



MEDICARE PART B PREMIUM INCREASES RESULTING FROM THE HOLD HARMLESS PROVISION

On November 10, 2016, the Centers for Medicare & Medicaid Services (CMS) announced that Medicare Part B premiums in 2017 would rise by an average of \$4 per month for most beneficiaries, but by more than \$12 per month – 10 percent – for 30 percent of beneficiaries, including hundreds of thousands of federal retirees.¹ **NARFE opposes these disproportionate premium increases for a substantial minority of beneficiaries and urges Congress to fix the problem.**

The situation is due to the effect of the so-called “hold harmless” provision of the Social Security Act, which states that the dollar increase in the Part B premium is limited to the dollar increase in an individual’s Social Security benefit. With a 0.3 percent cost-of-living adjustment (COLA) set to take effect in 2017, an estimated 70 percent of beneficiaries will be held harmless, meaning their Part B premium will increase in proportion to their Social Security benefit, for an average of \$4 per month, from \$104.90 to \$109.

The remaining 30 percent of Part B beneficiaries who are not held harmless, including federal retirees covered by the Civil Service Retirement System (CSRS) and who do not receive Social Security benefits, will see their premiums rise from \$121.80 per month to \$134. This figure results from the cost-shifting effect of the hold harmless clause, mitigated administratively by the Secretary of Health and Human Services.

CMS also announced that the annual deductible for all Medicare Part B beneficiaries will be \$183 in 2017 (compared to \$166 in 2016).

The Hold Harmless Provision

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, to their increase in Social Security benefits from the annual cost-of-living adjustment.

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.

Furthermore, with a 0.3 percent COLA announced for 2017, the compromise enacted as part of the Bipartisan Budget Act of 2015 does not apply. The budget deal, which limited premiums for those not held harmless in 2016, would only apply if the COLA is zero in 2017.

Who Is Not Held Harmless?

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 (or do not receive large enough Social Security payments to pay Part B premiums from their Social Security checks). This group also includes state government retirees not covered fully by Social Security.

Other adults and people with disabilities affected by premium increases resulting from the hold harmless provision include: new Medicare enrollees (roughly three million); individuals not collecting Social Security benefits or only collecting minimal Social Security benefits, including federal retirees covered under CSRS with insufficient private-

¹ Medicare Part B covers physician services, outpatient hospital services, certain home health services, durable medical equipment, and other items.

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sector earnings (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.

2017 COLA

The 2017 COLA will be 0.3 percent. The COLA is based on the July, August and September consumer price index (CPI-W) figures compared to the average for the same months of 2014 (since there was no COLA in 2016, the 2014 figures are the baseline). Because the small COLA is not large enough to cover the increase in Medicare premiums, the hold harmless provision applies, and a significant portion of beneficiaries are facing a disproportionate premium increase.

2016 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. But because there was no COLA to Social Security benefits, the standard premium was projected, absent any intervening legislative action, to increase to \$159.30 per month for the 30 percent of enrollees who would not be held harmless.

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.

However, enacted as part of the Bipartisan Budget Act of 2015, P.L. 114-74, 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 are not held harmless, premiums rose to \$121.80, which includes a \$3 surcharge, as explained below. Essentially, premiums for those not held harmless rose the same amount (15 percent) as if there had been a COLA.

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 this year, 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.

Since there will be a very small, 0.3 percent COLA, this fix does not apply to 2017.

Solutions

First, NARFE supports applying the hold harmless provision to all Medicare beneficiaries permanently. NARFE also supports a solution for 2017 like the one put forward for 2016 by two bills: H.R. 3696, the Medicare Premium Fairness Act, introduced by Rep. Dina Titus, D-NV; and S. 2148, the Protecting Medicare Beneficiaries Act of 2015, introduced by Sen. Ron Wyden, D-OR.

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.

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