COMPARISON OF FINANCING PROVISIONS OF H.R. 2470 AS PASSED BY THE HOUSE (MEDICARE CATASTROPHIC PROTECTION ACT OF 1987) AND THE SENATE (MEDICARE CATASTROPHIC LOSS PREVENTION ACT OF 1987)

Prepared for Use by the House-Senate Conferees

by the Staff of the

Joint Committee on Taxation

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I. PART B MONTHLY PREMIUM			
A. In General			
	All individuals age 65 or older and individuals entitled to Part A by reason of end stage renal disease may enroll in Part B by paying the monthly premium. The monthly premium is $24.80 in 1988. The premium is set equal to 25 percent of the per-enrollee actuarial value of Part B benefits (including a contingency margin). After 1989, the premium is indexed to the Social Security cost of living adjustment (COLA), with a ceiling equal to 50 percent of the per-enrollee actuarial value of part B benefits.	The Part B monthly premium is increased to finance a portion of the cost of a catastrophic coverage benefit (beginning in 1989), an outpatient prescription drug benefit (beginning in 1989), and a respite services benefit (1989-1991 only). The cost of catastrophic coverage (and home health benefits transferred after 1988 from Part A) is taken into account in setting the Part B premium.	In addition to the Part B monthly premium, enrollees would be required to pay a monthly catastrophic coverage premium (beginning in 1988) and a monthly catastrophic drug benefit premium (beginning in 1990).
B. Catastrophic Coverage Premium			
1. Amount	No provision.	The Part B premium is increased by $1.00 per month in 1991 and by $1.30 per month in 1992, over the amount otherwise determined.	The monthly catastrophic premium is $4.00 per month in 1988.
2. Indexing	No provision.	The Part B monthly premium (including the $1.30 per month increase in 1992) is indexed as under present law.	Beginning in 1989, liabilities for the monthly and income-related catastrophic coverage premiums are increased *pro rata* to cover estimated costs incurred for catastrophic coverage during the calendar year, plus amounts the Secretary of HHS determines to be necessary to achieve a specified contingency margin by 1993. The contingency margin is an end-of-year fund with: (1) a cash balance of 20 percent of the estimated comprehensive catastrophic benefit amount for the next year; or if greater, (2) an unobligated balance of 5 percent of this benefit amount.

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C. Prescription Drug Premium			
1. Amount	No provision.	The Part B premium is increased by $2.30 per month in 1989 to finance 75 percent of the calendar year outlays for covered outpatient drugs and related administrative costs.	In general, beginning in 1990, the monthly drug premium is set to finance 50 percent of calendar year outlays for covered outpatient drugs and related administrative costs (40 percent in 1990 and 45 percent in 1991), and 50 percent of amounts necessary to maintain a specified contingency margin (see I.C.2., below).
2. Indexing			
a. In general	No provision.	Beginning in 1990, the Secretary of HHS shall adjust the monthly drug premium so that estimated calendar year receipts will equal 75 percent of estimated calendar year outlays for covered outpatient drugs and related administrative costs. Beginning in 1990, the Secretary shall further adjust drug premium receipts for the succeeding calendar year by the difference between (1) monthly drug premium receipts in the preceding calendar year, and (2) 75 percent of outlays for covered outpatient drugs and related administrative costs in the preceding calendar year.	For 1992 and subsequent years, the Secretary of HHS shall adjust the monthly drug premium so that estimated calendar year receipts will equal 50 percent of estimated calendar year outlays for covered outpatient drugs and related administrative costs plus 50 percent of amounts necessary to maintain a specified contingency margin. The contingency margin for 1990 is an end-of-year fund cash balance of 15 percent of the catastrophic drug benefit amount for 1991. After 1990, the contingency margin is an end-of-year fund cash balance of at least 15 percent of the current year catastrophic drug benefit amount. Beginning in 1991, the Secretary of HHS may increase the monthly drug premium by up to 15 percent to assure a smooth transition between cash outlays and incurred costs accounting. (After the transition is completed, cost incurred accounting is required.)

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b. Limitation		The monthly drug premium may not exceed $3.40 per month in 1990. In 1991 and subsequent years, the monthly drug premium may not exceed 120 percent of the premium for the preceding year.	The monthly drug premium may not exceed $0.90 in 1990, $2.00 in 1991, $3.50 in 1992, and $4.05 in 1993. After 1993, the limit is increased by the percentage increase (if any) in the part B beneficiary drug expenditure amount for the 12 month period ending in August of the preceding year over such amount for the second preceding year.
c. Cost control		Beginning in 1990, the Secretary shall report annually to Congress whether the estimated monthly drug premium for the succeeding year will exceed this limit, and if so, the Secretary shall recommend expenditure reductions sufficient to prevent the drug premium from exceeding the limit.	If the Secretary determines that the monthly catastrophic drug benefit premium amount would exceed this limit without outlay reductions, the Secretary shall institute such cost control measures as he deems necessary to ensure that the drug premium does not exceed the limit.
D. <u>In-home Care ("Respite Services") Benefit</u>			
1. Amount	No provision.	In general, the Part B monthly premium is increased to finance 100 percent of Part B respite service benefits and related administrative costs for calendar years 1989-1991.	No provision.
2. Indexing	No provision.	The Secretary of HHS shall set the monthly premium for respite care so that receipts equal 100 percent of Part B outlays for respite care. The premium is limited to $0.30 per month in 1989 and $0.50 month in 1990. The Secretary shall adjust the premium for 1991 by the surplus or deficit in 1989; however, the 1991 premium may not exceed 120 percent of the 1990 premium. If the estimated cost of respite care in 1991 exceeds this limit, the Secretary is required to reduce the number of hours of respite care allowable in 1991. The respite premium and benefit terminate after 1991.	No provision.

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E. Special Rules			
1. "Hold-harmless" rule	For 1988 and 1989 only, the premium increase for any calendar year for individuals receiving Social Security benefits is limited to the increase in their Social Security benefits.	Same as present law.	The hold-harmless rule would be suspended for calendar year 1988 and reimposed for 1989 subsequent years.
2. Residents of U.S. possessions			
a. In general	Medicare Part B enrollees who are residents of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and the Northern Mariane Islands pay the same monthly premium and receive the same Medicare benefits as on-shore residents.	In lieu of the income-related premium and the generally applicable increase in the Part B monthly premium, the monthly premium for residents of U.S. possessions would be increased for catastrophic coverage and prescription drug benefits by a possession-specific amount.	Same as present law.
b. Catastrophic coverage premium	No provision.	For 1988 and 1989, the Part B monthly premium is increased by the average monthly per capita catastrophic benefit under Parts A and B (excluding prescription drugs and respite services) estimated by the Secretary for such year, adjusted by the relative cost of providing Medicare benefits under Parts A and B within a particular possession, as estimated by the Secretary of HHS in September of 1987. After 1989, the premium is increased by the Social Security COLA.	No provision.
c. Prescription drug premium	No provision.	The monthly premium is increased by 133-1/3 percent of the generally applicable monthly drug premium, adjusted by the relative cost of providing Medicare benefits under Parts A and B within a particular possession, as estimated by the Secretary of HHS in September of 1987.	No provision.
d. Respite service premium	No provision.	Same as for mainland residents (see I.D., above).	No provision.

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3. Part B only individuals			
a. In general	Individuals covered under Part B but not Part A pay the same monthly premium as other enrollees.	In lieu of the generally applicable increase in the Part B monthly premium (and the income-related premium), the monthly premium for Part B only individuals is increased for catastrophic coverage and prescription drug benefits by a separate amount.	Individuals enrolled in Part B but not covered under Part A pay a reduced monthly catastrophic coverage premium (but the same income-related premium).
b. Catastrophic coverage premium	No provision.	For 1988 and 1989, the Part B monthly premium is increased by the average monthly per capita catastrophic benefit under Part B (excluding prescription drugs and respite care) estimated by the Secretary for such year. After 1989, the premium is increased by the Social Security COLA.	The monthly catastrophic coverage premium amount for individuals covered by Part B but not Part A, is the portion of the generally applicable monthly catastrophic coverage premium that the Secretary of HHS estimates is allocable to Part B catastrophic benefits.
c. Prescription drug premium	No provision.	The part B monthly premium is increased by 133-1/3 percent of the generally applicable monthly drug premium.	Same as for individuals entitled to coverage under Part A.
d. Respite service premium	No provision.	Same as for individuals entitled to coverage under Part A.	No provision.
4. Rounding	Monthly premium increases, as determined by the Secretary of HHS, that are not a multiple of 10 cents are rounded to the nearest multiple of 10 cents.	Same as present law.	Same as House bill.
F. Effective Dates	No provision.	Catastrophic benefit.--The monthly catastrophic premium is effective for months beginning with January 1991. Prescription drug benefit.--The monthly drug premium is effective for months beginning with January 1989. Respite service benefit.--The monthly respite premium is effective for months beginning with January 1989 and ending with December 1991.	Catastrophic benefit.--The monthly catastrophic premium is effective for months beginning with January 1988. Prescription drug benefit.--The monthly drug premium is effective for months beginning with January 1990. Respite service benefit.--No provision.

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		U.S. possessions.--The special premium for residents of U.S. possessions is effective for months beginning with January 1988.	U.S. possessions.--No provision.
		Part B only individuals.--The special premium for Part B only individuals is effective for months beginning with January 1989.	Part B only individuals.--The special catastrophic coverage premium for Part B only individuals is effective for months beginning with January 1988.
II. SUPPLEMENTAL (INCOME-RELATED) PREMIUM			
A. In General	Individuals eligible for Medicare Part A (Hospital Insurance) without payment of any premium are individuals: (1) age 65 or older who are eligible for Social Security benefits; (2) entitled to Social Security disability benefits for at least 24 months; (3) with end stage renal disease; and (4) certain government retirees age 65 or older.	Medicare eligible individuals would be required to pay a new income-related premium. The premium would be collected with income tax payments, and would be subject to income tax rules relating to withholding and estimated payments. Medicare eligible individuals are defined as individuals entitled to Part A coverage without payment of any premium for Part A coverage, except residents of U.S. possessions and qualified nonresidents.	Individuals enrolled in Part B would be required to pay a new income-related premium. The premium would be collected with income tax payments, and would be subject to income tax rules relating to withholding and estimated payments.
		Individuals not required to file income tax returns are unaffected by the income-related premium.	Individuals with less than $150 of Federal income tax liability would be unaffected by the income-related premium.
B. Catastrophic Coverage Benefit			
1. Amount	No provision.	For taxable years beginning in 1988, the supplemental premium is $10 per $143 of adjusted gross income in excess of $6,000, capped at $580 per Medicare eligible individual. The premium is prorated based on the number of months an individual is Medicare-eligible during the taxable year. Individuals filing joint returns use one-half of joint AGI. For short taxable years, AGI is annualized.	For taxable years beginning before 1989, the supplemental premium is $1.09 per month ($13.08 per year) per $150 of tax liability, capped at $800 per enrollee. The premium is prorated based on the number of months enrollment during the taxable year. (The number of months for the longest enrolled individual is used for a joint return.) The cap is prorated based on the number of months each individual is enrolled during the taxable year. (On a joint return, the cap is equal to the sum of the separately computed caps for each enrollee.)

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2. Indexing	No provision.	The income-related premium (including the $580 cap) is adjusted each calendar year after 1988 by the sum of the medicare inflation factor and the prescription drug factor. The $143 bracket amount and the $6,000 of AGI threshold are adjusted for inflation in the same manner as income tax brackets. The medicare inflation factor is the increase in cost of the subsidized portion of Medicare coverage. The subsidized portion of Medicare coverage is deemed to be 1/2 of the value of Part A coverage, plus the value of Part B coverage reduced by the Part B monthly premium for the year.	For taxable years beginning after 1988, the Secretary of HHS shall adjust the income-related premium rate by the sum of the catastrophic and drug premium rate adjustments. The catastrophic premium rate adjustment is determined using the same formula as for the monthly catastrophic coverage premium (see I.B.2., above). The cap is increased from $800 in 1988 to $1,000 in 1992 by $50 per year. For years after 1992, the cap is set equal to 65 percent of the actuarial value of benefits under the Part B and CHI trust funds, reduced by the monthly Part B and catastrophic coverage premiums for such year (without regard to the hold harmless rule).
C. Prescription Drug Benefit			
1. Amount	No provision.	The prescription drug factor is 0 in 1988 and 5.5 percent in 1989, which is intended to finance 25 percent of the prescription drug benefit.	In general, beginning in 1990, the drug premium rate is set to finance 50 percent of the drug benefit (60 percent in 1990 and 55 percent in 1991). The drug premium rate also is increased to fund 50-percent of amounts necessary to maintain a specified contingency margin (see II.C.2., below).
2. Indexing			
a. In general	No provision.	Beginning in 1990, the Secretary of the Treasury shall establish a prescription drug factor which is estimated to result in supplemental premium liability which will be equal to 25 percent of calendar year outlays for covered outpatient drugs and related administrative costs (as determined by the Secretary of HHS).	Beginning in 1992, the Secretary of HHS shall adjust the drug premium rate (but not the cap) to finance 50 percent of calendar year outlays for covered outpatient drugs and related administrative costs, including a specified contingency margin.

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		Beginning in 1991, the Secretary of the Treasury shall further adjust the prescription drug factor for the succeeding calendar year to compensate for the difference between (1) cumulative drug supplemental premium liability as of the preceding year, and (2) 25 percent of cumulative outlays for covered outpatient drugs and related administrative costs as of the preceding year.	The contingency margin for 1990 is an end-of-year fund cash balance of 15 percent of the catastrophic drug benefit amount for 1991. After 1990, the contingency margin is an end-of-year fund cash balance of 15 percent of the current year catastrophic drug benefit amount.
b. Limitation		The prescription drug surcharge is reduced to the extent necessary to comply with the limitation on the monthly drug premium (see I.C.2.b., above).	The drug premium rate adjustment is reduced to the extent necessary to comply with the limitation on monthly drug premium (see I.C.2.b., above).
D. Deductibility	An itemized deduction for unreimbursed medical expenses (including Medicare part B premiums) is allowed to the extent in excess of 7.5 percent of adjusted gross income.	The income-related premium is not eligible for deduction as an itemized medical expense.	The income-related supplemental premium is deductible as an itemized medical expense in the first taxable year ending after the calendar year in which the supplemental premium is due.
E. Coordination with Income Tax	No provision.	The income-related premium is collected with income tax payments, and is subject to income tax rules relating to withholding and estimated payments. The income-related premium is not treated as a change in tax rate nor as an income tax for purposes of determining allowable credits or alternative minimum tax.	Same as House bill.
F. Special Rules			
1. Qualified nonresidents	No provision.	Qualified nonresidents are not liable for the income-related premium. An individual is a qualified nonresident if such individual in the current or any of the 4 preceding taxable years (1) did not receive services covered under Part A, (2) was not entitled to Part B benefits, and (3) was outside of the United States at least 330 full days per year.	No provision.

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2. Government retirees	All individuals age 65 or older or who are retired as a result of a permanent and total disability may claim an income tax credit equal to 15 percent of a base amount ($5,000 for a single return and $7,500 for a joint return). The base amount is reduced by nontaxable pension and annuity income (including nontaxable Social Security and Railroad Retirement benefits). The base amount also is reduced by one-half of the taxpayer's adjusted gross income in excess of $7,500 ($10,000 for joint returns).	Same as present law.	For purposes of computing the supplemental premium, Federal income tax liability is reduced by the excess of: (1) 15 percent of the lesser of (i) the excess of $6,000 ($9,000 in the case of a joint return) over Social Security benefits received during the taxable year, or (ii) government annuities includible in gross income for the taxable year; over (2) any credit for the elderly or disabled allowable during the taxable year.
3. Rounding	No provision.	The supplemental premium and bracket amounts are to be rounded to the nearest multiple of $1.	No provision.
G. Information Reporting	No provision.	The Secretary of HHS is required to make an annual return to the Secretary of the Treasury stating the name, address, and taxpayer identification number of each individual entitled to receive benefits under Part A (without payment of a premium) for any month during the calendar year, and the number of months so entitled. The provision does not apply to possessions residents.	The Secretary of HHS is required to include in the existing informational return to the Secretary of the Treasury relating to social security benefits the number of months any individual is enrolled in Part B during the calendar year. The Secretary of HHS also is required to include on the statements sent to Social Security recipients the number of months of coverage under Part B.
H. Effective Date	No provision.	Taxable years beginning after December 31, 1987.	Taxable years ending after December 31, 1987. The income-related premium rate for any taxable year beginning before 1988 and ending after December 31, 1987 is the rate applicable to taxable years beginning in 1988.

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III. MEDICARE TRUST FUNDS			
A. Part A (Hospital Insurance)	The Part A trust fund, financed by the Medicare payroll tax, pays for covered in-patient hospital services, post-hospital extended care, home health care, and hospice care.	Part A coverage is expanded for (1) hospitalization, (2) post-hospital extended care, (3) hospice care, and (4) blood products. The additional Part A coverage is financed after 1988 by transferring payment of Part A home health benefits to Part B.	Separate Catastrophic Health Insurance (CHI) and Catastrophic Drug Insurance (CDI) trust funds are established (see III.C. and D., below).
B. Part B (Supplemental Medical Insurance)	The Part B trust fund, financed by monthly premiums and general revenues, pays for covered out-patient medical services.	Part B coverage is expanded to provide a new out-of-pocket expense limitation for Part B services, and coverage for (1) prescription drugs and insulin, (2) respite care, (3) home health services (including benefits transferred from Part A), and (4) outpatient mental health coverage. The additional Part B coverage is financed by an increase in the monthly premium for Part B enrollees and a new income-related supplemental premium for Medicare eligible individuals.	Separate Catastrophic Health Insurance (CHI) and Catastrophic Drug Insurance (CDI) trust funds are established (see III.C. and D., below).
C. Federal Catastrophic Health Insurance (CHI) Trust Fund	No provision.	No provision.	A CHI trust fund is established in the Treasury to fund (1) a new Medicare out-of-pocket expense limitation, (2) expanded hospital coverage, and (3) expanded home health services for Part B enrollees. The trust fund is financed by an increase in the monthly Part B premium and the imposition of a new income-related supplemental premium for Part B enrollees.
D. Federal Catastrophic Drug Insurance (CDI) Trust Fund	No provision.	No provision.	A CDI trust fund is established in the Treasury to provide coverage for catastrophic drug expenses of Part B enrollees. The trust fund is financed by an increase in the monthly Part B premium and the imposition of a new income-related supplemental premium for Part B enrollees.

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E. Transfers			
1. Premiums	No provision.	No provision.	The Secretary of HHS shall transfer receipts attributable to the monthly catastrophic coverage and drug benefit premiums from the Part B trust fund to the CHI and CDI trust funds, respectively. The Secretary of the Treasury shall transfer receipts attributable to the supplemental premium and the drug premium rate adjustment from the general fund to the new CHI and CDI trust funds, respectively.
2. General revenues	The Secretary of the Treasury transfers from the general fund to the Part B trust fund revenues equal to the excess of the estimated actuarial value of Part B benefits (including a contingency margin) over estimated Part B monthly premium receipts.	Same as present law.	Same as House bill except the Secretary of the Treasury shall transfer amounts equivalent to estimated Federal Medicaid outlay reductions attributable to the Medicare Catastrophic Loss Prevention Act of 1987 from the general fund to the CHI trust fund.