Effects of Raising the Medicare Eligibility Age

- Raising the Medicare age eligibility age to 67 will create an enormous disruption in the health care financing for the approximately 4 million persons age 65 and 66 who would lose their eligibility.

- About 20% of 65 and 66 year olds rely entirely on Medicare for their health insurance. These 800,000 persons would have to purchase insurance in the private market at cost that would likely exceed $5,000 per year for comparable coverage or go uninsured. (CPS March 1994, Foster Higgins 1994)

- About 1.6 million receive health benefits through an employer sponsored plan, either directly or through a spouse. Virtually all of these plans are integrated with Medicare. These would have to be restructured or might be terminated by employers. This would cause huge disruptions and enormously complicate an already contentious legal issue. (CPS: April 1993, September 1994)

- Eliminating Medicare eligibility would impose significant cost increases on these employer plans that would likely be born primarily by retirees. Even when integrated with Medicare employers have been rapidly shifting premium costs over the past several years. (Hay Huggins Benefits Report 1995, Foster Higgins 1994, CPS September 1995)

- A recent survey (Foster Higgins, 1994) estimates that the cost of a non-Medicare eligible retiree is three times that of an enrollee over 65. A premium increase of this magnitude could increase the cost paid by retirees, currently averaging about $1,000, to as much as $4,000 per year.

- Women and minorities would be especially hurt by raising the eligibility age because they are much less likely to have any employer sponsored benefits. Less than half the proportion of female retirees receive health coverage from a prior employer and the rate for minorities is 2/3rds that of others. (CPS September 1994)

- Poor seniors are also among the most vulnerable. Although only about 10% of today's 65 and 66 year olds have incomes below the poverty level, three quarters of these have no source of private health insurance. More than 150,000 persons below the poverty level, about 4% of the age group, rely solely on Medicare for their health care benefits. (March 1994 CPS)

Health Insurance Coverage of 65 and 66 Year Olds

- There are slightly fewer than 4 million persons age 65 and 66.
- About one quarter (1 million) of these individuals continue to work. Only about one third of the workers in this age category are receiving of health benefits through their employer.
- The majority of individuals at these ages have retired and a relatively small proportion had limited or no work experience.
  - Among those who are not in the labor force about one quarter receive health insurance from their former employer. In addition about 10% of these retirees obtain benefits through the employer sponsored plan of a spouse.
- Therefore, overall, slightly more than 1 million or about 28% of all persons in this age category are receiving health benefits from their current or former employer and about 600,000 or about 16% are receiving employer sponsored health benefits through a spouse.
  - This represents an overall rate of 44% receiving some type of employer sponsored coverage.
- The remaining 56%, are about evenly divided between those who rely solely on Medicare and Medicaid and those who purchase some type of private coverage to supplement Medicare. A small portion report no health insurance at all.
  - About 800,000 of these individuals rely solely on Medicare for their health insurance.
  - Another 300,000 receive Medicaid in addition to Medicare.
  - About one million buy some type of private insurance.
- About 400,000 or slightly more than 10% of persons age 65 and 66 report incomes below the poverty line.
  - Three quarters of these (300,000) do not have any type of private insurance.
  - Half of those below the poverty line with no private insurance report receiving Medicaid benefits. The other half (150,000) receive only Medicare.
- Poor Medicare recipients are about 4% of the population age 65 and 66. About one in five of those in the age bracket whose only source of health benefits is Medicare are living below the poverty line.

Source: Current Population Survey; March & Sept 1994, April 1993.

Aggregate Cost of Raising the Eligibility Age to 67

- Foster Higgins reports that while the average total premium cost for retirees in 1994 was $2,859 the average cost of pre-Medicare eligible retirees was three times that of those over age 65.
  - For employers with fewer than 25% pre-Medicare premiums averaged $2,579.
  - For those with 50% or more retirees under age 65 premiums averaged $4,753.
- Choosing the midpoint of each of the distributions and using some basic algebra yields a premium estimate of $2,100 for Medicare eligible and $5,600 for pre-Medicare retirees. (see attached)
- The reason for these differences is because of the integration of Medicare into the benefit packages of retirees over age 65. The difference in the premiums can be interpreted as an estimate of the marginal cost to maintain coverage when Medicare eligibility is lost.
- There are about 4 million persons age 65 and 66. Subtracting the current Medicaid recipients leaves 3.6 million who would have to pay incremental in some form to maintain their health insurance coverage.
- The ratio of health insurance enrollees (policy holders) to population for the age group is about .65 because of the spousal coverage. This means that about 2.5 million higher premiums would have to be paid.
- They would either be paid directly, through the purchase of private insurance or higher premium sharing with former employers, or indirectly if enrollees remained working or re-entered the labor force, in the form of foregone wages.
- The direct and indirect cost of the proposal to this group can therefore be estimated to be approximately 2.5 million times $3,500 or about $8.8 billion per year.
- Alternatively, the loss of eligibility for two years can be interpreted as having a cost of $7,000 per household in the effected age groups.

Calculation of Cost for Medicare

Let **X**= Cost for those under age 65, and
Y= Cost for those age 65 and over

$$.13\,X + .87\,Y = \$2,579 \quad (1)$$
$$.75\,X + .25\,Y = \$4,753 \quad (2)$$

Solving for (2) for **Y**

$$Y = 4,753 \times 4 - 3X \quad (3)$$

Substituting (3) into (1)

$$.13\,X + .87\,(4,753 \times 4 - 3X) = 2,579$$
$$.13\,X + .87 \times 4,753 \times 4 - .87 \times 3X = 2,579$$
$$X(.13 - 3 \times .87) = 2,579 - .87 \times 4,753 \times 4$$

$$X = \frac{2,579 - .87 \times 4,753 \times 4}{.13 - 3 \times .87} = \$5,629.61$$

Substituting **X** into equation (3) to solve for **Y**

$$Y = 4,753 \times 4 - 3 \times 5,629.61$$
$$= \$2,123.16$$

September 29, 1995

MEMORANDUM FOR GENE SPERLING

FROM: PAULINE ABERNATHY

SUBJECT: Preliminary information on raising the Medicare eligibility age

I am working on talking points on Republican proposals to raise the Medicare eligibility age, but I wanted you to have the following information now:

- The average life expectancy of a African American male at age 20 is 66.9 years. Thus, for the average African American male, raising the eligibility age to 67 *means he will never receive Medicare.* (Source: *Statistical Abstract of the U.S.*, attached.)

- Over *40 million Americans*, or more than one-third of all people in civilian employment, work in physically demanding occupations. (Based on estimates of the Labor Department's office of the chief economist, attached.)

I should have some information on the cost of self-insuring and the additional taxes paid soon.