AARP

WHAT HAPPENED TO MY SOCIAL SECURITY COLA?
DEALING WITH THE IMPACT OF BENEFICIARIES AND BUDGETS
DURING A PERIOD WITHOUT COLAS

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JANET MCCUBBIN: Good morning and welcome to our forum: "What Happened to My Social Security COLA? Dealing with the Impact on Beneficiaries and Budgets." My name is Janet McCubbin and I am the director of economic security for the AARP Public Policy Institute.

The AARP Public Policy Institute is responsible for analyzing and developing policies on a wide range of issues related to the economic security and health of older Americans. As part of our efforts to promote the adoption of sound policy, we have hosted a series of AARP Solutions Forums. And these forums serve as a venue for exploring a wide range of ideas from multiple points of view. Our goal is that by delving into these issues together, we will make significant strides towards ensuring the health and economic security of workers and retirees.

I would like to make one housekeeping announcement before we begin our discussion today. The agenda in your packet indicates that our forum will end at 11:00. In fact, we have the room until 11:30, so we will have plenty of time for Q&A after the presentations. And hopefully, we will be able to get to all of your questions by 11:30. Our moderator today is Gary Koenig. Gary is the lead policy advisor on Social Security for the AARP Public Policy Institute. And I will turn the floor over to Gary now to begin our discussion.

GARY KOENIG: Welcome, and hopefully today's forum will be interesting and informative. In the next few weeks, the Social Security Administration will officially announce that there will be no Social Security COLA. And this will be the first time that that has happened since they started the automatic COLAs back in 1975. Unfortunately, this will probably not be the only time. Both the Congressional Budget Office and the Social Security Administration are projecting that there will be no COLA for the following year, which would be for benefits beginning in December of 2010.

When I first learned about no COLA, reading, I think it was, a trustees' report of the Congressional Budget Office report, I was surprised about all of the implications of no COLA. And reading through it, it was kind of like, who knew? Well, obviously, these folks over here knew. There were implications for a taxable maximum, the earnings test exemption, Medicare beneficiaries and states.

So the forum will begin with Steve Goss, who is a chief actuary with the Social Security Administration, who will talk about the history of the Social Security COLA, how we got to where we are today and the implications of no COLA for other aspects of the Social Security program. Next will be Tricia Neuman from the Kaiser Family Foundation. She will talk about the implications of not having COLA on Medicare beneficiaries. In particular, she will explain the "hold harmless" provision for Medicare Part B premiums and the implications for beneficiaries.

And finally, we have Matt Salo from the National Governors Association, who will talk about how having no COLA affects the states. After Matt, what I will do is I will put up a slide showing some of the options that Congress is currently talking about. At that time, I will also invite John Rother up here to participate in a question-and-answers part of the panel. John Rother is the executive vice president of policy and strategy for AARP. And that should leave us plenty of time for questions and answers from the audience. So we will begin with Steve Goss.

STEPHEN C. GOSS: Thank you, Gary. The mike does work. And thank you also, Janet, and for the invitation to come here and talk to you all today. The COLA is currently an interesting idea – cost-of-living adjustment, which really is an adjustment for the rate of growth in prices, in the prices of things. There is some discussion, has been for a long time, about, is there a difference between the growth of a broad market-basket of just prices, or just, the cost of living, per se. But that is not really our topic today – hopefully another time.

Just a little history on what COLAs have actually been at Social Security: Benefits first started to get paid to people on a monthly basis by Social Security in 1940. But we didn't have anything like what we would call a cost-of-living adjustment until 10 years later in 1950. But it was a big one. You wait 10 years and it was really more than just a cost-of-living adjustment. It was also clearly by Congress, when you raise benefits by 77 percent, an indication that they thought just the general level of benefits should be a little bit higher at that point.

Since 1950, we had periodic, ad hoc COLAs. The Congress just, when it thought it was appropriate, would enact legislation. It was done about every other year, on average, between 1952 and 1974. And we had these periodic COLAs paying attention to what the cost of living was. And it wasn't until the 1972 amendments to Social Security that we actually had the so-called automatic adjustments that we all now are quite well-familiar with.

It specified that, starting in January of 1975, there would be the first cost-of-living adjustment. And it would be a cost-of-living adjustment with a so-called 3 percent trigger. In other words, only when the CPI managed to find its way to rise a full 3 percent over some prior period would you get a COLA. If it rose by only 2 percent or nothing or, as once in a great while happens, doesn't go up at all, then there would be no COLA.

So it was set up to operate that way on an automatic basis - first one would be in 1975. And it was at that initial legislation that what Gary mentioned occurred, that the legislation said that the increase in the taxable maximum – we oftentimes call the contribution and benefit base – for Social Security was going to be coupled to having a cost-of-living adjustment. If no cost-of-living adjustment because the CPI didn't go up enough, we would have no increase in the contribution and benefit base. Same thing with the earnings test exempt amount and there were a few other somewhat more esoteric little items that do not automatically get adjusted if the COLA does not occur.

In 1973, there was another set of amendments, just a year later, that said let's have the COLA be June instead of January, just delayed for a little bit and altered also the computation quarter that is utilized for developing the CPI. The computation quarter is the months of CPI index that you look at and take the average of what the index is for those three months and compare it to a year earlier to see how much the cost of living, or the CPI, has actually really risen.

In 1977, something else happened, which BLS decided, you know, one CPI is just not enough. We had the CPI that we had had up until then, which then became known as the CPI-W. Actually, the CPI-W for urban wage-earners and clerical workers only covers about a third of our population. They developed a new, broader index, which covers well over 80 percent – actually over 85 percent – called the CPI-U, all urban consumers.

They introduced that. But it has been deemed at all points since that, because the cost-of-living adjustment, again enacted back in ’72, was enacted at a time when only the CPI – now-called CPI-W existed – that, in fact, that is what was intended. And so we stayed with the CPI-W. That could be changed only with legislation.

The 1983 amendments came along and made another little adjustment to the CPI and said let’s not have the COLA apply for June benefit eligibility, but let’s delay it to December eligibility. And that was, as you might guess, a way to save a little bit of money. Another item came in also in 1983, which was something we call a stabilizer provision. It has never gone into effect. It is questionable whether it ever will.

It is if our trust fund assets ever get to be less than 20 percent of the annual cost of the program, then we will look at a time that there would be a COLA, and if it turns out that the average wage went up by less than the price indexes, then we will give you the lower of the two. Again, we haven’t been in a position – thank goodness – of having our trust fund assets drop down below 20 percent of annual cost. Right now, they are over 300 percent of annual cost at Social Security and we’re looking in good shape for the moment.

The 1986 amendments did one final thing that has really evolved on this cost-of-living adjustment for Social Security, which is to remove that 3 percent trigger. And that was timely because otherwise we would have had no cost-of-living adjustment. In fact, from 1975 up to 1986, we never had any COLAs less than 3 percent, so we were okay. But we were scheduled to have only a 1.3 percent increase in CPI. For 1986, there would not have been a COLA. And Congress intervened as it often does and said well, we want to have a COLA after all. So they eliminated the trigger and we got the 1.3 percent COLA. We have had at least one more at that level since then.

However, for December 2009, it is virtually rock solid that we will not have any increase in the CPI across the period that counts for this purpose. And therefore, we will not have an automatic cost-of-living adjustment. This little graph here – I think this is maybe available in some of the handouts; you might enjoy just taking a peek – this just shows the history of what the cost-of-living adjustments have been.

Prior to 1975, of course, they were not the automatics; they are a little bit lumpier and more sporadic. Since 1975, obviously, they have occurred, so far, every year. And they vary a little bit less. You can see things like, you know, where the oil-induced big price rises occurred and then when we had had lower levels of price inflation.

This next slide is, you know, one of my favorites and one of the favorites of a lot of people who sort of looked at this to really understand why on earth we are in a position where we are, simply not expecting to have any cost-of-living adjustment this year. And if you can see on this graph, on the line that has the little diamonds, every fourth one is a big diamond. And the big diamond is a big diamond at that point because it represents the third calendar quarter of the year for this consumer price index for urban wage earners and clerical workers.

And the reason why that is important is because the law says it is only when the third calendar quarter of the year's CPI is bigger than the last time we had an increase third calendar quarter that we will actually have an increase for the cost-of-living adjustment. And you can see between the third quarter of 2007, which is the low one on the left, the big diamond, and the one that spikes up, the next one over heading towards the right. That is the third calendar quarter of 2008. There was a 5.8 percent increase.

And this is across the time when just by happenstance, everybody remembers something like $4 a gallon for gasoline. Crude oil was 147 bucks a barrel. This surprised us. Our economists working on materials for the trustees report were expecting only a 2.7 percent COLA. We all surprised everybody. We got a 5.8 next to 3 percent that year. And we had it way up.

However, a funny thing happened on the way to the end of the year. By the time we got to December of 2008, you can see the little curve, which is the sort of like pinkish – I don't know what to call that color – sort of lightly purplish – fuchsia, the fuchsia line. (Laughter.) Thank you very much, Tricia.

And you can see that we had a spike down. In fact, we had a 5 percent drop in the CPI-W from the third quarter, which is what we base the 5.8 percent COLA on to December of that very same year just a couple of months later. Had we actually, by chance, been determining what cost-of-living adjustments were on the basis of December that year over the prior third quarter, we would only have had a 0.8 percent cost-of-living adjustment instead of a 5.8.

So you can see what happened because we based the cost-of-living adjustment – that nice big 5.8 percent – on that spike quarter that now the big question is when will we get above that again because the law reads that, in fact, we don't have a cost-of-living adjustment until we have a new computation quarter that is higher than the one upon which the last COLA was based. You can see our projection is for the next one that is the third quarter of 2009 – we are almost done with it – that it is going to be way below.

In fact, our estimate was that for the trustees, it is going to be about 2.7 percent below that third quarter of 2008. No increase there. In fact, if we really didn't have the restriction that a COLA can only be an increase, we would have a drop in benefit levels of 2.7 percent. That doesn't happen per the law. We can only have an increase, so that means zero. Actually, therefore, I guess zero is kind of a good deal compared to cutting benefits by 2.7 percent.

Going forward, you can see what the trustees have were sort of the upper line going to the right. These numbers really settled about last December and were published last May in the trustees report. You can see by the time we get to the third quarter of 2010 – as Gary said, by the third quarter of 2010, which will determine the December 2010 cost-of-living adjustment – the second one in line – the trustees are still expecting to have the CPI lower than it was in the third quarter of 2008. So per the law, we will have two years in a row of no cost-of-living adjustments again really because we had such a big one in December 2008, it is going to take a while to catch up with where the COLA was – where the CPI was at that time.

There are two other little lines on here, which are the latest CBO summer numbers and also the mid-session review budget numbers from OMB. And you can see those numbers – actually, the CBO numbers track almost exactly where the trustees are to the third quarter of 2010 and then go a little bit lower and the OMB numbers are a little bit lower, too. I think in the latest numbers were the trustees said two zero COLAs in a row under current law. That is December 2009 and December 2010. CBO agrees, says two zero COLAs in a row. And I think OMB, at this point, has three in a row at zero COLAs. So we will just have to wait and see how this all plays out.

On this next slide, you can see in the little box – hopefully, it is visible to everybody in the room – that, in fact, what really happens – you can see in the little box on the left side the present wall with our limit that COLAs can only be a positive number – 5.8, we will have two zeros, then we go to a 1.4 percent COLA under the trustees' assumption. You can see if we didn't have that limit, where we actually would be with these cost-of-living adjustments, we would follow the 5.8 with a negative 2.7. That is the bad news. Then the good news is then we would have 1.8 and then finally a 2.3. Those are what the projected actual movements of the average price index are. But you can see on the left column, of course, what happens as a result of the limitations that we have operating.

Gary had mentioned earlier that the taxable maximum for Social Security, which is, for this year, 2009, $106,800 – you only pay payroll taxes on the first $106,800 during the year. And that without this restriction – that in the absence of a COLA – we would increase per the average wage in the country – our taxable maximum for 2010 would actually be going up to 110,100 and the following year to 111,000 for 2011 and then 2012, we project, you know, 114,900. With the restriction that is in the law, we will have to just stay at the $106,800 for 2010 and '11, but we do catch up, just like we do with the COLA in 2012. Under current law, if nothing is done to alter things, then we project that we will get back to that same $114,900 for the taxable maximum, but have been holding it at 106,800.

And you can see how for the trust funds, this is kind of a problem because not only do the trust funds not realize that 2.7 percent drop in prices from what has actually occurred since the 5.8 COLA went in, but also the trust funds then do not have the ability to tax up above the 106,800 because of the way the law is working. And that is why, I think, in the latest CBO projections, many of you are probably aware that they are actually projecting a small cash flow negative for Social Security in 2010. The trustees have a slight cash flow positive, wherever.

The last thing I want to just put up here, which will be – I will put it up and then take it away really quickly because it will be a tease for what Tricia is going to be talking about, I think – which is, you know, what is happening with the Medicare premiums. And I only put this up just because these are the numbers that were consistent with the 2009 trustees' report. And Tricia might have more updated numbers on this.

But the actual increase without any limit – it is estimated if everybody were going to pay the increase in the Medicare Part B premium, we are told per the trustees' report that it would only go up a couple of bucks from $96.40 to $98.40. But because about 75 percent of people, roughly, will not be paying any increase in the Part B premium because they are not getting a cost-of-living adjustment – all the dominos flow in a row here – there would have to be a much bigger increase. Well, I will stop there and I will look forward to more discussion later.

TRICIA NEUMAN: Thank you, Steve. Thanks, Gary. Thanks, Janet. Thanks to AARP for putting together this forum to talk about a really important topic. I also want to thank my colleagues, Juliette Cubanski and Jennifer Huang, who worked with me on this presentation. This is a really important topic and it is a timely topic. And despite the fact that so much is going on in Capitol Hill right now and a lot of intense interest in health reform, there is also very much strong interest in this topic. So it is great that we are all here to talk about it.

I am going to talk about the nexus between Social Security and Medicare Part B. But before I do, I just want to sort of state that obvious, which is a point about these two programs, Medicare and Social Security, which together are such an important part of the financial and retirement security for so many people on Medicare. Issues that affect Social Security payments and issues affect Medicare Part B premiums really are quite important to people in the program, many of whom live on fixed incomes, many of whom rely on Social Security as a primary source of their income. So I think that is an important, sort of, context for this discussion.

Okay. What is the connection? Most people on Medicare elect to have their Part B premium deducted from their Social Security check. That is kind of a practical way of paying their premiums. And in a typical year, here is what happens. Social Security Administration says there is going to be a COLA. And Social Security checks increase by some amount. Medicare premiums generally increase, too. And premiums generally cover 25 percent of Medicare Part B spending. That is set in the law.

But usually, the increase in Social Security checks, based on the COLA, is more than the increase in the Part B premium. So each year in a typical year, Social Security checks go up. But as you have just heard, 2010 and maybe 2011 and I don't know about the following year, are anything but typical years because there is not going to be a COLA.

Now, under current law, there is a provision that was put in place mainly to help people with relatively low Social Security checks called the hold harmless provision. And what this says is that for any Social Security recipient, their Social Security check cannot go down as a result of an increase in Part B premiums. And really, that affects people who have relatively low Social Security payments because they are the ones who might experience a reduction due to an increase in the Part B premium if their COLA increase is relatively small.

What I am going to do is walk through some examples to make it concrete because I know I have just described a formula and it is always easier, at least for me, to walk through it with people to see well, how exactly does this work. Okay. So let's take John – a really clever name. So here you see John has a Social Security payment of a little bit more than $1,000. I used 2007 as an example.

With a small increase in the COLA, his Social Security check increased by a little bit more than $24. That year, the monthly Part B premium increased by $2.90 per month, just a little bit. As you can see in this example, the increase in the Social Security COLA was far greater than the increase in the Part B premium. This is business as usual. This is what normally happens. His Social Security benefit goes up.

Okay, let's look at Helen. Helen benefits from the hold harmless provision. Helen – and we picked a year which had a relatively high Part B premium increase to make this point. Helen received a monthly Social Security benefit payment of $349 per month in 2004. With the relatively small increase in the COLA, her Social Security check increased by $9.42. But that year, Part B premiums increased by more than $11 per month. Helen was protected by the hold harmless.

As you can see here without the hold harmless, Helen's Social Security check would have gone down. That is in essence how the hold harmless works. And that is exactly the type of situation that it is intended to prevent. Well, actually, this is the situation it is trying to help. Okay. As Steve mentioned, not everybody is affected by the hold harmless. So if you look at this pie chart, what you can see – and this is a distribution of the Medicare population.

Most people on Medicare are protected by the hold harmless. That is the 75 percent, bright orange, big segment of the pie. There are certain groups of beneficiaries who are not protected. Let's walk through who they are. The first group would be new enrollees. These are people who come onto the program. Well, they didn't have a Social Security check in the year before, so there is no way their Social Security check can go down, right? Okay. They are not on Medicare. They are not on Medicare.

MS. : In the first year they go on Medicare.

MS. NEUMAN: In the first year that they go on Medicare, if they were receiving Social Security payments, then they would be affected. That group would be affected because they were receiving Social Security. So I am talking about the group of people that go onto Social Security and go onto Medicare.

Next group, people who pay the high-income Part B premium. This is people with income above $85,000 for individuals and twice that much for couples. And the other group are people who are dually eligible for Medicare and Medicaid for whom states are paying premiums. And Matt is going to be talking about that group because this is obviously a big issue for states who are concerned about the fiscal burden of paying the Part B premium.

Now, the point of this slide is that remember I said earlier that people who – beneficiaries are responsible for 25 percent of Part B spending. And that gets built into the premium. If 75 percent of people on Medicare aren't going to see a premium increase, it is the smaller segment of the Medicare population who get a premium increase because they are bearing the cost themselves. And that is why you are going to see steep increases in a second.

Okay, so these are the same numbers I was happy to see that Steve showed because if they were different, his would have been right. He is the actuary. I am not. The bottom line here shows what the premiums will be for people who are protected by the hold harmless. So in essence, they are going to be paying $96.40 for 2009, 2010, 2011 and then once there is a COLA, there will be a bump up to $111.50. Okay.

The top orange line shows what happens for the 25 percent of beneficiaries and states who are responsible for the higher premium. And what you can see is the increase that goes from 96.40 in 2009 up to $104.20 in 2010, and then a big bump in the following year to $120.20. So there is really quite a disparity between the two groups as a result of this provision.

Okay, so my third example is what we are calling inequities in premium payments for notch boomers. And for those of you who remember the notch babies, you will remember that that was kind of a dicey issue because it raised all sorts of issues of a sense of unfairness. So in this example, we have a husband and wife. And we have the husband, Bob, who starts to collect Social Security payments and enrolls in Medicare in 2006. He pays his premium. It is deducted from his Social Security check. And in 2010 and 2011 with no COLA, he is protected by the hold harmless. His premium is $96.40 for the following years.

But then there is his wife, Mary. Mary turns 66 and she is going to start collecting Social Security. Based on current projections, her monthly premium, as we just saw, will be a little bit more than $120 per month. So even though they are getting the exact same benefits, husband and wife, they are enrolled and signed up for Medicare, they are paying completely different premiums as a result of this formula, which protects people who are collecting Social Security in the preceding year.

Another issue – so that was all Part B, remember? That was all related to Part B and the connection between Part B premiums and Social Security payments. There is another issue today, which has to do with the Part D premium because the hold harmless has no connection to Part D premiums. So there is nothing in the statute that says that Social Security payments won't go down as a result of increases in Part D premiums. And that could mean that people on Medicare who are collecting Social Security could still see a reduction in their Social Security check, even with the hold harmless provision if Part D premiums go up. And I think we will be hearing maybe later this week, in fact, what is going on with Part D plans for 2010.

Okay, so when you look at Part D, this looks at the distribution of the Medicare population by who is in Part D to get a sense of how many people could be affected. And you can see here, there are about 26.7 million people who are enrolled in either a Medicare Advantage Part D plan or a standalone Part D plan. About 40 percent of this group of people elects to have their Part D premiums deducted from their Social Security checks. Their decision to see if it makes it easier – and for some, it makes it easier for them to make their payments.

The issue here is if their Part D plan has an increase in its premium next year, they could see their Social Security checks go down. And this will be something that is not uniform across people because plan premiums change. It is very specific to the plan. We don't know what is going to happen this year. But I can show you what happened last year.

So this looks at some of the most popular plans that were offered in 2009 and 2008. And what you can see is the bump up in premiums that occurred from 2008 to 2009, some bigger than others. But for all the popular plans, increases ranging from $2 to more than $15, that would get reflected in someone's Social Security check unless they were in the low-income subsidy benchmark plan and were receiving low-income subsidies. So there is very good reason to think that people will see a reduction – many people will see a reduction as a result of Part D premium increases that would not be addressed by the current law hold harmless provisions.

So this is an issue sort of going back to where I started. You know, this is an issue because many people on Medicare are living on fixed incomes. And when we have looked at what has gone in the connection between rising health-care cost and incomes, what we have seen in Medicare is that health-care costs consume a larger share – have consumed a larger share of beneficiaries' incomes over time.

So that is why, you know, this issue of rising premiums and flat Social Security payments are a real concern. So I think we see we have a year of an un-COLA. There are options that are under consideration. And I look forward to talking about the options when we are all done.

MATT SALO: All right, thank you. I am Matt Salo with the National Governors Association and I am pleased to be here. I certainly enjoy following both Stephen and Tricia because I think they have laid out by and large all the relevant information, all the important charts. I am not going to do charts. I am not going to do PowerPoint. But just to, sort of, unravel the mystery that you may have wondered at the start of this session – what on earth is the relationship between Social Security COLAs and states? And hopefully I can do that relatively succinctly.

And I think Tricia did a very nice job of sort of explaining the connection between Social Security and the COLAs and its relationship to the Medicare Part B premiums. And what I will do is talk about the nexus between Medicare Part B premiums and the Medicaid program, which is financed in large part by the states. And if you haven't had a chance, I definitely commend the issue brief that Tricia put together that is in your packet on this issue. It is very, very useful and contains a lot of the background and some of the things I am going to mention.

And, you know, one of the key points is, as Tricia pointed out in one of her charts, is that although by and large, most Medicare beneficiaries are going to be held harmless from the impact of no COLA, there is that small segment that is going to have a disproportionate impact. And for that small segment, what you will see in one of our charts is the Medicare Part B premium going from $96 to $120 in 2011. That is a 25 percent increase. You know, by and large, most people are held harmless. However, here is where the states get in.

Tricia mentioned the dual-eligibles. I am willing to bet that the dual-eligibles is the most important health care issue that no one knows anything about. This is a population who, because they are both over age 65 or disabled, are eligible for Medicare and because of their low income are eligible for Medicaid – dually eligible for both programs.

And it is fascinating to look at how this program or how the health care for these individuals is being financed. And what you see is if you actually look at utilization of health care, at spending, the Medicare program is – I don't know if it is a stretch to say it is largely irrelevant for this population. But it certainly does not come close to providing all of the things that this population needs.

And so what you have is Medicare provides its benefit package to everyone on Medicare. But it does have premiums. It has co-pays. It has deductibles. It has limits on its acute care coverage. It has certain types of things like mental health treatments that largely it doesn't cover. And then sort of the elephant in the room, long-term care, which many people may think Medicare covers or should cover, but largely does not.

And in each of those areas, for low-income Medicare beneficiaries, it is the state Medicaid programs that pick up all of those costs. So it is the state Medicaid programs that provide all of the long-term care for the dual-eligibles, provide an enormous amount of acute care and provide coverage for Part B premiums and for other co-pays and deductibles.

And just to, sort of, get a sense of what the magnitude of this is, the dual-eligible population is relatively small. You know, roughly 7 million people or so. And you compare that to the Medicaid program at large, which covers – I think the most recent Kaiser numbers are like 58 million people, something like that. So you have got a relatively small population of low-income seniors, 7 million out of a 58 million person pool. And keep in mind that Medicare is their primary health-care benefit. They get everything that Medicare offers.

Medicaid in the state budgets – Medicaid spends 46 percent of its entire budget on this population, 46 percent. And I think that speaks to – it speaks to a lot of things. It speaks to, you know, how the Medicare program isn't really very helpful for this population. But it speaks to the extent to which states are financially responsible for making sure that this population gets what it needs in a timely manner.

And we can – I think it is probably a discussion topic for another day to talk about Medicare reform, Medicaid reform and reform of health care for the dual-eligibles. But the importance for this conversation is that when we talk about this nexus, when we talk about the population who is exempted from the COLA penalty who will be held harmless, you are talking about a population of 7 million people. In 2011, the increase in the Part B premium, about $30, you know, so that is – you know. What is that – it is $25 a month, $300 a year times 7 million people. That is a couple billion dollars in 2011. And that is $2 billion that state budgets and the state Medicaid program will be responsible for.

And unfortunately, not that it is ever a good time to take on $2 billion worth of new fiscal responsibilities, but I can guarantee you that 2011 is not going to be one of the better days for it. State budgets are not in very good shape right now. I mean, we are certainly encouraged by Chairman Bernanke talking about the beginning of the recovery and the green shoots and, you know, getting out of the bottoming out of the national recession. But state budgets tend to lag the federal economic recovery.

And, in fact, what we are projecting over the next two-and-a-half years is state budget deficits in the realm of $200 billion. And, in fact, the Rockefeller Center for Government has projected that under its relatively optimistic projections state economic recovery and revenue generation at the state level will not return to its pre-recession – and pre-recession is 2007 – will not return to its pre-recession levels until 2014. And so what you are going to see happen in a lot of states is massive, massive cutbacks in spending – in health-care spending, in education spending, transportation spending, corrections spending. And you are going to see – and we have seen a number of states look to tax increases to try to recover.

This is all – and then I think the other thing to keep in mind is that the economic recovery package, which has helped states kind of get by with an enhanced match in their Medicaid programs, that enhanced match ends December 31st, 2010 and will create a rather sizable cliff from January 1, 2011 on – again, not very well-timed with this 25 percent increase in the Medicare Part B premiums.

So I am also going to sort of stop short of making broad recommendations. This is not something that we – we are not going to get into Social Security financing politics. But I do think that in putting all of this into sort of some of the bigger picture perspective, it is important to remember that there is more going on than just Social Security trust funds and Medicare trust funds, that there are very real budgetary implications for state budgets who because they have to balance their budgets every single year, unlike our good friends at the federal level, sizable deficits like this, structural problems like this can have really, really significant impacts.

And when states see impacts like that, they are often left with no other feasible choice than to start making cutbacks in health-care programs like Medicaid, but more often than not in education K through 12 and higher ed., which is a really, really dangerous place to go, I think, for us as a nation. Unfortunately, there are very few options left. So I will leave you with that. I am sorry we didn't really end on something rosy. But I think we are going to get into a solutions panel that may be a little bit more optimistic. And I just say thank you.

MR. KOENIG: Thanks, Matt. Before we get to questions and answers from the audience and from the panel, I would like to have John come on up so he can participate in this part of the forum. And what I would like to do is I would like to – this past week, there has been a flurry of activity in Congress. I think there has been like five bills introduced. I would like to just talk about those briefly and then we will move on.

So I categorized these three options for dealing with this into an ad hoc cost-of-living adjustment, a flat one-time payment and then something dealing with the limited Part B premium exposure for those who are not held harmless. So under the ad hoc COLA, there were two bills introduced this past week – one by Representative Jones, one by Representative Alexander. Both of them would have about a 3 percent ad hoc COLA. My understanding of these bills is that they would – everything that the basic COLA would do, these would do. So what they would do is they would trigger an increase in the taxable maximum, their earnings limit exemption amount and also have an effect on the hold harmless provision.

The other class of options is the flat one-time payment. And there were three bills introduced. Representative DeFazio and Senator Sanders, I think, have introduced identical bills. Both of these would be the $250 one-time payment. And what these are is this is basically a one-year extension of what was done in the American Recovery and Reinvestment Act earlier this year. And there was another flat one-time payment bill also introduced by Representative McCarthy, which is $150 one-time payment. Neither of these would have any effect on the taxable maximum, the earnings test exemption amount or on the hold harmless provision.

The last one that I put up here is limit Part B premium increase for those not held harmless. There hasn't been, as far as I know, a bill introduced dealing with this issue specifically. There was a premium buy down included in an early draft of the tri-committee health bill. That lasted for a blink of an eye and it was quickly gone.

So these are – broadly speaking, these are the three options that folks are talking about. There has been a lot of debate in the press whether anything should be done. But Congress, it appears, has taken the position that something should be done to address this situation. So with that, let me – before we get to the audience questions, I want to ask Steve because a couple of these things would – actually all of them would have some cost associated with them. So has there been any cost estimates for the ad hoc COLA adjustments?

MR. GOSS: Well, we did actually – as a result of requests from the folks who are putting forth the proposals under the number two option here – actually do some estimates and wrote a letter back to the members who had put them forth.

The number two ones, which would be a one-time payment in one month during calendar year 2010, would be relatively inexpensive. Representative McCarthy's bill, we estimated it would cost about $7.5 billion and over the long run, it would have been negligible, of course. And her proposal, that would be just for OASDI Social Security beneficiaries. And all of these one-time payments would, of course, have no effect whatever on the hold harmless provision and what would happen with the Medicare premiums.

Representative DeFazio and Senator Sanders – we saw a proposal that we were working with Senator Sanders on that would have the $250 payment not just for Social Security, but for SSI veterans and some other groups for a total cost of almost $14 billion. But in the proposal we saw from him, I am not sure if this was in the legislation. There would also be an extension of the payroll tax between $250,000 level of earnings and $359,000 level of earnings. And that we estimated would be sufficient. It was actually solved for, obviously. It would be sufficient to provide enough revenue in that year to offset the additional cost not just for Social Security, but for the SSI program and the veterans. So in a unified budget basis, we would be okay.

The number one options we haven't really formally scored yet, but they would be more expensive because the number one options, as we understand them, it would be simply to suggest that, as Gary said, we would have under the number one options an increase in the taxable maximum because these bills would, in effect, declare that we are having a cost-of-living adjustment just as though the CPI had actually gone up.

And on the order of a 3 percent increase would have a significant cost for the Social Security program alone on the order of $200 billion over the next 10 years because these proposals would give the 3 percent increase and then that 3 percent increase would continue to apply for the remaining life of the beneficiaries who got it as of December 2009. It could even be somewhat more expensive than that if in the process we were also resetting that computation base quarter by providing this cost-of-living adjustment. The question is would we still keep that third quarter of 2008 as the point of comparison for the next COLA in 2010 or would we reset it to the third quarter of 2009?

If we did the latter, then the cost would be even more than the 200 billion over 10 years. And for those of you who are sort of clear with the long-range cost structure of Social Security, where we have kind of a 2.00 percent of payroll deficit over the next 75 years. Our 12.4 percent tax rate if it were instantly raised up to 14.4; we would have enough revenue coming in to cover us for 75 years. This would add roughly about another .10 to that, really .09 percent of payroll and more than that if we reset the computation base quarter. So depending on how you do it, there can be more or less cost, but have very different effects.

MR. KOENIG: Thank you. Let me ask Tricia real quick. Also, on that third option where its limit – the Part B premium increase for those not held harmless. So they have some sort of buy down. Is that pretty much the only option that we have? Are there other ways to deal with this issue?

MS. NEUMAN: Well, first of all, I am really relieved you didn't ask me for cost estimates because I definitely don't have them. You know, there are ways of dealing with the premium issue. And in essence, the ad hoc payment is one of the ways. And I think one thing that needs to be thought through is what is the most – what is most administrable at this point in time because we are at the end of the year. We are at the point when premiums are going to be announced. All of the print materials are probably – I don't know if they are printed, but the Medicare new handbook. There are some practical issues that do need to be thought through.

I mean, one idea is just a – for example, you could waive – you could waive the 25 percent rule in a year with no COLA, which in essence is, I think, what this is talking about. That would obviously have some cost implications in a pay-go world that need to be thought through. I know some people have thought about carving out more people to be protected by the hold harmless. You know, maybe helping the states, maybe helping new enrollees so we don't have that notch issue we talked about.

But even if you do deal with a Part B hold harmless issue directly, you still have the issue of Part D premiums. And you still – you know, unless there is some way of compensating people for that, either they need to switch plans – and we know people are not very good at switching plans because they tend to stick with what they have. So even if you address the Part B issue, you could still see a reduction in Social Security checks for people who just stick with their plan, which many people do.

MR. KOENIG: Let me just follow up. So you mentioned Part D. And I realize this is probably not feasible for this coming year. But is there some particular complications with putting a hold harmless provision in with respect to the Part D premiums?

MS. NEUMAN: Well, yeah, in that Part D premiums vary from plan to plan. And people have several months between now and the end of the year – in November, the end of the year – to pick their plan. So the idea of making all of that work, I just really feel sorry for Steve and the folks at CMS for making all of that seamless. I think it could be quite complicated.

MR. KOENIG: Okay, thank you. At this point, we will go ahead and we will take audience questions. I have been asked to remind the audience to hold their hand up and wait for the mike. And please identify yourself and your organization.

MR. ROTHER: And Gary, if I could, I am going to jump in because what this conversation raises, I think, are questions of context and framing that I would like to just throw out. One certain reality here in Washington is that we are in the middle of a giant health reform effort where many seniors are skeptical about whether they will be better off or not. And that certainly colors the politics. We are also facing unprecedented deficits and the idea that we need to consider something that might increase deficits further is also relevant.

And finally, there is a real possibility that Social Security reform long-term could be on the agenda as early as next year. So all of those things, I think, are part of larger context for this discussion. But the main thing that I took away from this discussion was I am not sure that there is one problem we are trying to fix. I think there might be as many as six. And it is not always clear whether we should just fix one or the other or whether we should try to do several at a time.

There is the problem, first of all, of the checks going down on a net basis for about 75 percent of the Social Security population – well, I don't know if it is actually that much; it is the Part D problem – what is the percent of the population that would have their checks actually go down?

MS. NEUMAN: Forty percent.

MR. ROTHER: Forty percent, right. So that is one problem. But a second problem is the fact that Part B premiums are going up for people whether they are higher income or new retirees or duals. And it seems like those are two very separate issues. There is also the issue of Social Security policy with regard to whether we should waive the 25 percent rule and extend hold harmless across the board or not. And what impact does that have on the trust fund?

And then there are three other larger issues. One is the fact – Steve referred to the historic accident that we are using CPI-W as the index, which doesn't even include the older population and which certainly under-weights the impact of rising health-care costs. So whether we are even using the right index. And then, of course, there is the issues relating to health reform of, why are health-care costs going up anyway? We are having to deal with symptoms. I don't know if we can get at the cost through health reform. That is part of this. But also part of it is the fact that there is no out-of-pocket cap in Medicare, so the out-of-pocket costs keep rising.

And the last framing issue is the framing around economic stimulus. Last year, seniors received a one-time $250 payment as part of a stimulus and as part of – and accompanying to Make Work Pay. But Make Work Pay for working people was a 2-year payment. And the payment to seniors was 1-year, so that raises the option of looking at this in the context of an additional 1-year payment as part of a stimulus, not as part of Social Security. So maybe that totally confuses things. But it does strike me that we need to be clear about what problem we are trying to fix before we can decide what is the appropriate solution.

MR. KOENIG: Thanks, John. Okay, right here.

Q: Heidi Hartmann, Institute for Women's Policy Research. First, I want to say thank you very much for this panel. I almost didn't come to it because I thought to myself how complicated can the COLA be for Social Security. (Laughter.) So I am really glad I came because it is incredibly complicated.

And I agree with John that there are so many issues. One of the things that strikes me just off the bat is how irrational some of these underlying laws are like why third quarter to third quarter and not an annual average, why the W index? There is at least six, possibly more just wrapped up in this one panel discussion.

And then, Tricia, I apologize for blurting out my question, but I just want to come back to it because I am not sure what would happen. Isn't it still true that the majority of older people are retiring before 66? I mean, they are not waiting until full retirement age even though it is falling –

MS. NEUMAN: That point was right. Your point was right on that.

Q: So if they are getting a Social Security check, even though they were never enrolled in Medicare, if their first enrollment year is this year when there is no COLA increase, they are held harmless because you are not allowed to reduce their Social Security check even for a new enrollment, a brand-new enrollment.

MS. NEUMAN: Right.

MR. KOENIG: Let me just follow up on that. I thought the new beneficiaries will experience a full increase in their Medicare Part B premiums.

MR. GOSS: They will just simply pay the rate.

MR. KOENIG: They will just pay the rate. Right. So –

Q: Well, the difference is they are – (inaudible, off mike) – Social Security – (inaudible). It is just most people retire before age 65.

MS. NEUMAN: Yeah. And I think in the estimates – and these are not my estimates of how many people would be affected. These do come from the actuaries in CMS, not Social Security. They take that into account.

Q: Frank Todisco with the American Academy of Actuaries. Just a point of clarification because there has been some misunderstanding of this in the press. It is not a correct statement to say that there will not be a COLA granted in December 2010. It is a virtual certainty that there will be a zero for December 2009.

But it is just an estimate – it is the best estimate right now that there will be a zero in December 2010. It won't take a whole lot by historical standards to get to a COLA next year. If inflation is about 2.5 percent or more over the next year, we will get into a COLA. So that is just important to keep in mind.

MR. KOENIG: That is absolutely correct. And if I misspoke, I apologize. As I said, CBO and Social Security Administration are both projecting that there will be no COLA for December 2010.

MS. GOSS: Our trustees' assumptions suggest that we will still be .9 percent shy as of the third quarter of 2010 from being high enough to be able to get a COLA. So is it possible that we are underestimating how much prices might grow between now and the third quarter of 2010 by 1 percent? Easily. You know, there is that much uncertainty for sure. But odds are probably we are going to have two in a row. And I think CBO, OMB and the trustees were all saying that. But Frank is right. It is an estimate or a guess at this point.

MR. KOENIG: The joke is we can all cross our fingers for high inflation.

MR. GOSS: If you want to go back to $4 a gallon gas, we can get there. (Laughter.)

MR. KOENIG: Kathy?

Q: Thank you. I am Kathy Ruffing from the Center on Budget and Policy Priorities. And please understand I am not speaking for my organization. But I just wanted to point out the two proposals for a flat one-time payment of either 150 or $250 may not really be one-time only because after all, under trustees' or CBO projections, it is going to be two or three years before there is another COLA. So we might realistically expect yet another one-time payment in 2011.

And furthermore, even after COLAs resume, they will be quite small. And there are going to be a lot of people who would be better off with a 150 or 250 payment than they would be under the regular COLA computation after 2011 or 2012. So when we do our cost estimates, we should pay some attention to political realism.

MR. KOENIG: Thank you. Anybody want to respond? I think that is definitely something to be concerned about. The thing with the ad hoc COLA is it automatically gets built into the system, which is why Steve said it is so costly. But you are right. We need to consider political realities as well.

MR. GOSS: Kathy makes a good point that the cost-of-living adjustments, of course, as I think Tricia was pointing out earlier – one person has a $300 benefit and another person has a $900 benefit. And we have a cost-of-living adjustment of 1, 2 or 3 percent. Well, guess what? The person with the $900 benefit gets three times as much increase just because everybody gets the same percentage.

On the flat dollar amount, everybody would presumably get the same. But, of course, that is the good news. The bad news, I guess, is that it is only in one month, one time during the year that you get it. And Kathy is also right. Certainly, if we do have zero or no cost-of-living adjustment under current law for not only December of 2009, but also December 2010, the likelihood that Congress will come back and consider another one-time payment assuming we enact one this year – and even if we don't – but it will certainly be under consideration next year. And just, time will tell.

And the one point Heidi made was about why just a quarter for the basis for calculating the cost-of-living adjustment and why not looking at sort of a longer period. We did a quick calculation. I think it is true that if we had based it on, say, the fiscal year, the whole 12-month period ending with the third calendar quarter of the year instead of just that one calendar quarter that we are basing it on now, I think we would still have a zero COLA for December 2009 anyway. It would be much closer.

I think the reason really for doing it on the most recent quarter that is available as opposed to the most recent whole year is that while it would be smoother – you know, we wouldn't have these sort of bumps up and down the way we have with just looking at one quarter – arguably, it wouldn't be quite as current a measure of what the rate of increase in inflation is. So, you know –

MR. ROTHER: I will take a crack also. I am not sure that, again, going back to what is the problem we are trying to solve. I don't think the problem is low inflation in the economy. I don't think the problem is if we had accurately measured prices for seniors and there wasn't an increase and they didn't get a COLA, that is not a problem. The problem, at least in my mind, is the discrepancy between what is happening in health-care cost and what is happening in the CPI, and the fact that because of the deduction from the check for premiums, then the net check could go down. That, to me, is the problem.

Q: Hi, Alice Wade from Social Security. I have a couple questions for Tricia. And I was just a little confused about the newly eligibles because if somebody is 64 receiving Social Security benefits. They turn 65 in 2010. Aren't they hit with the whole Medicare premium because they weren't paying Medicare premiums before? So it would be anyone who is first eligible for Medicare, perhaps, maybe? That is question number one.

Question number two is how about the people that are Medicare only? Would they also be hit for the full premium? And then I have one question for Matt. (Chuckles.) I know that state budgets are going to be very stressed. Maybe I didn't understand, so I will ask you. You said something about the federal match percentage. And is that – did you say it was going away for Medicaid? Or did I misunderstand that? Thank you.

MR. SALO: Sure. Let me answer the last question first because it is relatively brief. No, the federal match for Medicaid is not going away. What is going away is an enhanced match that was provided to states as part of ARRA, the American Reinvestment and Recovery Act, which added roughly – the way Medicaid is financed is it is a combination of state and federal dollars. And on average, the federal government pays about 57 percent of the program and the states about 43. And it varies widely from state to state. But the average is 57-43.

The recovery bill provided a time-limited – it ends the end of 2010, about a 7 percentage point increase for states, which has been enormously helpful for state budgets over the past year or so. And a big reason why you haven't to date seen really draconian cuts happening in states. But come January 1, 2011, under current law, that goes away.

MS. NEUMAN: Okay, back to me. Well, as you saw, we were caucusing on this new enrollee issue. (Laughter.) And I think we are ending up where we think is some measure of truth. And if not, I don't know how we will correct any impressions here is that it is for people who are new to both programs, who would be – who would not – who would end up paying the higher premium.

Right? Yeah. So for people who – that would be the subset of new enrollees. They would be coming on to both programs at the same time who would not be protected and would pay the higher premium. Yes?

MR. : They would pay the full premium.

MS. NEUMAN: The full higher premium. And the second question had to do with people who are Medicare only. And there are not that many of them. But they would obviously – Medicare only and not Social Security – but they, too, would be in this group of people who are paying the higher premium.

Q: Carol Simons, AARP Bulletin. I have a question about inflation. This could turn into a little economics lesson. But you mentioned – you just mentioned if we have $4 gas again, we will be able to reach that inflation rate that spiked in December – in the third quarter of 2008. Isn't that a high benchmark for us to keep getting over? And couldn't this happen again?

MR. GOSS: Well, it certainly can happen again. I mean, inflation doesn't always go up in a very steady pace. And you can have these strange little situations like when we had the spike in oil prices that pulled a lot of other prices along with it, of course. Now, if you are a farmer, you are harvesting your wheat and you have got these big machines out there burning diesel. Well, the oil is going to make the price of that diesel higher, too. And you are going to have to charge more for your wheat. So everything rises with that ship.

Can distortions like this happen again? Absolutely. And as Heidi was pointing out, as long as we are just focusing on one quarter – it would be even worse if we were focusing on one month – then there could be even more bouncing around of this index. That is a possibility. But I guess one thing I would point out, though, is to be careful about the language.

Some people are saying that we are in a period of deflation because we did have a period of deflation. It was from the third calendar quarter of 2008 to December of 2008. I mean, that is it. If you look after December of 2008, prices have been rising steadily ever since. So that is a really brief period of deflation. And we all saw it at the pump price of gasoline just from that one thing that happened.

Ever since then – gasoline – prices have been rising. Everything else has. And if you just look at the graph of the CPI, it is rising at a fairly steady rate. Our trustees assume that ultimately, the CPI-W will grow, you know, a little bit less than 3 percent a year, about 2.8 percent a year. I think CBO and OMB are down in the low twos.

And that is just a matter of what you think is most likely. But inflation in the future is expected still to continue, but not in an absolutely rock solid steady rate. So we are still – we have the potential of seeing other times when there may not be an increase in the CPI from one third quarter to the next third quarter. So this could come up again.

MR. KOENIG: Other questions? All the way in the back there.

Q: Hi, Mary Beth Franklin with Kiplinger's Personal Finance Magazine. And not to belabor the point, but to once again go back to the new enrollees. As was pointed out, it is very common for people to collect Social Security benefits early before they are eligible for Medicare. So 2009, I have Social Security, 2010, I quality for Medicare for the first time. And it is deducted from my Social Security check. My Social Security net payment is going to be smaller regardless. It is the first time Medicare is taken out. So do I pay the full Medicare premium or the hold harmless premium?

MR. GOSS: We believe you pay the full premium. Personally at least, I would just like to say I always love in any forum to show ignorance because that is the only way that you can be sure to eliminate the ignorance if someone else knows for sure better than what our caucus result is here. We believe that in exactly the situation described – because obviously, even if we charge only $1 for the premium, that will make your benefit potentially go down, especially if we charge the whole 96 or 98 or 104 or $120. So we don't believe that there are any restriction from the full premium that is paid in the first year that a person is eligible for Medicare, even though they have already been getting Social Security.

MS. NEUMAN: But I will tell you what. Anybody who has got a burning question about this, we will look it up because both of us really want to make sure we are right about this. And if you would give us your card, we will let you know.

MR. KOENIG: John?

MR. ROTHER: Gary, I had a question for Steve. I raised the issue of whether we are still using the right CPI. And I wondered if you could suggest whether the experimental CPI index, the CPI-E, would be an appropriate solution to the problem that we are discussing.

MR. GOSS: I am not sure it would be a solution. We haven't looked explicitly. I am pretty sure given the extent to which we had the drop off in the CPI, you know, late last year that the CPI-E for elderly would also have had a decline and we wouldn't be having a COLA this year. But it is a very good broader question as to whether or not the CPI-W is the right index.

As John pointed out, it only covers a third of the people and it is only urban wage earners and clerical workers, which means almost by definition, it is not our beneficiaries. The good news, though, is the difference between the CPI-W and the CPI-U is not a whole lot. I think they average within about one-tenth of 1 percent in the growth rate. The CPI-E, which is elderly, and it is an experimental index.

And a lot of people looked at this, including folks at the American Academy of Actuaries. Over a historical period, there has been as much as about a three-tenths of 1 percentage point difference largely because of higher waiting on medical costs for the elderly. And certainly, you can make an argument that perhaps we should have a more finely tuned index, even though it would be for the elderly and not all of our beneficiaries are elderly. But arguably, a lot of folks who are getting disability benefits under our program are faced with the same kinds of cost structure that the elderly are. So you can certainly make that case. And it would be a little bit higher.

The only other thing I would point out. Another thing that people often talk about if we are going to talk about all the kinds of CPI indices that you could look at, there is one other that is on the table that you all have probably heard a fair amount about. Those are called chained CPI-U. The chained CPI-U is another variant. And we could have a chained version of the CPI-W or a chained version of the CPI-E. And the so-called chained index is simply one where you take into account the fact that when the price of one thing goes up a lot more than the price of another, you might decide not to buy so much of that thing. It went up a whole lot in price that year and instead buy a lot more of the stuff that didn't go up much in price. This is referred to as substitution bias in the CPI.

And if you adjust for that, you can get a lower growth rate in the CPI. I think there is a counterargument to that exactly as I think, perhaps, John was suggesting. Most of our beneficiaries don't have that much latitude about saying well, I am not going to pay for food this year and I will buy a Mercedes-Benz instead. (Laughter.)

You know, I mean, a lot of people, you know, in our economy, you know, hopefully a lot of people in this room do have that option. But a lot of our beneficiaries don't. So the ability to sort of swap out a month's broad categories of goods and services isn't probably as much there for beneficiaries who you could probably make a case that possibly this chained CPI concept may not be as appropriate for the cost-of-living adjustment.

MR. ROTHER: And if I could follow up with a different question. Steve, Tricia mentioned the lead time that is needed to adjust CPI. Could you address that? Do you have a sense of is there a firm drop-dead date for legislative action if we are going to change the checks in January?

MR. GOSS: I think what we have heard is about the middle of the upcoming month, October, is when we really need to know what the Part B premium is for Social Security systems to be able to take it into its stride and be able to do full testing. Nobody wants us to be going out there and have the systems working where there would end up being problems with it.

And it takes a lot of testing for all these, many tens of millions of computations that have to be done for individuals. So about the middle of October is when we are really hoping that we will have the Part B premium locked in and therefore, any legislation that would affect it done by then.

MR. ROTHER: So we have three weeks to get this done? (Laughter.)

MR. KOENIG: Any other questions? All the way in the back.

Q: Hi, I am Trish Nemore from the Center for Medicare Advocacy. There is another group of people who are – well, they are actually a group already talked about. But anybody who loses their Medicaid or Medicare savings program, which pays the Part B premium for them, is affected by paying the higher premium rate. And that is hitting the lowest-income people hardest. There are people for whom the states will be paying the increase if they retain program status. But if they lose program status, they will be paying the higher amount. So that is a great concern for low-income people.

MS. NEUMAN: I was just going to say that is a really good point. And I should acknowledge, Trish, that you all have done really good work on this issue and have a policy brief that points that out. Another group that I mentioned – it is another low-income population; I just want to explain it a little bit more – are the people who are low income – this is a Part D issue – who are eligible for, but not receiving the low-income subsidies under Part D.

So in addition to people who fall off of the Medicare savings programs who would pay the higher Part B premium, there is also a group of people who could see their Social Security checks decline because they are not receiving the low-income subsidy benefits to which they are entitled. And there are about 2 million people in Part D plans who are eligible for these subsidies, really should not be paying their Part D premiums, but are. And so that is another maybe overlapping group of low-income people who we should be concerned about.

MR. KOENIG: Matt, did you want –

MR. SALO: Yeah, I would just thank Trish for raising that point because I think it really does help to illuminate one of the major policies that is going on here that makes no sense whatsoever. Because when you step back and look at it, I think no one in their right mind would design how Medicare works for low-income people the way they have because you have a population here – again, these are the dual-eligibles, the low-income, often very frail elderly and people with disabilities.

We have acknowledged as a policy matter that the premiums, co-pays and deductibles for this very low-income population are higher than they can afford. And I think we can all agree that is correct. However, the policy decision about what do we do about that makes no sense whatsoever. The smart thing to do as a policy matter would be to say if you are at pick whatever income level you determine, you can't afford the premiums, you should say you don't have to pay them. Medicare waives the premium or the co-pay or the deductible or what have you. That would make sense.

That is not what happens. In order for these very low-income, very high, you know, acuity, very frail individuals to get relief from Medicare's premiums, co-pays and deductibles, the system forces them to go down to the welfare office and apply to get Medicaid, a program run by a different level of government, to pay those premiums, co-pays and deductibles on their behalf. That makes no sense for lots of reasons.

It makes no sense to treat low-income seniors that way. It obviously burdens state budgets in a way that is inappropriate. And as Trish points out, there is not 100 percent take up of the eligible low-income seniors and people with disabilities. It may be very high in some cases, but it is not 100 percent. And for whatever reason if you are – if you did not get down to the welfare office to sign up or whatever, there isn't anything there to protect you from the cost of that premium, co-pay, deductible. And yes, you would at the very bottom of the income scale be responsible for this huge bump. It makes no sense whatsoever. And I think it is clearly one of the things we should do away with from a policy perspective.

MR. KOENIG: Any other questions? Let me ask one more question here. To what extent should the policy discussion of what to do be considered in the broader context? And I think John talked about this in terms of what has happened within the last year in the economy. This is not necessarily just a Medicare issue or Social Security. So to what extent should we consider the broader economy when thinking about the solution?

MS. NEUMAN: It is not just a Medicare issue. But the elderly people and disabled people live within the broader economy. And so they are affected by rising health-care costs more so than people who are not on Medicare, perhaps. And they are affected when they live on fixed incomes or they might have supplemental income, maybe money in the stock market that is way down from where it once was because they, like everybody else, have lost investment income.

So I do see this situation fitting in fairly well into the broader economic picture for other people. And I know there have been stories in the press about look, a formula is a formula and we ought to live with the formula. But I am wondering whether people on Medicare really see that they have had a better year relative to others. And my guess is they probably don't feel that way since they too have lost money and they are burdened with rising health-care costs.

MR. KOENIG: Any other questions? All right, down here. Can you wait for the mike?

Q: It strikes me that while there may be some folks out there who are asserting that the deficit is already too big and how can we spend this money, that there has been a lot of money spent ’til now on all sorts of other people. I think – and senior citizens, for example – many senior citizens say, well, all that money went to Wall Street. You know, so what happens when the economy is bad for us? People say, well, we are going to take up Social Security next so we can cut Social Security benefits to pay for that gigantic deficit.

MR. KOENIG: Any other questions? We are about at 11:00. We have time for one more question maybe.

Q: I was just thinking that another irrationality – I don’t know if it was commented on is that thing about the base maximum taxable earnings not increasing. Doesn’t that hold over from when the COLA was discretionary? So you could argue that, well, if the COLA is discretionary – in other words, real costs have gone up in the economy, but families – older people aren’t getting it, well, then, we shouldn’t tax wage earners because the wage earners are going to have to help the older people more.

But if they didn’t get the COLA because there was no increase in costs because there was no inflation, then the average family shouldn’t have to give their older people more and so there isn’t really any rational reason for not increasing the taxable wage base. Just yet another issue.

MR. KOENIG: Do you know, Steve, how that came about?

MR. GOSS: Well, actually, my understanding is that it was in the 1972 amendments, where the automatic COLAs were first enacted and where we also put in the coupling of the no increase on the taxable maximum. Your comments about the logic, I agree, it kind of escapes me, too.

MR. KOENIG: Any more questions? Otherwise, I will ask Janet to come up to conclude. I would like to thank the audience and the panel for what I thought was an interesting and informative discussion.

MS. MCCUBBIN: Yes, I want to echo Gary’s appreciation to those of you who have attended today and also to our panelists who have tried to disentangle this very complicated issue for us. I think we almost all of us had the same reaction that Heidi mentioned and Gary mentioned when we first heard about the no COLA, which is well, that seems logical and it seems straightforward. And then when you dig a little deeper, you find out it is not straightforward at all and it deserves very careful consideration.

So I thank all of you. And I want to also draw your attention to the papers in your packets. This is a very complicated issue, but Tricia has an excellent paper in the packet. Steve’s slides are in the packet. And we also have released a fact sheet today that talks about the CPI-U, the CPI-W, the CPI-E and the superlative chained price index to lay it all out for you a little bit – in a little bit more detail. So I encourage you to take a look at those at your leisure.

I want to give a little plug for our next event. Our next AARP Solutions Forum on the topic of economic security will be in this room on Monday, October 26th. And it will deal with the auto-IRA proposal and a little bit with the saver's credit proposal. We will be focusing on implementation issues, so how would the auto-IRA actually work if it were enacted.

And we will be hosting some guests from New Zealand and the U.K. who will give us a little flavor of some lessons that they have learned with similar programs. So there will be information on our website in a week or so, aarp.org/ppi. And if you are interested in that forum, I would encourage you to check it out and register for that one as well. So I hope to see you in about a month. Thank you again to our panelists. (Applause.)

(END)