



Special Report:

**How Low Inflation And Rising Medicare Costs
Threaten Social Security Benefit Growth**

By Mary Johnson

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Executive Summary

More than 59 million people, including adults age 65 and older and younger disabled adults, receive their healthcare coverage from Medicare.¹ About half of Medicare beneficiaries report that they spend up to one-third of their Social Security income on healthcare costs, and another 23 percent of beneficiaries report spending from 34 percent to 50 percent of their Social Security benefits on healthcare.²

In 2017, Medicare Trustees forecast that Medicare Part B premiums would increase about 5 percent per year over the next decade.³ The Centers for Medicare Medicaid Services recently estimated that spending would increase on average 7.4 percent⁴ per year over the next ten years. Meanwhile, the annual Social Security cost-of-living adjustment (COLA) is estimated to be about 2.4 percent, according to forecasts by the Congressional Budget Office.⁵ With Medicare Part B premiums expected to grow two to three times faster than the rate of Social Security benefits, there's widespread concern about the ability of Social Security benefits to keep pace with rising Medicare costs and the adequacy of benefits.

Since 2010, inflation has been at unprecedented lows, but Medicare Part B premiums have increased substantially. The majority of Medicare recipients have seen little to no growth in their Social Security benefits after deduction of the Part B premium for several years in a row. In 2010, 2011 and 2016 no COLA was paid at all. In 2017 the COLA was just 0.3 percent — less than one-third of one percent. When deflation or extremely low inflation occurs, a special provision of law known as the Social Security “hold harmless” provision protects the Social Security benefits of individuals from reduction when the dollar amount of the Medicare Part B increase exceeds the dollar amount of an individual's COLA. The hold harmless provision was triggered on a nationwide basis, in each of the above-mentioned years.

Typically, Social Security benefits tend to grow slightly each year as COLAs compound over time. But when the Medicare premium increases more than an individual's COLA, that can trigger the hold harmless provision on an individual basis — particularly when an individual has low benefits, inflation is low, Medicare Part B increases are high, or there is some combination of the three factors. While the hold harmless provision has proven to be an enormously valuable protection, the four years in which it has been triggered on a nationwide basis illustrate how net benefits after deduction for Part B premiums can remain flat and fail to grow over extended periods of time due to high Part B premium increases.

¹ 2017 Medicare Trustees Report, July 13, 2017.

² TSCL 2017 Senior Survey results through March 31, 2017.

³ 2017 Medicare Trustees Report, July 13, 2017.

⁴ “2017 – 2026 Projections of National Health Expenditures,” CMS, February 14, 2018.

⁵ Old Age and Survivors Insurance — CBO's January 2017 Baseline.

This study examines the hold harmless provision and how different levels of benefits would fare assuming average or low inflation, and assuming Medicare premium growth rates of either 5 percent per year or 7.4 percent per year. This study also explores the risk factors for hold harmless and considers some legislative remedies that would address those factors.

Background

The benefits of Social Security recipients are adjusted annually by the Social Security Administration to compensate for the increases in prices of goods and services from one year to the next. The cost-of-living adjustment (COLA) helps protect the buying power of benefits from erosion as prices increase. The Social Security Administration also automatically deducts Medicare Part B premiums from the Social Security benefits of most Medicare enrollees.

Medicare Part B premiums are the fastest growing cost that most Social Security recipients have, increasing by 195 percent since 2000.⁶ Over the same period, COLAs increased benefits by just 46 percent. What happens when the Part B premium increases are more than the benefit increase resulting from the COLA? In recent years extreme low rates of inflation and deflation have led to the triggering of a special provision of law known as the Social Security “hold harmless” provision on a nationwide basis. This has happened an unprecedented four times, in 2010, 2011, 2016, and 2017.

When deflation occurs Social Security benefits aren’t reduced, but no COLA is payable. When this happens, the Social Security hold harmless provision keeps Medicare Part B premiums the same for about 70 percent of beneficiaries. Those who are not protected by hold harmless include:

- New Medicare enrollees (about 5% of beneficiaries).
- People 65 and older who have not started Social Security benefits, or who pay by check (about 3% of beneficiaries).
- High-income beneficiaries who pay an income-related surcharge in addition to the basic premium (about 6% of beneficiaries).
- Low-income beneficiaries whose Part B premiums are paid on their behalf by their state Medicaid program (about 19% of beneficiaries).⁷

The hold harmless provision protects Social Security benefits when the dollar amount of an individual’s annual COLA increase is not sufficient to cover the increase in the Medicare Part B premium increase. If the increase in Medicare Part B premium would cause an individual’s net Social Security benefit to be less than it was the year before, then the Part B premium is reduced to ensure the individual’s Social Security benefit does not decline.

⁶ “2017 Loss of Buying Power Study,” Mary Johnson, The Senior Citizens League, June 2017.

⁷ “Potential Impact of No Social Security COLA on Medicare Part B Premiums in 2016,” Patricia Davis, Congressional Research Service, October 20, 2015, R44224.

The hold harmless provision usually affects only a small number of beneficiaries in any given year that had a relatively minimal impact on Part B financing in the past.⁸ However, when the hold harmless provision was triggered more widely in recent years, there is no specific provision of law with which to finance the unpaid portion of Medicare Part B premium increases. Instead, the entire burden of Part B costs is spread over a much smaller number of individuals, the 30 percent of Medicare Part B enrollees who are not protected by the hold harmless provision. With fewer people to pay premiums this has led to significant spikes in Medicare Part B premiums during the hold harmless years, and in 2018, it led to an unprecedented jump in premiums for those who were formerly held harmless once a COLA was payable in 2018.

While hold harmless provides valuable protection from reductions due to rising Part B costs, low inflation and high Medicare costs result in limiting the growth in net Social Security benefits after deduction for Part B premiums. This leaves less Social Security income to cover all other rising costs such as out-of-pocket medical expenses, food and housing.

How The Hold Harmless Provision Works

The Social Security hold harmless provision was triggered on a nationwide basis when no COLA was payable in 2016, and the COLA in 2017 was just 0.3 percent. During this time about 70 percent of Social Security beneficiaries were held harmless and each individual's Medicare Part B premium was either held the same in 2016 as it was in 2015, or adjusted in 2017 to reflect a 0.3 percent COLA. The adjusted Medicare Part B premiums ensured that Social Security benefits (after deduction for Part B) in January were not lower than the net benefit in December of the year before.

In 2018 the COLA increased Social Security benefits by 2 percent and Medicare Part B premiums were \$134 per month. While the \$134 per month was the same premium as 2017, the majority of Medicare beneficiaries who were "held harmless" in 2016 and 2017 were paying an adjusted premium averaging about \$109 per month. The 2018 Part B premium adjustment took the entire COLA of beneficiaries with gross benefits of \$1,288 (\$1,154 after deduction of the Part B premium) and below. In 2018 people with benefits below this amount underwent a further round of Part B hold harmless adjustments to their Medicare Part B premiums, resulting in no change in the net Social Security benefit for the third year in a row.

Major Findings

- Cost-of-living adjustments (COLAs) would need to double their current average rate of growth, and Medicare Part B increases would need to slow by half the historic rate of growth since 2000 to ensure the adequacy of Social Security benefits for the majority of beneficiaries. COLAs over the next decade would need to average at least 2.4 percent versus the average annual 1.2 percent rate of

⁸ "Medicare: Part B Premiums," Patricia Davis, Congressional Research Service, August 4, 2016, R40082.

growth over the past 8 years. Medicare Part B premium increases would need to grow about 5 percent per year. That's less than one - half of Medicare Part B's actual historic annual rate of growth since 2000, which was 10.8 percent. The Congressional Budget Office has forecast that COLAs would be about 2.4 percent per year over the next decade, and the Medicare Trustees have forecast that Part B premiums increases would be about 5 percent.

- If COLAs continue to average 1.2 percent as they have since 2010, the Social Security hold harmless provision would continue to be triggered with greater frequency in coming years. Low COLAs and high Medicare Part B premium increases (averaging 7.4 percent) would lead to repeat triggering of the Social Security hold harmless provision, especially for people with benefits below \$1,288.00, which is just slightly below the national “average” benefit.
- Social Security recipients with the lowest benefits are at the highest risk for being affected by hold harmless. People with the lowest benefits — about \$490 and less, whose Medicare premiums are deducted from their Social Security benefits, are at the highest risk of being affected by the “hold harmless” provision on an individual basis in the future. This is especially the case if COLAs were to average 2.4 percent or less, and Medicare Part B premium increases average 7.4 percent per year in coming years. For people with benefits within this range — often someone with spousal benefits — after deduction of the Part B premium net Social Security benefits would remain flat and there would be little future growth in benefits unless COLAs are higher or Medicare premiums increase more slowly. Roughly 6 percent of all Social Security beneficiaries who are either over age 65 or disabled had benefits of \$490 or less at the end of December 2017.⁹
- Retiring with the maximum possible Social Security benefit is the best defense to avoid the triggering of hold harmless in years when a COLA is payable. The higher the benefit, the greater the likelihood that the COLA would be enough to cover Part B premium increases — even if premiums increase 7.4 percent per year on average. When individuals retire prior to reaching full retirement age, however, Social Security benefits are reduced — by up to 30 percent depending on age. Delaying the start of benefits until age 70 allows benefits to grow 8 percent per year after reaching full retirement age, considerably increasing the initial benefit and reducing the chances of triggering of the hold harmless provision.
- Indexing the COLA to the more slowly - growing Chained consumer price index (CPI) would subject more individuals to hold harmless, and at higher benefit levels than under current COLA indexing. If COLAs as currently calculated averaged 2.4 percent, and Medicare premium increases average 7.4 percent, a switch to the more slowly growing cost-of-living adjustment using the Chained CPI would trigger hold

⁹ Social Security Administration statistical data through December 2017.

harmless on a more frequent basis for people with a benefit level of \$675 or below. About 9 percent of all beneficiaries had benefits at that level at the end of December 2017.¹⁰

- Average benefits (\$1,300 in 2018) are at risk of triggering hold harmless on an individual basis within the next 16 years, if COLAs remain low. The hold harmless provision would be triggered on an on-going basis within 16 years for people with gross benefits of \$1,300 and below, if COLAs were to average 1.7 percent or below and Medicare premium increases average 7.4 percent per year over the next decade.

Conclusion:

Medicare eligible older Americans and younger disabled adults depend on Social Security benefits for roughly half of all their income. About one - half of all Medicare beneficiaries had incomes below \$26,200 in 2016, and one-quarter had incomes below \$15,250 in 2016.¹¹

The adequacy of Social Security to finance healthcare, housing, food and other basic necessities is a major concern for all. Medicare premium costs are a particularly big challenge, with Medicare Part B and D premiums accounting for the greatest proportion of healthcare spending of most older and disabled Americans.¹² The Social Security hold harmless does not protect benefits from reductions when there are increases in other Medicare premiums such as those of Part D, or Medicare Advantage plans.

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). TSCSL studies indicate that using the CPI-E would provide a modestly - higher COLA in most years, helping more people, especially those with lower benefits, afford their Part B increase without triggering hold harmless.
2. Provide a modest one-time bump – up in monthly benefits of about \$70 per month for all beneficiaries. A higher level of monthly benefits would mean a higher, more adequate COLA and a better chance of affording 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 a minimal COLA is payable would almost eliminate the triggering for hold harmless and subsequent Medicare premium spikes. 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.

¹⁰ Social Security Administration statistical data through December 2017.

¹¹ “Income and Assets of Medicare Beneficiaries, 2016-2035,” Kaiser Family Foundation, April 2017.

¹² “Household Healthcare Spending in 2014,” Beyond The Numbers Vol.5/No. 13, Ann Foster, Bureau of Labor Statistics, August 2016.

While these measures would cost the system more, The Senior Citizens League supports finding new revenues by lifting the taxable maximum wage limit to apply the 12.4 percent Social Security payroll tax to all wages and modestly increasing the overall payroll tax rate.

Appendix

Table 1. How Hold Harmless Works — Average Benefit 2005-2018

	Benefit (Gross)	COLA Percent Following year	COLA \$ Following year	Medicare B National	Part B \$ increase Following year	Hold Harmless Following year	Adjusted Medicare B	Net Benefit for Part B
2005	\$995	4.1%	\$40.8	\$78.20	\$10.3	No	\$78.2	\$916.8
2006	\$1,035.80	3.3%	\$34.2	\$88.50	\$5.0	No	\$88.5	\$947.3
2007	\$1,070.00	2.3%	\$24.6	\$93.50	\$2.9	No	\$93.5	\$976.5
2008	\$1,094.60	5.8%	\$63.5	\$96.40	\$0.0	No	\$96.4	\$998.2
2009	\$1,158.10	0.0%	\$0.0	\$96.40	Adjusted	Yes	\$96.4	\$1,061.7
2010	\$1,158.10	0.0%	\$0.0	\$110.50	Adjusted	Yes	\$96.4	\$1,061.7
2011	\$1,158.10	3.6%	\$41.7	\$115.40	-\$15.5	No	\$96.4	\$1,061.7
2012	\$1,199.80	1.7%	\$20.4	\$99.90	\$5.0	No	\$99.9	\$1,099.9
2013	\$1,220.20	1.5%	\$18.3	\$104.90	\$0.0	No	\$104.9	\$1,115.3
2014	\$1,238.50	1.7%	\$21.1	\$104.90	\$0.0	No	\$104.9	\$1,154.6
2015	\$1,259.50	0.0%	\$0.0	\$104.90	\$16.9	Yes	\$104.9	\$1,154.6
2016	\$1,259.50	0.3%	\$3.8	\$121.80	Adjusted	Yes	\$104.9	\$1,154.6
2017	\$1,263.30	2.0%	\$25.3	\$134.00	Adjusted	Yes	\$108.7	\$1,154.6
2018	\$1,288.60	2.3%	\$29.6	\$134.00	Adjusted	Yes	\$133.9	\$1,154.6
2019	\$1,318.20			\$134.00			\$134.0	\$1,184.2

For more details about Part B premiums and the operation of the Social Security hold harmless provision:

“Potential Impact of No Social Security COLA on Medicare Part B Premiums in 2016,” Patricia A. Davis, Congressional Research Service, October 20, 2015, R44224.

“Medicare: Part B Premiums,” Patricia Davis, Congressional Research Service, August 4, 2016, R40082.