

Medicare costs to reduce Social Security increase

October 19, 2011 — WASHINGTON (AP) — That didn't last long. About 55 million Social Security recipients will get their first increase in benefits next year since 2009 — a 3.6 percent raise. But higher Medicare premiums could erase part of it.

For some, higher Medicare Part B premiums could wipe out as much as a fourth of their raise from Social Security, according to projections by the trustees who oversee the programs. Medicare is expected to announce 2012 Part B premiums as early as next week. The premiums, which cover doctor visits, are deducted automatically from monthly Social Security payments.

The Social Security Administration announced the pay increase Wednesday, offering a measure of comfort to millions of retirees and disabled people, many who have seen their retirement accounts dwindle, home values drop and out-of-pocket medical costs rise in the years since their last raise.

Starting in January, 55 million Social Security recipients will get increases averaging \$39 a month, or just over \$467 for the year. In December, more than 8 million people who receive Supplemental Security Income, the disability program for the poor, will get increases averaging \$18 a month, or about \$216 for the year.

In all, 1 in 5 U.S. residents stand to get a raise from the cost-of-living adjustment, or COLA. Advocates for seniors say the raise is welcome and overdue. "It may be cold comfort, however, once they see just how high next year's Medicare premiums will go," said Max Richtman, president and CEO of the National Committee to Preserve Social Security and Medicare.

The annual cost-of-living adjustment is tied to an inflation measure released Wednesday. The measure, which was adopted in the 1970s, produced no COLA in 2010 or 2011 because inflation was too low. Those were the first two years without a COLA since automatic increases were enacted in 1975.

Monthly Social Security payments average \$1,082, or about \$13,000 a year. Medicare Part B premiums must be set each year to cover 25 percent of program costs. By law, they have been frozen at 2009 levels for about 75 percent of beneficiaries because there has been no increase in Social Security payments.

That means the entire premium hike has been borne by the remaining 25 percent, which includes new enrollees, high-income families and low-income beneficiaries who have their premiums paid by Medicaid, the federal-state health care program for the poor.

The 2009 premium levels are \$96.40 a month. Most of those who enrolled in the program in 2010 pay \$110.50 a month and most of those who enrolled in 2011 pay \$115.40. In May, the Medicare trustees said they expected the Part B premium to be \$106.60 a month in 2012, a figure that could change when the actual premium is set. At that rate, about a quarter of Medicare beneficiaries would see their premiums go down. The rest would pay \$10.20 more each month, erasing about a fourth of Social Security COLA for the average recipient.

An Obama administration official suggested the Part B premium could be lower than the projection, but did not reveal the amount. "The administration will have an announcement about premiums in the days ahead that we believe will alleviate some of these concerns," said the official, who spoke on condition of anonymity. The official was not authorized to speak publicly about the upcoming announcement.

AARP Executive Vice President Nancy LeMond said the COLA "underscores the importance of Social Security as the only guaranteed, lifelong and inflation-adjusted source of retirement income for most Americans."

"Unfortunately," she added, "the increase announced (Wednesday) will not completely ease their burden. Medicare premiums are also expected to rise for many. And with the decline in housing values, deep losses to retirement and savings accounts, and skyrocketing health and prescription drug costs, millions of older Americans continue to struggle to make ends meet."

The amount of wages subject to Social Security taxes will also go up next year, resulting in a tax increase for about 10 million workers, the Social Security Administration said. This year, the first \$106,800 in wages is subject to Social Security payroll taxes. Next year, the limit will increase to \$110,100.

Workers pay a 6.2 percent Social Security tax on wages, which is matched by employers. For 2011, the tax rate for workers was reduced to 4.2 percent. The tax cut is scheduled to expire at the end of the year, though President Barack Obama wants to expand it and extend it for another year, an effort that Congress is likely to approve.

Federal law requires the program to base annual payment increases on the Consumer Price Index for Urban Wage Earners and Clerical Workers, or CPI-W. Officials compare consumer prices in the third quarter of each year — the months of July, August and September — with the same months in the previous year.

If consumer prices increase from year to year, Social Security recipients automatically get higher payments, starting the following January. If prices drop, the payments stay unchanged. Social Security payments increased by 5.8 percent in 2009, the largest increase in 27 years, after energy prices spiked in 2008. But energy prices quickly dropped and home prices became soft in markets across the country, contributing to lower inflation in the past two years.

As a result, Social Security recipients got an increase in 2009 that was far larger than actual inflation. However, they couldn't get another increase until consumer prices exceeded the levels measured in 2008. This year, consumer prices in July, August and September were 3.6 percent higher than those measured in 2008, resulting in the COLA.