



Policy Options to Expand Medicare's Low-Income Provisions to Improve Access and Affordability

Synopsis

Reducing Medicare's premiums and cost-sharing obligations for low-income beneficiaries would protect an estimated 11 million people who are now at significant risk for financial losses. Though such subsidies would increase federal spending, they would help fulfill Medicare's mission of ensuring access and financial protection for older and disabled Americans.

The Issue

Medicare's core benefits are less comprehensive than the typical employer-sponsored plan, and there is relatively high cost-sharing and no annual limit on out-of-pocket spending. The current patchwork of subsidy programs available for core Medicare premiums, cost-sharing, and prescription drugs—each with different eligibility requirements—still leaves substantial gaps that can expose people to financial losses. Such cost burdens can be catastrophic for beneficiaries who do not qualify for Medicaid.

The authors of this Commonwealth Fund-supported study calculated that roughly 40 percent of low-income Medicare beneficiaries spent at least 20 percent of their income on premiums and medical expenses in 2014, while nearly one-third spent 10 percent or more on out-of-pocket expenses alone.

Medicare assistance for people with low incomes is restricted to those near the federal poverty level. In contrast, the Affordable Care Act provides financial protection and support to younger Americans through premium and cost-sharing subsidies on a sliding scale for people with incomes up to 250 percent of poverty.

Options for Improving Access and Affordability

The researchers estimated the benefit and expense of introducing an ACA-like subsidy program for low-income beneficiaries—defined as those with incomes below 200 percent of the federal poverty level. The approach they outline would extend subsidies for Medicare Part B premiums to beneficiaries with incomes ranging from 135 percent to 199 percent of poverty and would lower cost-sharing for beneficiaries with incomes between 100 percent and 200 percent of poverty who are not otherwise eligible for Medicaid. Under this option, out-of-pocket expenses for hospital and physician services, as well as other Medicare covered benefit costs, would be limited to \$2,000 a year, with a \$250 deductible.

In addition, following the lead of the ACA, the researchers recommend eliminating assets tests. Income alone would determine eligibility.

By expanding premium subsidies and reducing cost-sharing obligations, the share of low-income beneficiaries spending 20 percent or more of their income on premiums and medical care would drop from 40 percent to 25 percent, the authors estimate. A high share of low-income beneficiaries, however, would still be at risk for dental, hearing, home health, and long-term care expenses, which are currently excluded from Medicare's benefit package.

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The Big Picture

The policy options proposed here could improve the affordability of health care for 11 million people. At the same time, expanding premium and cost-sharing subsidies would increase federal spending: if the new policies had been implemented in 2014, for instance, the cost of new premium subsidies would have been \$6.7 billion a year. The expanded cost-sharing subsidies would have added an estimated \$8.3 billion. Including net savings from lower Medicaid costs, the net federal annual costs would be \$14.6 billion assuming full participation of all eligible beneficiaries. This expense could be reduced by limiting subsidies to those with incomes less than 150 percent of the poverty level, implementing them incrementally, or by finding other ways of reducing Medicare spending.

About the Study

The authors used data from the Medicare Current Beneficiary Summary to calculate the cost burden on low-income Medicare beneficiaries and the impact of the proposed policy changes. Because the data include expenses of only one spouse, the estimated cost burden of married couples may be understated. The analysis also assumes that 100 percent of those eligible would take advantage of the subsidies and thus likely overstates the expense of the new approach.

The Bottom Line

It will be necessary to expand low-income subsidies well beyond their current levels to protect Medicare beneficiaries from incurring burdensome debt or forgoing medical care in favor of other necessities.

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This summary was prepared by Sarah Klein.