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MEDICARE PREMIUMS AND DEDUCTIBLES FOR 2012

MEDICARE PART A:

Medicare Part A premiums will be increasing by just \$1 per month, and the deductible will increase by just \$24. For Medicare Part A, which pays for inpatient hospital, skilled nursing facility, and some home health care, about 99 percent of Medicare beneficiaries do not pay a premium since they or their spouses have at least 40 quarters of Medicare-covered employment.

However, some enrollees age 65 and over and certain persons with disabilities who have fewer than 30 “quarters of coverage” obtain Part A coverage by paying a monthly premium set according to a statutory formula. This premium will be \$451 for 2012, an increase of \$1 from 2011. Those who have between 30 and 39 “quarters of coverage” may buy into Part A at a reduced monthly premium rate which is \$248 for 2012, the same amount as in 2011. The Part A deductible paid by a beneficiary when admitted as a hospital inpatient will be \$1,156 in 2012, an increase of \$24 from this year's \$1,132 deductible. The Part A deductible is the beneficiary's cost for up to 60 days of Medicare-covered inpatient hospital care in a benefit period. Beneficiaries must pay an additional \$289 per day for days 61 through 90 in 2012, and \$578 per day for hospital stays beyond the 90th day in a benefit period. For 2011, per day payment for days 61 through 90 was \$283, and \$566 for beyond 90 days. For beneficiaries in skilled nursing facilities, the daily co-insurance for days 21 through 100 in a benefit period will be \$144.50 in 2012, compared to \$141.50 in 2011.

MEDICARE PART B:

The standard Medicare Part B monthly premium will be \$99.90 in 2012, a \$15.50 decrease over the 2011 premium of \$115.40. However, most Medicare beneficiaries were held harmless in 2011 and paid \$96.40 per month. The 2012 premium represents a \$3.50 increase for them.

Medicare Part B covers a portion of the cost of physicians' services, outpatient hospital services, certain home health services, durable medical equipment, and other items. By law, the standard premium is set to cover one-fourth of the average cost of Part B services incurred by beneficiaries aged 65 and over, plus a contingency margin. The contingency margin is an amount to ensure that Part B has sufficient assets and income to (i) cover Part B expenditures during the year, (ii) cover incurred-but-unpaid claims costs at the end of the year, (iii) provide for possible variation between actual and projected costs, and (iv) amortize any surplus assets. Most of the remaining Part B costs are financed by Federal general revenues. (In 2012, about \$2.9 billion in

Part B expenditures will be financed by the fees on manufacturers and importers of brand-name prescription drugs under the Affordable Care Act.)

The largest factor affecting the contingency margin for 2012 is the current law formula for physician fees, which will result in a payment reduction of about 29 percent in 2012. For each year from 2003 through 2011, Congress has acted to prevent smaller physician fee reductions from occurring. The 2012 reduction is almost certain to be overridden by legislation enacted after Part B financing has been set for 2012. In recognition of the strong possibility of increases in Part B expenditures that would result from similar legislation to override the decrease in physician fees in 2012, it is appropriate to maintain a significantly larger Part B contingency reserve than would otherwise be necessary. The asset level projected for the end of 2012 is adequate to accommodate this contingency.

In 2012, Social Security monthly payments to enrollees will increase by 3.6 percent. The dollar increase in benefit checks is expected to be large enough on average to cover the increase in the Part B premium of \$3.50 that most beneficiaries will experience. For those who were paying the standard premium of \$115.40, their benefits checks will only increase.

MEDICARE PART D:

The estimate for the average 2012 Part D premium for basic coverage is \$30. This is slightly lower than the actual average for 2011 of \$30.76. The estimate for the average 2012 Part D premium for supplemental coverage is \$8. The estimate for the average 2012 total Part D premium is \$38.

MEDICARE ADVANTAGE PLANS:

On average, Medicare Advantage premiums will be 4 percent lower in 2012 than in 2011, and plans project enrollment to increase by 10 percent. Of people with Medicare, 99.7 percent continue to enjoy access to a Medicare Advantage plan, and benefits remain consistent with those offered in 2011.

INCOME RELATED ADJUSTMENT:

As required in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, beginning in 2007 the Part B premium a beneficiary pays each month is based on his or her annual income. Specifically, if a beneficiary's "modified adjusted gross income" is greater than the legislated threshold amounts (\$85,000 in 2012 for a beneficiary filing an individual income tax return or married and filing a separate return, and \$170,000 for a beneficiary filing a joint tax return) the beneficiary is responsible for a larger portion of the estimated total cost of Part B benefit coverage.

In addition to the standard Part B premium, affected beneficiaries must pay an income-related monthly adjustment amount. These income-related amounts were phased-in over three years, beginning in 2007. About 4 percent of current Part B enrollees are expected to be subject to these higher premium amounts.

The 2012 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 who file a joint tax return are shown in the following table:

| Beneficiaries who file an individual tax return with income: | Beneficiaries who file a joint tax return with income: | Part B income-related monthly adjustment amount | Total monthly Part B premium amount |
|--|--|---|-------------------------------------|
| Less than or equal to \$85,000 | Less than or equal to \$170,000 | \$0.00 | \$99.90 |
| Greater than \$85,000 and less than or equal to \$107,000 | Greater than \$170,000 and less than or equal to \$214,000 | \$40.00 | \$139.90 |
| Greater than \$107,000 and less than or equal to \$160,000 | Greater than \$214,000 and less than or equal to \$320,000 | \$99.90 | \$199.80 |
| Greater than \$160,000 and less than or equal to \$214,000 | Greater than \$320,000 and less than or equal to \$428,000 | \$159.80 | \$259.70 |
| Greater than \$214,000 | Greater than \$428,000 | \$219.80 | \$319.70 |

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 any time during the taxable year are as follows:

| Beneficiaries who are married but file a separate tax return from their spouse: | Part B income-related monthly adjustment amount | Total monthly Part B premium amount |
|---|---|-------------------------------------|
| Less than or equal to \$85,000 | \$0.00 | \$99.90 |
| Greater than \$85,000 and less than or equal to \$129,000 | \$159.80 | \$259.70 |
| Greater than \$129,000 | \$219.80 | \$319.70 |

As a result of the Medicare Modernization Act, the Part B deductible was increased to \$110 in 2005 and is indexed thereafter by the annual percentage increase in the Part B actuarial rate for aged beneficiaries. In 2012, the Part B deductible will be \$140, a decrease of \$22 from 2011. (The actuarial rate is set by law at one-half of the total estimated per-enrollee cost of Part B benefits and administrative expenses, adjusted as necessary to maintain an adequate contingency reserve.)

Those who enroll in Medicare Advantage plans may have different cost-sharing arrangements. On average Medicare Advantage premiums will be 4 percent lower in 2012 than in 2011, and plans project enrollment will increase.

Beginning in 2011, the Affordable Care Act required Part D enrollees whose incomes exceed the same thresholds that apply to Part B enrollees to pay an income-related monthly adjustment amount, in addition to their Part D plan premium. The 2012 income-related monthly adjustment amounts 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 who file a joint tax return are shown in the following table:

| Beneficiaries who file an individual tax return with income: | Beneficiaries who file a joint tax return with income: | Income-related monthly adjustment amount |
|--|--|--|
| Less than or equal to \$85,000 | Less than or equal to \$170,000 | \$0.00 |
| Greater than \$85,000 and less than or equal to \$107,000 | Greater than \$170,000 and less than or equal to \$214,000 | \$11.60 |
| Greater than \$107,000 and less than or equal to \$160,000 | Greater than \$214,000 and less than or equal to \$320,000 | \$29.90 |
| Greater than \$160,000 and less than or equal to \$214,000 | Greater than \$320,000 and less than or equal to \$428,000 | \$48.10 |
| Greater than \$214,000 | Greater than \$428,000 | \$66.40 |

In addition, the income-related monthly adjustment amounts to be paid by Part D beneficiaries who are married, but file a separate return from their spouse and lived with their spouse at any time during the taxable year are as follows:

| Beneficiaries who are married and lived with their spouse at any time during the year, but file a separate tax return from their spouse: | Income-related monthly adjustment amount |
|--|--|
| Less than or equal to \$85,000 | \$0.00 |
| Greater than \$85,000 and less than or equal to \$129,000 | \$48.10 |
| Greater than \$129,000 | \$66.40 |

As noted above, states have programs that pay some or all of beneficiaries' Part A and Part B premiums and coinsurance for certain people who have Medicare and a limited income. Medicare provides similar assistance with premiums and cost-sharing for low-income Part D enrollees. Information is available at 1-800-MEDICARE (1-800-633-4227) and, for hearing and speech impaired, at TTY/TDD: 1-877-486-2048.