



## **An Emergency COLA in 2021 Would Prevent Economic Insecurity and An Unprecedented Medicare Part B Premium Increase for Older Americans**

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The absence of a Social Security cost-of living adjustment (COLA), or even an extremely low one, triggers a provision of law that, while a valuable protection of Social Security benefits, has led to several steep increases in the Medicare Part B premium over the past decade. The deep recession caused by the COVID-19 coronavirus and shortages have caused consumer prices to plunge, then rise like a roller coaster in 2020. If consumer prices remain low through September 2020, it is likely there will be an extremely low annual Social Security COLA for 2021, and this provision of law will be triggered to some extent again.<sup>1</sup>

**In 2015, the last time a *zero* COLA was announced for the following year, the base Part B premium increase was estimated to be 52 percent.<sup>2</sup>** While an increase of that size *is not* expected for 2021, any double digit increase in Medicare premiums would be unsustainable for many older households whose retirement savings have been negatively impacted by the coronavirus recession.

**The hold harmless provision in the Social Security Act (§1839[f]) is an important protection that ensures an individual's net Social Security benefit will not decrease from one year to the next because of an increase in the Part B premium.**

More than 61 million people, including adults age 65 and older, and younger disabled adults who receive Social Security disability benefits, get their healthcare coverage through Medicare.<sup>3</sup> The Social Security hold harmless provision protects about 70 percent of beneficiaries (almost 43 million beneficiaries) from increases in the Medicare Part B premium that exceed the dollar amount of their COLA. When **an** individual's Part B premium increases more than the dollar amount of his or her COLA, the Part B premium is reduced to prevent a reduction in net Social Security benefits from one year to the next.

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<sup>1</sup> Estimate based on CPI-W data through June 2020, Mary Johnson for The Senior Citizens League, July 14, 2020.

<sup>2</sup> "What's in Store for Medicare's Part B Premiums and Deductible in 2016, and Why?" Juliette Cubanski and Tricia Neuman, Kaiser Family Foundation, November 2015.

<sup>3</sup> 2020 Medicare Trustees Report, April 22, 2020.

When hold harmless is triggered program-wide as in 2016, however, there is no specific provision of law with which to finance the unpaid portion of Medicare Part B premium increases for the roughly 43 million who are protected by the provision. In the past, Congress has chosen to allow this cost burden to shift to the 30 percent of beneficiaries who are not held harmless. Because the cost is spread over far fewer people instead of all beneficiaries, they pay a far larger share of the costs, thus the Part B premium spikes.

**This Part B premium cost - shifting includes shifting those higher costs to state Medicaid budgets that pay the Part B premiums for low-income Medicare beneficiaries — which account for about 19 percent of all Medicare recipients. If this would occur in 2021, this would add yet another fiscal shock to state budgets that are already strained beyond anticipated budgets due to the coronavirus pandemic.**

The 30 percent of beneficiaries who are not protected by hold harmless include:

- Low-income “dual eligibles” — Medicare beneficiaries whose incomes are so low that they are also eligible for Medicaid. Part B premiums are paid on their behalf by their state Medicaid program (about 19% of beneficiaries).<sup>4</sup>
- New Medicare enrollees, higher -income beneficiaries, people age 65 and older who have not started Social Security benefits (about 11% of beneficiaries).<sup>5</sup>

In many years when inflation is at more typical levels, only a small number of beneficiaries, those with the lowest benefits, are affected by the hold harmless provision. The reduced Part B premiums that they receive has minimal impact on Part B financing.<sup>6</sup> But in years when there is an exceptionally low COLA, the hold harmless provision is triggered more widely, and this leads to much more challenging financial impacts for both beneficiaries and for Medicare Part B funding.

When a zero COLA was announced for 2016, the Medicare Trustees projected that the Part B premium and deductible amounts would increase by an unprecedented 52 percent between 2015 and 2016 — from \$104.90 to \$159.30 per month.<sup>7</sup> Passage of The Bipartisan Budget Act of 2015, however resulted in reducing the increase in Part B premiums from \$159.30 per month to \$121.80 per month, which was still an extremely high 16.1 percent increase. The premium included a \$3 repayment amount that was added to monthly premiums of all beneficiaries in future years to recover over time the cost of the reduced premium rate in 2016.<sup>8</sup>

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<sup>4</sup> “What’s in Store for Medicare’s Part B Premiums and Deductible in 2016, and Why?” Juliette Cubanski and Tricia Neuman, The Kaiser Family Foundation, November 2015.

<sup>5</sup> Ibid.

<sup>6</sup> “Medicare: Part B Premiums,” Patricia Davis, Congressional Research Service, August 4, 2016, R40082.

<sup>7</sup> “What’s in Store for Medicare’s Part B Premiums and Deductible in 2016, and Why?” Juliette Cubanski and Tricia Neuman, Kaiser Family Foundation, November 2015.

<sup>8</sup> Ibid.

These higher Medicare Part B premiums in turn contributed to flat growth in Social Security benefits in subsequent years — even when a 2 percent COLA became payable two years later in 2018. The Medicare Part B premium took the entire 2 percent COLA for about half of all beneficiaries according to a survey by The Senior Citizens League.

The Medicare Trustees estimated in their April 2020 annual report that the base 2021 Part B premium would rise by \$8.70 (6 percent), from \$144.60 to \$153.30.<sup>9</sup> The annual report was written prior to the coronavirus national emergency and does not incorporate the effects of the coronavirus caused recession, the interaction with an extremely low, or even no COLA, and the potential triggering of hold harmless in its forecast.

The Congressional Budget Office recently estimated in their September budget outlook that Medicare outlays for 2020 would rise about 12 percent — roughly double the rate forecast by the Medicare Trustees in their April 2020 report. This suggests that the Medicare Part B premium increase for 2021 could be about \$17.40 per month higher in 2021, rising from \$144.60 to \$162.00. But even this estimate does not include the impact of cost shifting due to protecting people with low Social Security benefits from reductions due to the high Medicare Part B increase.

**The Senior Citizens League believes Congress can prevent the triggering of the Social Security hold harmless provision and eliminate spiking Medicare premiums entirely by providing an adequate COLA. This includes providing an emergency COLA or boost for 2021.**

When Medicare Part B premiums spiked in 2015, Congress was not focused on the adequacy of the COLA. Instead, it was focused on the Medicare Part B funding lost when beneficiaries were protected from paying increased premiums. While the subsequent Medicare Part B premium increase for 2016 was reduced, it was still a very substantial increase of 16%, and all beneficiaries were required to repay the costs in higher Part B premiums in following years. Beneficiaries saw no growth in their net Social Security benefits in 2016, again in 2017 when the COLA was just 0.03% and, about half of all beneficiaries were once again affected in 2018 when a 2% COLA became payable.

The ongoing problem of extremely low COLAs, and double digit Part B premiums could be eliminated entirely if Congress were to focus instead on ensuring *a higher net Social Security benefit*. This could be done by enacting a one - time benefit boost or an emergency COLA. Either approach would satisfy the Social Security Act's hold harmless requirement that an individual's *net benefit will not decrease* from one year to the next as a result of an increase in the Part B premium, as specifically stated in section (§1839[f]). To prevent the triggering of hold harmless it would be very important that an emergency COLA payable in January 2021 is structured as an actual boost to the

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<sup>9</sup> Ibid, page 192.

net benefits of Social Security recipients, rather than simply providing a flat emergency payment by check.

***The Senior Citizens League proposes that Congress enact an emergency COLA or one-time benefit boost payable for 2021.*** TSCL supports legislation that would ensure that COLAs are no less than 3 percent. But the organization also recognizes that the Congressional Budget Office (CBO), in its January 2020 baseline, estimated that a 2.5 percent COLA would be payable for 2021. Thus, providing a 2.5 percent emergency COLA would provide what has already been projected for Social Security benefits by the CBO.

A 2.5 or 3 percent COLA would be sufficient to boost an average monthly retiree benefit of \$1,500 by \$37.50 to \$45.00 respectively. That would be enough to cover a substantial Part B premium increase in 2021.

The Senior Citizens League believes it is time to focus on the adequacy of Social Security benefits to meet rising Medicare costs. COLAs have been insufficient to cover the Part B premium in five out of the past ten years — 2010, 2011, 2016, 2017, and 2018. This is a clear indication that Social Security COLA is not adequate, and not doing the job it was intended to do. .

We need to focus on putting the “Security” back into Social Security, and providing real relief from rising Medicare costs, by avoiding double digit premium increases to begin with. Congress can accomplish both by providing an emergency COLA in 2021. That one action would negate the need for any Medicare Part B premium cost shifting and double-digit premium increases. Providing a benefit boost would also reduce the need to adjust Part B premiums for those with the lowest benefits in the future.

The Senior Citizens League believes that Social Security benefits and annual COLAs could be strengthened three ways:

1. Calculate the annual COLA using the Consumer Price Index for the Elderly (CPI-E). TSCL studies indicate that using the CPI-E would provide a very modestly - higher COLA in most years.
2. Provide a one-time bump – up in monthly benefits for all beneficiaries. A higher level of monthly benefits would mean more adequate COLAs and a greater ability to afford Medicare Part B premium increases in coming years.
3. Provide a guaranteed minimum COLA of 3 percent. Providing a COLA guarantee of 3 percent in years when no, or an extremely low COLA is payable would eliminate the triggering of hold harmless and subsequent Medicare premium spikes on a program-wide basis. Because the vast majority of beneficiaries would be able to afford their premium increase, the cost of Part B premiums would be shared over the greatest possible number of beneficiaries, keeping Part B increases lower.