REQUEST:

1. What is the seven-year effect on the Social Security COLA of a premium increase from 25% to 33%?

2. What is the real effect of the premium increase (25% to 33%) in 1996 dollars?

RESPONSE:

Both of these requests are based on the increase in the premium resulting from a change from a 25 to a 33 percent premium. These estimates are based on CBO's assessment of this increased cost resulting from this policy (see attached spreadsheet). Note that this analysis DOES NOT include a premium offset; it is an estimate of a single policy.

1. **Comparison of seven-year premium increase to the median Medicare Social Security COLA.**

The sum of the seven-year premium increase ($1,650 over the seven year period -- rounded to the nearest $25) is compared to the cumulative COLA for the median Medicare beneficiary. The COLA estimates are based on the 1995 median Medicare beneficiary Social Security check, from the HCFA Office of the Actuary, projected by the CBO projected CPI (3.1% in 1996, and 3.4% in subsequent years). This analysis does not subtract from the COLA the current premium payments; it is simply a comparison of the increase resulting from the proposal to the increase reflected in the COLA.

The result of this analysis suggest that the premium increase, relative to the 25% premium, could lead to an increase of $1,650 in premium payments over the period. The increase in the medican beneficiaries' Social Security COLA over the period is an estimated $2,050. This suggests that the premium increase alone would represent 80% of the COLA over the period.

2. **Real effect of the increase in the premium relative to the 1996 median social security check.**

This analysis assumes that the COLA adjusts for inflation, so that the 1996 Social Security check is equal to the 2002 check in 1996 dollars.

The real increase in the premium as a result of the change in the premium from 25% to 33% is estimated in two steps. First, both the 25% premium and the 33% annual premiums in 2002 are deflated to 1996 using the CBO CPI. Second, the difference between the 2002 25% and the 33% premiums in 1996 dollars are compared.

This analysis suggests that over the seven-year period, the real annual premium with the 25% premium is about $815, and with the 33% premium is about $1,075. Thus, the real increase in premium payments resulting from a change to the 33% premium is about $260. This represents only 3.2% of the median Social Security check for Medicare beneficiaries in 1996.

BACKUP: Effect of a 25% to 33% premium on the SS COLA
(Calendar years)

	1996	1997	1998	1999	2000	2001	2002	1996-2002
25% Monthly Premium (1)	43.70	48.20	53.20	59.10	67.20	74.30	82.80	
33% Monthly Premium (1)	57.60	63.60	70.20	78.00	88.70	98.00	109.30	
Difference (monthly)	13.90	15.40	17.00	18.90	21.50	23.70	26.50	
Difference (annual)	166.80	184.80	204.00	226.80	258.00	284.40	318.00	1,642.80
Social Security Check (2)	8,118	8,394	8,680	8,975	9,280	9,595	9,921	
COLA (2)	244	276	285	295	305	316	326	2,047.50
Increased Premium as a Percent of the COLA								**80.2%**
25% Annual Premium 2002 Premium in '96 $ (3)	815.36							
33% Annual Premium 2002 Premium in '96 $ (3)	1,076.32							
Difference	260.96							
Percent of SS Check	3.2%							

(1) From CBO
(2) Administration median Medicare beneficiary check; COLA based on CBO CPI projections.
(3) 2002 annual premiums deflated to 1996 using the CBO CPI (CBO: CPI = 3.1% in '96 and 3.4% in subsequent years)

Comparison of Social Security COLAs and illustrative increases in out-of-pocket expenses under proposals to reduce Medicare costs

(Revised comparison based on all Social Security beneficiaries with Medicare coverage)

Item	Calendar year							
	1995	1996	1997	1998	1999	2000	2001	2002
Social Security COLA (effective for December of year shown)................	3.0%	3.2%	3.3%	3.4%	3.6%	3.7%	3.9%	4.0%
Annual Social Security benefit for beneficiaries with Medicare in following percentile:								
10%..	$3,891	$4,008	$4,136	$4,272	$4,417	$4,576	$4,746	$4,930
25%..	5,364	5,525	5,701	5,889	6,090	6,310	6,543	6,798
50%..	7,874	8,111	8,370	8,648	8,942	9,264	9,607	9,982
75%..	10,043	10,345	10,677	11,029	11,405	11,817	12,286	12,735
90%..	12,271	12,641	13,046	13,477	13,936	14,438	14,974	15,559
Annual amount of COLA for beneficiaries with Medicare in following percentile:								
10%..	—	$117	$128	$136	$145	$159	$169	$185
25%..	—	161	176	188	201	220	233	255
50%..	—	237	259	276	295	322	344	375
75%..	—	303	332	352	376	411	439	479
90%..	—	370	405	431	460	502	536	585
Illustrative increase* in out-of-pocket expenses for individual Medicare beneficiaries with covered services, under proposals that would increase aggregate cost sharing over the next 7 years [Assumes a 50% provider, 50% beneficiary hit]								
$50 billion		$48	72	82	93	100	109	121
$100 billion		64	107	139	174	209	250	299
$150 billion		81	143	196	256	318	390	473
$200 billion		98	180	255	339	429	531	648
$250 billion		116	217	314	422	537	668	817
$300 billion		135	257	375	507	649	808	988

* The actual increase in out-of-pocket expenditures for individual Medicare beneficiaries would depend critically on (i) the specific provisions of the legislation, and (ii) the specific medical services used by the beneficiary. The increases shown here represent the average amount for all Medicare beneficiaries who would incur reimbursable charges under present law. Amounts for specific individuals could be substantially different.

Note: See accompanying memorandum concerning interpretation of these figures and their limitations.

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