Understanding Medicare Part B Premium Increases

January 2017

Introduction

In the autumn of each year, the Centers for Medicare & Medicaid Services (CMS) set the following year’s Medicare Part B premium. In 2017, the Part B base premium will be $134, up from $121.80 in 2016. Fortunately, not all beneficiaries will necessarily pay all of this increased amount. Certain people who collect Social Security benefits and have their Medicare Part B premium deducted from those benefits each month, may be protected from paying the full base Part B premium under a special “hold harmless” provision.

Medicare Part B Hold Harmless Provision

Starting in 1986, the “hold harmless” provision created variable Part B premiums in cases where the annual Cost Of Living Adjustment (COLA) for Social Security benefits wasn’t high enough to cover the increase in the Part B premium. Congress established this protection so beneficiaries wouldn’t end up getting smaller monthly benefit payments due to paying higher Part B premiums. Because the 0.3 percent Social Security benefits COLA for 2017 isn’t large enough to cover the full amount of the increased Part B premium in every case, beneficiaries who are “held harmless” won’t pay the full $134 premium. Instead, those beneficiaries will have their Part B premium increased by the same amount as the COLA for their Social Security benefit. Social Security refers to this as the Variable Supplementary Medical Insurance (VSMI) premium.

Specifically, the hold harmless provision requires the Part B premium amount be reduced so that the net benefit amount due in January of the new year (i.e., the December benefit) won’t be less than the beneficiary’s net benefit received for December of the previous year (i.e., the November benefit). The provision applies only to individuals who were entitled to benefits for the months of November and December and who actually received corresponding checks in December and January. Due to the way the hold harmless provisions will be applied in 2017,
beneficiaries will pay differing amounts for their Part B premium, depending on their individual circumstances.

**NOTE:** Keep in mind that Social Security pays Title II benefits one month in arrears. For example, beneficiaries receive their July benefit in August and their September benefit in October, etc. Because of this, the COLA for 2017 actually begins with the December 2016 benefit that beneficiaries receive in January 2017. Therefore, the COLA is applied to benefits received in January 2017.

Here are some examples of how the VSMI premium is applied:

- **Darryl** is entitled to $930 in SSDI benefits but receives a net monthly cash payment in 2016 of $825.10 due to payment of the 2016 hold harmless Part B premium of $104.90. The 2017 COLA will increase Darryl’s SSDI payment by 0.3% ($2.79) to $932.79. The 2017 base Part B premium is $134, but if that amount were deducted from the payment Darryl receives in January 2017 ($932.79 - $134 = $798.79), that payment would be lower than the payment he received in December 2016 ($825.10). Because of the hold harmless provision, Darryl’s Part B premium for 2017 will be $107.69 ($104.90 + $2.79 = $107.69), instead of $134. His net SSDI benefit will remain the same as it was in 2016 ($932.79 - $107.69 = $825.10).

- **Samantha** is entitled to $1,170 in SSDI benefits but receives a net monthly cash payment in 2016 of $1,048.20 due to payment of the 2016 base Part B premium of $121.80. The 2017 COLA will increase Samantha’s SSDI payment by 0.3% ($3.51) to $1,173.51. The 2017 base Part B premium is $134 which, if deducted from the payment Samantha receives in January 2017 ($1173.51 - $134 = $1,039.51). Because of the hold harmless provision, Samantha’s Part B premium for 2017 will be $125.31 ($121.80 + $3.51 = $125.31), instead of $134. Her net SSDI benefit will remain the same as it was in 2016 ($1,173.51 - $125.31 = $1,048.20).

- **Tran** is entitled to $2,500 in SSDI benefits but receives a net monthly cash payment in 2016 of $2,378.20 due to payment of the 2016 base Part B premium of $121.80. The 2017 COLA will increase Tran’s SSDI payment by 0.3% ($7.50) to $2,507.50. The 2017 base Part B premium is $134, which, if deducted from the payment Tran receives in January 2017, would result in a net monthly benefit of $2,373.50 ($2,507.50 - $134 = $2,373.50). Because of the hold harmless provision, Tran’s Part B premium for 2017 will be $129.30 ($121.80 + $7.50 = $129.30), instead of $134. His net SSDI benefit will remain the same as it was in 2016 ($2507.50 - $129.30 = $2,378.20).
Once a variable premium is established, it remains in effect for the full calendar year, as long as the individual remains eligible for the VSNI.

**Eligibility for the VSNI**

The hold harmless provision protects a Social Security beneficiary from paying higher Part B premium costs so long all 4 of the following conditions are met:

1. The individual is entitled to Social Security benefits for the months of November and December;
2. Medicare Part B premiums for December and January are deducted from those benefits,
3. The individual receives a cash benefit for November and December; and
4. Solely because the increase in the Part B premium is so high compared to the Social Security benefit payable, the Social Security benefit payable would be lower in January than in December.

The hold harmless provision does NOT apply to beneficiaries who are:

- New to Medicare Part B in 2017;
- Subject to the Income-Related Monthly Adjustment Amount (IRMAA); or
- Enrolled in a Medicare Savings Program (MSP) in which the State pays the Part B premium.

**VSNI when Benefits are Suspended Due to Work**

Keep in mind that individuals whose benefit payments are suspended due to SGA level work might not be eligible for the VSNI premium depending on when the payments are suspended. To be eligible for the hold harmless protections, beneficiaries have to be eligible for and have received benefits for December 2016 and January 2017 and the Part B premiums have to be withheld from those payments. This would not be the case for a person in suspense who pays Part B premiums out-of-pocket. A beneficiary whose benefit is suspended due to work for December 2016 and January 2017 and who becomes re-entitled to cash payments later in 2017 will not be eligible for the VSNI premium because the 4 required conditions were not met. Individuals in this situation will pay the full 2017 base premium of $134.

**VSNI for Beneficiaries Enrolled in Medicare Savings Programs (MSP)**
The hold harmless protections of the VSNI premium stop when a beneficiary enrolls in one of the Medicare Savings Programs (MSP) and the State begins paying the Part B premium. The State pays the “regular” (that is, non-variable) premium of $134/month in 2017. The VSNI premium may or may not be reinstated for the months the individual is responsible for premium payments, depending on whether or not all of the eligibility requirements are met. The VSNI premium will be reinstated if:

1. The individual is entitled to Social Security benefits for the months of November and December;
2. Medicare Part B premiums for December and January are deducted from those benefits;
3. The individual receives a cash benefit for November and December; and
4. Solely because the increase in the Part B premium is so high compared to the Social Security benefit payable, the Social Security benefit payable would be lower in January than in December.

Here are some examples:

- Tanya was eligible for a MSP throughout 2016 and through May of 2017. Her MSP stops in June 2017 because of her countable SSDI and earned income. When the MSP stops she is responsible for paying the amount the state was paying, $134/month. Tanya isn’t eligible for the VSNI because the Part B premium for December 2016 and January 2017 wasn’t deducted from her SSDI benefit.

- Claire has been entitled to Medicare since early 2015 and the Medicare Part B premiums were deducted from her SSDI benefits through February 2017. In January 2017, she would have received a lower SSDI benefit than she did in December 2016 only because of the increase in the Part B premium compared to her 2017 COLA. Therefore, Claire begins paying the VSNI premium out of her SSDI payment in January and February of 2017. She qualifies for MSP benefits in March 2017 and her eligibility for this program lasts through August 2017. In September 2017, Claire begins a full time job and her countable income is now too high to qualify for any of the MSPs. Claire still meets all of the requirements for the hold harmless provisions as those requirements are based on what occurred in November and December of 2016 and January of 2017. Nothing about those months has changed. Therefore, the VSNI premium resumes in September 2017.

Premium Surcharge and the VSNI Premium
Beneficiaries who qualify for the VSMI premium but pay a Part B late enrollment penalty (the premium surcharge) still have to pay that penalty. The 10% per year premium surcharge will not be waived, and it may increase. This is because the penalty will be calculated based on the new, higher premium—even if the beneficiary isn’t paying that higher amount due to hold harmless protections. The full premium surcharge is added to the amount of the variable premium that is established for the beneficiary.

Conclusion

This resource document covers the most common rules that apply to the VSMI premium. Some VSMI determinations are very complex, particularly those involving retroactive award of benefits or retroactive adjustment of Social Security payments. Only Social Security personnel are qualified to make these determinations. Whenever CWICs are in doubt about whether or not the VSMI applies, they must refer beneficiaries to the local field office for assistance.

Conducting Independent Research

The Medicare Rights Center provides a wealth of information covering a wide range of Medicare issues written in plain language. Information about Part B premiums is available here: https://www.medicareinteractive.org/get-answers/how-original-medicare-works/original-medicare-cost-overview/increases-in-part-b-premiums-the-hold-harmless-provision

POMS RS 00601.125 - Variable Supplementary Medical Insurance (SMI) Premium
https://secure.ssa.gov/poms.nsf/lnx/0300601125

POMS HI 01001.004 - The Variable Supplementary Medical Insurance (VSMI) Premium
https://secure.ssa.gov/poms.nsf/lnx/0601001004