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## Why has my Part B premium gone up a dime? January 12<sup>th</sup>, 2010

**Question:** Why have many Medicare beneficiaries been assessed a \$96.50 Part B premium for 2010 when it was previously announced that their deduction would be held at \$96.40, the 2009 standard Part B premium?

**Short Answer:** Premiums in 2010 may rise by ten cents as a result of a complex technical formula used by SSA to calculate people's Medicare monthly premiums. Specifically, because there is no COLA this year, the "hold-harmless" provision dictates that SSA must use a variable SMI calculation to ensure that individuals do not see a decrease in their Social Security benefit. *However, this will not affect their net income, or the amount of money they receive monthly. For those individuals whose premiums rise ten cents, their Social Security benefit will also rise the same amount, leaving them with the same benefit check as in 2009.*

**Long Answer:** Most Medicare enrollees have their Part B premium withheld from their monthly Social Security benefit. For those individuals, a "hold-harmless" provision guarantees that a benefit check will not decrease as a result of an increase in the Part B premium. In the past, this provision has only affected those with Social Security checks so small that their cost of living adjustment (COLA) did not increase their income enough to cover that year's increase in the standard Part B premium. However, in 2010, the "hold-harmless" provision was thrown into the limelight when Social Security announced that there would be no COLA, thus ensuring that many Social Security checks would require protection from the standard Part B premium increase from \$96.40 to \$110.50.

Social Security ensures that beneficiaries will be held harmless by using the "Variable SMI Premium" (V-SMI). The V-SMI protection provides an adjustable Part B premium that does not decrease Social Security benefits where they are held harmless. Officially, the V-SMI premium is used when all of these conditions are met:

- The individual is entitled to social security benefits for the months of November and December,
- Medicare Part B premiums for December and January are deducted from those benefits,
- The individual receives a cash benefit for November, and
- Solely because the increase in the Part B premium is so high compared to the social security benefit payable, the social security benefit would be lower in January than in December<sup>1</sup>.

The formula for calculating the V-SMI premium is nuanced and unique. It includes two steps of "dimes down rounding" wherein numbers in the computation are rounded to the next lowest whole dollar. In 2010, this calculation widely yielded Part B premiums of \$96.50. This is \$.10 higher than in 2009, causing confusion among beneficiaries and advocates who expected the Part B premium to be identical across calendar years.

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<sup>1</sup> See HI 01001.004 The Variable Supplementary Medical Insurance (VSMI) Premium, available from:  
<https://s044a90.ssa.gov/apps10/poms.nsf/lrx/0601001004!opendocument>

It is important to note that where applicable, Social Security compensated for this small increase by concurrently raising some beneficiaries' Social Security benefits by \$.10. This adjustment in *gross* benefit ensured that the beneficiaries' *net* benefit remained the same. In effect, Social Security followed the "hold-harmless" provision by correctly calculating the V-SMI and adjusting benefit checks in tandem.

The following is a summary of the computation variable Supplemental Medical Insurance (SMI) or Medicare Part B formula.

--  $A = B - (C - D)$

-- A = the variable SMI premium for January

-- B = the new January standard SMI premium

-- C = the November benefit amount less the December SMI premium and rounded down

-- D = the December benefit amount less the new January standard SMI premium, and rounded down

The following chart illustrates two examples. Values assigned to variables from the formula above are designated in red. Example two yields a Part B premium of \$96.50.

Step	Example 1		Step	Example 2	
	Calculation for \$96.40 Amount Situation	VSMI		Calculation for \$96.50 Amount Situation	VSMI
1	11/2009 MBA	\$357.40	1	11/2009 MBA	\$760.70
	2009 SMI premium	<u>-\$96.40</u>		2009 SMI premium	<u>-\$96.40</u>
	Result	\$261.00		Result	\$664.30
	Dimes down rounding*	<u>-\$ 0.00</u>		Dimes down rounding*	<u>-\$ 0.30</u>
	<b>C:</b> 11/2009 MBP* $\approx$	\$261.00		<b>C:</b> 11/2009 MBP* $\approx$	\$664.00
2	12/2009 MBA	\$357.40	2	12/2009 MBA	\$760.70
	2010 SMI premium	<u>-\$110.50</u>		2010 SMI premium	<u>-\$110.50</u>
	Result	\$246.90		Result	\$650.20
	Dimes down rounding*	<u>-\$ 0.90</u>		Dimes down rounding*	<u>-\$ 0.20</u>
	<b>D:</b> 12/2009 MBP* $\approx$	\$246.00		<b>D:</b> 12/2009 MBP* $\approx$	\$650.00
3	11/2009 MBP*	\$261.00	3	11/2009 MBP*	\$664.00
	12/2009 MBP*	<u>-\$246.00</u>		12/2009 MBP*	<u>-\$650.00</u>
	Premium reduction	\$15.00		Premium reduction	\$14.00

Step	Example 1		Step	Example 2	
	Calculation for \$96.40 Amount Situation	VSMI		Calculation for \$96.50 Amount Situation	VSMI
	amount			amount	
4	<b>B:</b> 2010 SMI premium      \$110.50  Premium reduction <u>-\$15.00</u> amount                              \$95.50  <b>A: V-SMI RATE                      \$96.40</b> Due to SM 00712.002 Basic Rules of V-SMI, the calculated V-SMI rate can never be less than the SMI rate in 11/09. Therefore, the new V-SMI rate will be \$96.40.		4	<b>B:</b> 2010 SMI premium      \$110.50  Premium reduction <u>-\$14.00</u> amount  <b>A: V-SMI RATE                      \$96.50</b>	
5	\$357.40-\$96.40 = <b>\$261.00 MBP</b>		5	\$760.70-\$96.50 = \$664.20 ≈ <b>\$664.00 MBP<sup>2</sup></b>	

MBP\* – Monthly Benefit Payable (Payment)

Dimes Down Rounding\* (≈) - Rounding down to lower dollar amount

For more information, see the following Social Security document, entitled Voluntary Supplementary Medical Insurance Premiums:

[http://www.socialsecurity.gov/OACT/NOTES/pdf\\_notes/note147.pdf](http://www.socialsecurity.gov/OACT/NOTES/pdf_notes/note147.pdf)

<sup>2</sup> SSA Central Office transmission to local agencies for 2010.