The Ups and Downs of Medicare Part B Premiums: 
Frequently Asked Questions

What will the Medicare Part B standard monthly premium be for 2012?
The U.S. Department of Health and Human Services (HHS) recently announced that the standard monthly Medicare Part B premium for 2012 will be $99.90. This premium is paid by, or on behalf of, beneficiaries who are enrolled in the Supplementary Medical Insurance part of the Medicare program (Part B), which covers physician and other outpatient services. The standard Part B premium amount is calculated to cover 25 percent of annual Part B spending, although higher-income enrollees pay a greater share of costs, ranging from 35 percent to 80 percent, depending on their income. Medicare Part B premiums are typically deducted from most beneficiaries’ Social Security payments.1

The 2012 standard Part B premium amount represents a $15.50 decrease from the 2011 standard amount of $115.40 (and $6.70 less than actuaries had projected for 2012 earlier this year). According to HHS, the decrease in Part B premiums is due to the Social Security cost-of-living adjustment (COLA) that Part B enrollees will receive in 2012, and to lower-than-expected Part B spending in 2011. The 3.6 percent COLA for Social Security recipients in 2012 is the first COLA since 2009, following two years of no cost-of-living increase, which affected the Medicare Part B premium amount in 2010 and 2011, as explained below. Moreover, the COLA increase for 2012 is larger than was previously projected in the 2011 Social Security Trustees report.

How does the Social Security COLA affect the Medicare Part B premium?
In a year where the Social Security COLA is insufficient to cover the amount of the Medicare Part B premium increase for an individual, the law prohibits an increase in the Part B premium that would otherwise result in a reduction in that individual’s monthly Social Security payments. This is known as the “hold-harmless” provision. In 2010 and 2011, with no Social Security COLA, the hold-harmless provision prevented the majority of Medicare beneficiaries from paying any increase in Part B premiums. Thus, in both 2010 and 2011, the majority of Medicare beneficiaries paid monthly premiums of $96.40, which was the standard Part B premium amount in 2009.2

Roughly one-quarter of all Part B enrollees were not held harmless in 2010 and 2011, including new Medicare enrollees (3 percent); higher-income beneficiaries (5 percent); and Medicare beneficiaries who do not have their Part B premium deducted from their Social Security benefit payment (19 percent) – this group consists mainly of beneficiaries dually eligible for Medicare and Medicaid, for whom Medicaid pays the monthly Part B premium (17 percent).3 These beneficiaries were subject to a higher Part B premium than those who were protected by the hold-harmless provision to ensure that Part B enrollee premium contributions continued to cover 25 percent of program costs. The standard monthly premium for these beneficiaries was $110.50 in 2010 and $115.40 in 2011. With an increase in the Social Security COLA scheduled for 2012, fewer beneficiaries will be affected by the hold-harmless provision, and the beneficiary portion of annual Part B expenditures will be spread across a greater share of Part B enrollees than in 2010 and 2011. This results in a monthly Part B premium of $99.90 in 2012 – an increase for the majority of beneficiaries who have been protected by the hold-harmless provision in 2010 and 2011 who were paying $96.40, and a decrease for all others who were paying the standard amount in both years – including states, which pay the standard premium amounts on behalf of dual eligibles.

How will Part B premiums change for Medicare beneficiaries who were protected by the hold-harmless provision for both 2010 and 2011?
For Medicare beneficiaries who have been protected by the hold-harmless provision since 2009, the Part B premium will increase by $3.50, or 3.6 percent, from $96.40 to $99.90. Some of these beneficiaries – generally those with a relatively low Social Security benefit payment – might experience another year of being held harmless from the Part B premium increase if the dollar amount by which their Social Security payment increases is less than the increase in the Part B premium.

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1 Or from Railroad Retirement payments, if applicable. Certain individuals are exempt from this requirement, including beneficiaries enrolled in both Medicare and Medicaid (“dual eligibles”). See Section 1840 of the Social Security Act.
How will Part B premiums change for Medicare beneficiaries who were not protected by the hold-harmless provision in 2010 and/or 2011?

The monthly Medicare Part B premium for those who have been paying the 2011 standard Part B premium (i.e., not protected by the hold-harmless provision this year) will decrease by $15.50 per month, from $115.40 to $99.90 (a 13.4 percent decrease). For those who have been paying the 2010 standard Part B premium (e.g., beneficiaries who enrolled in Medicare in 2010), the monthly Part B premium will decrease by $10.60 per month, from $110.50 to $99.90 (a 9.6 percent decrease).

How will Part B premiums change for higher-income Medicare beneficiaries?

Approximately 5 percent of Part B enrollees pay the income-related Part B premium. Beneficiaries are required to pay the higher Part B premium if their income is equal to or greater than $85,000 for an individual and $170,000 for a couple. For 2011, the income-related Part B premium amounts range from $154.70 to $353.60, based on income. For 2012, these amounts will range from $139.90 to $319.70, a decrease of 13.4 percent – the same percentage decrease at each level as for the standard Part B premium amount.

How does the Medicare Part B premium amount affect state Medicaid spending for dual eligibles?

Medicaid spending is also directly affected by changes in the Part B premium because Medicaid pays premiums on behalf of the roughly 9 million Medicare beneficiaries who are also covered by Medicaid, known as “dual eligibles.” Therefore, changes in the Medicare Part B premium contribute to changes in state Medicaid spending on dual eligibles. The majority of those who were not held harmless from higher Part B premiums in 2010 and 2011 are low-income beneficiaries dually eligible for both Medicare and Medicaid, for whom the states are responsible for paying Part B premiums.