Center for American Progress

Raising the Medicare Eligibility Age Would Harm Seniors and Increase Health Care Spending

Maura Calsyn and Lindsay Rosenthal December 10, 2012

In every deficit-reduction debate, policymakers look at the Medicare program to see where savings can be found, and the latest fiscal showdown negotiations are no different. There are opportunities to strengthen Medicare while achieving program savings—indeed, the Center for American Progress has put forward $385 billion in savings that would bolster the program without harming seniors.[1] Nevertheless, too many proposals to lower Medicare costs simply shift those costs to seniors, businesses, and states. One such proposal is raising the eligibility age for Medicare from 65 to 67 years old.

Raising the eligibility age would harm seniors even if every state fully implements the Affordable Care Act's Medicaid expansion. But the proposal poses an even greater threat to low-income seniors now that the Supreme Court's decision upholding the law rendered the Medicaid expansion optional for states. As we explain below, tens of thousands of low-income 65- and 66-year-olds, who would be cut off from Medicare—particularly the most vulnerable seniors living below the federal poverty level—will have nowhere to turn for coverage if their states reject the Medicaid expansion.

Using 2011 census data to add to existing Congressional Budget Office calculations, we estimate that in a single year, almost 435,000 seniors would be at risk of becoming uninsured. Our estimate is conservative and understates the impact of raising the eligibility age because the number of seniors affected will only continue to grow over the next decade as the boomer generation retires.

Raising the eligibility age is a misguided approach that would undermine the promise of health care and financial security for millions of low- and middle-income seniors. It would jeopardize the Affordable Care Act's promise of access to affordable, universal health care, because many opponents of the law are still working to undermine its coverage options.

The proposal would increase out-of-pocket spending for many seniors placing them at significant financial risk. According to data released last month by the Census Bureau, out-of-pocket medical expenses are the primary factor pushing seniors into poverty.[2] In fact, the senior poverty rate would be nearly cut in half if not for high out-of-pocket medical expenses.[3]

And it's not just seniors who would be harmed by raising the Medicare eligibility age: Studies show that the proposal would actually increase systemwide health care spending and shift those additional costs onto state governments and onto employers and their employees.[4] This issue brief reviews the consequences of raising the Medicare eligibility age throughout the system and explains how the proposal would harm individuals, states, and businesses.

Raising the Medicare eligibility age would increase the number of uninsured seniors

Studies that have modeled the effects of raising the Medicare eligibility age on access to insurance coverage have assumed that the majority of seniors would find alternate coverage because of the Affordable Care Act, either through the exchanges—new marketplaces where individuals and businesses will be able to purchase insurance—or the Medicaid expansion.[5] Even if the Affordable Care Act were fully implemented when the Medicare eligibility age is increased, the Congressional Budget Office estimates that about 5 percent of the seniors affected, or 270,000 individuals, would become uninsured.[6]

But the Supreme Court decision to uphold the Affordable Care Act also rendered the Medicaid expansion—which accounts for nearly half of the Affordable Care Act's coverage expansion—optional for states.[7] At least 10 states—including Texas and Louisiana—have indicated publicly that they do not plan to participate in the Medicaid expansion, and many more are on the fence.[8] As a result, the number of seniors who would become uninsured if the Medicare eligibility age were increased and states did not adopt the Medicaid expansion would likely be much higher than 270,000.

If the Medicare eligibility age were raised under a fully implemented Affordable Care Act (meaning all states adopted the Medicaid expansion), many 65- and 66-year-olds with low incomes would theoretically be able to gain coverage either through Medicaid or the insurance exchanges. In that scenario, Medicaid would be expanded to low-income individuals with incomes up to 138 percent of the federal poverty level[9]—approximately $15,414 for individuals and $31,809 for a family of four in 2012.[10] Those between 100 percent and 138 percent of the federal poverty level would also have the option of purchasing insurance through the exchanges, where they would be eligible for tax credits to help pay for their coverage. The law limits out-of-pocket costs for this group and limits cost-sharing for individuals with incomes below 250 percent of the poverty level.

While these coverage and benefit options could be less generous than Medicare, they would at least provide some cushion for seniors if the Medicare eligibility age were raised. Even with these protections in place, however, the cost of insurance may still be out of reach for some low-income individuals, which is why raising the eligibility age would increase the number of uninsured seniors even under full implementation of the health reform law.[11]

But in states where implementation of the Medicaid expansion is taken off the table many low-income seniors will be left without any alternatives. The Affordable Care Act does not provide any tax credits to purchase insurance or other assistance to individuals below 100 percent of the federal poverty level because policymakers assumed those individuals would be covered through the Medicaid expansion. Yet current Medicaid eligibility in most of the states that may not expand Medicaid after the Supreme Court's decision—including Alabama, Georgia, Florida, Louisiana, Mississippi, Nebraska, South Carolina, and Texas—does not extend to nondisabled and nonparenting adults, which is the category that most 65- and 66-year-olds cut off from Medicare would likely fall into.[12] Depending on how many states opt out of the expansion, raising Medicare's eligibility age would leave tens of thousands of seniors without alternatives.

Nationally, more than 3 million seniors—or 9.7 percent—have incomes that are at or below 100 percent of the federal poverty level; another 4.9 million seniors—or 13.1 percent—have incomes between 100 percent and 150 percent of the federal poverty level.[13] In several of the states that may refuse the Medicaid expansion, the percentage of seniors living below 100 percent of the poverty level is even higher,[14] and this trend will only continue for the next group of seniors who would face the higher eligibility age.[15] The national poverty rate for 50- to 64-year-olds is 9.1 percent, and poverty rates for older adults increase with age.[16]

Several of the states that may reject the Medicaid expansion already have some of the highest senior poverty rates in the country, as well as very high poverty rates for individuals who will reach retirement age in a few years.[17] Case in point: Mississippi, which had the highest percentage of seniors (15 percent) living below the poverty level in 2009.[18] Alabama, Florida, Georgia, Louisiana, Oklahoma, South Carolina, and Texas all have senior poverty rates higher than the national average.[19]

A few of these states are also home to a disproportionately large number of elderly Americans. More than half of people ages 65 and older live in just 11 states, including Florida, Georgia, New Jersey, and Texas.[20] Moreover, states that may reject the expansion are seeing some of the fastest growth rates among their elderly population.[21]

With this backdrop, we considered how many seniors with incomes below the poverty line live in states that may not expand Medicaid. According to our analysis, up to 164,466 seniors in these states would be at risk of becoming uninsured if the Medicare eligibility age were increased today. Table 1 shows the breakdown by state of seniors who could be left without options for coverage under the increased eligibility age. These numbers will only grow as the wave of the boomer generation crests.

TABLE 1

Number of 65- and 66-year-olds living in poverty in 2011 in states that may reject the Medicaid expansion

State	65-year-olds	66-year-olds	Total of 65- and 66-year-olds
Alabama	4,305	3,638	7,943
Florida	20,104	18,961	39,065
Georgia	7,764	7,868	15,632
Iowa	1,679	1,053	2,732
Louisiana	4,623	5,730	10,353
Maine	1,395	560	1,955
Mississippi	3,853	3,735	7,588
Nebraska	695	393	1,088
Nevada	2,843	2,251	5,094
New Jersey	4,084	2,431	6,515
Oklahoma	2,998	2,549	5,547
South Carolina	5,230	3,107	8,337
Texas	19,777	17,765	37,542
Virginia	4,448	4,280	8,728
Wisconsin	4,487	1,860	6,347
All states	**88,285**	**76,181**	**164,466**

Note: All estimates are based on the American Community Survey (ACS) Public Use Microdata Sample (PUMS) 2011 one-year estimates.

There may be instances in which affected seniors would still have health care coverage. Certain low-income, disabled seniors may qualify for Medicaid under their state's current eligibility standards. Others may continue to qualify for Medicare under the program's end-stage renal disease or Social Security disability insurance criteria.

In two of these states—Iowa and Oklahoma—seniors could currently qualify for limited Medicaid coverage, but there is no guarantee this coverage would continue. In Iowa, adults with incomes up to 250 percent of the poverty level are eligible for limited coverage, and in Oklahoma certain seniors with incomes up to 200 percent of the poverty level also have limited subsidized health insurance.[22] Maine and Wisconsin have similar limited programs, but enrollment in both states is closed.[23] New Jersey's Medicaid program also covers some nondisabled seniors with extremely low incomes of less than one-fourth of the poverty level.[24]

Still, even when taking these sources of coverage into account, there are tens of thousands of nondisabled seniors with incomes below the federal poverty level in the states that may not expand their Medicaid programs who would not qualify for coverage under their states' current Medicaid eligibility criteria.

The nonpartisan Congressional Budget Office estimated that 270,000 people would become uninsured in 2021 if the eligibility age were gradually increased over the next 10 years. This estimate "assumed that people with the lowest income would qualify for Medicaid benefits," and in fact, the report notes that "many more people would become uninsured" if seniors were unable to gain Medicaid coverage or purchase insurance through the exchanges.[25] Combining our conservative calculations with the estimated number of uninsured under the Congressional Budget Office study, raising the Medicare eligibility age would put approximately 435,000 seniors at risk of becoming uninsured by 2021.

Our estimates are conservative because the numbers are based on 2011 census data. As the boomer generation ages over the next decade, the population of affected seniors will grow significantly. Moreover, our estimate of 164,000 uninsured seniors is only a one-year snapshot of the affected elderly population. Each year, a new group of 65-year-olds will face this coverage gap as they enter what once was retirement age without access to Medicare. These estimates also do not include the number of low-income beneficiaries living at or slightly above the federal poverty level in these states who could find the plans offered in the insurance exchanges unaffordable, even with the income-based assistance they are eligible to receive. Seniors whose incomes fall into this category are at risk of becoming uninsured, in addition to those whose incomes fall below the poverty level.

Raising the eligibility age worsens the crisis of rising health care costs

Supporters of raising the eligibility age for Medicare consider only the federal government's bottom line, but they should be looking at the nation's overall health care costs. Health care costs throughout the system are increasing at an unsustainable rate, growing at a much faster rate than either wages or gross domestic product, which has created a palpable strain on our economy.[26]

Simply cutting the amount of money the federal government spends on health care does nothing to address the problem of rising costs. In fact, if 65- and 66-year-olds lost Medicare coverage and had to turn to other areas of the health care market to find coverage, costs would rise throughout the system.

First, federal health care expenditures outside of the Medicare program would increase because low-income 65- and 66-year-olds who would lose Medicare coverage would find coverage through Medicaid or would qualify for federal subsidies through the exchanges. The nonpartisan Congressional Budget Office found that raising the Medicare eligibility age would reduce federal spending by $148 billion from 2012 through 2021 but also estimated that the net total savings for the federal government would be $113 billion during that time period, after accounting for increased federal spending on Medicaid, exchanges, federal retirees, and Social Security retirement.[27]

Second, a significant portion of the cuts to federal spending would be shifted onto state governments by increasing the cost of states' Medicaid programs. Studies show that the average state would spend an additional $700 million a year on their Medicaid programs in order to cover expenses for dually eligible beneficiaries for whom Medicare would otherwise have been the primary payer.[28]

Third, businesses would also see increased costs, as approximately half of the seniors losing Medicare coverage under the increased eligibility age would pick up employer-sponsored coverage.[29] This coverage shift would increase employers' costs in two ways: Employees might stay in the job market longer to keep their health insurance; and some retirees may be able to use their former employer's plan as a primary source of coverage rather than supplemental insurance. In addition to the cost shift from covering additional employees, businesses could face increased premiums overall, as older and on average less healthy employees and retirees are added to employers' insurance pools.[30] This would increase premiums for all other employees, as well. At a time when employers are already struggling with the costs of health care, especially when they face international competition from companies that have lower health care costs, adding older workers to their insurance pools could dramatically increase their employment costs.

Because Medicare is much better at controlling costs than private insurance, moving these seniors to other sources of health insurance will increase overall health care spending. Medicare has the benefit of lower administrative costs than private insurance, and the program's greater purchasing power is able to drive payment and delivery-system reforms. If the increased eligibility age were in effect in 2014, the costs to individuals, businesses, and states would be twice as large as the federal savings.[31] In effect, Americans would pay $2 to save the federal budget $1—thereby increasing overall health spending.[32] If policymakers are serious about lowering total national health expenditures, they must strengthen Medicare, not shrink the program.

Raising the eligibility age increases costs for both seniors and younger health care consumers

A significant percentage of 65- and 66-year-olds who lose Medicare coverage would subsequently obtain coverage though the health exchanges.[33] But shifting their coverage from Medicare to plans offered through the exchanges is not sound policy. Since 65- and 66-year-olds would be older and on average less healthy than the nonelderly population in the exchanges, shifting these individuals to the exchange pools would increase premiums for all enrollees in the exchange by an average of about 3 percent.[34] Premium increases in the exchanges would be highest for the youngest exchange beneficiaries, as those younger than age 30 would see an increase of 8 percent and those between the ages of 30 and 34 would see an increase of 5 percent.[35] Such substantial increases in premium costs for young and relatively healthy individuals could result in these individuals choosing not to purchase health insurance—a process known as adverse selection—which would increase costs for the less healthy individuals remaining in exchanges. This scenario could threaten the viability of the exchanges.[36]

Paradoxically, the 65- and 66-year-olds who would drive up costs in the exchanges because of their age and average health status would also have been on average the healthiest beneficiaries in the Medicare pool. Removing the youngest, healthiest seniors from Medicare will also have the effect of increasing premiums for all remaining elderly and disabled Medicare beneficiaries by an average of about 3 percent.[37]

This means, then, that costs for both seniors purchasing insurance in the exchanges as well as those remaining in Medicare would increase. Raising the Medicare eligibility age would require many seniors to pay more for their health care. More than 3 million people—two-thirds of 65- and 66-year-olds—would pay more out of pocket for their health care.[38] The average increase in costs would be $2,200 per year, forcing many seniors to forgo necessary care to save money.[39] In addition, approximately 5.4 million seniors would experience care disruption, as they would be forced to change or lose coverage and possibly change their doctors.[40]

As noted above, many of the seniors who would lose Medicare coverage under increased eligibility age are projected to pick up coverage through Medicaid if states accept the Affordable Care Act's expansion of the program. But Medicaid benefits for many 65- and 66-year-olds could be less generous than the Medicare coverage they would otherwise have received.

Conclusion

Raising Medicare's eligibility age was never a good idea. One goal of the Affordable Care Act was to lower health care costs, but raising the Medicare eligibility age would actually increase health care costs.

Following the Supreme Court decision, there is even greater risk associated with this proposed change. States that do not currently plan to expand their Medicaid programs are home to disproportionately large elderly populations and have some of the highest senior poverty rates in the country. If states carry out plans to reject Medicaid expansion, thousands of low-income seniors will have no recourse to prevent themselves from becoming uninsured.

Policymakers must address the federal deficit, and finding savings in Medicare will be part of that effort. But they should target those savings on waste and inefficiency and, if necessary, by increasing cost-sharing in a way that protects low- and middle-income beneficiaries, as the Center for American Progress proposed in its Senior Protection Plan.[41] Blunt cut-and-shift policies, like the one described in this brief, harm the most vulnerable Medicare beneficiaries and do nothing to solve the real challenge facing our health care system—rising health care costs.

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Appendix

TABLE 2

Number of 65- and 66-year-olds living in poverty in 2011 by state

State	65-year-olds	66-year-olds	Total of 65- and 66-year-olds
Alabama	4,305	3,638	7,943
Alaska	168	379	547
Arizona	5,901	4,543	10,444
Arkansas	2,418	1,702	4,120
California	28,523	23,648	52,171
Colorado	3,051	1,162	4,213
Connecticut	1,829	1,741	3,570
Delaware	790	393	1,183
Florida	20,104	18,961	39,065
Georgia	7,764	7,868	15,632
Hawaii	1,615	1,952	3,567
Idaho	1,100	645	1,745
Illinois	7,396	3,703	11,099
Indiana	4,018	4,482	8,500
Iowa	1,679	1,053	2,732
Kansas	1,653	1,287	2,940
Kentucky	4,166	3,368	7,534
Louisiana	4,623	5,730	10,353
Maine	1,395	560	1,955
Maryland	3,467	2,776	6,243
Massachusetts	5,380	2,785	8,165
Michigan	6,964	7,206	14,170
Minnesota	3,485	1,546	5,031
Mississippi	3,853	3,735	7,588
Missouri	3,665	3,619	7,284
Montana	868	640	1,508
Nebraska	695	393	1,088
Nevada	2,843	2,251	5,094
New Hampshire	458	495	953
New Jersey	4,084	2,431	6,515
New Mexico	1,771	2,341	4,112
New York	21,304	16,258	37,562
North Carolina	10,480	6,306	16,786
North Dakota	321	340	661

State	65-year-olds	66-year-olds	Total of 65- and 66-year-olds
Ohio	6,908	8,272	15,180
Oklahoma	2,998	2,549	5,547
Oregon	3,961	1,805	5,766
Pennsylvania	11,790	6,423	18,213
Rhode Island	644	331	975
South Carolina	5,230	3,107	8,337
South Dakota	582	553	1,135
Tennessee	5,111	6,191	11,302
Texas	19,777	17,765	37,542
Utah	533	953	1,486
Vermont	155	398	553
Virginia	4,448	4,280	8,728
Washington	4,332	4,556	8,888
West Virginia	1,639	1,806	3,445
Wisconsin	4,487	1,860	6,347
Wyoming	177	95	272
District of Columbia	474	680	1,154
All states	**245,382**	**201,561**	**446,943**

Note: All estimates are based on the American Community Survey Public Use Mircodata Sample, or PUMS, 2011 one-year estimates.

Endnotes

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