Committee on Ways and Means

Medicare Prescription Drug and Modernization Act of 2003

Indexing the Medicare Part B Deductible

- Medicare is the nation's health insurance program for Americans age 65 and older and certain disabled individuals. Medicare consists of two distinct parts – Part A (Hospital Insurance (HI)) and Part B (Supplementary Medical Insurance (SMI)). In general, Part A covers inpatient hospitalizations, skilled nursing care, and home health services. Part B covers physician services and care received in hospital outpatient facilities.

- Medicare includes two deductibles – $840 for an inpatient hospitalization under Part A Medicare, and $100 for services under Part B. In most cases, a beneficiary must pay the deductible before Medicare covers any costs of medical care or services.

- Most private insurance plans for the under-65 population include a single deductible which applies to most services, often excluding preventive care.

- Medicare's larger Part A deductible applies to hospitalizations for inpatient procedures, when a beneficiary is less likely to be sensitive to pricing issues. In contrast, when a beneficiary receives outpatient care, and is arguably more sensitive to costs, the beneficiary must pay the separate, smaller $100 Part B deductible.

- In 1966, Medicare's $50 Part B deductible equaled about 45 percent Part B charges. Today's $100 deductible equals about 3 percent of such charges.

- Indexing the Part B deductible to grow at the same rate as total Part B spending per beneficiary would maintain the deductible at 3 percent of such charges over time.

- An unchanged Part B deductible is a benefit increase over time, as costs of medical care rise. Beneficiaries pay about 25 percent of this benefit increase, through increased Part B premiums; taxpayers finance the remaining 75 percent.

- The deductible would rise from $100 in 2003 to $104 in 2004, and grow with Medicare inflation thereafter.

- This change would save $100 million in 2004, and $8.3 billion over 10 years, according to CBO.

- About one-half of beneficiaries are insulated from Part B deductible increases, through Medigap, Medicaid, and employer-sponsored supplemental insurance which covers the Part B deductible.

- The Part B deductible has increased only three times since the beginning of Medicare, when it was $50: to $60 in 1973, $75 in 1982, and $100 in 1991.