OVERVIEW OF PRESENT LAW AND ESTIMATED BUDGET EFFECTS OF THE MEDICARE CATASTROPHIC INSURANCE PROGRAM AND DESCRIPTION OF POSSIBLE PREMIUM OPTIONS

Scheduled for a Hearing

Before the

SENATE COMMITTEE ON FINANCE

on June 1, 1989

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

May 25, 1989

JCX-9-89

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INTRODUCTION

The Senate Committee on Finance has scheduled a hearing on June 1, 1989, on the estimated budget effects of the Medicare catastrophic insurance program and supplemental premium options under the Medicare Catastrophic Coverage Act of 1988.

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a discussion of present law, estimated budget effects, distribution of the supplemental premium, and possible premium options.

Part I of the document provides a summary description of present law relating to Medicare benefits and financing of the benefits. Part II compares the estimated budget effects of the Medicare catastrophic insurance program when the Act was enacted and the current estimates by the Congressional Budget Office and the Administration. Part III provides data on the distribution of the current Medicare supplemental premium by income group, and Part IV discusses possible options to modify the premium. Finally, the Appendix describes the method for deriving the distributional estimates.

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[1] This document may be cited as follows: Joint Committee on Taxation, Overview of Present Law and Estimated Budget Effects of the Medicare Catastrophic Insurance Program and Description of Possible Premium Options (JCX-9-89), May 25, 1989.

I. PRESENT LAW

A. Medicare Benefits

In general

Medicare is a nationwide health insurance program for the aged and certain disabled persons. Medicare consists of three parts: the hospital insurance program (Part A), the supplementary medical insurance program of Part B (SMI), and the catastrophic drug insurance program of Part B (CDI).

Individuals who have attained age 65 and who are eligible for monthly social security or railroad retirement benefits are covered under Part A of Medicare at no cost. Part A coverage is also available at no cost to certain disabled individuals who have not attained age 65 and to persons who have end-stage renal disease. Persons who have attained age 65 and who are not eligible for social security or railroad retirement benefits may obtain Part A coverage providing they pay for the coverage. The monthly premium for such coverage, as of January 1, 1989, is $156.

Within limits, Part A of Medicare provides coverage for inpatient hospital care, skilled nursing facility (SNF) care, home health care, and hospice care.

Coverage under Part B, which includes the SMI and the CDI programs, is voluntary. All persons age 65 or older and individuals eligible for Part A benefits by virtue of disability or end-stage renal disease may elect to enroll in both these programs by paying the monthly premium. Enrollees may not elect to enroll in only one of these programs.

SMI covers doctor's services, other medical and health services (e.g., laboratory and other diagnostic tests, ambulance services, outpatient services at a hospital), and certain home health services not covered under Part A. SMI covers 80 percent of the reasonable charges for such services, subject to a deductible. Beginning in 1990, enrollees in Part B will also be eligible for prescription drug benefits.

Benefits under the Medicare Catastrophic Act of 1988

The Medicare Catastrophic Act of 1988 ("the Act") significantly expanded the benefits covered by Medicare. Major changes to the benefits are described below.

Part A benefits

Inpatient hospital care.--Under the Act, Medicare pays all hospital inpatient costs above an annual deductible amount ($560 for 1989). Under prior law, the number of days covered by Medicare was limited for a single spell of illness, covered individuals paid a deductible for each spell of illness, and coinsurance amounts were payable after the 60th day in each spell of illness. The Act eliminated the concept of a spell of illness, which began with a hospital admission and ended on the 61st day following discharge from the hospital or from a skilled nursing facility (SNF) entered after the hospital stay.

Skilled nursing facility care.--Under the Act, the limit on SNF care is 150 days per year, and no prior inpatient stay is required for coverage. Coinsurance payments are required for the first 8 days of care each year, at a rate of 20 percent of average SNF costs per day ($25.50 for 1989). Under prior law, the limit on SNF care was 100 days per spell of illness, after a hospital stay of at least 3 days. Coinsurance payments were required for days 21 through 100 at a rate of 1/8th of the deductible amount ($67.50 for 1988).

Home health care.--Under prior law and the Act, there is no limit on the overall number of covered home health care visits and no coinsurance requirement. To be covered, home health care visits must be required on an intermittent basis. Under prior law, the intermittent requirement was interpreted to mean that there could be 5 to 7 visits a week, for 2 to 3 consecutive weeks. Under the Act, beginning in 1990, covered individuals may receive up to 38 consecutive days of home health care, 7 days a week.

Hospice care.--The Act eliminated the 210-day lifetime limit on hospice care.

Part B benefits

SMI benefits.--Beginning in 1990, the Act expands Part B benefits as follows. Each enrollee's annual liability for Part B copayments is capped. The cap is $1,370 for 1990, and will be adjusted each year to keep the proportion of enrollees subject to the cap constant at 7 percent. Part B coverage is expanded to include mammography screening for women, subject to a maximum of $50 (indexed) per screening and the usual copayment requirements. In addition, once sufficient costs have been incurred to receive benefits under either the copayment cap or the new drug provisions (see below), enrollees are eligible for respite benefits. Under this benefit, Medicare will pay 80 percent of reasonable costs for up to 80 hours a year of in-home personal services, to give the usual caretakers of homebound enrollees a respite.

Catastrophic drug insurance.--Effective January 1990, the Act provides coverage for drugs administered intravenously at home and for immunosuppressive drugs after the first year following a transplant, subject to an annual deductible amount of $550. Coinsurance of 20 percent will be required on drugs administered intravenously, while coinsurance will initially be 50 percent for newly-covered immunosuppressive drugs. (Medicare already covers 80 percent of the costs of immunosuppressive drugs in the first year following an organ transplant.)

Effective January 1991, the CDI program will be expanded. Coverage will include all outpatient prescription drugs and insulin, subject to an annual deductible amount ($600 in 1991) that will be adjusted each year to keep the proportion of enrollees paying the maximum deductible constant at 16.8 percent. Coinsurance requirements will be 50 percent of reasonable charges above the deductible in 1991, 40 percent in 1992, and 20 percent in 1993 and subsequent years.

B. Financing of Medicare Benefits

Part A benefits

Part A benefits are financed through the Hospital Insurance Trust Fund. This trust fund is financed primarily through payroll tax contributions paid by employers, employees, and the self-employed. The payroll tax rate for 1989 is 1.45 percent of compensation up to $48,000 per employee. An equal amount is paid by the employer. Self-employed individuals pay both the employers' and employees' portion of the tax.

SMI benefits

SMI benefits are funded through the Supplementary Medical Insurance Trust Fund (SMI Trust Fund) by premiums paid by enrollees in the Part B program and general revenues. In 1989 a temporary provision requires that enrollee premiums provide 25 percent of the financing of Part B. Thereafter, premium rates will be derived annually based upon the projected costs of the program for the coming year, but premium increases will be limited to increases in the social security cost-of-living adjustment. Therefore, the share of benefits financed by premiums is expected to drop below 25 percent, while the general revenue share will grow. The basic Part B monthly premium for 1989 is $27.90, without regard to the additional premium added by the Act (see below).

Financing of benefits under the Medicare Catastrophic Coverage Act of 1988

In general

The new benefits provided by the Act are financed through the combination of (1) an increase in the Part B flat monthly premium and (2) a new supplemental premium based on income tax liability. It is anticipated that the supplemental premium will finance approximately 63 percent of the costs under the Act, and that the flat premium will finance the remaining 37 percent of costs.

Flat premium

The Act provides for increases in the monthly Part B premium otherwise determined to finance the catastrophic coverage benefit and the prescription drug benefit. Through 1993, the amount of the increase is set by law. After 1993, the flat premium is adjusted through use of a formula that is designed to maintain a reserve in the Catastrophic Coverage Account and the CDI Trust Fund (see below).

For 1989-1993, the additional flat monthly premium for Part B enrollees is as follows[2]:

Year	Catastrophic Coverage Premium	Prescription Drug Premium	Total Catastrophic Flat Premium
1989	$4.00	$ .00	$ 4.00
1990	4.90	.90	5.80
1991	5.46	1.94	7.40
1992	6.75	2.45	9.20
1993	7.18	3.02	10.20

Supplemental premium

The supplemental premium is payable in a year by any individual who is eligible for Part A of Medicare for at least 6 months during the year (except for those who pay the Part A premium), who has income tax liability for the year of at least $150, and who resides in one of the 50 states or the District of Columbia. Subject to a limit on the maximum premium payable by an individual, the annual premium is determined by multiplying (1) the supplemental premium rate by (2) the amount determined by dividing the individual's adjusted income tax liability by $150.

For years 1989 through 1993, the supplemental premium rate is set by law. For years after 1993, the supplemental premium rate is adjusted by a formula that is designed to maintain a reserve in the Catastrophic Coverage Account and the CDI Trust Fund (described below).

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2 Residents of Puerto Rico, other U.S. commonwealths or territories, and individuals not entitled to or eligible for Medicare Part A have different premium schedules.

The supplemental premium rate is equal to the sum of the catastrophic coverage premium rate and the prescription drug premium rate as follows:

Year	Catastrophic Coverage Premium	Prescription Drug Premium	Total Supplemental Premium	Total Percent Rate[3]
1989	$22.50	$ .00	$22.50	15%
1990	27.14	10.36	37.50	25
1991	30.17	8.83	39.10	26
1992	30.55	9.95	40.50	27
1993	29.55	12.45	42.00	28

The maximum annual supplemental premium shall not exceed the following amount:

In the case of taxable years beginning in:	The limitation is:
1989	$800
1990	850
1991	900
1992	950
1993	1,050

For years after 1993, the cap on the maximum supplemental premium is increased through the use of a formula (see below).

Married individuals who both are eligible for Part A benefits for at least 6 months during the year are treated as a single individual for purposes of the supplemental premium, except that the maximum limit on the supplemental premium is doubled (e.g., $1,600 for 1989). If only one spouse is Medicare-eligible for 6 months of the year, income tax liability is determined as one-half of the tax liability of the joint return.

In the case of married individuals filing separate returns, the individual is treated as Medicare-eligible for 6 months if either the individual or the individual's spouse is so eligible. In addition, the maximum supplemental premium is twice the supplemental premium if, without regard to the rule in the preceding sentence, both spouses are Medicare-eligible for 6 months of the year. This provision is designed to prevent the supplemental premium from creating

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[3] This column shows the total supplemental premium as a percent of tax liability.

an incentive for married taxpayers to file separate returns.

Accounting

The receipts from the catastrophic coverage supplemental and monthly premiums fund the health and supplementary medical insurance portions of the catastrophic benefit (i.e., the increases in Part A and SMI benefits). The receipts from the prescription drug supplemental and monthly premiums fund the prescription drug benefits. These two sources of receipts and benefits are accounted for separately.

The prescription drug benefits are funded by the Catastrophic Drug Insurance Trust Fund (the "CDI Trust Fund"). All receipts attributable to the drug portion of the premiums are placed into the CDI Trust Fund and all payments for the benefits and administrative costs relating to covered drugs are drawn from the CDI Trust Fund.

Receipts attributable to the monthly flat catastrophic coverage premium are allocated to the SMI Trust Fund. Receipts attributable to the supplemental catastrophic coverage premium are allocated to the SMI Trust Fund and a newly created Federal Hospital Insurance Catastrophic Reserve Fund, with the division determined by the outlays from the catastrophic hospital insurance program. Outlays for catastrophic coverage are made from the Part A Hospital Insurance Trust Fund and the SMI Trust Fund.

In order to account for the receipts and outlays of the catastrophic coverage program separately from the prescription drug program, a bookkeeping account, known as the Medicare Catastrophic Coverage Account (the "Catastrophic Coverage Account"), was created. The balance recorded in the Catastrophic Coverage Account represents the cumulative financial position of the catastrophic coverage program.

The Catastrophic Coverage Account is used to calculate monthly and supplemental catastrophic coverage premium rates after 1993 in a manner intended to maintain a contingency reserve in the Catastrophic Coverage Account. Similar adjustments are made after 1993 to the monthly and supplemental prescription drug premiums based on the balance in the CDI Trust Fund.

Adjustments to premiums after 1993

After 1993, the monthly and supplemental premiums and the supplemental premium cap are adjusted through the use of a formula. The formula is designed to maintain a reserve equal to 20 percent of annual outlays in the Catastrophic Coverage Account and, by 1996, a reserve in the CDI Trust Fund of 20 percent of annual outlays. The catastrophic coverage supplemental premium is adjusted by a percentage reflecting the past growth of per capita medicare catastrophic coverage outlays relative to premiums paid, recent inflation, and the excess or shortfall of the balance in the Catastrophic Coverage Account of 20 percent of annual outlays in a preceding year. Similar calculations are performed for the prescription drug supplemental premium rate based on the balance in the CDI Trust Fund. In no case may the total supplemental premium rate increase over the prior year's premium by more than $1.50 or one percentage point of tax liability. The premium may not decrease under the formula.

Adjustments in the maximum supplemental premium cap after 1993 are based on the relative per capita growth of Part B outlays to Part B premiums in preceding years. The cap will be rounded to the nearest $50.

The formula for adjustments in the monthly premium, after 1993, is similar to the formula used for the supplemental premium. The Congress intended that the monthly premium continue to provide 37 percent of the revenues for the catastrophic program and the supplemental premium is to provide 63 percent of such revenues, however, the proportion could vary as a result of limits on allowable change in the supplemental premium. If the change in the supplemental premium rate as calculated by formula is limited by the restrictions on annual increases or decreases, then the change in the monthly premium is designed, with certain adjustments, to account for any excess or shortfall.

II. BUDGET EFFECTS OF MEDICARE CATASTROPHIC COVERAGE ACT OF 1988

A. Catastrophic Reserve Funds Balances

Congress intended, in the Medicare Catastrophic Coverage Act of 1988, to maintain a surplus of funds to pay for benefits covered under the Act. As described above, the record keeping of these reserve funds is accomplished through the Medicare Catastrophic Coverage Account and the Catastrophic Drug Insurance Trust Fund.

Table 1 presents estimates of the calendar year-end balances in the Catastrophic Coverage Account and the CDI Trust Fund that were made upon enactment of the Act, and estimates based on the current Congressional Budget Office (CBO) baseline.[4] The estimates made upon enactment indicate a calendar year 1993 year-end balance in the Catastrophic Coverage Account of $1.6 billion and of $1.7 billion in the CDI Trust Fund. As a percentage of calendar year 1993 outlays, these balances are 20.5 percent in the Catastrophic Coverage Account and 57.6 percent in the CDI Trust Fund.

The current CBO estimates of the balances in the Catastrophic Coverage Account and the CDI Trust Fund at calendar 1993 year-end are $5.7 billion and $2.3 billion, respectively. As a percentage of calendar year 1993 outlays, the balance in the Catastrophic Coverage Account is projected to be 71.9 percent and the balance in the CDI Trust Fund is projected to be 76.9 percent. The February 1989 CBO estimate of the calendar 1993 year-end combined balance is $8.0 billion, which is $4.7 billion more than the combined balance of $3.3 billion estimated upon enactment.

B. Receipt and Outlay Effects

In order to generate contingency reserves in the Catastrophic Coverage Account and CDI Trust Fund, it is generally necessary for cumulative receipts to exceed outlays. The cumulative excess of receipts over outlays will not match the combined balance of the Catastrophic Coverage Account and the CDI Trust Fund reserve amounts due to credits

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[4] The current CBO estimates reported in Tables 1 and 2 differ from the amounts used in the February 1989 budget baseline. The estimates in the tables include expected outlay amounts for the administration of the drug benefit that have not yet been appropriated and, thus, are excluded from the baseline used for budget purposes. Estimates that include the expected outlays necessary for the administration of the drug benefit may reflect more accurately the total budget effect of the Act and are also consistent with the estimates made upon enactment.

and debits of interest and the difference in the timing of receipts and outlays between fiscal and calendar years.[5]

Table 2 presents estimates prepared by CBO for the February 1989 budget baseline of 1989 through 1993 fiscal year receipts and outlays of the Medicare catastrophic program. For comparison, Table 2 also presents corresponding estimates of the program prepared by CBO and the Joint Committee on Taxation at the time of enactment of the Act and Administration estimates from the Fiscal Year 1990 Budget.

The cumulative excess of receipts over outlays for fiscal years 1989 through 1993 is $8.0 billion according to the current CBO estimate. This recent estimate exceeds by $3.8 billion the estimate of the cumulative excess of $4.2 billion made upon enactment.

The Administration estimates that the cumulative excess of receipts over outlays for fiscal year 1989 through 1993 is $6.2 billion. This total is $1.8 billion less than the current CBO estimate, but $2.0 billion more than the CBO estimate upon enactment. The Administration estimates, however, that the CDI Trust Fund will have insufficient funds to make all benefit payments in 1992 and, thus, will not make payments for eligible drug benefits for calendar year 1993.

The Administration estimates of receipts from the monthly and supplemental premiums and outlays for the hospital and supplemental medical insurance and the catastrophic drug benefit are all different from the current CBO estimate. The Administration estimates that the level of cumulative receipts from the supplemental premium over fiscal years 1989 through 1993 are greater than that of the current CBO estimate. Much larger outlay estimates by the Administration, particularly for the drug benefit program, however, more than offset the Administration's higher receipts estimates over the period.

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[5] Both the Catastrophic Coverage Account and the CDI Trust Fund are credited with interest in periods for which they are in surplus, and debited for interest when in deficit.

Table 1

Current Congressional Budget Office Estimate of Medicare Catastrophic Account and Drug Trust Fund Effects, End of Calendar Years 1989-1993

(Billions of dollars)

Final Estimate Upon Enactment	1989	1990	1991	1992	1993
Catastrophic Account[1]					
End-of-year balance	0.1	1.0	0.9	1.3	1.6
Balance/same year's outlays (in percent)	4.4%	20.2%	14.9%	19.1%	20.5%
Drug Trust Fund[2]					
End-of-year balance	0.0	0.2	1.2	1.6	1.7
Balance/same year's outlays (in percent)	---	149.4%	99.0%	74.9%	57.6%

Current CBO Estimate	1989	1990	1991	1992	1993
Catastrophic Account[1]					
End-of-Year balance	0.3	2.5	3.3	4.6	5.7
Balance/same year's outlay (in percent)	17.3%	51.0%	54.2%	67.1%	71.9%
Drug Trust Fund[2]					
End-of-year balance	0.0	0.3	1.5	2.0	2.3
Balance/same year's outlays	---	174.4%	118.1%	92.1%	76.9%

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[1] The Medicare Catastrophic Coverage Account covers the hospital insurance and supplemental medical insurance portions of the medicare catastrophic program.

[2] Administrative expenses for the Federal Catastrophic Drug Insurance Trust Fund have not been appropriated, so they are not included in the CBO baseline. Estimates of the Drug Trust Fund administrative expenses are included in this table for purposes of comparison.

Table 2

Estimates of Medicare Catastrophic Budget Effects, Fiscal Years 1989-1993[1]

(Billions of dollars)

Estimate Upon Enactment

	1989	1990	1991	1992	1993	1989-1993
Supplemental premium receipts	-0.3	-4.2	-4.9	-5.7	-6.5	-21.7
Flat premium receipts	-1.1	-1.8	-2.7	-3.6	-4.1	-13.3
Outlays	1.3	4.2	6.7	8.4	10.1	30.8
Net budget effect	-0.1	-1.8	-1.0	-0.8	-0.5	-4.2

Current CBO Estimate

	1989	1990	1991	1992	1993	1989-1993
Supplemental premium receipts	-0.4	-5.4	-6.1	-6.7	-7.3	-25.9
Flat premium receipts	-1.2	-1.8	-2.7	-3.6	-4.1	-13.5
Outlays	1.3	4.2	6.8	8.7	10.5	31.4
Net budget effect	-0.3	-3.1	-2.0	-1.6	-1.0	-8.0

Administration Estimate[2]

	1989	1990	1991	1992	1993	1989-1993
Supplemental premium receipts	-0.6	-6.5	-7.1	-6.9	-7.3	-28.3
Flat premium receipts	-1.2	-1.8	-2.7	-3.6	-4.1	-13.4
Outlays	1.2	4.0	7.8	11.3	11.2	35.5
Net budget effect	-0.5	-4.4	-2.0	0.9	-0.2	-6.2

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1 These estimates are for the hospital insurance, supplemental medical insurance, and drug benefit programs of the Medicare Catastrophic Act of 1988. Provisions relating to Medicaid and other miscellaneous provisions of the Medicare Catastrophic Act are not included here. Estimates include unappropriated funds for the administration of the CDI Trust Fund. Totals may not add exactly due to rounding.

2 Administration estimates are from the Fiscal Year 1990 budget. The Administration estimates that there will be insufficient funds in the Drug Trust Fund to pay all benefits in 1992 and assumes no payments for calendar year 1993 drug benefits.

III. DISTRIBUTIONAL EFFECT OF THE SUPPLEMENTAL PREMIUM

Based on current estimates of supplemental premium receipts, Tables 3 and 4 present distributions of the supplemental premium paid by Medicare enrollees. Tables 5 and 6 present distributions, by income, of the amount of supplemental premium at the average tax liability paid by Medicare enrollees.

Table 3 presents a distribution of the amount of supplemental premium paid per enrollee. It is estimated, for calendar year 1989, that 58.8 percent of Medicare enrollees will pay no supplemental premium and that 5.6 percent of enrollees will pay the maximum premium of $800. These figures compare to the estimates made upon enactment of 64.4 percent and 5.1 percent, respectively.

Table 4 presents the corresponding distribution for calendar year 1993. It is estimated that 52.4 percent of Medicare enrollees will pay no supplemental premium and that 10.3 percent of enrollees will pay the maximum premium of $1050 in 1993. These figures compare to the estimates made upon enactment of 57.5 percent and 9.8 percent, respectively.

The distribution of the amount of supplemental premium paid at the average tax liability across income groups, by filing status, in 1989 is displayed in Table 5.[6] For joint returns, no supplemental premium is due, on average, below the $20,000 to $25,000 income class, and below the $15,000 to $20,000 income class for non-joint returns. The maximum premium is not reached, on average, until the $80,000 to $85,000 income class for joint returns, and the $40,000 to $45,000 class for non-joint returns.

The corresponding figures for 1993 are presented in Table 6. As is true in 1989, no supplemental premium is due, on average, below the $20,000 to $25,000 income class, and below the $15,000 to $20,000 income class for non-joint returns. The maximum premium is not reached, on average, until the $65,000 to $70,000 income class for joint returns, and, again, the $40,000 to $45,000 class for non-joint returns.

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[6] The income measure used, solely for presenting distributional analysis, is defined more broadly than adjusted gross income, and does not affect, in any way, the amount of tax liability and supplemental premium paid by a particular taxpayer.

Table 3

Medicare Catastrophic Coverage Act of 1988
Distribution of Medicare Enrollees
By Level of Supplemental Premium

(Calendar Year 1989)

Supplemental Premium Per Enrollee	Medicare Enrollees (Thousands)	Percent Distribution
Not Subject To Premium.......	19,248	58.8
Less than $100...............	4,031	12.3
100 to 199..................	2,824	8.6
200 to 299..................	2,024	6.2
300 to 399..................	1,093	3.3
400 to 499..................	626	1.9
500 to 599..................	335	1.0
600 to 699..................	460	1.4
700 to 799..................	261	0.8
Maximum Premium ($800).......	1,848	5.6
TOTALS.................	**32,750**	**100.0**

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Table 4

Medicare Catastrophic Coverage Act of 1988
Distribution of Medicare Enrollees
By Level of Supplemental Premium

(Calendar Year 1993)

Supplemental Premium Per Enrollee	Medicare Enrollees (Thousands)	Percent Distribution
Not Subject To Premium........	18,387	52.4
Less than $100................	2,302	6.6
100 to 199.................	2,555	7.3
200 to 299.................	1,599	4.6
300 to 399.................	1,648	4.7
400 to 499.................	1,270	3.6
500 to 599.................	1,187	3.4
600 to 699.................	914	2.6
700 to 799.................	744	2.1
800 to 899.................	473	1.4
900 to 999.................	240	0.7
1,000 to 1,049.................	145	0.4
Maximum Premium ($1,050).......	3,612	10.3
TOTALS.................	35,076	**100.0**

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Table 5

Medicare Catastrophic Coverage Act of 1988

[Calendar Year 1989]

Joint Returns				Non-Joint Returns			
Income Class (Thousands of Dollars)	Average Income Per Return[1]	Average Tax Liability Per Return	Supplemental Premium Per Enrollee[2] (per month)	Income Class (Thousands of Dollars)	Average Income Per Return[1]	Average Tax Liability Per Return	Supplemental Premium Per Enrollee[2] (per month)
$ 0 - $ 5...	$ 2,597	$ 0	$ 0.00	$ 0 - $ 5...	3,071	$ 0	$ 0.00
5 - 10...	7,701	-14	0.00	5 - 10...	7,056	-1	0.00
10 - 15...	12,556	-27	0.00	10 - 15...	12,376	105	0.00
15 - 20...	17,514	13	0.00	15 - 20...	17,196	576	7.20
20 - 25...	22,516	396	2.48	20 - 25...	22,219	1,410	17.63
25 - 30...	27,545	930	5.81	25 - 30...	27,274	2,035	25.44
30 - 35...	32,378	1,559	9.74	30 - 35...	32,333	2,902	36.28
35 - 40...	37,599	2,281	14.26	35 - 40...	37,254	4,773	59.66
40 - 45...	42,374	3,057	19.11	40 - 45...	42,840	6,396	66.67
45 - 50...	47,516	4,147	25.92	45 - 50...	47,076	7,637	66.67
50 - 55...	52,052	4,991	31.19	50 - 75...	58,098	9,486	66.67
55 - 60...	57,527	6,683	41.77	75 - 100...	87,280	17,041	66.67
60 - 65...	62,609	8,204	51.28	100 - 200...	138,035	30,268	66.67
65 - 70...	67,491	9,848	61.55	200 and up...	666,848	137,122	66.67
70 - 75...	72,097	10,166	63.53				
75 - 80...	77,757	10,239	63.99				
80 - 85...	82,424	12,258	66.67				
85 - 100...	90,057	14,942	66.67				
100 - 200...	136,677	25,315	66.67				
200 and up...	643,630	139,278	66.67				

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1/ Income is defined, solely for purposes of presenting distributional information, as adjusted gross income (AGI) plus untaxed income from: (1) untaxed social security benefits; (2) tax-exempt interest; (3) employer contributions for health plans and life insurance; (4) inside build-up on life insurance; (5) workers' compensation; (6) contributions to IRA and Keogh accounts; (7) minimum tax preferences; and (8) portion of passive losses in excess of minimum tax preferences to the extent the losses are allowed in the computations of AGI.

2/ Computed at average tax liability per return in income class.

Table 6

Medicare Catastrophic Coverage Act of 1988

[Calendar Year 1993]

Joint Returns				Non-Joint Returns			
Income Class (Thousands of Dollars)	Average Income Per Return[1]	Average Tax Liability Per Return	Supplemental Premium Per Enrollee[2] (per month)	Income Class (Thousands of Dollars)	Average Income Per Return[1]	Average Tax Liability Per Return	Supplemental Premium Per Enrollee[2] (per month)
$ 0 - $ 5...	$ 2,357	$ -9	$ 0.00	$ 0 - $ 5...	$ 2,885	$ 0	$ 0.00
5 - 10...	7,930	-12	0.00	5 - 10...	7,548	-1	0.00
10 - 15...	12,771	-32	0.00	10 - 15...	12,156	39	0.00
15 - 20...	17,417	-21	0.00	15 - 20...	17,333	376	8.77
20 - 25...	22,449	240	2.80	20 - 25...	22,380	1,020	23.80
25 - 30...	27,458	554	6.46	25 - 30...	27,412	1,649	38.48
30 - 35...	32,520	911	10.63	30 - 35...	32,373	2,295	53.55
35 - 40...	37,453	1,592	18.57	35 - 40...	37,257	3,604	84.09
40 - 45...	42,376	2,319	27.06	40 - 45...	42,631	4,856	87.50
45 - 50...	47,445	3,099	36.16	45 - 50...	47,400	6,670	87.50
50 - 55...	52,384	4,068	47.46	50 - 75...	60,698	9,044	87.50
55 - 60...	57,230	4,958	57.84	75 - 100...	87,293	14,592	87.50
60 - 65...	62,383	6,530	76.18	100 - 200...	130,153	28,074	87.50
65 - 70...	67,341	7,607	87.50	200 and up...	534,697	113,030	87.50
70 - 75...	72,377	8,596	87.50				
75 - 80...	78,037	9,598	87.50				
80 - 85...	83,161	10,791	87.50				
85 - 100...	91,755	13,676	87.50				
100 - 200...	137,632	23,372	87.50				
200 and up...	623,120	136,694	87.50				

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1/ Income is defined, solely for purposes of presenting distributional information, as adjusted gross income (AGI) plus untaxed income from: (1) untaxed social security benefits; (2) tax-exempt interest; (3) employer contributions for health plans and life insurance; (4) inside build-up on life insurance; (5) workers' compensation; (6) contributions to IRA and Keogh accounts; (7) minimum tax preferences; and (8) portion of passive losses in excess of minimum tax preferences to the extent the losses are allowed in the computations of AGI.

2/ Computed at average tax liability per return in income class.

IV. DESCRIPTION OF POSSIBLE PREMIUM OPTIONS

In light of the revision of the budget estimate relating to the Medicare catastrophic program, various options for changes to that program have been proposed.

A. Retain Present Law

Many argue that it would be inappropriate to make significant modifications in the catastrophic program because the Act only became effective in 1989. In fact, certain benefits are not yet in effect under the program. Therefore, these individuals argue that there has not been sufficient experience in order to evaluate accurately the costs related to the program. Given the uncertainty associated with estimating the cost of future medical benefits, these individuals argue that it is inappropriate to reduce any available funds that might be needed in the future. In addition, any reserves in the program accumulated in early years may be used to limit the increase in future premium rates.

B. Reduce the Monthly or Supplemental Premium

In general

Some individuals argue that the premium for catastrophic coverage should be reduced because more revenue is projected than is needed to fund the benefits provided under the program. If this approach were adopted, the monthly or supplemental premium, or both, could be reduced.

Several options are available to reduce the supplemental premium.[7] The options for such a reduction include: (1) reducing the maximum amount of premium that an individual may be charged; (2) reducing the premium rate that is applied to each $150 of income tax liability, and (3) increasing the minimum amount of income tax liability before which any supplemental premium is due. In addition, a combination of one or more of the these options might be adopted. Any reduction could be made solely with respect to premiums paid for 1989 or for future years as well.

Reduce cap on maximum supplemental premium

The maximum amount of supplemental premium ($800 for 1989) for an individual could be reduced. Adoption of this

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[7] This discussion assumes that, in general, the present structure for calculating the supplemental premium is retained.

approach would benefit only those individuals who otherwise would pay more than the revised maximum supplemental premium. In general, these individuals are those with higher incomes.

Reduce the premium rate

Under present law, the supplemental premium for 1989 is $22.50 for each $150 in income tax liability (i.e., a 15-percent tax on income tax liability). The premium rate is increased for future years. The percentage rate of the supplemental premium could be reduced. Adoption of this approach generally spreads the savings that is achieved through the premium reduction to persons in all income classes. Except for those at the maximum premium level, the effect of this option is to reduce the amount of premium proportionally to the amount that is paid under present law.

Increase the tax liability threshold

Under present law, in order to be liable for the supplemental premium, individuals must have at least $150 in income tax liability. However, eligible individuals are covered without regard to whether or not they meet this $150 threshold. Under this option, the threshold could be raised so that more low-income individuals would not be liable for the supplemental premium. Further, the calculation of the premium could be changed so that only tax liability in excess of the threshold would be subject to the supplemental premium.

If there were no change in the method by which the premium is calculated (i.e., each $150 of tax liability for those with tax liability in excess of the threshold continues to be subject to the premium), then the savings from an increased threshold would be realized by those who would be below the new threshold. If the calculation were changed so that the premium applies only to the tax liability in excess of the threshold (e.g., income tax liability above the new threshold is subject to the premium), then an increase in the threshold would reduce supplemental premium payments by equal dollar amounts to all individuals paying the premium except for those below the threshold and those who are currently at the maximum premium level.

C. Repeal the Supplemental Premium

One proposal would repeal the supplemental premium and replace it with some other financing mechanism, such as a broad-based tax. Proponents of this view argue that it is unfair for high-income beneficiaries to subsidize those beneficiaries with low incomes. They contend that if a subsidy for lower-income beneficiaries of the catastrophic program is to be provided, then it should be financed by all taxpayers, not just by those individuals with higher incomes who are eligible for catastrophic benefits.

Those who support the supplemental premium argue that the premium is an appropriate method for funding the catastrophic coverage because only the potential beneficiaries of the program are required to pay for catastrophic coverage. Overall, every individual enrolled in Medicare will continue to receive a subsidy from general revenues and payroll taxes. Individuals who support this view argue that the income-related supplemental premium provides for an equitable distribution of the cost of the program.

D. Repeal the Medicare Catastrophic Program

One option that has been proposed is to repeal both the coverage provided under the Medicare catastrophic program and the funding mechanism that was contained in the Act. Some argue that the costs imposed by the monthly and supplemental premiums exceed, for certain individuals, any possible benefit they may receive from the Medicare catastrophic and drug coverage. They argue, therefore, that the program should be repealed.

Other individuals point out that many of those covered receive substantial benefits under the Act and that all individuals eligible for Medicare will, on average, receive a benefit package that is subsidized by general revenues and payroll taxes. They argue that all individuals receive Medicare benefits in excess of what they pay in premiums, and that good social policy requires that such individuals be protected from the financial hazards of large medical expenses.

APPENDIX: METHOD FOR DERIVING DISTRIBUTIONAL TABLES

The staff of the Joint Committee on Taxation prepared the distributional tables on the amount of supplemental premium paid by Medicare enrollees. The distributions are prepared with the use of the individual tax model that is used for calculating changes in tax liability associated with proposed changes in the Federal individual income tax. The individual tax model utilizes a very large sample of actual individual tax returns collected by the Internal Revenue Service (IRS). To supplement the IRS data, demographic and economic information is included from a variety of sources including the Bureau of the Census and the Social Security Administration. The model is weighted to reflect the total projected population of potential taxpayers and is modified to be consistent with the most recent Congressional Budget Office economic forecasts.

Tax liability, as well as the supplemental premium, is calculated for each tax filing unit in the model. For each year analyzed, the calculation of tax liability and supplemental premium is performed using the relevant rates, brackets, and definition of taxable income, consistent with prevailing law for that year.

Tables 5 and 6 present estimates of the average supplemental premium per enrollee, per month. The estimates are based on the average tax liability within an income category using the definition of income normally employed for distributional analyses.

The income concept used is broader than adjusted gross income and is designed to more accurately reflect the flow of economic income available to the taxpayer. It is defined as adjusted gross income (AGI) plus untaxed income from: (1) untaxed social security benefits; (2) tax-exempt interest; (3) employer contributions for health plans and life insurance; (4) inside build-up on life insurance; (5) workers' compensation; (6) contributions to IRA and Keogh accounts; (7) minimum tax preferences; and (8) the portion of passive losses in excess of minimum tax preferences to the extent the losses are allowed in the computation of AGI. Of course, the calculation of tax liability, and therefore the supplemental premium, is based on taxable income, and is in no way dependent on the measure of income used as the classifier for distributional presentation.