

WHAT'S AT STAKE

Medicare Means Testing



Over time, policy ideas gain and lose popularity, including several that threaten the effectiveness of major health care programs like Medicare, Medicaid, and the Affordable Care Act (ACA). In this series—What’s at Stake—we explore some of these reform ideas and how they could affect coverage, care, and outcomes for older adults and people with disabilities.

A core component of Medicare is its universality. Some policy ideas would undermine that promise by limiting new or existing benefits to people with lower incomes or requiring higher income enrollees to pay more for their care or coverage.

Medicare Coverage Must Remain Universal

Proposals to add new benefits or protections to Medicare, but only for those with the lowest incomes, are meant to keep costs down.¹ But means testing any portion of the program would add coverage barriers and administrative hurdles² as well as potentially creating a “cliff” where a few dollars can mean the difference between access to care and no care at all.³

Means testing all or portions of Medicare also risks eroding the overwhelming popularity of the program. Denying people the benefit they have been promised erodes the Medicare guarantee. It could also cause some to drop Medicare entirely, feeling their premium dollars are better spent elsewhere.⁴

¹ Alex Ruoff, “Moderate Democrats Pitch Income Limits on New Medicare Benefits,” Bloomberg Law (September 28, 2021), <https://news.bloomberglaw.com/health-law-and-business/moderate-democrats-pitch-income-limits-on-new-medicare-benefits>.

² Ashley Fox, et al., “How increasing administrative burdens and means testing in the US safety-net punishes the poor” (August 22, 2022), <https://blogs.lse.ac.uk/usappblog/2022/08/22/how-increasing-administrative-burdens-and-means-testing-in-the-us-safety-net-punishes-the-poor/>.

³ See, e.g., Renuka Tipirneni & John Ayanian, “Medicaid ‘cliff’ adds to racial and ethnic disparities for low-income older adults” (April 11, 2023), <https://ihpi.umich.edu/news/medicaid-cliff-adds-racial-and-ethnic-disparities-low-income-older-adults>.

⁴ See, e.g., Juliette Cubanski & Tricia Neuman, “Medicare’s Income-Related Premiums Under Current Law and Proposed Changes,” Kaiser Family Foundation (November 2, 2017), <https://www.kff.org/medicare/issue-brief/medicares-income-related-premiums-under-current-law-and-proposed-changes/>.

Americans are supportive of Medicare because they know its value—as a cornerstone of health and economic security. Means testing would snatch some of that value away from people who are contributing to the program and counting on it to be there for them.

Higher Earners Already Pay More

Policymakers who want to ensure that higher earners pay more have already succeeded. The Medicare payroll tax is 2.9%, with 1.45% paid by the employer and 1.45% paid by the employee. Unlike the Social Security payroll tax, the Medicare tax does not have a cap. This means that higher earners keep paying into Medicare no matter how high their incomes go. The more someone earns, the more they pay into Medicare.⁵

In addition, some higher earners have a 0.9% payroll surcharge during their working lives, above payroll tax. The threshold for this additional Medicare tax is \$200,000 for single filers and \$250,000 for married filing jointly.⁶

Individuals with higher annual incomes (above \$103,000 in 2024, around the 83rd percentile⁷) also pay more for their Medicare Part B and Part D premiums through the Income-Related Monthly Adjustment Amount (IRMAA).⁸ The Social Security Administration (SSA) sets four income brackets that determine an enrollee's IRMAA, based on reported income over the past two years. In 2024, these monthly amounts start at \$69.90 for Part B and at \$12.90 for Part D, and top out at \$413.30 and \$81.00, respectively. They are paid in addition to the base premium.

Through the years, there have been efforts to increase the IRMAA, including proposals that would unravel critical Part B financial assistance and add surcharges even for incomes that are firmly middle class. For example, a bipartisan 2013 proposal would have added surcharges on incomes as low as \$45,600⁹ (an estimated \$61,477.21 in 2024 dollars).¹⁰ A 2023 recommendation from a conservative think tank recommended IRMAA contributions to start at

⁵ Internal Revenue Service, "Topic Number: 751—Social Security and Medicare Withholding Rates" (last visited October 4, 2021), <https://www.irs.gov/taxtopics/tc751>.

⁶ Id. See, also Internal Revenue Service, "What is the Additional Medicare Tax?" (last visited October 4, 2021), <https://www.irs.gov/newsroom/what-is-the-additional-medicare-tax>.

⁷ DQYDJ, "Individual Income by Year: Average, Median, One Percent, and a Percentile Calculator" (last visited June 24, 2024), <https://dqydj.com/individual-income-by-year/>.

⁸ Medicare Interactive, "Part B costs for those with higher incomes" (last visited January 22, 2024), <https://www.medicareinteractive.org/get-answers/medicare-health-coverage-options/original-medicare-costs/part-b-costs-for-those-with-higher-incomes>; Medicare Interactive, "Part D costs for those with higher incomes" (last visited January 22, 2024), <https://www.medicareinteractive.org/get-answers/medicare-prescription-drug-coverage-part-d/medicare-part-d-costs/part-d-costs-for-those-with-higher-incomes>.

⁹ See, e.g., Juliette Cubanski, Tricia Neuman, Gretchen Jacobson, & Karen E. Smith, "Raising Medicare Premiums for Higher-Income Beneficiaries: Assessing the Implications," Kaiser Family Foundation (January 13, 2014), <https://www.kff.org/medicare/issue-brief/income-relating-medicare-part-b-and-part/>.

¹⁰ Dollar amount calculated using the Inflation Calculator: <https://www.usinflationcalculator.com/>.

an income of \$55,000 for individuals (around the 56th percentile¹¹) and \$110,000 for couples.¹² For comparison, the median personal income in the United States was \$40,480 in 2022¹³ and the mean household income was \$92,750.¹⁴

¹¹ DQYDJ, “Individual Income by Year: Average, Median, One Percent, and a Percentile Calculator” (last visited June 24, 2024), <https://dqydj.com/individual-income-by-year/>.

¹² Heritage Foundation, “Reduce Taxpayer Subsidies for Wealthy Medicare Recipients Budget Blueprint for FY 2023” (last visited June 24, 2024), <https://www.heritage.org/budget/pages/recommendations/0.570.188.html>.

¹³ Federal Reserve Bank of St. Louis, “Median Personal Income in the United States” (last visited June 24, 2024), <https://fred.stlouisfed.org/series/MEPAINUSA646N>.

¹⁴ Federal Reserve Bank of St. Louis, “Median Family Income in the United States” (last visited June 24, 2024), <https://fred.stlouisfed.org/series/MEFAINUSA646N>.