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For Immediate Release:

Tuesday, September 12, 2006

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MEDICARE PREMIUMS AND DEDUCTIBLES FOR 2007**Summary**

The standard Medicare Part B monthly premium will be \$93.50 in 2007, an increase of \$5.00 or 5.6 percent from the current \$88.50 Part B premium, considerably lower than was earlier projected. This premium is the smallest percent increase in the Part B premium since 2001 and less than half of the dollar increase in the premium for 2006.

Together with an increase of 0.1 percent in the average Part D enrollee premium – and less if beneficiaries choose lower-cost drug plan options, as they did for 2006 – Medicare beneficiaries are experiencing cost increases that are modest in comparison to recent health care cost trends. This is also less than the projected 6 percent increase in per capita national health spending for 2007 and the projected 7 percent increase for 2007 retail prescription drug spending. In addition, more than one-fourth of beneficiaries can receive assistance that pays for their entire Part B premium

Growth in traditional fee-for-service Part B spending per capita, and not spending in the Medicare Advantage program, accounts for the bulk of the premium increase. In particular, very rapid growth in spending for hospital outpatient services is a major contributor to the premium increase. Although outpatient hospital spending accounts for only about 13 percent of total Part B spending, it accounts for one-third of the increase in the 2007 premium. Hospital spending accounts for more of the premium growth than spending growth for physician services and physician-related services, including lab tests and physician-administered drugs, which together account for a greater share of the total Part B spending. While outpatient spending growth has continued rapidly, the growth rate in 2005 spending for physician fee schedule services slowed compared to trends in recent years, though the 2007 projected volume and intensity growth for physician-related services is still high at about 5 percent.

In addition to accounting for growth in hospital outpatient services and physician-related services, a portion of the 2007 Part B premium is necessary to increase assets that are held in the Part B account of the trust fund for contingency reserves to a more adequate level. However, the assets needed to replenish the Part B account are significantly less than previously projected.

In 2007, approximately 4 percent of Medicare Part B enrollees with higher incomes will pay a higher Part B premium based on their income. The income-related Part B premiums for 2007 will be \$106.00, \$124.70, \$143.40, or \$162.10, depending on the extent to which an individual beneficiary's income exceeds \$80,000 (or a married couple's income exceeds \$160,000), with the highest premium rates only paid by less than 1 percent of beneficiaries whose incomes are over \$200,000 (or \$400,000 for a married couple). A beneficiary who pays the highest income-related premium in 2007 would pay \$1,945 per year in Part B premiums, but is estimated to receive an average of \$4,363 in Medicare Part B benefits.

These limits will reduce Medicare costs by an estimated \$7.7 billion over the next five years and \$20.8 billion over the next 10 years, improving Medicare's sustainability to provide effective coverage for all eligible persons in the future.

Premiums and Deductibles for 2007

Part A Premium: \$410 (paid by about 1 percent of beneficiaries)

Part A deductible: \$992

Part B standard premium: \$93.50

Part B deductible: \$131

Background

The Centers for Medicare & Medicaid Services (CMS) updates the premiums, deductibles, and co-payments made by Medicare beneficiaries each year. These adjustments are made according to formulas set by statute. The law requires that the standard monthly premium for Medicare Part B

must be sufficient to cover 25 percent of the program's costs for aged beneficiaries, including the costs of maintaining a reserve against unexpected spending increases. The federal government pays the remaining 75 percent. Statutory formulas are also used to determine the Medicare Part B deductible, the Part A deductible for hospital stays, and other enrollee contributions.

As required in the Medicare Modernization Act, beginning in 2007, single beneficiaries with annual incomes over \$80,000 and married couples with incomes over \$160,000 will pay a higher percentage of the cost of Medicare Part B coverage, reducing Medicare's share. These higher-income beneficiaries will pay a monthly premium equal to 35, 50, 65, or 80 percent of the total cost, depending on their income level, by the end of the 3-year transition period.

For 2007, the higher-income beneficiaries will be responsible for one-third of the income-related monthly adjustment amount.

The 2007 Part B monthly premium rates to be paid by beneficiaries who file an individual tax return (including those who are single, head of household, qualifying widow(er) with dependent child, or married filing separately who lived apart from their spouse for the entire taxable year), or joint tax return are:

Beneficiaries who file an individual tax return with income:	Beneficiaries who file a joint tax return with income:	Income-related monthly adjustment amount	Total monthly premium amount
Less than or equal to \$80,000	Less than or equal to \$160,000	\$0.00	\$93.50
Greater than \$80,000 and less than or equal to \$100,000	Greater than \$160,000 and less than or equal to \$200,000	\$12.50	\$106.00
Greater than \$100,000 and less than or equal to \$150,000	Greater than \$200,000 and less than or equal to \$300,000	\$31.20	\$124.70
Greater than \$150,000 and less than or equal to \$200,000	Greater than \$300,000 and less than or equal to \$400,000	\$49.90	\$143.40
Greater than \$200,000	Greater than \$400,000	\$68.60	\$162.10

In addition, the monthly premium rates to be paid by beneficiaries who are married, but file a separate return from their spouse and lived with their spouse at some time during the taxable year are:

Beneficiaries who are married but file a separate tax return from their spouse:	Income-related monthly adjustment amount	Total monthly premium amount
Less than or equal to \$80,000	\$0.00	\$93.50
Greater than \$80,000 and less than or equal to \$120,000	\$49.90	\$143.40
Greater than \$120,000	\$68.60	\$162.10

An estimated 4 percent of current Part B enrollees are expected to be subject to the higher premium amounts. The proportion of beneficiaries paying income-related premiums of \$106, \$124.70, \$143.40, or \$162.10 are estimated to be 1.3 percent, 1.2 percent, 0.5 percent, and 0.8 percent, respectively.

Medicare Premiums and Beneficiary Out-of-Pocket Costs in 2007

The Medicare Part B premiums and deductible apply to all Part B beneficiaries, but other factors provide additional financial support for beneficiaries. One important factor in reducing beneficiary total out-of-pocket medical costs is Medicare's new prescription drug benefit, which provides an average of around \$1,200 in savings.

Beneficiaries with incomes below 135 percent of poverty and limited resources are eligible for subsidies that pay for some or all of their Medicare premiums. As a result, about one in four Medicare beneficiaries can get extra assistance that enables them to pay little or no premium for Part B, and even more beneficiaries are eligible for assistance with their Part D premiums. Beneficiaries with limited incomes may also receive assistance with their Part B and Part D copayments. Most beneficiaries living on incomes that come only from their monthly Social Security check are eligible for this extra help in reducing their out-of-pocket costs. Consequently, beneficiaries living only on a Social Security check usually pay a significantly smaller portion of their income toward Medicare coverage than Medicare premiums and average spending would suggest. In addition, for the vast majority of beneficiaries, the amount of the Social Security cost of living increase will be much greater than the

additional premium they will pay. Based on the Trustees Report baseline, the average Social Security benefit check has been projected to increase by an estimated \$22.

In addition, more beneficiaries than ever have Medicare Advantage plans available where they live. These plans will generally offer additional coverage at a lower cost to beneficiaries than the standard Medicare drug benefit in 2007, as well as additional benefits and reduced copayments for Medicare-covered services. On average, these plans save beneficiaries around \$82 a month compared to enrollment in fee-for-service Medicare for Part A and B benefits. For 2007, the average Part D premium for Medicare Advantage plans will be around \$11 less than for stand-alone Part D plans. Many MA plans also use a portion of the savings from Part A and B coverage to further reduce their Part D premiums. Starting in 2006, Medicare Advantage plans are returning an average of about \$26 per beneficiary per month to the government as a result of having costs below the statutory payment benchmarks.

Information on these and other programs that can help beneficiaries lower their out-of-pocket costs is available at 1-800-MEDICARE (1-800-633-4227), and for hearing and speech impaired at TTY/TTD: 1-877-486-2048.

Reasons for Increase in Part B Premium

The new Part B premium of \$93.50 is lower than the amount projected in the 2006 Medicare Trustees Report issued in May (\$98.20), and the July Mid-Session Review of the President's 2007 Budget (\$98.40). The most recent data indicate that actual incurred historical Part B spending was lower than indicated by preliminary data and historical trends, resulting in a lower than projected Part B premium for 2007. In particular, physician claims are being paid more quickly than in the past, which could be attributable to more timely submission of electronic claims and steps to promote quality performance through competition among the Part B carriers.

The attached table summarizes the factors contributing to the 5.6 percent premium increase, with the factors summing up to the total 5.6 percent. The single most important factor driving the 5.6 percent Part B premium increase is the growth in traditional fee-for-service Part B spending per capita, as opposed to spending growth in Medicare Advantage. The phase-out of "budget neutrality" adjustments in Medicare Advantage payments helps account for the limited Medicare Advantage payment increase. The largest contributors to the 2007 premium increase by type of service are outpatient hospital services, physician-administered drugs, and ambulatory surgical center (ASC) services. Spending for outpatient hospital prospective payment services is growing rapidly and is projected to increase by 11.6 percent per capita in 2007. This is mainly due to an expected 7.9 percent increase in the volume and intensity of these services. In addition to the higher premium costs caused by this growth, it also results in a projected 6.5 percent increase in per capita beneficiary coinsurance payments (beneficiary coinsurance for hospital outpatient services can be as high as 40

percent).

However, the 2007 premium increase is held down by a provision in current law that, if unchanged, will require a reduction in fees paid by Medicare to physicians of about 5 percent. Congress has acted to prevent such physician fee reductions from occurring in each of the last four years. Even with the fee reduction, however, the volume and intensity of physicians' services is projected to increase by 4.9 percent in 2007, resulting in projected continuing pressure toward rising costs.

As CMS has said repeatedly, the rapid growth in utilization of services and the wide variation across providers and geographic areas in the use of these services shows that Medicare needs to move away from a system that pays simply for more services, regardless of the quality of those services or their impact on beneficiary health. Medicare payments should provide better financial support to doctors and other health professionals in their efforts to achieve better health outcomes for Medicare beneficiaries at a lower cost. CMS is working closely with medical professionals and Congress to increase the effectiveness of how Medicare compensates physicians and other health care providers. CMS is also conducting demonstrations and pilot programs that pay providers more for better quality, better patient satisfaction, and lower overall health care costs.

As noted above, the scheduled statutory reduction for 2007 of about 5 percent in the physician fee schedule rates means that the Part B premium increase is significantly lower than would be the case if the statutory reduction was eliminated. If physician payment rates were held constant (a change in the conversion factor of 0 percent rather than -5 percent), with no other changes to help reduce Medicare spending, Medicare Part B spending would be approximately \$2.8 billion higher in 2007. Such a change would have required an increase in the 2007 premium of roughly another \$1.50. No such change is currently included in the premium for 2007 because the sustainable growth rate formula in statute has not been changed.

In addition, the 2007 Part B premiums include adjustments to Part B contingency reserves to increase the level of Federal assets held in the Part B account of the trust fund to an appropriate level. These 2007 premium adjustments are similar to the 2006 levels. (The Part B account of the trust fund is an accounting system that, by law, must have Federal general revenues and premium payments credited to it in order to pay for Part B services.) The adjustments are needed because the financial assets counted in the Supplemental Medical Insurance (SMI) trust fund are currently well below the levels considered actuarially appropriate for contingency reserve purposes. This situation has arisen primarily due to faster than expected spending growth along with the enactment of the Consolidated Appropriations Resolution in February 2003, the MMA in December 2003, and the Deficit Reduction Act (DRA) in February 2006. Each of these three legislative packages increased Part B spending, for example by modifying physician payment rates to avoid reductions, after the Part B premiums had been set for 2003, 2004, and 2006, respectively.

Additional Details on Other Announced Premiums and Deductibles

Part B Deductible background: The Part B deductible was increased to \$110 in 2005 and was subsequently indexed to the increase in the average cost of Part B services for aged beneficiaries, as part of the Medicare Modernization Act. The reason for the increase in the average cost of Part B services was described above. In 2007, the Part B deductible will be \$131, compared to \$124 in 2006, a 5.6 percent increase.

Part A Deductible background: Medicare Part A pays for inpatient hospital, skilled nursing facility, hospice, and certain home health care. The \$992 deductible, paid by the beneficiary when admitted as a hospital inpatient, is an increase of \$40 from \$952 in 2006. The Part A deductible is the beneficiary's only cost for up to 60 days of Medicare-covered inpatient hospital care in a benefit period. Beneficiaries must pay an additional \$248 per day for days 61 through 90 in 2007, and \$496 per day for hospital stays beyond the 90th day for lifetime reserve days. This compares with \$238 and \$476 in 2006. The daily coinsurance for the 21st through 100th day in a skilled nursing facility will be \$124 in 2007, up from \$119 in 2006.

Part A Premium background: About 99 percent of Medicare beneficiaries do not pay a premium for Part A services, since they have at least 40 quarters for Medicare-covered employment. However, seniors who have fewer than 30 quarters of covered employment, and certain people under age 65 with disabilities may obtain Part A coverage by paying a monthly premium set according to a statutory formula. This premium will be \$410 per month for 2007, an increase of \$17 from 2006. In addition, seniors with 30 to 39 quarters of covered employment, and certain disabled persons with 30 or more quarters of covered employment, will pay a premium of \$226 in 2007, compared to \$216 in 2006.

The Notices can be found at: <http://www.cms.hhs.gov/quarterlyproviderupdates/downloads/July06whatsnew.pdf>

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