



OUR VIEW



Medicare Part B: Brace Yourself for Premium Increases in 2016

High income earners, in particular, could be in for a major surprise when they see the effect the planned Medicare Part B premium increase will have on their monthly Social Security retirement benefit in 2016.

Medicare Part B (medical insurance) which covers items such as doctors' services, outpatient care, home health care, durable medical equipment, and some preventive services, may see a significant increase in premium for some beneficiaries in 2016 as a result of a little known stipulation in the Social Security Act known as the "hold harmless" provision. The "hold harmless" provision prevents Medicare from passing along premium increases to most beneficiaries that are higher than the cost-of-living adjustment (COLA) they receive on their Social Security (SS) retirement benefits.

A recently released report from the SS Trustees projects no cost-of-living increase in benefits for 2016 while Medicare premiums are expected to rise for the first time in three years. If this should occur, the "hold harmless" provision would be triggered. An official announcement of the 2016 cost-of-living adjustment for SS will not be made until October since the calculation is based on the one year inflation change (CPI-W) as of September 30, 2015. If the increase were to be calculated today, there would be no adjustment to present SS benefits.

Who Pays?

This year, according to the 2015 Medicare Trustees Report, roughly 70% of beneficiaries will be covered by the "hold harmless" provision and will not be subject to a premium increase for Part B. The remaining 30% of beneficiaries, made up of predominantly higher-income earners and those new to Medicare, will absorb the full cost increase.

Social Security and Medicare beneficiaries last faced this situation in 2010 and 2011, when there were no cost-of-living adjustments for SS (see chart below). The premium increase in the base rates in those years was 15% and 20% respectively; much less than *the currently projected 2016 rise of 52%!*

December's Medicare Premium Notice Could Cause You Heartburn

	SS COLA	Medicare Part B Monthly Premium	
		Base Rate	Highest Rate *
2016 <i>(preliminary estimates)</i>	0%	\$104.90/\$159.30	\$509.80
2015	1.7%	\$104.90	\$335.70
2014	1.5%	\$104.90	\$335.70
2013	1.7%	\$104.90	\$335.70
2012	3.6%	\$99.90	\$319.70
2011	0%	\$96.40/\$115.40	\$369.10
2010	0%	\$96.40/\$110.50	\$353.60

*The highest rate applies to individuals with modified adjusted gross income over \$214,000 and couples over \$428,000.



Searching for Ways to Mitigate . . .

On a potentially positive note, 2016 Part B premium increases for those affected resulting from the “hold harmless” provision are not designed to be permanent. Premiums for 2017 would be reset and spread across all beneficiaries as long as there is a cost-of-living adjustment to SS benefits.

Who Pays More?

Higher-income beneficiaries, new Medicare enrollees, and those who elect to pay their Medicare premium directly (i.e., premium is not withheld from SS) would be subject to the higher Part B outlays if there is no cost-of-living adjustment to SS benefits for 2016.

Higher-income beneficiaries are defined as individuals with a modified adjusted gross income (MAGI) over \$85,000 and couples over \$170,000. MAGI is defined as adjusted gross income plus tax-exempt interest income. Graduated premium increases apply until the maximum is paid at MAGI over \$214,000 for individuals and \$428,000 for couples. An added perverse wrinkle awaits in 2017 when the income brackets are scheduled to adjust downward and the maximum premium applies at \$160,000 for individuals and \$320,000 for couples.

New Medicare enrollees will also be subject to the increased premiums, unless they can extend enrollment into 2017. The initial sign up period is a seven-month window that begins three months before the month one turns 65, includes the month one turns 65, and ends three months after the month one turns 65. For example, the initial enrollment period for an enrollee turning 65 in October 2016 continues until January 2017. A word of caution, however; do not delay enrollment beyond the permitted window, or a lifetime penalty may apply. It is also crucial that adequate medical coverage is maintained for the period during which one elects to delay Medicare enrollment.

As is typical with seemingly well-intended, but in application ill-conceived Federal legislative action, a last-minute reprieve is always a possibility, and the Part B premium increases may not be as significant as currently estimated. The *Wall Street Journal* recently quoted Health and Human Services Secretary Sylvia Matthews Burwell as saying “she would search for ways to reduce the increase for affected beneficiaries.” More information should be available by late fall.

In the meantime, this unprecedented increase in Medicare Part B premiums, coupled with no cost-of-living adjustment to SS retirement benefits, should be factored in as you plan your 2016 budget and cash flow needs. Please contact your TFC Advisor if you wish to discuss this further.

As always, we welcome your comments and questions.

Sincerely,

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