

### The Social Security COLA and Medicare Part B Premium: Questions, Answers, and Issues

For the second year in a row and only the second time in 35 years, Social Security recipients will receive a zero percent cost-of-living adjustment (COLA) in 2011.<sup>1</sup> The absence of a COLA has direct financial implications for more than 50 million Social Security recipients, many of whom live on fixed incomes and rely on Social Security as their primary source of income.<sup>2</sup> The absence of a COLA also affects the amount of the Medicare Part B premium charged to more than one in four Medicare beneficiaries. These premiums are paid by, or on behalf of, beneficiaries who are enrolled in the Supplementary Medical Insurance part of the Medicare program (Part B), which covers outpatient services, including physician visits. In 2011, the standard Part B premium is \$115.40 per month. This policy brief explains the relationship between the Social Security COLA and the Medicare Part B premium, and the implications for those who are covered by both programs, based on the most recent projections of the Medicare and Social Security Trustees.

#### 1. Why will Social Security recipients not receive a cost-of-living benefit increase in 2011?

Social Security recipients generally receive an annual cost-of-living increase that reflects higher costs associated with inflation. The COLA is based on the change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) between the third quarter (July-September) of the current year and the third quarter of the most recent year a cost-of-living adjustment was determined.<sup>3</sup> For 2009, Social Security recipients received a 5.8 percent COLA, the largest increase in more than 25 years (see Appendix). There was no COLA for 2010, based on the change in the CPI-W between the third quarters of 2008 and 2009 – a period which was marked by a dramatic drop in prices at the end of 2008. The COLA for 2011 is based on the change in the CPI-W between the third quarters of 2008 and 2010. While prices have risen modestly in 2010, they have not risen to the level they reached in the third quarter of 2008. As a result, Social Security recently announced there will be no COLA for 2011. The Social Security and Medicare Trustees project a 1.2 percent COLA for 2012, which would result in an increase in monthly Social Security benefit payments in 2012.<sup>4</sup>

#### 2. How does the Social Security COLA affect Medicare Part B premiums, and what is the “hold-harmless” provision?

Typically, the Social Security COLA has no bearing on the amount of the Medicare Part B premium that most beneficiaries pay, but 2011 will not be a typical year, as was the case with 2010. Historically, Social Security payments have increased annually by a COLA, while Medicare Part B premiums have increased almost every year to keep pace with the growth in Medicare Part B expenditures. Beneficiary premiums for Part B are set each year to cover 25 percent of Part B spending. For most beneficiaries, and in most years,

#### Example #1: The Interaction Between COLAs and Medicare Part B Premiums in a Typical Year

John received a \$1,053.70 Social Security payment in 2007. After a 2.3 percent COLA, his Social Security payment increased by \$24.24 per month in 2008. Meanwhile, the monthly Medicare Part B premium increased from \$93.50 in 2007 to \$96.40 in 2008. Because the Medicare Part B premium increase of \$2.90 was less than the \$24.24 increase in John’s monthly Social Security payment, his net Social Security benefit increased by \$21.30 per month in 2008.

<sup>1</sup> Social Security Administration, “Under the Law No Social Security COLA for 2011,” News Release, October 15, 2010.

<sup>2</sup> The COLA also determines the percentage increases in Supplemental Security Income (SSI), veterans’ pensions, and railroad retirement benefits.

<sup>3</sup> The CPI-W is produced by the U.S. Department of Labor, Bureau of Labor Statistics.

<sup>4</sup> The 2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Trust Funds.

the dollar amount of the COLA increase to their monthly Social Security benefit payment has been more than enough to offset the dollar amount of the increase in the monthly Part B premium, resulting in net increases in Social Security payments from year to year **(see Example #1)**.

In years where the Social Security COLA is insufficient to cover the amount of the Part B premium increase for an individual, a so-called “hold-harmless” provision prohibits an increase in the Medicare Part B premium.<sup>5</sup> This provision, originally intended to help those with relatively modest incomes, prevents a reduction in Social Security payments that would otherwise occur for an individual if the monthly Part B premium increase is larger than their monthly Social Security cost-of-living increase **(see Example #2)**.

With no cost-of-living increase for Social Security recipients in 2010 and 2011, the hold-harmless provision prevents the majority of Medicare beneficiaries from paying any increase in Part B premiums during these years.<sup>6</sup>

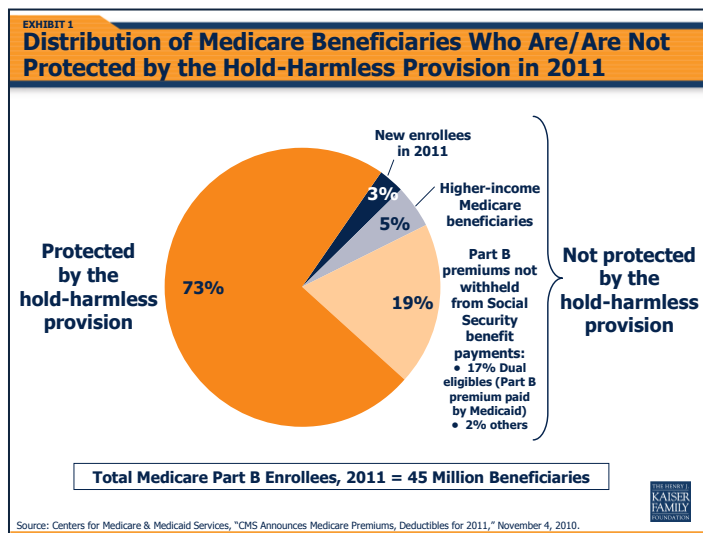
### 3. Which Medicare beneficiaries are not protected by the hold-harmless provision?

The majority of Medicare beneficiaries – 73 percent – are protected by the hold-harmless provision in 2011, but 27 percent are not **(Exhibit 1)**.<sup>7</sup> Under current law, Part B premium increases will be paid by or on behalf of the following:

- Medicare beneficiaries who do not have their Part B premium deducted from their monthly Social Security benefit payments (19 percent of all Medicare beneficiaries). This includes low-income individuals who are eligible for both Medicare and Medicaid (the “dual eligibles”), whose Social Security payments will not be directly affected by the Part B premium increase because Medicaid (funded jointly by States and the Federal government) pays the monthly Part B premium rather than the individuals themselves (17 percent of all Medicare beneficiaries); thus, Medicaid will pay the higher Part B premium on behalf of dual eligibles.
- Higher-income Medicare beneficiaries, with a modified adjusted gross income greater than \$85,000 for individuals

#### Example #2: How The Hold-Harmless Provision Works

Helen, age 70, received a monthly Social Security benefit payment of \$1,328 in 2009, after her Part B premium of \$96.40 per month was deducted. Between 2009 and 2010, her Social Security check did not increase, because there was no COLA for 2010. Although Part B premiums increased by \$14.10 to \$110.50 per month, she did not pay the additional amount because it would have reduced her Social Security payment. Similarly, in 2011, with Medicare Part B premiums rising from \$110.50 to \$115.40 per month, Helen will continue to pay a monthly Part B premium of \$96.40 rather than \$115.40 per month, because the higher premium would otherwise have reduced her Social Security check. With no COLA for two years in a row, the hold-harmless provision shields Helen from annual increases in the Part B premium in both 2010 and 2011.



<sup>5</sup> See Section 1839 (f) of the Social Security Act.

<sup>6</sup> Part B expenditures are currently projected to decrease from \$220.1 billion in 2010 to \$215.3 in 2011, but these projections reflect a current law 23 percent reduction in physician payments beginning in December 2010. Assuming that Congress acts as it has in previous years to prevent a scheduled reduction in physician payment rates from taking effect, it is likely that Part B expenditures will increase in 2011 over 2010 levels.

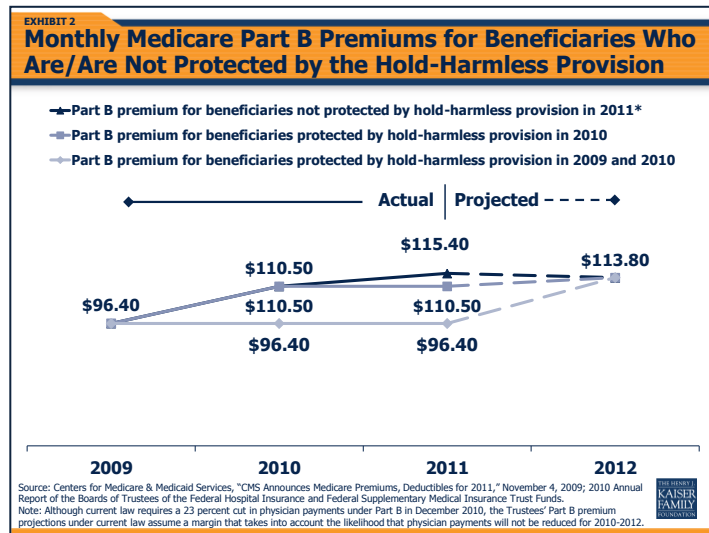
<sup>7</sup> Centers for Medicare & Medicaid Services, “Medicare Premiums, Deductibles for 2011,” November 4, 2010.

and \$170,000 for couples in 2011, who are required to pay an income-related surcharge in addition to the monthly Part B premium amount (5 percent of all Medicare beneficiaries).

- New enrollees whose Social Security payments could not decline from one year to the next because they did not receive Social Security payments and/or were not covered under Part B in the previous year (3 percent). The Medicare Trustees project Part B enrollment growth of 1.1 million between 2010 and 2011<sup>8</sup>, most but not all of whom would be expected to pay the higher Part B premium because they are neither protected by the hold-harmless provision nor covered by Medicaid.

#### 4. How much will the Medicare Part B premium increase for those who are not protected by the hold-harmless provision?

Medicare Part B premiums for those not protected by the hold-harmless provision will increase by \$4.90 per month between 2010 and 2011, from \$110.50 to \$115.40 (a 4 percent increase) (**Exhibit 2**).<sup>9</sup> This represents a 20 percent increase (\$19) in the standard Part B premium since 2009. The Part B premium increase is higher than it would otherwise be because the costs are spread across a smaller share of beneficiaries, rather than across the entire Medicare population. If the beneficiaries' 25 percent share of Part B costs were spread across all Part B enrollees, rather than just the 27 percent of Part B enrollees who are not held harmless, the premium would not have risen as rapidly between 2009 and 2011.



The majority of beneficiaries who *are* protected by the hold-harmless provision will continue to pay Part B premiums of either \$96.40 per month if they were enrolled in Medicare in 2009 and held harmless from the Part B premium increase in 2010, or \$110.50 if they were new recipients of Social Security and Medicare in 2010. Under current forecasts, Social Security recipients are projected to receive a 1.2 percent cost-of-living increase in their monthly benefit payments in 2012. At that point, the increase in Part B expenditures can be spread across more Part B enrollees, which is projected to result in a monthly Part B premium of \$113.80 in 2012<sup>10</sup> – an increase for the beneficiaries who have been protected by the hold-harmless provision, and a decrease in the premium for all others. For beneficiaries who were protected by the hold-harmless provision for two years, the Part B premium is projected to increase by 18 percent or \$17.40, from \$96.40 to \$113.80. For some, the end result may be another year of being held harmless from the Part B premium increase if their monthly Social Security payment does not increase by more than the amount of the Part B premium increase.<sup>11</sup>

<sup>8</sup> 2010 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

<sup>9</sup> Centers for Medicare & Medicaid Services, "CMS Announces Medicare Premiums, Deductibles for 2010," October 16, 2009; 2010 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

<sup>10</sup> 2010 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.

<sup>11</sup> An individual's monthly Social Security benefit payment would have to be less than \$1,450 for the hold-harmless provision to apply in 2012 using the Medicare Part B and Social Security COLA projections (since \$17.40 is 1.2 percent of \$1,450).

With three different Part B premium amounts in 2011, the interaction between the COLA, the Medicare Part B premium, and the hold-harmless provision has the potential to cause confusion among Medicare beneficiaries (**see Example #3**).

### **Example #3: Inequities for “Notch” Boomers**

Bob turned 66 in 2009. He retired, started to collect Social Security payments, and enrolled in Medicare Part B. Bob elected to have his Part B premium of \$96.40 deducted from his Social Security payment, and receives a monthly benefit payment of \$1,200, after having \$96.40 deducted for the Medicare Part B premium. Although the Medicare Part B premium increased in 2010 and 2011, Bob continued to pay \$96.40 per month for Part B in 2010 and will continue to pay \$96.40 in 2011. Due to the hold-harmless provision, Bob does not pay a higher premium since he did not receive a COLA in either year.

Jim, Bob’s brother, turned 66 in 2010. He began collecting Social Security, enrolled in Part B, and paid the standard Medicare Part B premium of \$110.50 per month in 2010. Although the standard Medicare Part B premium will increase in 2011, Jim will be held harmless from the Part B premium increase because he will not receive a COLA for 2011. In 2011, Jim will continue to pay \$110.50 per month for Part B.

Mary, Bob’s wife, will turn 66 in 2011. Mary will begin to collect Social Security, enroll in Part B, and pay the standard Medicare Part B premium of \$115.40 per month in 2011. She will pay \$19.00 more per month in Medicare Part B premiums than her husband Bob and \$4.90 more per month than her husband’s brother Jim for the same set of benefits because she is not protected by the hold-harmless provision.

## **5. Does the hold-harmless provision apply to Medicare Part D premiums as well as Part B premiums?**

The hold-harmless provision does *not* apply to Part D premiums for the voluntary Medicare prescription drug benefit. Medicare beneficiaries receiving a zero percent cost-of-living increase who are enrolled in Part D plans could see a reduction in their Social Security payments in 2011 if their monthly Part D plan premium increases. The monthly Part D premium averages \$40.72 in 2011 (weighted by 2010 enrollment), a 10 percent increase in the weighted average premium since 2010.<sup>12</sup> The actual amount of the reduction would depend on the increase in the monthly premium for a given beneficiary in a specific Part D plan. Those who pay the new higher income-related Part D premium would face an even greater reduction in their Social Security payment.<sup>13</sup> Thus, in a year with no Social Security COLA, any increase in a beneficiary’s Part D plan premium results in a dollar-for-dollar decrease in an individual beneficiary’s monthly Social Security payment. It is estimated that about 2.6 million beneficiaries enrolled in stand-alone prescription drug plans will experience an increase of at least \$10 in their monthly plan premium unless they switch to a less expensive plan.<sup>14,15</sup>

Some Medicare beneficiaries will be protected from facing a reduction in their Social Security payment as a result of increases in Part D plan premiums. Medicare beneficiaries who receive low-income subsidies (LIS) under Part D and are enrolled in a plan designated for LIS recipients, known as “benchmark” plans, do not pay Part D premiums, and thus will not experience a reduction in their Social Security benefit payment if their plan premium increases.<sup>16</sup> However, more than two million low-income beneficiaries are eligible for low-income subsidies for Part D coverage but are not currently receiving them; these low-

<sup>12</sup> Kaiser Family Foundation, “Medicare Part D Spotlight: Part D Plan Availability in 2011 and Key Changes Since 2006,” October 2010. <http://www.kff.org/medicare/8107.cfm>

<sup>13</sup> If an individual is not receiving benefit payments from SSA, the Part D income-related premium will be collected directly from these beneficiaries. CMS has issued a proposed rule outlining the process for establishing and collecting the Part D income-related premium; see CMS, “Medicare Program; Proposed Changes to the Medicare Advantage and the Medicare Prescription Drug Benefit Programs for Contract Year 2012 and Other Proposed Changes,” November 10, 2010.

<sup>14</sup> Kaiser Family Foundation, “Medicare Part D Spotlight: Part D Plan Availability in 2011 and Key Changes Since 2006,” October 2010. <http://www.kff.org/medicare/8107.cfm>

<sup>15</sup> Part D enrollees have an opportunity to switch to a less expensive plan during the annual open enrollment period (November 15 – December 31, 2010).

<sup>16</sup> LIS recipients could face higher Part D premiums and lower Social Security payments in the following year if their Part D plan no longer qualifies as a “benchmark” plan.

income beneficiaries may see a reduction in their Social Security payments if they are enrolled in a Part D plan – unless they sign up for the LIS benefits to which they are entitled or switch to a lower-premium plan.

## **6. If Congress passes legislation to prevent a scheduled reduction in Medicare payments to physicians in 2010, what would be the effect on Medicare Part B premiums?**

Under current law, Medicare payments to physicians are expected to decline by 23 percent in December 2010, 6.5 percent in 2011, and 2.9 percent in 2012.<sup>17</sup> The 2010 Medicare Trustees projections for the Part B premium are based on current law, but also assume a margin that is sufficient to take into account the high likelihood that Congress will change current law to prevent a reduction in physician payments, as they have in the past.<sup>18</sup> The Trustees currently project that the Part B premium will increase from \$113.80 in 2012 (taking into account the likelihood that Social Security recipients will receive a cost-of-living adjustment beginning in 2012) to \$160.10 in 2019.

## **CONCLUSION**

According to a recent announcement from the Social Security Administration, Social Security recipients will receive no cost-of-living adjustment in 2011, after a year of no cost-of-living adjustment in 2010, and a modest 1.2 percent COLA projected for 2012. At a time of great economic uncertainty, with many seniors experiencing a significant decline in their retirement savings and with nearly two-thirds relying on Social Security for at least half of their income<sup>19</sup>, the absence of a COLA could represent a hardship for many recipients.

The absence of a Social Security COLA also affects Medicare Part B premiums. The hold-harmless provision helps to protect against a reduction in Social Security income that would otherwise result in a year with no COLA. But even with the hold-harmless provision, some beneficiaries will see a reduction in their Social Security benefit payments due to increases in Part D premiums. The hold-harmless provision creates temporary cohorts of “notch” beneficiaries who pay higher Part B premiums than others. These Part B enrollees pay more for Part B than they would if the hold-harmless provision were not in effect; with the hold-harmless provision, the annual spending for Part B is spread across a smaller group of Part B enrollees, rather than all Part B enrollees. The increase in Medicare Part B premiums also temporarily increases costs for states because Medicaid pays premiums on behalf of beneficiaries dually eligible for Medicare and Medicaid.

*This issue brief was prepared by Tricia Neuman, Juliette Cubanski, and Jennifer Huang of the Kaiser Family Foundation. Lisa Potetz of Health Policy Alternatives provided helpful comments.*

<sup>17</sup> Centers for Medicare & Medicaid Services, Office of the Actuary, “Projected Medicare Expenditures under an Illustrative Scenario with Alternative Payment Updates to Medicare Providers,” August 5, 2010.

<sup>18</sup> Centers for Medicare & Medicaid Services, Office of the Actuary, “Projected Medicare Expenditures under an Illustrative Scenario with Alternative Payment Updates to Medicare Providers,” August 5, 2010.

<sup>19</sup> Social Security Administration, “Income of the Population 55 or Older, 2008,” April 2010.

## APPENDIX

### Social Security Cost-of-Living Adjustment, Average Monthly Social Security Payment, Monthly Medicare Part B Premium, and Average Monthly Medicare Part D Premium, 1975-2011

Year	Social Security Cost-of-Living Adjustment <sup>a</sup>	Average Monthly Social Security Payment <sup>b</sup>	Monthly Part B Premium	Monthly Part D Premium <sup>c</sup>
1975	8.0%	\$212.07	\$6.70	-- <sup>d</sup>
1976	6.4%	\$232.75	\$6.70	--
1977	5.9%	\$254.33	\$7.20	--
1978	6.5%	\$277.89	\$7.70	--
1979	9.9%	\$314.47	\$8.20	--
1980	14.3%	\$359.25	\$8.70	--
1981	11.2%	\$396.28	\$9.60	--
1982	7.4%	\$410.95	\$11.00	--
1983	3.5%	\$410.23	\$12.20	--
1984	3.5%	\$429.46	\$14.60	--
1985	3.1%	\$443.09	\$15.50	--
1986	1.3%	\$456.93	\$15.50	--
1987	4.2%	\$484.01	\$17.90	--
1988	4.0%	\$504.88	\$24.80	--
1989	4.7%	\$538.70	\$31.90	--
1990	5.4%	\$559.32	\$28.60	--
1991	3.7%	\$592.77	\$29.90	--
1992	3.0%	\$620.66	\$31.80	--
1993	2.6%	\$645.91	\$36.60	--
1994	2.8%	\$665.67	\$41.10	--
1995	2.6%	\$688.37	\$46.10	--
1996	2.9%	\$708.70	\$42.50	--
1997	2.1%	\$734.53	\$43.80	--
1998	1.3%	\$754.23	\$43.80	--
1999	2.5%	\$791.18	\$45.50	--
2000	3.5%	\$842.84	\$45.50	--
2001	2.6%	\$881.12	\$50.00	--
2002	1.4%	\$927.23	\$54.00	--
2003	2.1%	\$963.80	\$58.70	--
2004	2.7%	\$961.12	\$66.60	--
2005	4.1%	\$1,011.60	\$78.20	--
2006	3.3%	\$1,045.85	\$88.50	\$32.20
2007	2.3%	\$1,077.55	\$93.50	\$27.35
2008	5.8%	\$1,083.34	\$96.40	\$27.93
2009	0%	\$1,155.28	\$96.40	\$30.36
2010	0%	\$1,172.23	\$110.50	\$31.94
2011	1.2% <sup>e</sup>	n/a	\$115.40	\$32.34

<sup>a</sup> COLA increase applies to Social Security payments in the following year.

<sup>b</sup> Average monthly benefit for retired worker, by year of entitlement, December of each year, except for 2010 which is as of September.

<sup>c</sup> Actual amounts (and increases) vary by plan. Monthly premiums based on national average monthly premium amount from CMS.

<sup>d</sup> Part D took effect in 2006.

<sup>e</sup> Projected.



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