



President
Barbara J. Easterling

Secretary-Treasurer
Ruben Burks

**Alliance for Retired Americans Comments
On
Senate Committee on Finance
Health Care Reform Financing Policy Options
May 26, 2009**

The Alliance for Retired Americans is a nationwide grassroots organization with more than 3.5 million members. The Alliance is dedicated to educating all Americans on issues important to retirees and older Americans. We appreciate the opportunity to comment on health care reform financing options.

Making Medicare Beneficiary Contributions More Predictable

The Alliance believes that Medicare contributions should be made more predictable and understandable to beneficiaries. Health care reform presents an opportunity to make contribution obligations more rational. The Alliance supports the following options: 1. An out-of-pocket maximum on beneficiary cost sharing for all Parts A and B services; 2. A combined annual deductible covering all Parts A and B services; 3. A catastrophic payment cap; and 4. An indexing of all cost sharing to the growth rate in average Medicare costs.

Means Testing Part D Premiums

The Committee has proposed means testing Part D premiums in a manner similar to Part B. The 2003 Medicare Modernization Act mandated the Part B means testing. The Alliance opposed the 2003 provision and, likewise, opposes means testing Part D premiums. Means testing undermines the foundation of Medicare as a social insurance program where benefits are based on premiums paid, not a beneficiary's income. Unlike Social Security, there is no earnings cap for Medicare withholding. Therefore, higher wage earners pay Medicare taxes throughout the year. Under the current Part B means testing scheme, higher income retirees pay more in premiums, as much as \$308.03 per month in 2009, to receive the basic benefits. Thus, higher wage earners pay more during their working lives and more in retirement as well. The Alliance believes extending this scheme to Part D is wrongheaded as well.

In addition to violating social insurance principles, means testing of Part D premiums could present significant administrative challenges. Unlike Part B, which the Medicare program administers, Part D is a complicated program where the benefit administration is through private insurance providers. Under Part D, there is no one central administrative point to determine whether a beneficiary must pay more in monthly premiums. The Alliance envisions that the Social Security Administration (SSA) would be required to calculate different premiums for each beneficiary depending on income and the plan the beneficiary chose.

In addition, there is an issue regarding beneficiaries who directly pay their premiums to their Part D plan. Would a plan be required to collect income-related information or coordinate with SSA? The Alliance has serious reservations regarding private Part D drug plans collecting income data from beneficiaries. Given the fractured nature of the Part D program, the Alliance believes that there would be very high administrative costs in implementing Part D means testing with very little positive revenue left. Therefore, we urge to Committee to reject Part D means testing.

Taxation of Health Care Benefits

The Alliance has great concern regarding the Committee proposal to tax health care benefits, whether it be on the value of the health care benefits or on the income of the beneficiary. Our retiree members with health care benefits gave up wages and other benefits during their working lives to obtain the security of health benefits upon retirement. Often the cost of health care benefits depends on the size of the firm, the age and demographics of the insured group, and the extent of coverage such as whether retiree health care coverage is included. The taxation of benefits based on the cost of coverage ignores these factors.

Taxation of health care benefits disrupts the foundation of employer-provided coverage and puts retirees at a special disadvantage. As the Committee knows, older Americans need and use the health care system more than any other age group. Therefore, they have higher health care costs. The taxation of health care benefits could cause an employer, for example, to drop retiree coverage in order to lower premium costs and avoid taxation. The losers are retirees, both pre-Medicare and those with Medicare and supplemental or wrap-around coverage, who would now be without coverage. There would be no reduction in overall health care costs. There would be lost coverage and increased out of pocket costs for our members. Retirees do not have the ability to bargain for increased wages because of lower health care costs. They are, by definition, not in the workforce. The overwhelming majority of retirees with pension income find that pension payments are fixed for life. Very few private pension plans provide cost of living adjustments. Nor do retirees have the ability to earn higher wages, presumably from lower health care costs, in the workplace. The proposal to tax health care benefits has an inordinate, negative effect on retirees. The Alliance urges the Committee to reject such proposals.

The Alliance for Retired Americans again appreciates the opportunity to comment on the Committee proposal and looks forward to working with the Committee in an effort to achieve affordable, universal health care coverage for all Americans. Please contact Richard Fiesta, Director of Government and Political Affairs at the Alliance, should you have questions regarding our positions.