



ColoradoCare, Medicare beneficiaries, and seniors¹

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How would ColoradoCare affect Medicare beneficiaries and their health care coverage?

- Medicare regular Part A, Medicare Parts B and D, and Medicare Advantage would continue as they do now.
- ColoradoCare would provide a no-deductible, supplemental or Medigap coverage plan to Medicare beneficiaries (Medicare Supplemental Plans C and F are the no-deductible plans).
- ColoradoCare would provide benefits for services that are not covered by Medicare but may be covered by ColoradoCare (vision, hearing, dental, etc.)
- ColoradoCare would apply to be a Medicare Advantage Plan and offer voluntary enrollment in the plan.

Because of significant tax exemptions and income tax deductions, Premium Taxes would end up costing 85% of Medicare beneficiaries less than this supplemental coverage would cost if the insurance industry system continued.

What are the tax exemptions?

There are three tax exemptions or deductions that impact Medicare beneficiaries.

- The Amendment defines Social Security benefits as the taxable benefits on line 20b² of the IRS 1040 form. Low-income seniors have a large exemption. Up to \$25,000 for individual filers and \$32,000 for joint filers is fully exempt if there is no other income. With other income, these exemptions are gradually changed to a point that high-income Social Security recipients have only 15% exempted. Calculating the exemption requires using the IRS “Social Security Benefits Worksheet — Lines 20a and 20b³” or looking at a past year’s IRS form 1040. Line 20b is the taxable Social Security. On form 1040, the amount of the exemption can be found by subtracting line 20b (taxable Social Security) from 20a (total Social Security).
- ColoradoCare’s definition of non-payroll income excludes Social Security and pension incomes as defined by Section 39-22-104(f)(4), Colorado Revised Statutes, and explained by the Colorado Department of Revenue publication FYI 25. This exemption of pension or annuity income has a \$20,000 maximum per person for people between 55 and 65 years old, and a \$24,000 maximum for people over 65 years old, and it applies to the combination of Social Security line 20b, pension, retirement plan, and IRA income that has not been exempted on the IRS Form 1040 (lines 15b and 16b).
- The Premium Tax is a state income-based tax, and it is expected to be deductible from income taxes, but the IRS has not yet ruled on this. In contrast, health care expenses now are deductible only when they exceed 10% of income (7.5% for people born before 1950)⁴. Considering the reduction in income taxes, the impact of the 10% Premium Tax for income tax payers is reduced to between 9% and 6.04% depending on tax bracket.

ColoradoCare Tax Impact Table

Individual filer taxable income	Joint filer taxable income	Federal income tax rate	Your premium tax impact rate
Up to \$9,076	Up to \$18,150	10%	9%
Over \$9,076	Over \$18,150	15%	8.5%
Over \$36,900	Over \$73,800	25%	7.5%
Over \$89,350	Over \$148,850	28%	7.2%
Over 186,350	Over \$226,850	33%	6.7%
Over \$405,100	Over \$405,100	35%	6.5%
Over \$406,750	Over \$457,600	39.6%	6.04%

How much are the combined federal and state exemptions for Social Security and retirement income?

The state and federal exemptions are calculated differently, and the combination is very individualized. Together the exemptions are substantial.

- The federal exemption is calculated on the IRS form, “Social Security Benefits Worksheet—Lines 20a and 20b.” Up to \$25,000 for individual filers and \$32,000 for joint filers is fully exempt if there is no other income. With other income, these exemptions are gradually changed to a point that high-income Social Security recipients have only 15% exempted.
- The Amendment exempts the same Social Security and retirement income that state law exempts on Colorado state income taxes. This state exemption applies to spouses separately whether or not they are filing a joint return. It has a maximum of \$20,000 for individuals between 55y/o and 65 y/o, and a maximum of \$24,000 for individuals over 65 y/o. This exemption generally applies to income that is listed on lines 15b, 16b, and 20b of the IRS Form 1040.
- When combined the exemptions change according to the amount of Social Security, the amount of retirement income, and the amount of income that is not retirement. The maximum amount of combined exemption for an individual filer is \$46,209 for an individual over 65 y/o who earns \$ 31,668⁵ from Social Security, \$24,000 from retirement income, and no income other than the \$55,668 received from Social Security and retirement income. The maximum exemption for joint filers is \$75,060, and occurs when total income is \$111,336, both spouses are over 65 y/o, both receive \$31,668 from Social Security, both receiving \$24,000 from retirement income, and have no other income.
- Although few have the exact combination of income needed to reach the maximum exemption, there are many individual filers who would have the Social Security and retirement income to qualify for exemptions of over \$30,000 for individual filers and \$60,000 for joint filers.
- For the best estimate of the Social Security and retirement income exemptions, it is best to individualize the estimate by taking the income from last year’s IRS1040 form and Colorado Department of Revenue form 104.

What would the cost of the Medicare supplemental plan be in the current system in 2019?

Medicare supplemental insurance is a commercial insurance product regulated by the states. A variety of plans may be offered, and the cost varies according to plan, the medical needs of enrollees, and the state where the plan is offered. Because ColoradoCare guarantees no deductibles, the Medicare Supplemental plan provided by ColoradoCare would need to be either Plan C or Plan F, the two highest benefit Supplemental Plans. AARP, Inc. plans for Colorado were used to estimate the cost of a Medicare Supplemental Plan that did not have deductibles⁶. In 2019, the value of one of these Medicare Supplemental Plans is estimated to be \$2,023.00.

How do the Premium Taxes on Medicare beneficiaries compare to the cost of the supplemental?

The amount of Premium Tax paid depends on the source of income, with a higher rate on non-payroll income than payroll income. Even if people over 65 had only non-payroll income in addition to their Social Security and pension income, it is estimated that they would pay less in premiums than the projected cost of the supplemental if their income were below \$62,000 for individual filers and \$117,000 for joint filers. However, at least 21% of people over 65 are employed, and among the high-income earners, 41% of their income comes from employment. Because the Premium Tax is lower for wage income, seniors who have a portion of their income that comes from wages could have an even higher income before they would be paying more in Premium Tax than the cost of the supplemental plan. In fact, in some cases, seniors could still pay less in Premium Tax than the cost of the supplemental if their income were as much as \$106,000 for single filers and \$198,000 for joint filers. Overall, it is estimated that for 85% of Medicare beneficiaries, Premium Taxes would be less than the cost of the supplemental⁷.

Social Security is not mentioned in the proposal, so how is it excluded from the Premium Tax?

As explained above in tax exemptions, Social Security income is excluded in two processes that are part of the proposal's definition of non-payroll income. The Premium Tax is based on line 20b of the federal IRS 1040 form, which exempts a substantial amount of social security income. In addition, non-payroll income does not include any pension or annuity income that is not subject to Colorado income taxes according to section 39-22-104(f)(4). This section of the law refers to provisions on Line 7 and 8 of the Colorado 104 Income Tax Form, and it exempts up to \$24,000 per person of Social Security income that is not already excluded on the federal 1040 form. The combination of these two exclusions results in Social Security income being exempted in most cases⁸.

Tax law is generally complex and requires detailed definitions. Therefore, the ColoradoCare proposal did not attempt to create complex tax exemptions, but instead relied on existing federal and state defined exemptions.

Why would anyone want a Medicare Advantage Plan if ColoradoCare provides a supplemental?

Some of the interface with Medicare cannot be precisely predicted, but will need to be negotiated. There is a potential for ColoradoCare to obtain additional federal funds and offer Medicare beneficiaries additional services, including a desirable pharmaceutical benefit, if it could become a Medicare Advantage program, and therefore, the possibility of becoming a Medicare Advantage program is included in the proposal.

What happens to people who have been dual eligible, on both Medicare and Medicaid?

The Medicaid waiver would include covering the current benefits for the dual eligible Medicare and Medicaid beneficiaries.

Are there reasons that Medicare beneficiaries would support ColoradoCare even if costs them more?

Many Medicare beneficiaries have children and grandchildren living in Colorado whose health care coverage in the current system may be insecure. Sometimes, the grandparents financially contribute to their family's health care costs. Providing all Coloradans with lifetime, comprehensive health care would seem to be worth the small increase in payments for ColoradoCare premiums. Many retirees would support ColoradoCare even when they might pay more because it would ensure that their relatives and neighbors would have access to good health care. It is a way to improve society for future generations and clean up the current health care system quagmire. Retirees often support

education even when their children are grown because it makes for a better community and society: The same values and reasoning apply to universal health care.

¹ This paper was originally published as Appendix B of the Economic Analysis of the ColoradoCare Proposal: Including addendum with 2019 projections, prepared by Ivan J. Miller, Ph.D. for the Colorado Foundation for Universal Health Care, April 10, 2015 with Addendum added 8.3.15 V5.0

² The Amendment says the Premium Tax applies to line 20, which is a combination of line 20a and 20b and instructions. This has led to come confusion when people do not read the instructions and only see that there is both a 20a and a 20b. However, the instructions make it clear that it is 20b that is the taxable income.

³ https://apps.irs.gov/app/vita/content/globalmedia/social_security_benefits_worksheet_1040i.pdf

⁴ IRS Form 1040 (Schedule A) Instructions state that medical expenses need to exceed 10% of income (7.5% for those born before 1950).

⁵ This is the maximum regular Social Security a person who retires at age 66 can earn. If they retire at age 70, they could earn as much as \$42,876, which could increase their exemption even more. However, because such high payments from Social Security are rare, they are not included here.

⁶ American Association of Retired People, (2015). Current Medicare Supplemental insurance plans that do not require any deductibles priced for the Colorado market. www.aarpmedicareplans.com.

⁷ This projected estimate was prepared by adjusting the AARP average wage income for high income earners [American Association of Retired People (2013). Sources of income for older Americans, 2012. Fact Sheet 296, AARP, Washington, DC.] for the portion of earnings that come from self-employment instead of wages for people over 65 [U.S. Census Bureau, (2014). Current Population Survey, 2014 Annual Social and Economic Supplement. PINC-09_1_6. Source of Income in 2013-Number with Income and Mean Income of Specified Type in 2013 of People 15 Years Old and Over by Age, Race, Hispanic Origin, and Sex. Census Bureau, Washington, DC.]; adjusting for growth of income from 2013 to 2019 [U.S. Census Bureau (2014). Current Population Survey, Annual Social and Economic Supplements. POLAR CPS Population and Per Capita Money Income, All Races: 1967 to 2013. Census Bureau, Washington, D.C.] being the same as previous 6 years (8.387%); adjusting for Colorado income being 5.7% greater than national average [U.S. Dept. of Commerce, Bureau of Economic Analysis (2013). Per Capita Personal Income by State. Dept. of Commerce, Washington, DC.]; adjusted for 55% filing taxes jointly [U.S. Census Bureau (2013). Population 65 years and over in the United States: 2009-2013 American Community Survey 5-year estimates. Reports 55% of people over 65 are married and therefore are likely to file jointly. U.S. Census Bureau, Washington, DC.]; and applying results to income distribution table for people over 65 [U.S. Census Bureau (2013). Population 65 years and over in the United States: 2009-2013 American Community Survey 5-year estimates. Reports 55% of people over 65 are married and therefore are likely to file jointly. U.S. Census Bureau, Washington, DC.], resulting in the predicted income point at which Premium Tax and cost of the ColoradoCare supplemental if the current system continued would be the 85 percentile of income for people over 65.

⁸ The maximum Social Security benefit for someone retiring at full retirement age is \$ 2,639/month or \$ 31,668/year in 2016. This is less than the individual filer exclusion. Although it is possible that both people who are joint filers would have the maximum, resulting in a few thousand dollars of Social Security taxation, it is highly unlikely that joint filers would both have the maximum. Therefore it is reasonable to state that Social Security income is excluded from the Premium Tax. The maximum benefit available may be found at the Social Security Administration website

<https://www.colorado.gov/pacific/sites/default/files/Income25.pdf>.