

HOUSTON FIREFIGHTERS'
RELIEF AND RETIREMENT FUND
Investing for Firefighters and Their Families®



April 10, 2013

The Honorable Diane Black
Chair, Education and Family Benefits Working Group
1531 Longworth House Office Building
Washington, D.C. 20515

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The Honorable Danny Davis
Vice Chair, Education and Family Benefits Working Group
2159 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairwoman Black and Vice Chair Davis:

During the Ways and Means Committee's upcoming consideration of tax reform legislation, I strongly encourage you to consider including a provision which would create an individual opt-in mechanism for state and local employees to the Medicare Hospital Insurance payroll tax. This is a matter of great importance to many firefighters in Houston and public employees throughout the nation.

According to the National Conference of State Social Security Administrators, approximately 700,000 state and local workers are not covered by the Medicare Hospital Insurance (HI) payroll tax. Unless they have covered employment with other jobs or can qualify on a spouse's employment record, they will not be eligible for Medicare Part A coverage.

The Consolidated Omnibus Budget Reconciliation Act of 1985 required employees who began working for a state or local government after March 31, 1986, to pay the Medicare HI payroll tax. However, the Act did not make the tax mandatory for workers hired before that date.

All States have agreements with the federal Social Security Administration (Section 218 agreements) which designate employee positions that will be covered by the Medicare HI payroll tax, including some positions held by employees hired on or before March 31, 1986. These agreements can be modified and new positions added by a referendum of employees in separate retirement groups. In general, State governments allow their political subdivisions to decide whether to hold a referendum. Given the current fiscal concerns of many municipalities, city and county governments are reluctant to even hold a referendum because of the possibility of incurring new payroll tax liabilities. The current referendum system and fiscal situation have resulted in a patchwork of coverage across the country. There is no individual opt-in for the Medicare HI payroll tax.



As mentioned earlier, unless the affected public sector employees (firefighters in our case, but also law enforcement officials, teachers and other public servants) build Medicare credit quarters through other employment or can qualify through their spouse, they are ineligible for Medicare Part A coverage. Upon reaching age 65, an individual may buy into Medicare Part A, but the monthly premiums are extremely expensive – \$441 per month in 2013 (\$5,292 per year). Private insurance is even more expensive.

Paying the Medicare HI payroll tax for 10 years (40 credit quarters) generally qualifies workers for Part A coverage; paying the tax for at least 7 ½ years (30-39 credit quarters) qualifies workers for a reduced Part A monthly premium. The proposal we support would maintain this requirement.

It is estimated that of the 700,000 state and local workers not covered by the Medicare HI tax, approximately 20 percent or 140,000 employees would choose to opt-in to coverage. Using average yearly salary data for state and local government workers multiplied by 2.9 percent (both employer and employee shares of the payroll tax), the proposal would raise almost \$1.2 billion over 10 years. Any benefits paid to these individuals during the 10-year time would, of course, offset the new revenue. However, since these individuals would still be building up their credit quarters during the 10-year period and most would not be eligible for Medicare coverage until after the period ends, we do not believe that the benefit outlays would be a significant factor for budget scoring purposes.

The details of the proposal are as follows:

1. Individuals hired prior to or on March 31, 1986, and whose employment is not covered by the Medicare HI payroll tax may make an irrevocable election to be covered by the Medicare HI payroll tax at any time following enactment.
2. An individual making this election shall be deemed to be self-employed for purposes of Sections 1401(b), 1402(a)(12) and 164(f) of the Internal Revenue Code (IRC) with respect to any earnings that are not otherwise subject to Medicare taxes.
3. Pursuant to IRC §1401(b), a self-employed individual shall pay a Medicare HI tax equal to 2.9 percent of wages. Likewise, individuals who make the election under the new opt-in proposal would pay a Medicare payroll tax equal to 2.9 percent of wages derived from otherwise non-covered employment. This amount funds both the employee and employer share of the Medicare HI tax – 1.45 percent each.

4. Pursuant to IRC Sections 164(f) and 1402(a)(12), a self-employed individual is eligible for a deduction equal to 50 percent of the Medicare HI payroll tax paid. Likewise, individuals who make the election under the new legislation would be eligible for the 50 percent deduction.
5. Individuals who make the election under the new legislation must meet the existing Medicare Part A eligibility requirement of 40 or more credit quarters of covered employment to be eligible for premium-free Part A coverage or 30-39 credit quarters for a reduced Part A premium.

I strongly encourage you to consider this proposal. No one is looking for a free ride. Under the proposal, firefighters and other public employees who opt into the Medicare system would have to meet all existing current and future Medicare Part A eligibility requirements.

Sincerely,

A handwritten signature in dark ink, appearing to read "Todd Clark", is written over the typed name and title.

Todd Clark
Chair, Board of Trustees

TC/lh

cc: Mr. Tony Roda