The Number of Poor Elderly Medicare Beneficiaries Affected by the Medicare Cuts in the Republican Budget Resolution Conference Agreement

- Under the Republicans' proposed $270 billion in Medicare cuts, the average beneficiary would pay $625 more in premiums and copayments for health care in 2002, $2,825 more over the seven-year period.

- This cut would be particularly burdensome for the poor elderly.

  - Currently, about 75 percent of Medicare beneficiaries have incomes below $25,000.

  - Poor elderly already pay more in out-of-pocket costs than the average senior. While the average Medicare beneficiary pays 21 percent of his or her income on out-of-pocket health care, the poor elderly person pays 34 percent of income.

- In 2002, about **half a million Medicare beneficiaries** would effectively be put into poverty by the increases in out-of-pocket costs for health care. This number could be more if Medicaid is turned into a block grant, and states could not afford to cover the poor elderly. Regardless, state Medicaid programs would bear the costs of this increase in out-of-pocket costs -- to be paid by raising property or sales taxes, or cutting other critical state spending.

- These estimates were produced by the Department of Health and Human Services. The 500,000 poor elderly Medicare beneficiaries affected by the Republican Medicare cuts is essentially an estimate of the number of elderly Medicare beneficiaries with income between the poverty line and $625 above the poverty line in 2002. It is assumed that the increase in out-of-pocket costs of $625 could effectively lower these people's income below the poverty line. This estimate assumes that Medicaid continues to cover cost sharing for the lowest income beneficiaries, so that Medicaid beneficiaries are not affected. However, if Republicans also take $182 billion from Medicaid over seven years, and states could not continue to cover the poor elderly, then this number would be higher.

ANALYSIS OF THE EFFECT OF THE REPUBLICAN MEDICARE CUTS ON THE POOR ELDERLY

The estimate that the increase in out-of-pocket costs would effectively put approximately 500,000 elderly Medicare beneficiaries below the poverty threshold is based on the following assumptions and analyses.

1. It was assumed that the average beneficiary's out-of-pocket health care costs would increase by $625 per beneficiary in the year 2002. This estimate is based on the assumption that 50% of the cuts would affect beneficiaries, and is relative to a 25% Part B premium. This estimate was converted into 1993 dollars using the CPI in order to use TRIM2.

2. It was assumed that this amount per beneficiary is a uniform change in current levels of disposable income. Income in this analysis is defined as cash income plus cash transfer payments.

3. The number of elderly for whom the change puts them below the poverty line was calculated using TRIM2 data.

4. Those elderly without Medicare coverage, with Medicaid coverage and with employer-sponsored insurance were subtracted from this number. It was assumed that beneficiaries with Medicaid would have their increase in out-of-pocket spending paid for by Medicaid. Note that there are two alternative assumptions that could be used. One is that the Medicaid reductions proposed by the Republicans could have the effect of limiting eligibility for the elderly. A second is that current eligibility rules remains constant, and that more elderly will participate because they are facing higher out-of-pocket costs. Both assumption were rejected for two reasons: (1) because it is not clear how states will change eligibility under a block grant, e.g., would states eliminate coverage for poor elderly before that for children or AFDC adults; and, (2) in the absence of any clear evidence of the states' likely behavior, this is the mid-range assumption, and may thus be more defensible. The Medicare beneficiaries with a retiree health plan were eliminated from the count since the employer, not the beneficiary, will likely bear the cost (note: the number of poor Medicare beneficiaries with retiree health plans is negligible).

5. The 1993 estimate was projected to 2002 using the projected growth for Medicare beneficiaries.