums, and Medicare cost sharing. The federal income eligibility limit for the QMB program is 100 percent of FPL. People eligible for the Specified Low-Income Medicare Beneficiary (SLMB) and Qualifying Individual (QI) programs both receive full subsidies for Part B premiums but not Medicare's cost-sharing requirements. Because the QI program is funded through a block grant, once a state's annual QI funding is exhausted no additional eligible individuals can enroll. Qualified Disabled and Working Individual programs are for individuals who lost Medicare Part A benefits because of a return to work but are eligible for Part A and not otherwise eligible for Medicaid (table 2).[3] In 2022, the asset limit for the QMB, SLMB, and QI programs was $8,400 for an individual and $12,600 for a couple.[4]

TABLE 2

Medicare Savings Program Eligibility Pathways and Benefits (Partial Benefit Medicaid)

Federal income eligibility (% of FPL)[a]	Medicare Savings Program	Benefits
At or below 100%	Qualified Medicare Beneficiary	▪ Parts A and B premiums ▪ Medicare deductibles, coinsurance, and copayments
101–120%	Specified Low-Income Medicare Beneficiary	▪ Part B premiums
121–135%	Qualifying Individual	▪ Part B premiums
At or below 200%	Qualified Disabled and Working Individuals	▪ Part A premiums

Source: "Medicare Savings Programs," Medicare.gov, accessed November 8, 2022, https://www.medicare.gov/basics/costs/help/medicare-savings-programs.

Notes: FPL = federal poverty level.

[a] States set income limits that may be up to but not exceed the federal limits. Thus, state eligibility rules may be more strict than federal limits allow.

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). States with higher enrollment in MSPs generally either eliminated the asset test or established income limits higher than the federal limit.

The Medicaid and CHIP Payment and Access Commission has pointed out several shortcomings of MSPs.[5] Enrollment is low relative to the number of eligible Medicare beneficiaries—participation rates are 53 percent for the QMB program, 32 percent for the SLMB program, and 15 percent for the QI program. To enroll, beneficiaries must have knowledge of the MSPs and submit an application that includes information on income and assets. In addition, eligibility for MSPs is separate from the low-income subsidy for Medicare Part D and other federal programs providing assistance with health insurance coverage, which can create more confusion. The federal income limit for assistance with Medicare premiums (135 percent of FPL) also leaves many low- and moderate-income Medicare beneficiaries without assistance.

Data and Methods

We use the Urban Institute's Medicare policy simulation model, MCARE-SIM, to estimate 2023 Part B premium spending and Part B service use under current law and to predict the effects of implementing policy options that would provide enhanced subsidies for Part B premiums and, in one scenario, provide additional cost-sharing protections to enrollees with low-income (Arnos et al. 2020). 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 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. Medicare premiums and cost-sharing 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.

Policy alternative 3 provides additional cost-sharing protections to low-income beneficiaries. We determine the effect of this policy on 2023 spending for Part B services among traditional Medicare enrollees. (We do not include Medicare Advantage enrollees in this analysis of cost-sharing protections because Medicare Advantage cost and use data are unavailable in the MCBS, but the policy would be designed to assist these enrollees as well, noting that Medicare Advantage enrollees often already benefit from reduced cost sharing.) We do this in two steps. First, we identify administratively reported outpatient or medical provider events and their associated Medicare costs, adjust these estimates to match 2020 Part B aggregate spending reported in CMS program statistics, and apply per capita spending growth rates (actual through 2021, then projected) for Part B reported in the 2022 Medicare Trustees report (Medicare Trustees 2022). Second, we apply empirically based price-response elasticities to estimate the increase in Part B service use resulting from lowering the out-of-pocket price for services delivered to low-income enrollees.[9]

For additional detail on our approach, see the appendix.

Results

Current Subsidies Do Not Help All Low-Income Enrollees and Phase Out at Relatively Low Incomes

Table 3 provides estimated 2023 data for Medicare beneficiaries, including the number of people in each income category, the share of each income group receiving MSP benefits, and annual premiums with and without MSP benefits for each income group. Overall, 17 percent of Medicare beneficiaries (10.5 million people) have incomes at or below 100 percent of FPL, and 26 percent (16.2 million) have incomes between 100 and 200 percent of FPL. About 18.1 million have incomes between 200 and 400 percent of FPL, and 16.9 million have incomes above 400 percent of FPL. CMS has set the full 2023 Part B premium without MSP subsidies to $1,979 for most enrollees, before income-based surcharges apply.[10] The average premium, across both those with and without MSP benefits, was $706 for beneficiaries with incomes at or below 100 percent of FPL, $1,550 for those with incomes between 100 and 200 percent of FPL, and $1,979 for those with incomes between 200 and 400 percent of FPL.

TABLE 3

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

	At or below 100% of FPL	100–200% of FPL	200–400% of FPL	Above 400% of FPL
All enrollees				
Full Part B premiums (excluding MSP benefits)	$1,979	$1,979	$1,979	$2,417
Average annual Part B premiums paid (including MSP benefits)	$706	$1,550	$1,946	$2,409
Average family income (2022 estimate)	$11,219	$23,112	$46,436	$134,766
Share receiving MSP benefits	64.3%	21.7%	1.6%	0.2%
Number of enrollees (millions)	10.5	16.2	18.1	16.9
Enrollees with MSP benefits				
Full Part B premiums (excluding MSP benefits)	$1,979	$1,979	$1,979	$2,839
Average annual Part B premiums paid (including MSP benefits)	$0	$0	$0	$0
Average family income (2022 estimate)	$10,850	$19,128	$38,532	$123,243
Number of enrollees (millions)	6.8	3.5	0.3	< 0.1
Enrollees without MSP benefits				
Average annual Part B premiums paid	$1,979	$1,979	$1,979	$2,309
Average family income (2022 estimate)	$11,883	$24,214	$46,568	$134,795
Average premiums as a share of family income	16.7%	8.2%	4.2%	1.7%
Number of enrollees (millions)	3.8	12.7	17.8	16.9

Source: MCARE-SIM 2023 projected estimates using 2015–2018 Medicare Current Beneficiary Survey.
Note: MSP = Medicare Savings Program.

The second panel of table 3 provides data on those receiving MSP benefits. By design, MSP benefits are not available for beneficiaries with incomes above 135 percent of FPL. Though the full annual Part B premium is $1,979, those eligible for and receiving MSP benefits pay nothing. About 6.8 million of the 10.5 million beneficiaries with income at or below 100 percent of FPL (64.3 percent) receive MSP benefits. Another 3.5 million beneficiaries with incomes between 100 and 200 percent of FPL receive MSP benefits (21.7 percent of this income range), and 298,000 beneficiaries with incomes between 200 and 400 percent of FPL (1.6 percent in this income range) do as well.

Slightly more than one-third of enrollees with incomes below 100 percent of FPL and about 78 percent of those with incomes between 100 and 200 percent of FPL do not receive MSP benefits under current law. Those without MSP benefits pay the full $1,979 annual premium and thus pay substantially more than those with MSP benefits. For those with incomes below 100 percent of FPL, the full premium averages about 17 percent of income. For those with incomes between 100 and 200 percent of FPL, the full premium averages about 8 percent of income. When MSPs phase out for most beneficiaries at 135 percent of FPL, there is a sharp cliff at which individuals who are no longer subsidized must pay the full premium. The full Part B premium averages about 4 percent of income for beneficiaries with incomes between 200 and 400 percent of FPL. These figures only represent the burden of Part B premiums. Enrollees who use services may also face the burden of cost-sharing expenses (the Part B deductible and coinsurance), depending on what supplemental coverage or Medicare Advantage plan they may have.

Alternative Policies Can Eliminate Gaps and Provide Better Financial Support for Low-Income Enrollees

Table 4 shows the share and number of beneficiaries by income group receiving premium subsidies under current law and under the alternative policies, the average annual savings on Part B premiums for those receiving subsidies, and the aggregate subsidy amount for all beneficiaries in that income range.

Under current law (first shown in table 3 and reported in the first column of table 4 for reference), the share of Medicare beneficiaries receiving MSPs declines with income. The number of enrollees receiving premium subsidies declines by income group. For those who receive the subsidy (shown in the third panel of table 4), the average amount of the subsidy is the full Part B premium—meaning these beneficiaries pay nothing. About 64 percent of enrollees who receive subsidies have incomes below 100 percent of FPL. About $13.4 billion in subsidies go to enrollees in this income group. Another $6.9 billion go to those with incomes between 100 and 200 percent of FPL. The total subsidy amount paid by MSPs under current law among all enrollees is $21.1 billion.

TABLE 4

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

	Current Law	Policy Alternative 1	Policy Alternative 2	Policy Alternative 3
	MSP sole source of support for Part B premium payments	Part B premiums subject to 8.5% income cap (in addition to MSP support)	Applying IRA PTC schedule to Medicare enrollees (with MSP support)	Applying IRA PTC schedule to Medicare enrollees (with MSP support)
Share receiving premium subsidy, by income range (%)				
At or below 100% of FPL	64.3	99.2	100.0	100.0
100–200% of FPL	21.7	59.6	100.0	100.0
200–400% of FPL	1.6	1.6	45.8	45.9
Above 400% of FPL	0.2	0.2	0.2	0.2
Number of enrollees receiving premium subsidy (including MSPs), by income range (millions)				
At or below 100% of FPL	6.8	10.4	10.5	10.5
100–200% of FPL	3.5	9.6	16.2	16.2
200–400% of FPL	0.3	0.3	8.3	8.3
Above 400% of FPL	< 0.1	< 0.1	< 0.1	< 0.1

	Current Law	Policy Alternative 1	Policy Alternative 2	Policy Alternative 3
	MSP sole source of support for Part B premium payments	Part B premiums subject to 8.5% income cap (in addition to MSP support)	Applying IRA PTC schedule to Medicare enrollees (with MSP support)	Applying IRA PTC schedule to Medicare enrollees (with MSP support)
Subsidy amount ($), among those receiving subsidy, by income range				
At or below 100% of FPL	1,979	1,633	1,979	2,003
100–200% of FPL	1,979	938	1,864	1,888
200–400% of FPL	1,979	1,979	816	837
Above 400% of FPL	3,118	3,118	3,118	3,156
Total subsidy amount ($ millions), by income range				
At or below 100% of FPL	13,398	17,052	20,828	21,080
100–200% of FPL	6,934	9,053	30,151	30,538
200–400% of FPL	590	590	6,769	6,968
Above 400% of FPL	130	130	130	131
Total subsidy amount ($)	**21,052**	**26,825**	**57,877**	**58,718**

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

Notes: MSP = Medicare Savings Program. IRA = Inflation Reduction Act. PTC = premium tax credit. FPL = federal poverty level.

AN 8.5 PERCENT OF INCOME CAP

A policy that caps premiums at 8.5 percent of income (policy alternative 1) substantially increases the number of people receiving financial assistance relative to current law. The number of people with incomes at or below 100 percent of FPL receiving financial help is 10.4 million, which is nearly all Medicare beneficiaries in this income group. Without assistance, the amount these individuals would pay for Part B premiums is well above 8.5 percent of income. A total of 9.6 million beneficiaries with incomes between 100 and 200 percent of FPL would receive subsidies, 6.1 million more than under current law. As a result, 60 percent of enrollees in this income range receive some financial help for Part B premium payments, compared with 22 percent under current law. No individuals with incomes above 200 percent of FPL would benefit from an 8.5 percent of income cap (i.e., the number of beneficiaries in these income groups receiving premium subsidies is unchanged relative to current law).

The average amount of assistance for beneficiaries in each income range is lower than under current law, because many beneficiaries newly receiving assistance would only be getting partial assistance. In this policy alternative, all beneficiaries receiving MSPs continue to get the full premium benefit of $1,979. Additional enrollees benefit from the 8.5 percent cap, but subsidies can be small for these enrollees, bringing down the average subsidy received. The average subsidy for those receiving either MSPs or tax credits is $1,633 for those with incomes at or below 100 percent of FPL, $938 for those with incomes between 100 and 200 percent of FPL, and $1,979 for those with incomes between 200 and 400 percent of FPL. Because the percent increase in the number receiving subsidies is greater than the percent drop in average subsidies, the total amount spent on premium subsidies for each income group increases to $17.1 billion for those with incomes at or below 100 percent of FPL and $9.1

billion for those with incomes between 100 and 200 percent of FPL. Overall spending on subsidies for Part B premiums increases to $26.8 billion.

INFLATION REDUCTION ACT SUBSIDIES

We estimate even greater benefits to lower-income enrollees under policies applying the IRA premium tax credit schedule to Part B premiums (policy alternatives 2 and 3). As with policy alternative 1, all beneficiaries with income at or below 100 percent of FPL receive premium assistance under policy alternatives 2 and 3. But for those with incomes between 100 and 200 percent of FPL, the percentage receiving subsidies under policy alternatives 2 and 3 also reaches 100 percent. Under the IRA premium schedule, people with incomes up to 150 percent of FPL have fully subsidized premiums. The percentage of incomes that individuals with incomes between 150 and 200 percent of FPL are expected to pay increases from 0 to 2 percent. The full Medicare Part B premium exceeds these IRA-based income caps for everyone in these income groups. The IRA premium schedule phases out as incomes increase, but a cap at 8.5 percent of income remains. Slightly fewer than half (46 percent) of individuals with incomes between 200 and 400 percent of FPL receive some financial assistance, up from 2 percent under current law and policy alternative 1.

Under policy alternatives 2 and 3, the number of people receiving subsidies increases to 16.2 million among those with incomes between 100 and 200 percent of FPL and to 8.3 million among those with incomes between 200 and 400 percent of FPL. The average value of premium subsidies also is higher. All beneficiaries with incomes below 100 percent of FPL save the full premium amount, $1,979. Beneficiaries with incomes between 100 and 200 percent of FPL save nearly the full premium (on average $1,864 under policy alternative 2). For those with incomes between 200 and 400 percent of FPL, premium subsidies average $816.

With an increase in both the number of people receiving subsidies and the average value of the subsidies, the total amount in subsidies increases to $57.9 billion, a $36.8 billion increase relative to current law. Of this, $20.8 billion goes to those with incomes at or below 100 percent of FPL, and $30.2 billion goes to those with incomes between 100 and 200 percent of FPL. With this policy, an additional amount, $6.8 billion, goes to those with incomes between 200 and 400 percent of FPL.

The premium estimates for policy alternative 3 are similar to those for policy alternative 2, given the identical IRA subsidy in both policies. However, policy alternative 3 includes additional cost-sharing subsidies, which cause the use of and expenditures for Part B services to rise. Because Part B premiums are tied to total Part B expenditures, policy alternative 3 will lead to a small increase in overall premiums. As a result, both average and total subsidies increase to $58.7 billion, compared with $57.9 billion in policy alternative 2.

GRAPHICAL REPRESENTATION OF FINANCIAL BURDENS OF PREMIUMS BY INCOME AND HOW POLICIES REDUCE THEM

Figures 1A and 1B provide a graphical view of how each policy alternative would benefit enrollees relative to current law. In figure 1A, we present the share of income spent on Part B premiums against income as a percentage of FPL for unmarried enrollees who do not qualify for MSP benefits. The horizontal line indicates the 8.5 percent cap (policy alternative 1). Under policy alternative 1, all enrollees whose Part B premium spending as a share of income exceeds this line will see savings. In figure 1A, this is all enrollees with incomes to the left of point A. The shaded region between the horizontal line and the premium payments made under current law represents the aggregate savings to enrollees under an 8.5 percent income cap.

In figure 1B, the additional dashed line represents the IRA premium tax credit schedule. Under an IRA-type premium schedule, enrollees with incomes below 150 percent of FPL would be fully subsidized. All enrollees with current-law Part B premium spending as a share of income above the dashed line (i.e., all enrollees with incomes as a percentage of FPL to the left of point B) would see savings under policy alternatives 2 and 3 that are equivalent to the vertical distance between the current-law spending line and the IRA premium schedule. Thus, the shaded region between these two lines in figure 1B represents the aggregate savings to enrollees under an IRA-type premium schedule.

FIGURE 1A

Savings to Enrollees under an 8.5 Percent Cap

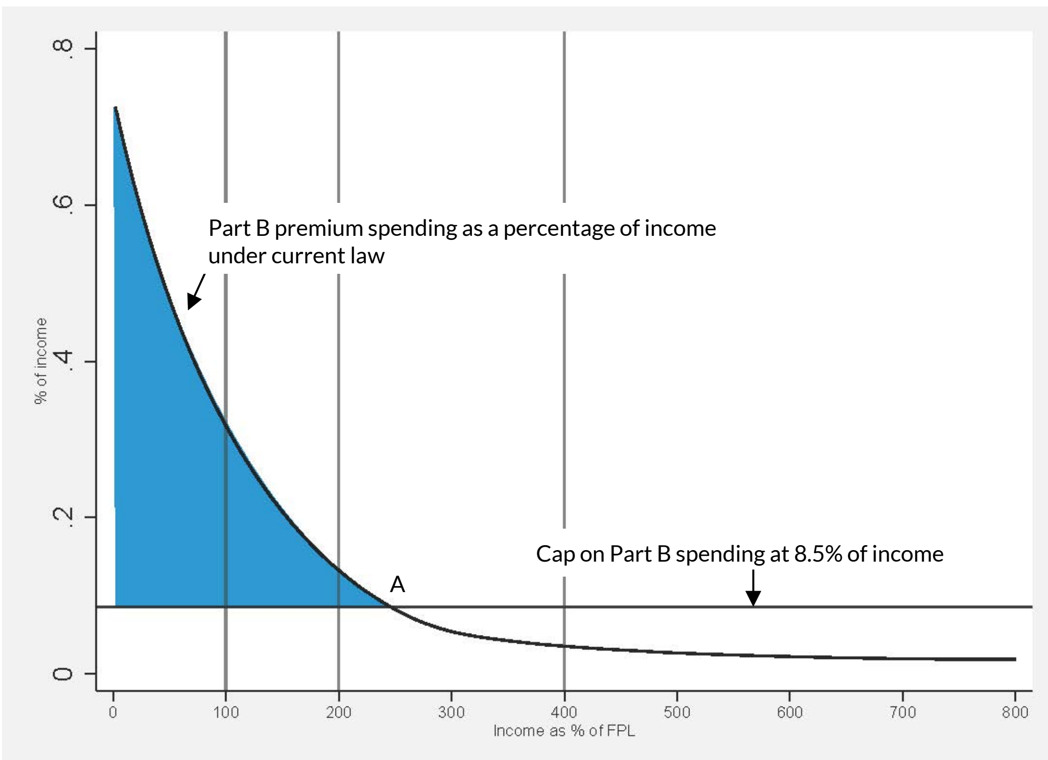
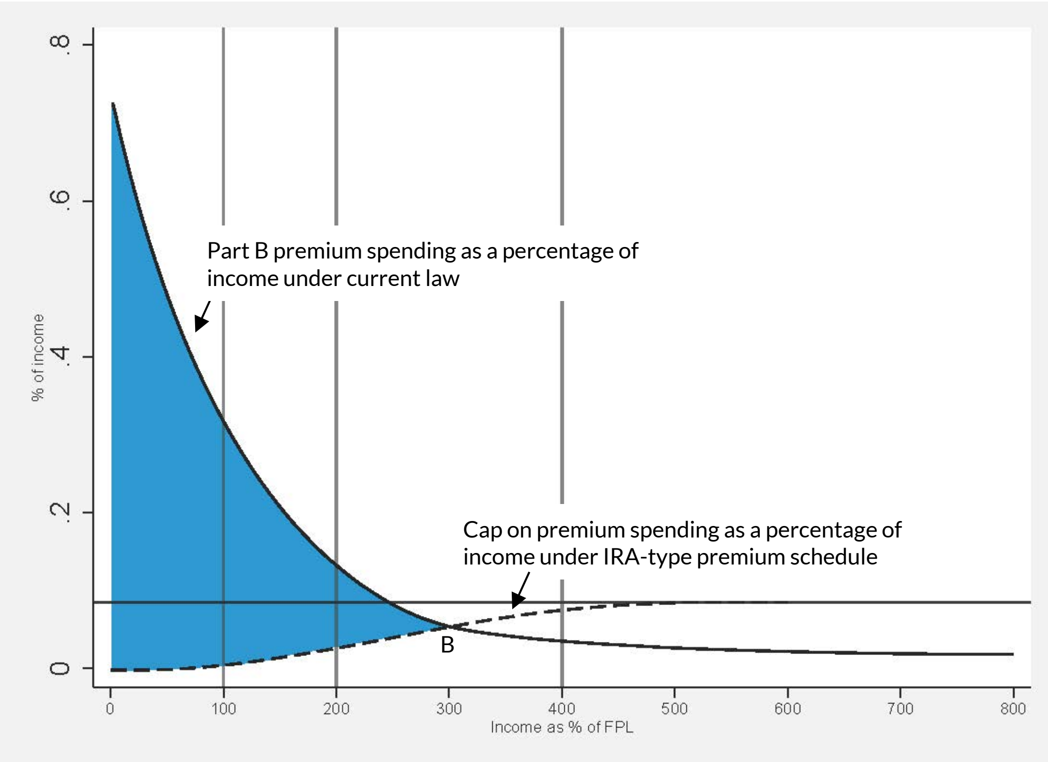


FIGURE 1B

Savings to Enrollees under an IRA-Type Premium Tax Credit Schedule



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Source: Authors' calculations.
Note: IRA = Inflation Reduction Act.

Policies Can Also Reduce Cost-Sharing Obligations for Beneficiaries with Incomes at or below 100 Percent of FPL

Without assistance, beneficiaries pay cost-sharing amounts in traditional Medicare that are determined by Medicare Part B: a deductible of $226 in 2023 and 20 percent cost sharing for Part B services. Beneficiaries who qualify for the QMB program (with incomes at or below 100 percent of FPL) receive cost-sharing assistance. Table 5 shows beneficiary total spending on Part B services by income and the amount spent by Medicare, categorizing remaining spending into expenditures by households, Medicaid, and supplemental insurance or employer plans.

The 8.5 percent premium cap and the IRA premium schedule each (policy alternatives 1 and 2) do not affect cost sharing, as shown in the second panel. In the bottom panel, we illustrate the effect of policy alternative 3. The cost-sharing assistance incorporated in this policy supplements MSPs by providing full subsidies for cost sharing for all enrollees with incomes at or below 100 percent of FPL—that is, all those not already receiving MSPs.

Table 5 shows that total Part B spending per capita increases to $9,975 for the lowest-income group, which reflects new Medicare expenditures to fully subsidize cost sharing for all those with incomes at or below 100 percent of FPL, regardless of receipt of MSP benefits. With the shift in spending from households, Medicaid, and supplemental insurance plans to Medicare, total Medicare spending on Part B services increases from $7,417 to $9,975. Spending also increases because we assume that a lack of cost sharing would result in increased use of services. This policy has no effect on people with incomes above 100 percent of FPL, as their cost sharing is unaffected by this policy.

TABLE 5

Per Capita Spending on Part B Services among Traditional Medicare Enrollees, by Income Group and Policy Alternative

In dollars

	At or below 100% of FPL	100–200% of FPL	200–400% of FPL	Above 400% of FPL
Current law				
Total spending on Part B services	9,321	8,502	8,733	7,724
Medicare spending	7,417	6,726	6,876	6,043
Other spending	1,904	1,776	1,856	1,681
Households	282	403	381	267
Medicaid	1,301	385	41	9
Supplemental plans/ESI	321	989	1,435	1,405
Policy alternatives 1 and 2				
Total spending on Part B services	9,321	8,502	8,733	7,724
Medicare spending	7,417	6,726	6,876	6,043
Other spending	1,904	1,776	1,856	1,681
Households	282	403	381	267
Medicaid	1,301	385	41	9
Supplemental plans/ESI	321	989	1,435	1,405
Policy alternative 3 (fully subsidized cost sharing for those with incomes at or below 100% of FPL)				
Total spending on Part B services	9,975	8,502	8,733	7,724
Medicare spending	9,975	6,726	6,876	6,043
Other spending	0	1,776	1,856	1,681
Households	0	403	381	267
Medicaid	0	385	41	9
Supplemental plans/ESI	0	989	1,435	1,405

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

Notes: ESI = employer-sponsored insurance. FPL = federal poverty level.

The Increase in Federal Spending Needed to Implement an 8.5 Percent Cap Is Modest, but an IRA-Type Premium Tax Credit Schedule Would Raise Federal Spending on Medicare by about 9 Percent of Total Part B Expenditures

Table 6 provides data on aggregate expenditures on Part B premiums (panel 1) and Part B spending for traditional Medicare enrollees only (panel 2) under current law and each policy alternative. Under current law, $129.6 billion is spent on Part B premiums (panel 1). Of this, beneficiaries spend $108.5 billion and MSPs the remaining $21.1 billion. Under the 8.5 percent of income cap in policy alternative 1, beneficiary premium spending falls from $108.5 billion to $102.8 billion. Medicare pays an additional $5.8 billion to offset premiums that exceed 8.5 percent of income. This represents 4 percent of total Part B premium spending. Under IRA premium tax credit subsidies without cost-sharing subsidies (policy alternative 2), beneficiary spending falls from $108.5 billion to $71.7 billion. Medicare expenditures to finance the new subsidies increase by $36.8 billion (28 percent of total Part B premium spending).

TABLE 6

Total 2023 Expenditures for Part B Premiums under Current Law and Policy Alternatives and Total Expenditures for Part B Services among Traditional Medicare Enrollees, by Payer and Policy Alternative

Billions of dollars

	Current law	Policy alternative 1: 8.5% of income cap on Part B premiums	Policy alternative 2: Applying IRA PTCs for Part B premiums	Policy alternative 3: Applying IRA PTCs and fully subsidized cost sharing for individuals with incomes < 100% of FPL
Expenditures for Part B premiums (all enrollees)				
Total expenditures on Part B premiums	129.6	129.6	129.6	131.1
Beneficiary spending on Part B premiums	108.5	102.8	71.7	72.4
MSP expenditures	21.1	21.1	21.1	21.3
Additional Medicare expenditures to support Part B premiums	N/A	5.8	36.8	37.4
Expenditures for Part B care (traditional Medicare enrollees only)				
Total Part B expenditures for care	266.0	266.0	266.0	269.2
Medicare spending	209.6	209.6	209.6	222.2
Other spending	56.3	56.3	56.3	47.0
Households	10.5	10.5	10.5	9.1
Medicaid	9.6	9.6	9.6	3.2
Supplemental/ESI plans	36.2	36.2	36.2	34.7

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

Notes: IRA = Inflation Reduction Act. MSP = Medicare Savings Program. PTC = premium tax credit. ESI = employer-sponsored insurance. N/A = not applicable.

The final column of table 6 presents effects of policy alternative 3, the IRA premium tax credit subsidies combined with fully subsidized cost sharing for enrollees with incomes below 100 percent of FPL. Estimates for this scenario are slightly higher than for policy alternative 2, since the increase in overall Part B service use leads to a small increase in overall premiums. Medicare spending to support the premium subsidies under policy alternative 3 rises to $37.4 billion (panel 1). For context, this represents about 9 percent of total Part B spending in 2021.[11]

The bottom panel of table 6 shows the effect of cost-sharing subsidies for beneficiaries in traditional Medicare. Policy alternative 3 is the only policy modeled with additional cost-sharing subsidies, so expenditures are unchanged relative to current law under both an 8.5 percent of income cap on premiums and the IRA premium tax credits (policy alternatives 1 and 2). Medicare spending on Part B services increases to $222.2 billion under policy alternative 3, a $12.6 billion (6 percent) increase relative to current law. Total spending on Part B services increases, reflecting the increased use of services associated with lower cost sharing for some people. Households only save $1.4 billion because all the reduction in cost-sharing expenditures is limited to those with incomes at or below 100 percent of FPL, many of whom already have cost-sharing protections under Medicaid. Under policy alternative 3, Medicaid would save $6.4 billion, and these savings would accrue to the federal government and state governments.

An Alternative to Policy Alternative 3 Could Eliminate the MSPs and Have the Federal Government Cover the Costs of Providing Premium and Cost-Sharing Subsidies

Replacing MSPs with a fully federal subsidy would increase federal expenditures on premiums from $37.4 billion to $58.7 billion (calculated by adding $21.3 billion in MSP expenditures to the $37.4 billion). These expenditures could be mitigated by establishing a "clawback" program similar to that in Medicare Part D (Schneider 2004). With a clawback program, the cost of a 100 percent federal subsidy for low-income people would not exceed spending in policy alternative 3, as states would be expected to continue to pay for premium subsidies and cost-sharing protections on behalf of enrollees who previously had MSP benefits under current law. However, elimination of the MSP eligibility verification and enrollment processes could further generate administrative savings to states.

Discussion

In 2023, Medicare Part B will have an annual premium of $1,979 and a deductible of $226 and will require beneficiaries to pay 20 percent of remaining expenditures. In response to the effects of these costs on low-income beneficiaries, MSPs were established to provide beneficiaries with financial assistance. Depending on a beneficiary's income, premiums can be fully subsidized; and for those with incomes at or below 100 percent of FPL, cost sharing is eliminated. While these programs are potentially generous, they are limited by income cutoffs and an asset test that eliminates many people with low incomes from eligibility. States do not always aggressively implement these programs, and individuals are not always well informed about their availability.

In this paper, we show that slightly more than one-third of enrollees with incomes below 100 percent of FPL do not receive MSP benefits, nor do about 77 percent of those with incomes between 100 and 200 percent of FPL. MSPs provide assistance differently than the Affordable Care Act, which offers help to a larger share of low- and moderate-income people, but at declining rates. Here we examine three alternatives for enhancing financial assistance for lower-income enrollees beyond what the MSPs provide. The first would cap Part B premiums at 8.5 percent of income, the second would use the IRA premium subsidy schedule, and the third would use the IRA premium schedule but also eliminate all cost sharing for those with incomes below 100 percent of FPL.

We show that an 8.5 percent of income cap would assist virtually all individuals with incomes at or below 100 percent of FPL and most individuals with incomes between 100 and 200 percent of FPL. In the latter income group, the percentage receiving at least some financial help increases from 22 percent under current law to 60 percent. In addition to helping more people, premium savings would average $1,633 for those with incomes at or below 100 percent of FPL. For those with incomes between 100 and 200 percent of FPL, premium subsidies would be $938.

The policy that uses the IRA premium tax credit schedule provides even greater benefits to enrollees with low incomes. All beneficiaries with incomes below 200 percent of FPL would receive at least some assistance. Part B premiums for all people with incomes below 150 percent of FPL are eliminated. The IRA premium schedule phases out as incomes increase but retains the cap at 8.5 percent of income for all incomes. Premium savings are $1,979 for those with incomes at or below 100 percent of FPL, $1,864 for those with incomes between 100 and 200 percent of FPL, and $816 for those with incomes between 200 and 400 percent of FPL. We also examine one policy that would eliminate cost sharing for those with incomes below 100 percent of FPL. This reduces out-of-pocket cost-sharing expenditures from $282 to $0.

These policy alternatives are not overly expensive. The 8.5 percent of income cap on Part B premiums would add $5.8 billion dollars to Medicare spending. The policy that uses the IRA premium subsidies would cost the federal government $36.8 billion in additional spending (9 percent of total Part B spending). Eliminating cost sharing for those with incomes at or below 100 percent of FPL would add $13.0 billion to Medicare expenditures and greatly increase affordability for people living in poverty. We conclude that these policy alternatives would correct major weaknesses in the current Part B program at a relatively low additional cost to the federal government.

Appendix. Detailed Methods

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

We estimate 2023 Part B enrollment by reweighting enrollee groups by survey year in a combined 2015–18 MCBS analytic file to match 2020 Medicare Advantage and traditional Medicare Part B enrollment, separately among enrollees who are and are not supported by MSPs, 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 enrollee 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.

Policy alternative 3 provides additional cost-sharing protections to beneficiaries with incomes below 100 percent of FPL. We cannot assess this policy's impact on Part B spending among all Medicare enrollees because the MCBS does not provide information on Part B services spending and use among Medicare Advantage enrollees. However, this information *is* available for enrollees in traditional Medicare, and for these enrollees we assess how such a policy would affect enrollee spending on and use of Part B services. Doing so requires first establishing 2023 Part B spending under current law. MCARE-SIM adjusts MCBS-reported Part B spending to align with total expenditures in the 2020 CMS program statistics. Medicare spending is then projected to 2023 by applying per capita spending growth rates for Part B reported in the 2022 Medicare Trustees report's expanded and supplementary materials.

To determine total Medicare cost-sharing payments, we apply 2023 Part B cost-sharing rules for traditional Medicare enrollees. In 2023, all Part B enrollees will be subject to a $226 deductible and a 20 percent coinsurance rate for covered services.[12] For enrollees with either supplemental (i.e., Medigap or employer-sponsored insurance coverage) or Medicaid coverage, we assume the secondary plan pays for cost-sharing expenses. Reducing out-of-pocket prices for Part B covered services has been shown to increase the use of services (Manning et al. 1987). Recognizing this, we estimate the increase in the use of Part B services due to behavioral responses to subsidized cost sharing for low-income enrollees. This "induced demand" is estimated by applying a price-elasticity demand response, tied to empirical findings, to the percentage of change in out-of-pocket prices relative to current law that each enrollee faces under policy alternative 3. For Part B services, we assume a 1 percent decrease in prices leads to a 0.2 percent increase in the use of services.

Finally, because Part B premiums are tied to expected changes in Part B expenditures, we model the rise in premiums following the rise of Part B services as leading to a similar increase in Part B premiums.

Thus, under policy alternative 3, we calculate the percent change in total expenditures for services between the policy option and current law and apply the same percent change to Part B premiums.

Notes

1 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).

2 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.

3 State Medicaid programs must provide full benefits for individuals receiving Supplemental Security Income, which is about 74 percent of FPL. Many states have also adopted optional eligibility pathways for seniors and people with disabilities. As a result, most low-income Medicare enrollees who qualify for MSPs also qualify for full benefits. See Musumeci, Chidambaram, and Watts (2019).

4 "Medicare Savings Programs," Medicare.gov, accessed November 8, 2022, https://www.medicare.gov/basics/costs/help/medicare-savings-programs. Income and asset limits for 2023 were not available at the time of writing.

5 "Medicare Savings Programs," Medicaid and CHIP Payment and Access Commission, accessed November 3, 2022, https://www.macpac.gov/subtopic/medicare-savings-programs/.

6 "CMS Program Statistics," Centers for Medicare & Medicaid Services, 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 Centers for Medicare & Medicaid Services, "2023 Medicare Parts A and B Premiums and Deductibles 2023 Medicare Part D Income-Related Monthly Adjustment Amounts," 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#:~:text=Each%20year%20the%20Medicare%20Part,%245.20%20from%20%24170.10%20in%202022.

9 For elasticities of demand for outpatient services covered by Part B, we apply a -0.2 elasticity. This estimate is based on evidence from the RAND Health Insurance Experiment, which randomized health insurance plans to enrollees to evaluate the demand for health care. See Manning and colleagues (1987).

10 The annual premium was $170.10 in 2022 and actually went down for 2023. As CMS has described, the 2022 premium projected the spending on a new drug, Aduhelm, but actual spending on this drug was lower than expected and led to an increase in the reserves for the Supplementary Medical Insurance trust fund that funds program payments for Part B. CMS opted to pass the excess reserves in the trust fund back to beneficiaries in the form of lower premium payments. See Centers for Medicare & Medicaid Services, "2023 Medicare Parts A and B Premiums and Deductibles and Deductibles 2023 Medicare Part D Income-Related Monthly Adjustment Amounts."

11 Part B expenditures totaled $406 billion in 2021. See table II.B1 in Medicare Trustees (2022).

12 Centers for Medicare & Medicaid Services, "2023 Medicare Parts A and B Premiums and Deductibles and Deductibles 2023 Medicare Part D Income-Related Monthly Adjustment Amounts."

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