



MEDICARE PART B PREMIUM INCREASES RESULTING FROM THE HOLD HARMLESS PROVISION

Current law states that the dollar increase in Medicare Part B premiums is limited to the dollar increase in an individual's Social Security benefit due to the "hold harmless" provision of the Social Security Act. However, when there is a low or no annual cost-of-living adjustment (COLA) to federal retirement and Social Security benefits, a substantial minority of Medicare Part B beneficiaries, including many federal retirees, are faced with a disproportionately large increase in their premiums, simply because they pay their premiums from a source other than Social Security.

For individuals who have their Medicare Part B premiums deducted directly from their Social Security checks – about 70 percent of Part B enrollees – any increase in Part B premiums in a given year is limited, by the hold harmless provision of Social Security law, to the dollar increase in Social Security benefits from the annual COLA.

When there is a zero or small COLA, the remaining enrollees – about 30 percent – are forced to bear the full cost burden of premium increases required for the entire program, as premiums are set to cover 25 percent of the costs of the program. Because premiums are limited for some, others, those not held harmless, must pick up the slack.

Enrollees not held harmless, and thus forced to pay more, include federal retirees covered by the Civil Service Retirement System (CSRS), who do not receive Social Security from their government service or do not receive large enough Social Security benefits from any private-sector work to pay Part B premiums from their Social Security checks. This group also includes state government retirees not covered fully by Social Security.

Overall, those affected by premium increases resulting from the hold harmless provision include: people with disabilities; new Medicare enrollees (roughly three million); individuals not collecting Social Security benefits or only collecting minimal Social Security benefits, (roughly 1.5 million); and beneficiaries already paying higher, income-related premiums (over three million). Nine million beneficiaries dually eligible for Medicare and Medicaid are also subject to the higher premiums, but state Medicaid programs bear this cost.

2016 COLA and Medicare Premiums

Without the effect of the hold harmless provision, the standard Medicare Part B premium for 2016 was expected to increase 15 percent, from \$104.90 to \$120.70 per month.

Because there was no COLA to Social Security benefits in 2016, the hold harmless provision applied to an estimated 70 percent of Medicare beneficiaries, meaning for most, their Part B premium remained stable at \$104.90. Absent legislative action, the remaining 30 percent would have been forced to shoulder the *full* premium increase, to \$159.30 per month.

However, enacted as part of the Bipartisan Budget Act of 2015, P.L. 114-74 and supported by NARFE, the standard Medicare Part B baseline figure for 2016 does not take into account the lost premium from those held harmless. Premiums for those held harmless did not change; they remained stable at \$104.90 in 2016. Originally projected at \$120.70, the standard premium was set at \$118.80. For most beneficiaries who were not held harmless, premiums rose to \$121.80, which included a \$3 surcharge. Essentially, premiums for those not held harmless rose the same amount (15 percent) as if there had been a COLA.



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To make up for the lost revenue to the Medicare Trust Fund as a result of lower premiums, beneficiaries are charged a monthly surcharge of \$3. The \$3 surcharge will not apply to those held harmless, but it will apply to those individuals in future years in which they are not held harmless. Medicare beneficiaries who pay higher premiums due to their income level saw their premiums adjusted from the \$118.80 baseline, plus a proportional surcharge. The surcharge is expected to last five years.

2017 COLA and Medicare Premiums

The 2017 COLA was 0.3 percent. Because the small COLA is not large enough to cover the projected increase in Medicare premiums, the hold harmless provision applies, and a significant portion of beneficiaries are facing a disproportionate premium increase.

Those protected by the hold harmless provision saw their premiums rise by an average of \$4 per month – from \$104.90 to \$109. The remaining 30 percent of Part B beneficiaries, who are not held harmless, saw their premiums rise from \$121.80 per month to \$134 – or an average of 10 percent.

Solutions

NARFE supports applying the hold harmless provision to all Medicare beneficiaries permanently.

Absent that action, NARFE supports extending the legislative compromise from the Bipartisan Budget Act of 2015 to apply when there is a small COLA as well as no COLA.