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**THE IMPACT OF MEDICARE PREMIUM INCREASES IN  
ALAMEDA COUNTY**

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**PREPARED FOR REP. FORTNEY PETE STARK**

TABLE OF CONTENTS

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Executive Summary ..... 1

Background..... 1

Methodology..... 3

Findings..... 4

    A. Thousands of Medicare Beneficiaries in Alameda County Will Be  
    Affected by Increased Medicare Premiums ..... 4

    B. Increased Medicare Premiums Will Cost Medicare Beneficiaries in  
    Alameda County Millions of Dollars..... 4

    C. Medicare Premiums Are Increasing Significantly Faster than  
    Social Security Benefits ..... 5

Conclusion ..... 6

## EXECUTIVE SUMMARY

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On September 3, 2004, the Bush Administration announced that Medicare premiums would increase by a record amount, over \$139 per year per beneficiary. This 17% increase imposes substantial new costs on seniors and individuals with disabilities.<sup>1</sup> The Medicare law that was signed into law by President Bush in November 2003 is responsible for the majority of this increase.

At the request of Rep. Pete Stark, this report analyzes the impact of these premium increases in Alameda County. It finds that the increase will force 110,000 Medicare beneficiaries in the county to pay \$15.3 million more in Medicare premiums next year. Approximately \$9.1 million of this increase is directly attributable to provisions contained in the new Medicare law. Because Medicare costs are rising six times faster than Social Security benefits, an estimated 46,300 Medicare beneficiaries in Alameda County will be forced to use most or all of their Social Security cost-of-living adjustments to pay for the increased Medicare premiums.

## BACKGROUND

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The Medicare program is the primary source of medical care for over 40 million seniors and individuals with disabilities. The traditional Medicare program consists of two parts: Part A, which covers the costs of hospital stays, and Part B, which covers the costs of physician services, outpatient services, managed care, home health care, and medical equipment. The majority of Medicare beneficiaries are enrolled in both Part A and Part B.<sup>2</sup>

By law, the federal government pays 75% of the cost of the Medicare Part B program, with beneficiaries paying the rest via monthly premiums. As a result, increases in the cost of the Medicare Part B program result in higher premiums for beneficiaries.

On September 3, 2004, the Bush Administration announced that Medicare Part B premiums would increase by 17% in 2005. Monthly premiums for Medicare

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<sup>1</sup> U.S. Department of Health and Human Services, *HHS Announces Medicare Premium, Deductibles for 2005* (Sept. 3, 2004).

<sup>2</sup> Approximately 1% of beneficiaries are not enrolled in Part A and approximately 9% are not enrolled in Part B.

## THE IMPACT OF MEDICARE PREMIUM INCREASES IN ALAMEDA COUNTY

beneficiaries will increase from \$66.60 monthly to \$78.20, an increase of \$11.60 per month or \$139.20 per year, a record level.

The Medicare bill that narrowly passed Congress and was signed into law by President Bush in November 2003 is responsible for the majority of this increase.<sup>3</sup> One provision in the legislation increased payments to HMOs and insurance companies that offer private Medicare plans.<sup>4</sup> Under the new law, HMOs and insurance companies are paid up to 23% more than traditional Medicare — at a total cost of \$50 billion over the next ten years — to provide services to seniors and individuals with disabilities.<sup>5</sup> Although only approximately 11% of beneficiaries are in these private plans, all beneficiaries are forced to pay for the increased payments via increased premiums. A second provision in the law significantly raised payments for physicians, canceling a scheduled payment decrease and replacing it with an increase of 4.5%.<sup>6</sup> In addition, the costs of these provisions triggered an increase in payments to the Medicare reserves to maintain the fiscal solvency of the reserves. Overall, these provisions in the Medicare law account for \$6.80 (59%) of the total \$11.60 monthly premium increase.<sup>7</sup>

Administration officials have argued that the increase in premiums is justified by new services, such as the increased coverage of screening tests for heart disease and diabetes and a “Welcome to Medicare” exam for beneficiaries entering the program. CMS Administrator Mark B. McClellan has claimed that “the new premiums reflect an enhanced Medicare that is providing seniors and people with disabilities with strengthened access to physician services and new preventive benefits.”<sup>8</sup> In fact, these new services are inexpensive to provide and account for ten cents (1%) of the monthly premium increase.<sup>9</sup>

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<sup>3</sup> U.S. Department of Health and Human Services, *Analysis of 2005 Part B Premium Rate Increase* (Sept. 2004).

<sup>4</sup> *Id.*

<sup>5</sup> *Private Plans Costing More for Medicare*, New York Times (Sept. 17, 2004).

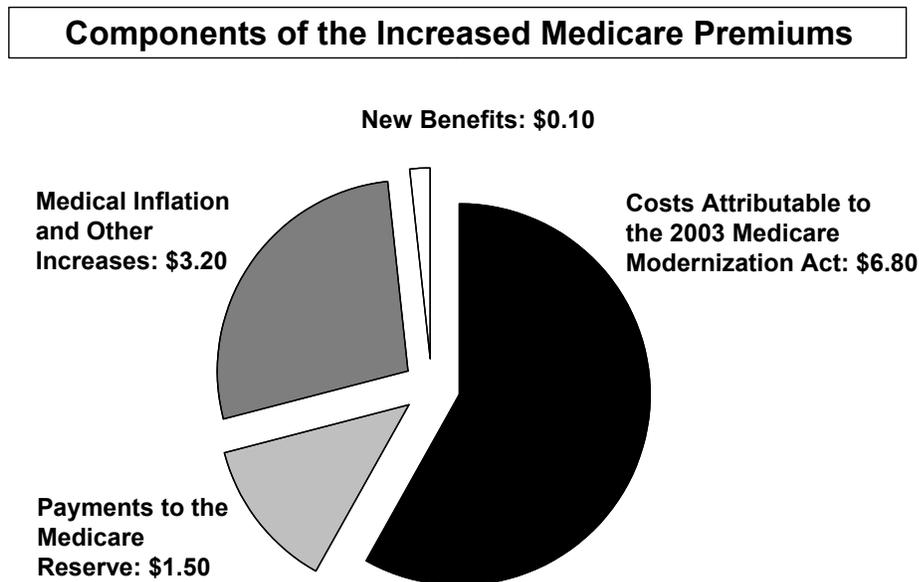
<sup>6</sup> *Id.*

<sup>7</sup> The increases in payments to HMOs, insurance companies, and other providers accounts for \$4.60 of the increase. The increase in reserve payments accounts for \$1.50 of the increase, and an increase in administrative costs associated with the new legislation accounts for \$0.70 of the increase. The remainder of the increase is due primarily to medical inflation and increased payments necessary to maintain reserves in the Medicare trust fund. These increases are required by law in order to keep the trust fund in balance. E-mail from U.S. Department of Health and Human Services to Government Reform Committee Minority Staff (Sept. 23, 2004).

<sup>8</sup> U.S. Department of Health and Human Services, *supra* note 1.

<sup>9</sup> E-mail from U.S. Department of Health and Human Services, *supra* note 7.

Figure 1 provides additional detail on the components of the premium increase.



All beneficiaries who are enrolled in Medicare Part B will have to pay these increased premiums in order to continue receiving physicians services through Medicare. The only exceptions are some low-income beneficiaries whose Medicare premiums are paid by the Medicaid program. For these individuals, states will pay the cost of enrollment in Medicare Part B. Nationwide, 6.1 million Medicare beneficiaries, approximately 15% of beneficiaries, participate in the Medicaid program and receive this benefit.

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**METHODOLOGY**

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At the request of Rep. Fortney Pete Stark, this report assesses the impact of the recently announced Medicare premium increases on seniors and individuals with disabilities in Alameda County. Rep. Stark represents the 13th Congressional District of California, which is located in Alameda County.

The analysis is based on county-level data available from the Center for Medicare and Medicaid Services (CMS) indicating the number of Medicare beneficiaries who receive Part B benefits,<sup>10</sup> as well as state-level data from CMS indicating the

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<sup>10</sup> CMS, *Medicare County Enrollment as of July 1, 2003* (2004) (online at [www.cms.hhs.gov/statistics/enrollment/county2003/default.asp](http://www.cms.hhs.gov/statistics/enrollment/county2003/default.asp)).

number of low-income beneficiaries in each state.<sup>11</sup> These data were used to determine the total number of Medicare beneficiaries who will be forced to pay the increased premiums and the total increased costs they will face due to this increase.

## FINDINGS

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### **A. Thousands of Medicare Beneficiaries in Alameda County Will Be Affected by Increased Medicare Premiums**

There are a total of 4.08 million Medicare beneficiaries in the state of California. Of these beneficiaries, 3.85 million (94%) receive Medicare Part B benefits, and 2.87 million (70%) pay their own premiums.<sup>12</sup> Next year, each of the 2.87 million Medicare beneficiaries in California who pay their own premiums will be subject to the 17% premium increase.

There are a total of 158,700 Medicare beneficiaries in Alameda County. Of these beneficiaries, 147,800 (93%) receive Medicare Part B benefits, and an estimated 110,000 (69%) pay their own premiums.<sup>13</sup> Next year, each of the 110,000 Medicare beneficiaries in Alameda County who pay their own premiums will be subject to the 17% premium increase.

### **B. Increased Medicare Premiums Will Cost Medicare Beneficiaries in Alameda County Millions of Dollars**

Next year, the increased Medicare premiums will cost each affected Medicare beneficiary \$11.60 per month (\$139.20 per year). Multiplied by the number of affected beneficiaries, Medicare beneficiaries in California will pay \$400 million more in premiums in 2005 than 2004. Approximately \$236 million of this increase is directly attributable to the provisions contained in the new Medicare law.

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<sup>11</sup> CMS, *Medicare Part B Buy-In, July 1999–2003* (2004) (online at [www.cms.hhs.gov/statistics/enrollment/stbuyins/default.asp](http://www.cms.hhs.gov/statistics/enrollment/stbuyins/default.asp)).

<sup>12</sup> Statewide, 977,676 beneficiaries, 25%, are low-income beneficiaries whose Part B premiums are paid for by the state Medicaid program.

<sup>13</sup> There are no county-level data available on the number of low-income beneficiaries. This analysis assumes that the percentage of low-income beneficiaries in Alameda County is the same as the percentage of low income beneficiaries statewide.

In Alameda County, the increased premiums will cost Medicare beneficiaries \$15.3 million in 2005. Approximately \$9.1 million of this increase is directly attributable to the provisions contained in the new Medicare law.

**C. Medicare Premiums Are Increasing Significantly Faster than Social Security Benefits**

For many individuals in the Medicare program, Social Security benefits are their primary source of income. The increased Medicare premiums are particularly onerous for these beneficiaries because the rate of increase in Social Security benefits, which is tied to the inflation rate, is far lower than the rate of increase in Medicare premiums.<sup>14</sup> In 2005, the increase in Social Security benefits will be approximately 3%, compared to the 17% rate of increase in Medicare premiums.<sup>15</sup> Over the last four years, Medicare premiums have increased six times faster than Social Security benefits. Including the increase of 2.5% scheduled for 2005, Social Security benefits have increased by 9% since 2001, compared to a 56% increase in Medicare benefits (Figure 2).<sup>16</sup>

Nationwide, an estimated 2.1 million Medicare beneficiaries will be forced to use the entire amount of their Social Security cost-of-living adjustment to pay the increased Medicare Part B premiums.<sup>17</sup> Over 12 million Medicare beneficiaries will lose at least half of their Social Security cost-of-living adjustment to pay the Part B premium increases.<sup>18</sup>

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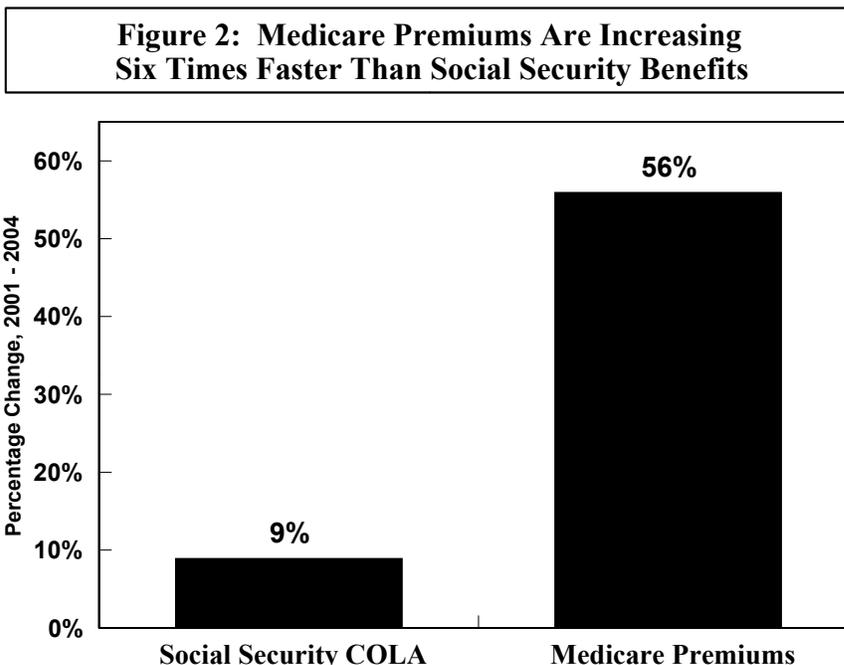
<sup>14</sup> Under federal law, the actual dollar increase in Medicare premiums cannot exceed the dollar increase in Social Security benefits. However, because current average Social Security benefits are \$845.80 per month, almost 13 times higher than Medicare premiums, Medicare premiums can still increase at a much higher percentage rate than Social Security benefits.

<sup>15</sup> The Social Security cost-of-living increase is based upon the change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of the preceding year to the third quarter of the current year. Bureau of Labor Statistics, *Consumer Price Index* (Sept. 2004).

<sup>16</sup> Social Security Administration, *Cost of Living Adjustments: History* (2004); Medicare Board of Trustees, *The 2004 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds* (2004).

<sup>17</sup> Joint Economic Committee, Democratic Staff, *Medicare Beneficiaries Who Have Various Percentages of Their 2005 Social Security COLA Absorbed by the Medicare Part B Increase* (Sept. 2004).

<sup>18</sup> *Id.*



Medicare beneficiaries in California and in Alameda County will face the same financial squeeze. State and local data on the number of beneficiaries who will lose all or half of their Social Security cost-of-living adjustment to pay for the new Medicare premiums is not available from CMS. However, if the same percentages apply in California as nationwide, an estimated 201,000 Medicare beneficiaries in California will use the entire amount of their Social Security cost-of-living adjustment to pay the increased premiums,<sup>19</sup> and an estimated 1.2 million beneficiaries will use at least half of their Social Security cost-of-living adjustment.<sup>20</sup> In Alameda County, an estimated 7,720 beneficiaries will use the entire amount of their Social Security cost-of-living adjustment to pay the increased premiums, and an estimated 46,300 beneficiaries will use at least half of their Social Security cost-of-living adjustment.

**CONCLUSION**

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The Bush Administration recently announced the largest increase in Medicare premiums in history. The Medicare law passed by Congress and signed into law

<sup>19</sup> Nationwide, 7% of Medicare Part B beneficiaries who pay their own premiums will be forced to use the entire amount of their Social Security cost-of-living increase to pay the increased premiums. *Id.*

<sup>20</sup> Nationwide, 42% of Medicare Part B beneficiaries who pay their own premiums will be forced to use at least half of their Social Security cost-of-living increase to pay the increased premiums. *Id.*

## **THE IMPACT OF MEDICARE PREMIUM INCREASES IN ALAMEDA COUNTY**

by President Bush in 2003 is responsible for the majority of this increase. Statewide, the premium increases will cost 2.87 million Medicare beneficiaries \$400 million in 2005. In Alameda County, the premium increases will cost 110,000 Medicare beneficiaries \$15.3 million in increased premiums. An estimated 46,300 beneficiaries will use half or more of their Social Security cost-of-living adjustment to pay the increased premiums.