



JOINT ECONOMIC COMMITTEE DEMOCRATS



REPRESENTATIVE PETE STARK (D-CA) – SENIOR DEMOCRAT

FACT SHEET

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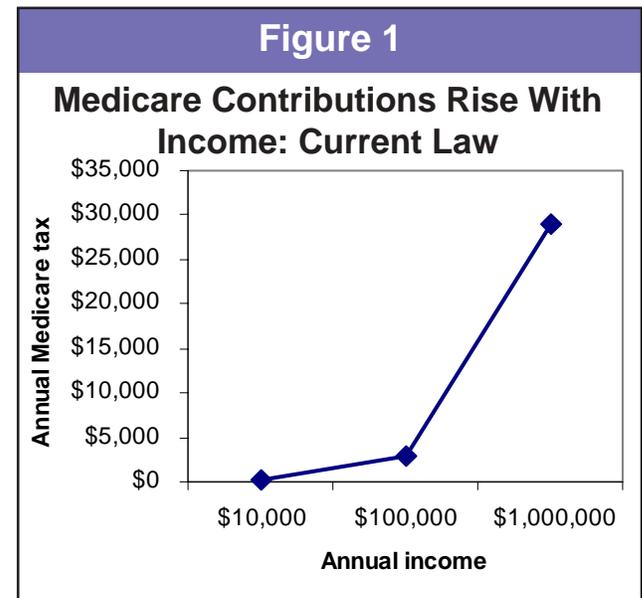
REPUBLICAN MEDICARE CONFEREES AGREE TO DOUBLE-TAX CERTAIN MEDICARE BENEFICIARIES FOR MEDICARE BENEFITS

Numerous press reports suggest that Republican conferees have decided to charge certain beneficiaries higher premiums for Medicare. This controversial step was not included in either the House or Senate bill. Under this provision, upper-income Medicare beneficiaries would be required to pay more for Medicare benefits — ignoring the fact that wealthier individuals already contribute more to Medicare through the payroll tax.

Under current law, Medicare is partly funded by a 2.9 percent payroll tax, split evenly between employers and employees. Self-employed individuals pay the entire 2.9 percent. Because this tax is set as a percent of income, people with higher incomes contribute significantly more of their incomes to Medicare. And, because the Medicare tax is not capped at any income level — as is the Social Security tax — those with the highest incomes are paying far more for the same benefits. For example, someone earning \$1 million pays 100 times more in Medicare payroll taxes than does someone earning \$10,000 (**Figure 1**).

There is a clear proportional relationship between income and contribution to Medicare. Thus, the addition of the proposal currently under discussion will impose a new, additional tax on certain Medicare beneficiaries who already pay more for the same coverage under Medicare.

Finally, wealthier individuals tend to be healthier individuals and, thus, require fewer services and less costly care. Discouraging their participation by charging higher premiums creates double trouble for Medicare by undermining both its social insurance design and the risk pool.



If the Medicare conferees insist on including a new revenue-generating provision that shifts even more costs to taxpayers, there is a more sensible way to do it. The payroll tax could be made progressive by raising the percentage of payroll tax on those with the highest incomes. And — instead of

putting a new tax on senior citizens, who tend to have fixed incomes — it would be paid by people who are working and more able to afford it. Such a method would also be far simpler to administer. Previous efforts to income-relate Medicare have raised serious concerns from the Treasury Department, privacy advocates and others about administrative feasibility and the new sharing of

sensitive income data. On a final note, premium increases are taken out of Social Security checks. Thus, charging higher premiums effectively cuts Social Security benefits for those affected by the policy. This can also be avoided by using the existing payroll tax system instead of the misguided framework under consideration in the Conference.