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Analysis of the Recent Medicare Premium Increase

On September 3, 2004, the Bush Administration announced the largest increase in Medicare premiums in the history of the program. Monthly premiums will rise next year by \$11.60 to \$78.20, an increase of 17%, or \$139.20 per year. The largest single cause of the record increase is the 2003 Medicare Modernization Act.

Administration officials and House Republican leaders have conveyed the impression that the higher premiums are necessary to pay for new benefits for Medicare beneficiaries. For example, when announcing the increase, Mark McClellan, Administrator of the Center for Medicare and Medicaid Services, touted new Medicare services such as screening tests for heart disease and diabetes and a “Welcome to Medicare” exam for beneficiaries entering the program. He claimed that, “the new premiums reflect an enhanced Medicare that is providing seniors and people with disabilities with strengthened access to physician services and new preventive benefits.”¹

In fact, the new benefits cited by Administration officials and House Republicans explain only 10 cents of the increase in monthly premiums. The main causes of the increase are provisions in the controversial Medicare Modernization Act of 2003 that require increased payments to HMOs and insurance companies, fee-for-service providers, and the Medicare reserves, and create new administrative expenses for Medicare. Together, these provisions account for \$6.80 (59%) of the \$11.60 monthly increase.

Data recently obtained from the Office of the Medicare Actuary provides a detailed breakdown of the components of the \$11.60 monthly premium increase. This information shows:

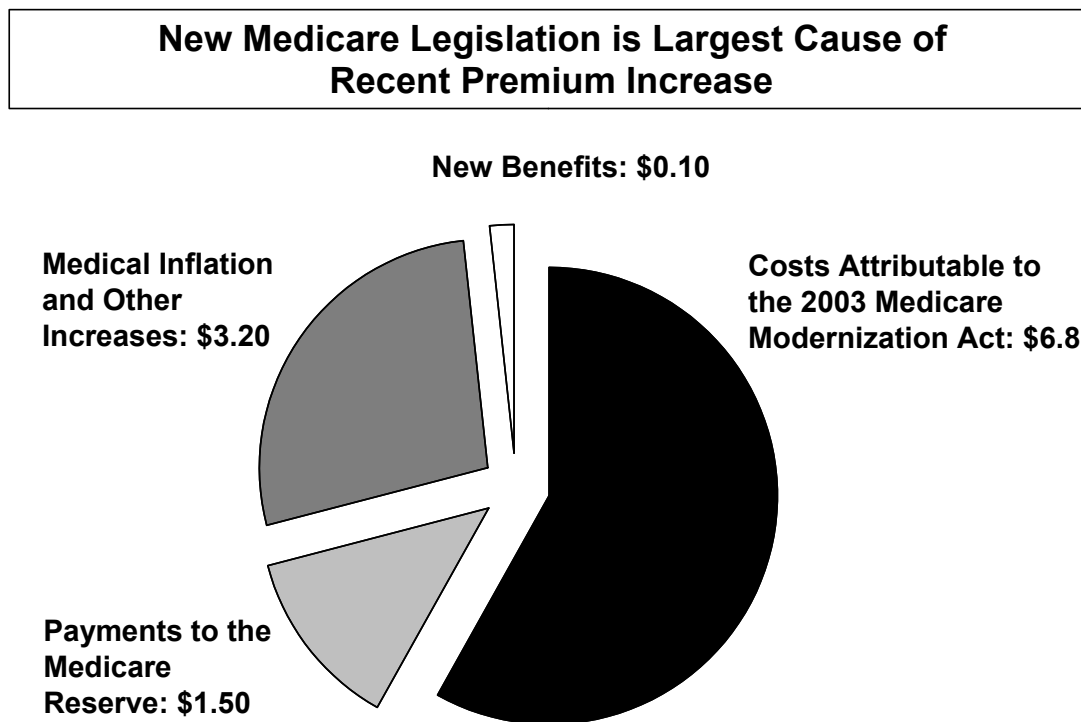
- **New Medicare benefits touted by Administration officials and House Republicans account for virtually none of the increase.** The new preventive benefits offered by Medicare are responsible for only 10 cents of the \$11.60 increase — 1% of the increase.
- **Other components of the 2003 Medicare Modernization Act account for the vast majority of the \$11.60 increase.** The 2003 legislation increased payments to HMOs, insurance companies, and other fee-for-service providers (\$4.60 of the increase) and

¹ U.S. Department of Health and Human Services, *HHS Announces Medicare Premium, Deductibles for 2005* (Sept. 3, 2004). See also House Republican Conference, *Medicare Premium Increase Talking Points: Better Benefits Outweigh Increased Premiums* (Sept. 2004).

imposed new administrative costs on the program (\$0.70 of the increase). In addition, the costs of these provisions triggered an increase in payments to shore up the Medicare reserves (\$1.50 of the increase). Taken together, these provisions are responsible for \$6.80 —59% of the total increase.

- **Medical inflation and other factors account for the remainder of the increase.** Medical inflation and other increases in Medicare Part B spending account for \$3.20 of the increase. Moreover, there would have been a need to increase payments to the Medicare reserve fund even if the added expenses caused by the 2003 Medicare Modernization Act had not been enacted. These increased payments to the Medicare reserve fund account for \$1.50 of the increase.
- **Overpayments to HMOs and private plans drive up premiums for all beneficiaries.** A total of \$2.20 of the increase — 19% — is due to payments to HMOs and other private insurers.² These HMOs cost the government considerably more than traditional Medicare. As a result, premiums are rising for all beneficiaries, even though only 12% are enrolled in HMOs.

The following chart shows the components of the increased premiums:



² Of the \$2.20 increase attributable to HMOs, \$0.90 is due to new provisions in the Medicare Modernization Act, \$0.70 is due to other factors, and \$0.60 are reserve contributions due to increased payments to HMOs (\$0.30 of this \$0.60 is due to the Medicare Modernization Act.)