The High Cost to Massachusetts of Raising the Medicare Age

Policy Report

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Executive Summary

Raising the Medicare eligibility age to 67 would cost Massachusetts $298 million in the first full year of implementation, including $160 million to individuals, $114 million to Massachusetts businesses, and $24 million to the Massachusetts State Government. Such a change would increase premiums in the healthcare exchanges for those under 65, increase the average out-of-pocket costs for those 65-66 and increase Medicare premiums for those 67 and above. Overall, it could cost a Massachusetts resident nearly $7,578 over their lifetime.

Many of the initial savings to the federal government are mitigated by a loss of Medicare premiums and increased Medicaid and healthcare exchange subsidy payments. While increasing the Medicare eligibility age will save the federal government $5.7 billion a year, it will raise overall health care expenses by $11.4 billion and shift this additional burden to individuals, employers, and state governments.

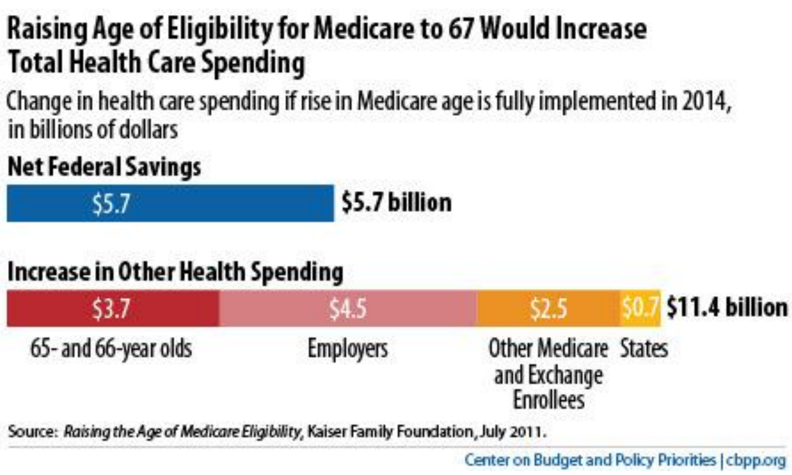
In contrast, the federal government could save at least $20 billion a year – more than 3 times the amount from raising the Medicare age – by allowing Medicare to offer a prescription drug benefit with negotiated prices. This proposal would also offer additional savings to seniors through lower co-payments and would simplify the complicated and confusing enrollment process for Part D.

Introduction

Before Medicare was signed into law by Lyndon B. Johnson in 1965, seniors over 65 struggled to access and afford healthcare coverage. For the past 46 years Medicare has protected these seniors, keeping millions out of poverty, containing health care costs more than the private sector and reducing disparities in care. However, some politicians want to increase the eligibility age for Medicare and shift the increased costs onto individuals, employers and taxpayers. This would drastically increase overall health care costs while leaving seniors more vulnerable. Alternatively, Congress can create a Medicare offered prescription drug benefit with negotiated prices that will save the government more than three times as much as raising the retirement age, while savings seniors money. This report looks at the effects that increasing the Medicare eligibility age to 67 would have on Massachusetts in 2014, when many of the Affordable Care Act (ACA) provisions begin, and how reforming the Medicare Part D drug benefit can more efficiently extend Medicare's solvency while protecting seniors.

Raising the Medicare Age to 67

Medicare is an entitlement program calculated off budget. It currently has a trust fund that will keep Medicare fully solvent until 2024, after which Medicare's annual income would be able to pay 90% of promised benefits.[1] Overall, increasing the Medicare eligibility age from 65 to 67 would save the Federal Government an estimated $5.7 billion a year.[2] These savings are achieved by shifting costs onto individuals, employers and state governments. Because Medicare is more cost efficient than the private market, health care costs will increase by more than $11 billion, doubling the savings for the federal government.[3]



[1] Medicare Finances: Findings of the 2011 Trustees Report, by Sabiha Zainulbhai and Lee Goldberg, National Academy of Social Insurance. May, 2011. Available at: http://www.nasi.org/research/2011/medicare-finances-findings-2011-trustees-report

[2] Raising the Age of Medicare Eligibility: A Fresh Look Following Implementation of Health Reform, by Tricia Neuman, Juliette Cubanski, Daniel Waldo, Franklin Eppig, and James Mays, The Henry J. Kaiser Family Foundation. June, 2011. Available at: http://www.kff.org/medicare/upload/8169.pdf

[3] Ibid.

These additional costs include higher out-of-pocket costs for those 65 and 66 years of age no longer eligible for Medicare, additional costs to employers offering health care coverage, and increased Medicaid costs to cash strapped state governments. Finally, the state healthcare exchanges being created under the Affordable Care Act and Medicare beneficiaries over the age of 67 would both have their premiums rise.

<u>Cost to Massachusetts</u>

There are currently about 6.5 million people residing in Massachusetts.[4] About 903,000, or 13.8% of Massachusetts residents, are currently over the age of 65 and Medicare eligible. In America as a whole, about 13% of the population is 65 or older. Raising the Medicare eligibility age will add additional costs to an individual throughout their lifetime. Overall, it ends up costing an individual around $7,578 over their lifetime, and would cost Massachusetts $298 million in 2014 if the proposed change took full effect. The chart below shows the several different ways raising the Medicare age increases costs.

<table>
<tr><th colspan="5">Costs of raising the Medicare eligibility age to 67</th></tr>
<tr><th>Age</th><th>Individual Costs</th><th>Total Direct Costs to Massachusetts Residents</th><th>Massachusetts Employers/ Business Costs</th><th>Massachusetts State Government Costs</th></tr>
<tr><td>25-65[5]</td><td>$5,640</td><td>$52,334,751</td><td rowspan="4">$113,858,831</td><td rowspan="4">$23,839,405</td></tr>
<tr><td>65-66</td><td>$1,400</td><td>$77,187,320</td></tr>
<tr><td>67+</td><td>$538</td><td>$30,572,671</td></tr>
<tr><td>Total</td><td>$7,578</td><td>$160,094,742</td></tr>
<tr><td colspan="5">Total Cost to Massachusetts: $297,792,978</td></tr>
</table>

- Raising the Medicare age to 67 will increase costs to those younger than 65 in the healthcare exchanges

If 65 and 66 year olds lost access to Medicare, it is estimated that across the country 1.9 million would enter the healthcare exchanges being created by the Affordable Care Act.[6] With the exchanges forced to cover these older and expensive individuals, average premiums for everyone else in the exchanges would increase by 3%, or an extra $141 per year.[7] This would cost

[4] 2010 U.S. Census. Available at: http://www.census.gov/compendia/statab/cats/population.html
[5] Costs are only for those aged 25-65 that would enroll in the healthcare exchanges or the private insurance market. Individual costs assume no subsidy for increased premium, though this is factored into calculating the direct Massachusetts residents costs. Increased costs for individuals covered by their employers are included in the employers category. No estimate is made on how much of the increased costs to employers would be passed on to employees.
[6] Raising the Age of Medicare Eligibility: A Fresh Look Following Implementation of Health Reform
[7] Raising the Age of Medicare Eligibility: A Fresh Look Following Implementation of Health Reform

someone covered by the exchanges and not receiving any subsidy from the age of 25 to 65 a total of $5,640.[8]

It is expected that around 500,000 Massachusetts residents will be enrolled in the healthcare exchanges or purchase individual insurance from the private market in 2014.[9] Of this total, 57% are expected to receive subsidies that will reduce out of pocket costs.[10] Overall, this means raising the Medicare age will cost Massachusetts residents under 65 and enrolled in the healthcare exchanges around $52 million annually.[11]

These premium increases are larger the younger you are. For example, the increase in premiums for those under 30 is estimated to be 8%, or $376 a year, and those 30-34 would see a 5% increase of about $235 a year in premiums.[12] This calculation does not factor in potential cost sharing increases to those covered in employer plans or the likelihood that some employers would drop coverage altogether when faced with higher expenses.

- Residents aged 65 and 66 will face increased costs

Without access to Medicare, the nearly seven million Americans 65 and 66 will have to buy coverage in the more expensive private market, facing an aggregate increase in out-of-pocket costs of about $3.7 billion.[13] While the specific impact on an individual will vary greatly depending on income, access to retiree health care from employees, Medicaid eligibility, etc., the average increase in out of pocket costs for an individual is $700 per year.[14] For the estimated 110,000 Massachusetts residents that will be 65 and 66 in 2014, this would cost a combined total of more than $77 million in the first year,[15] with the average individual paying a total of $1,400 more in out of pocket costs while they are 65 and 66.

- Raising the eligibility age will increase Medicare premiums for those over 67

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[8] This is calculated by taking the $141 increase in premiums cited by the Kaiser Family Foundation multiplied by the 40 years between the age of 25 and 65 an individual would pay these higher premiums.

[9] This estimate is calculated by taking the 24 million people nationwide expected to enroll in the healthcare exchanges by the Congressional Budget Office (http://www.cbo.gov/ftpdocs/113xx/doc11379/AmendReconProp.pdf) times the state percentage of the overall American population. We assume the private market will see a similar increase in premiums as he exchanges because 65 and 66 year olds would likely make similar purchasing decisions as other residents.

[10] Congressional Budget Office. Available at: Congressional Budget Office, available at: http://www.cbo.gov/ftpdocs/107xx/doc10781/11-30-premiums.pdf

[11] This estimate is calculated by taking the $141 increase in premiums cited by the Kaiser Family Foundation multiplied by the estimated number of individuals entering the healthcare exchanges in 2014 and accounting for the 57% of enrollees expected to receive a 47.5% average premium subsidy.

[12] Raising the Age of Medicare Eligibility: A Fresh Look Following Implementation of Health Reform

[13] Ibid.

[14] Ibid.

[15] This estimate is calculated by taking 2/15ths of those currently aged 60-74 in the 2010 U.S. Census Data (Table 16, http://www.census.gov/compendia/statab/cats/population.html) and multiplying by the $700 average increase in out of pocket costs. It should be noted that this average includes a wide range of outcomes, many low income seniors could end up with reduced out of pocket expenses through Medicaid and health exchange subsidies. We did not exclude Medicaid enrollees from this calculation as the $700 average increase calculated by the Kaiser Family Foundation is inclusive of Medicaid eligible individuals.

As Medicare loses the youngest and healthiest contributors and becomes more concentrated among older seniors with higher healthcare costs, Medicare premiums would rise. It is estimated that the remaining Medicare enrollees will pay an extra $46 more a year in premiums.[16] While a $46 a year increase may not sound like a large amount to many people, it makes a tremendous difference for seniors on low fixed incomes. Over an average person's lifetime, this would add $538 in additional Medicare premium costs.[17] For Massachusetts, the total cost would be more than $30 million a year for those 67 and older in the first full year of implementation.[18]

- Increases costs for employers, likely causing many employers to drop coverage

Nationwide, it is estimated employers will see a $4.5 billion annual increase in costs from becoming the primary payer for those 65 and 66 either currently working (1 million) or in employer retiree health care plans (1.1 million).[19] Although not calculated in this report, this added cost to businesses would likely cause some employers to drop their retiree health care plans or shift more costs to employees. Massachusetts businesses would be expected to see a cost increase of around $114 million dollars a year from an increase in the Medicare age to 67.[20]

- Increases direct costs to the State Government of Massachusetts

Medicaid spending by all states would increase by about $0.7 billion in 2014.[21] This total includes additional costs for Medicaid becoming the primary payer for previously dual eligible 65 & 66 year olds, increased Medicare premiums for dual eligible over 67 minus savings from the federal government under the Affordable Care Act (AC) and a reduction in Medicare premium support for dual eligible who are 65 & 66. Out of this national total, Massachusetts would be expected to spend around $24 million a year in increased Medicaid costs.[22] This estimate assumes that the federal government will pay 100% of the additional costs of newly enrolled low-income 65 and 66 year olds in 2014, as provided for under the ACA. However, states will have to pick up 10% of the costs by 2020, significantly increasing the cost to Massachusetts taxpayers.

- Could increase the number of uninsured

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[16] Raising the Age of Medicare Eligibility: A Fresh Look Following Implementation of Health Reform

[17] According to the World Bank, the average life expectancy in the U.S. was 78.7 in 2009. This means the average American would live 11.7 years past 67. Paying $46 more a year would add up to $538 in additional costs.

[18] This estimate is calculated by the age old Medicare population in MA (888,016, available at: http://www.statehealthfacts.org/comparetable.jsp?ind=294&cat=6&sub=75&yr=199&typ=1) and taking out the dual-eligible beneficiaries for whom Medicaid covers premiums for (available at: http://www.statehealthfacts.org/comparemaptable.jsp?ind=304&cat=6), and then multiplying by the $46 increase in Medicare premiums.

[19] Raising the Age of Medicare Eligibility: A Fresh Look Following Implementation of Health Reform

[20] This is calculated by taking the $4.5 billion overall increase in employer costs and multiplying by the percent of covered employers nationwide that in Massachusetts. This data is from the Economic Policy Institute at: http://www.epi.org/publication/decline_in_employer-sponsored_health_coverage_accelerated/

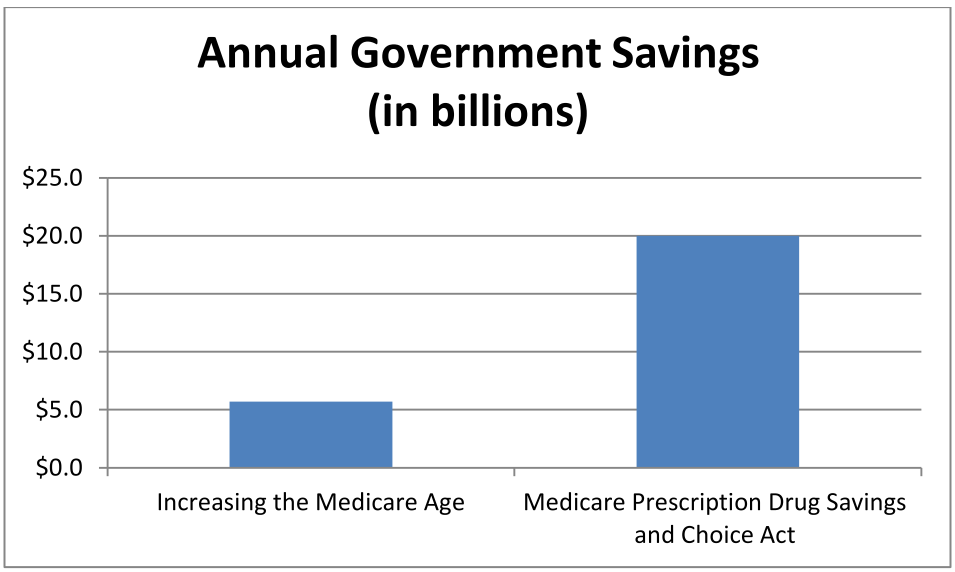
[21] Raising the Age of Medicare Eligibility: A Fresh Look Following Implementation of Health Reform

[22] This is calculated by multiplying the $.7 billion national increase in state Medicaid costs by the percent of the 2009 Massachusetts Medicaid expenditures ($12.5 billion) compared to overall U.S. Medicaid spending ($366 billion).

For those with modest incomes, a category that includes many 65 and 66 year olds, raising the Medicare eligibility age could increase the number of uninsured. The reason for this is that private health insurers can charge higher premiums based on age, but the tax penalty enforcement known as the individual mandate stays at the same level regardless of age. 65 and 66 year olds would be the most likely to not have the income to afford the higher premiums they would face and instead opt go without health coverage and pay the tax penalty.

Alternative policy solution

Instead of harming hard working Americans, Medicare could save more than three times as much by the creation of a Medicare-administered Part D prescription drug benefit with the ability to negotiate for lower prices. The Medicare Prescription Drug Savings and Choice Act of 2011 introduced by U.S. Senator Dick Durbin (D-IL) and Representative Jan Schakowsky (D-IL) does this and would save Medicare at least $20 billion a year.[23] Additionally, this legislation would also benefit Massachusetts seniors, many of which find the marketing practices and formulary changes of the private drug plans very confusing, by simplifying the enrollment process to Part D and lowering the amount of cost sharing they would pay for prescription drugs.



Conclusion

Increasing the Medicare eligibility age will be very harmful to Massachusetts. While it will save the Federal Government $5.7 billion annually, it will increase overall health care costs and shift these increased expenses to individuals, employers and state governments. It would cost Massachusetts around $298 million a year. By contrast, creating a Medicare offered Part D prescription drug benefit with negotiated prices can reduce Federal Government expenses by $20 billion a year while reducing out-of-pocket costs for seniors.

[23] Schakowsky, Durbin Introduce Bill Requiring HHS to Negotiate Drug Pricing in Medicare Part D. March, 2011. Available at: http://schakowsky.house.gov/index.php?option=com_content&task=view&id=2874&Itemid=16