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

July 2020
Updated August 2020

By Mary Johnson, Social Security & Medicare Policy Analyst

The absence of a Social Security cost-of living adjustment (COLA) triggers a provision of law that, while a valuable protection of Social Security benefits, has led to several steep and unprecedented increases in the Medicare Part B premium over the past decade. The deep recession caused by the COVID-19 coronavirus and a plunge in oil prices have caused consumer prices to plunge in 2020. If consumer price deflation continues through September 2020, it is likely there will be an extremely low, or even no annual Social Security COLA for 2021, and this provision of law will be triggered again.[1]

In 2015, the last time a zero COLA was announced, the base Part B premium increase was estimated to be 52 percent.[2] An increase of that size again in 2021 would raise the Part B premium potentially by more than $75 per month, from $144.60 to $219.80. An increase of this magnitude would be unaffordable 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 though Medicare.[3] The Social Security hold harmless provision protects about 70 percent of beneficiaries (almost 43 million beneficiaries) from increases in the

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[1] Estimate based on CPI-W data through June 2020, Mary Johnson for The Senior Citizens League, July 14, 2020.
[2] "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.
[3] 2020 Medicare Trustees Report, April 22, 2020.

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.

When hold harmless is triggered program-wide, 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. In 2021, this would add yet another fiscal shock to state budgets that are already strained to the limit due to the coronavirus pandemic.

The 30 percent 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).[4]
- New Medicare enrollees, higher -income beneficiaries, people age 65 and older who have not started Social Security benefits (about 11% of beneficiaries).[5]

In most years, a very small number of beneficiaries are affected by hold harmless, and the reduced Part B premiums have minimal impact on Part B financing.[6] In years when there is no COLA, however, the hold harmless provision is triggered on a program-wide basis, 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.[7] The Bipartisan Budget Act of 2015 resulted in Congress reducing the increase in Part B premiums from $159.30 per month to $121.80 per month, which was still a very high 16.1 percent. 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

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[4] "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.
[5] Ibid.
[6] "Medicare: Part B Premiums," Patricia Davis, Congressional Research Service, August 4, 2016, R40082.
[7] "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.

2016.[8]

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.

The Medicare Trustees estimated in their April 2020 annual report that the 2021 Part B premium would rise by $8.70 (6 percent), from $144.60 to $153.30.[9] However, the annual report was written prior to the coronavirus lockdown 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. If hold harmless is triggered on a program wide basis due to no COLA and there's a Part B premium increase of 52 percent, similar to 2015, the current standard premium of $144.60 would rise to $219.80 in 2021. That would be an increase of $75.20 per month for those not protected by hold harmless.

Congress can prevent this situation entirely by providing an adequate emergency COLA.

In 2015, Congress 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 wound up with 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 then once again affected in 2018 when a 2% COLA became payable.

Hold harmless and spiking Part B premiums could be eliminated entirely if Congress were to focus instead on ensuring ***a higher net Social Security benefit.*** Doing so would satisfy the hold harmless provision's 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 the Social Security Act (§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 net benefits of Social Security recipients, rather than simply providing a flat emergency payment by check.

The Senior Citizens League proposes that Congress enact a 2.5 percent emergency COLA payable for 2021.

The Congressional Budget Office (CBO), in its January 2020 baseline, estimated that a 2.5 percent COLA would be payable for 2021, and its estimates for 2021 through 2030 budget years currently reflect that amount in its estimates of future program costs.

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[8] Ibid.

[9] Ibid, page 192.

Thus, providing a 2.5 percent emergency COLA would provide only what has already been projected for Social Security benefits by the CBO.

A 2.5 percent COLA would be sufficient to boost an average monthly retiree benefit of $1,500 by $37.50 — enough to cover the Medicare Trustees' current estimate of an $8.70 per month increase in the Part B premium in 2021, and the estimated $212 required for the Part B deductible. Thus, there would be no triggering of hold harmless.

The Senior Citizens League believes it is time to focus on the adequacy of Social Security benefits to meet rising Medicare costs. COLAs 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. It does not reflect the price changes experienced by older Americans.

We need to focus on putting the "Security" back into Social Security, and providing real relief from rising Medicare costs, by avoiding high premium spikes to begin with. Congress can accomplish both by providing the 2.5% COLA in 2021 that the CBO estimated beneficiaries would receive. That one action would completely negate the need for any Medicare Part B premium spike.

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

1. <u>Calculate the annual COLA using the Consumer Price Index for the Elderly (CPI-E).</u> TSCL studies indicate that using the CPI-E would provide a very modestly - higher COLA in most years.
2. <u>Provide a one-time bump – up in monthly benefits for all beneficiaries.</u> 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. <u>Provide a guaranteed minimum COLA of 3 percent.</u> 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.

Top Ten Fastest Growing Senior Costs Since 2000

Item	Cost in 2000 Average cost $ or numeric data	Cost in 2018 Average cost $ or numeric data*	Percent Increase
1. Medicare Part B monthly premium	$45.50	$134.00	195%
2. Prescription drugs Annual average out-of- pocket	$1,102.00	$3,172.72	188%
3. Home heating oil (gal.)	$1.15	$3.22	181%
4. Homeowner's insurance (annual)	$508.00	$1,342.05	164%
5. Medigap	$119.00	$306.64	158%
6. Propane gas (gal.)	$1.01	$2.60	157%
7. Real estate taxes	$690.00	$1,579.06	129%
8. Total medical out-of-pocket expenses national average people age 65 and up	$6,140.00	$13,304.00	117%
9. Oranges (lb.)	$0.61	$1.33	117%
10. Pet services and vets (annual)	109.300*	233.317*	114%

** Where no average prices are available, U.S. Bureau of Labor Statistics CPI-U numeric data are used.*