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THE CARE SPAN

Spurring Enrollment In Medicare Savings Programs Through A Substitute For The Asset Test Focused On Investment Income

ABSTRACT **Fewer than one-third of eligible Medicare beneficiaries enroll in Medicare savings programs, which pay premiums and, in some cases, eliminate out-of-pocket cost sharing for poor and near-poor enrollees. Many beneficiaries don't participate in savings programs because they must complete a cumbersome application process, including a burdensome asset test. We demonstrate that a streamlined alternative to the asset test—allowing seniors to qualify for Medicare savings programs by providing evidence of limited assets or showing a lack of investment income—would permit 78 percent of currently eligible seniors to bypass the asset test entirely. This simplified approach would increase the number of beneficiaries who qualify for Medicare savings programs from the current 3.6 million seniors to 4.6 million. Such an alternative would keep benefits targeted to people with low assets, eliminate costly administrative expenses and obstacles to enrollment associated with the asset test, and avoid the much larger influx of seniors that would occur if the asset test were eliminated entirely.**

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Three Medicare savings programs are designed to make Medicare more affordable for poor and near-poor beneficiaries by paying premiums and eliminating out-of-pocket cost sharing. The first, the Qualified Medicare Beneficiary Program, pays all Medicare premiums and out-of-pocket cost sharing for beneficiaries who have incomes at or below 100 percent of the federal poverty level and who are ineligible for full Medicaid coverage. The second savings program, the Specified Low-Income Medicare Beneficiary Program, pays Part B premiums for Medicare beneficiaries with incomes of 101–120 percent of the federal poverty level. The third, the Qualified Individual Program, pays Part B premiums for beneficiaries with incomes of 121–135 percent of the federal poverty level. Eligibility criteria, benefits, and participation rates for the three programs are summarized in Exhibit 1.

Each of these three programs is estimated to reach only a small proportion of eligible beneficiaries (between 13 percent and 33 percent; Exhibit 1).[1,2] In contrast, 81 percent of eligible beneficiaries receive a low-income subsidy for Medicare Part D prescription drug coverage.[3] Similarly, the combination of Medicaid and the Children's Health Insurance Program covers 84.8 percent of eligible, low-income children.[4]

When low-income Medicare beneficiaries join Medicare savings programs, they can experience important gains. One leading study, for example, found that enrollment in the Qualified Medicare Beneficiary Program reduced by approximately 50 percent the likelihood that a poor

EXHIBIT 1

Medicare Savings Programs: Eligibility, Benefits, And Estimated Participation Levels

	Eligibility			
Program	**Income**	**Assets (2010 levels for individuals/couples)**	**Benefits**	**Estimated participation level**
Qualified Medicare Beneficiary	Above Medicaid levels and at or below 100% of the federal poverty level	\$6,600/\$9,110	Pays premiums, deductibles, coinsurance for Parts A and B Full low-income subsidy for Part D, including premiums, deductibles, and most other cost sharing	33%
Specified Low-Income Medicare Beneficiary	101–120% of the federal poverty level	\$6,600/\$9,110	Pays Part B premiums Full low-income subsidy	13%
Qualified Individual	121–135% of the federal poverty level	\$6,600/\$9,110	Pays Part B premiums Full low-income subsidy	<19%

SOURCES Notes 2 and 5 in text.

beneficiary would skip physician visits because of cost.[5] In addition, payment of Medicare premiums and cost sharing could lift serious economic burdens from poor seniors. For seniors with annual incomes below the federal poverty level, health care expenses consume 22 percent of their median income.[6]

Moreover, participants in Medicare savings programs automatically qualify for the Medicare Part D low-income subsidy, which makes prescription drugs more affordable by paying premiums and eliminating most cost sharing.[7] Without such automatic eligibility, qualified beneficiaries seeking subsidies must formally apply to the Social Security Administration or state Medicaid programs. An estimated 60 percent of subsidy-eligible beneficiaries who do not qualify for automatic enrollment fail to initiate or finish the application process to receive low-income subsidies.[8]

Participation in Medicare savings programs, which are administered by state Medicaid agencies and funded with federal and state Medicaid dollars, has been inhibited by many factors. Two obstacles that many observers identify as particularly important are beneficiaries' unfamiliarity with available benefits and a cumbersome application process.[1,9] The latter involves, among other things, the so-called asset test, which requires applicants to prove that their resources are below a specified value.

Before the Medicare Improvements for Patients and Providers Act of 2008, eligibility for Medicare savings programs was limited to low-income beneficiaries with no more than \$4,000 in assets for individuals and \$6,000 for couples, although states had the authority to relax or even eliminate the asset requirement. The act raised the national asset threshold to \$6,600 for individuals and \$9,110 for couples in 2010, indexing these thresholds to rise with inflation in later years.[10]

Because assets remain an important determinant of program eligibility, applicants must report and document the value of household assets such as bank accounts, insurance policies, stocks and bonds, retirement savings accounts, automobiles, burial plots, and jewelry.[11] These steps contribute to the complexity of, and burden imposed by, the Medicare savings programs' application process.[12,13] Beneficiary focus groups[14] and interviews with state officials confirm that the burdensome and intrusive nature of the asset-testing process prevents many seniors from completing applications.[15]

Administering the asset test, which is also used to establish eligibility for many other public programs, consumes substantial administrative resources. One state estimates that for all categories of Medicaid eligibility, explaining asset eligibility rules, following up with clients, and verifying asset valuation consumes up to 20 percent of all costs related to processing Medicaid applications.[11] In the case of Medicare savings programs, several states have reported sizable administrative savings from eliminating the asset test.[12,16]

Balanced against the administrative cost savings that result from eliminating asset requirements is the spending generated by higher en-

The burdensome and intrusive nature of the asset-testing process prevents many seniors from applying.

rollment in savings programs. Increased participation has two causes. First, when enrollment is simplified, a higher proportion of already eligible beneficiaries sign up. Second, when assets become irrelevant to eligibility, more people qualify. For policy makers seeking to increase participation levels by streamlining enrollment, the first effect is desired, but the second is not.

In this article we explore an alternative approach that policy makers can use when trying to have the best of both worlds: streamlined enrollment with limited eligibility requirements. The goals of this approach are to eliminate the asset test for most applicants, thereby increasing participation levels among currently eligible beneficiaries and achieving administrative savings; and to minimize the number of otherwise ineligible people who qualify for assistance under new program rules.

We first establish the context for this approach by estimating the increase in eligibility for Medicare savings programs that would result from complete elimination of asset tests. That question has not been examined since the Medicare Improvements for Patients and Providers Act of 2008 went into effect.[17,18]

We then examine an alternative approach that would eliminate the asset test for one set of income-eligible beneficiaries: those who report no investment income. Investment income, which may include interest or rent, signals the potential ownership of assets.

Under this approach, an income-eligible Medicare beneficiary could qualify by providing suitable evidence of either assets below the threshold or the absence of investment income. Here, we take a cue from the Earned Income Tax Credit, which, instead of imposing asset tests, requires income-eligible taxpayers to show investment income below specified amounts. For example, in 2010 taxpayers could claim the credit only if their adjusted gross income was at or below $13,460–$48,362 (depending on tax filing status and the number of dependent children) and if their investment income (which includes interest, dividends, capital gains, and rental income) did not exceed $3,100.[19]

Finally, we pose three basic questions about this alternative eligibility scenario. First, how many currently eligible beneficiaries lack investment income and could therefore qualify for and join Medicare savings programs without going through the asset test? Second, how many otherwise ineligible beneficiaries would qualify? Third, to what extent would eligibility for Medicare savings programs remain targeted to need?

Study Data And Methods

To simulate eligibility for low-income assistance under Medicare, we used data on Medicare beneficiaries from the 2006 Health and Retirement Study. This study uses a nationally representative, 18,469-person sample of the US noninstitutionalized population age fifty-three and older. The 2006 survey sample included 11,576 actual Medicare beneficiaries, 2,149 of whom were seniors with incomes low enough to qualify for Medicare savings programs.

The Health and Retirement Study collects detailed information—for respondents and spouses—on various components of income and assets. Earned income information includes wages, salaries and bonuses, and earnings from self-employment. Unearned income information includes capital income (business income; rental income; dividend income; trust income; interest income from certificates of deposit, bonds, Treasury bills, and checking and savings accounts; and income from other assets), pension and annuity income, Social Security retirement or survivor's income, Social Security disability income and supplemental security income, unemployment and worker's compensation income, welfare income, veteran benefits and military pension, food stamps, and other income (including lump-sum income and alimony income).

Information concerning household assets covers a person's primary residence, other real estate, vehicles, business assets, individual retirement accounts, stocks, mutual funds, checking and savings accounts, certificates of deposit, bonds, Treasury bills, trusts, whole life insurance, mortgages and other home loans, and other savings and assets. Comparisons of survey findings to administrative data indicate that survey measurement error[20] and any undercount of beneficiaries[21] are relatively small. Although survey data for asset income can be underreported in any survey, the Health and Retirement Study is considered one of the most reliable sources of such information, and it is often used to benchmark asset income reported in other surveys.[22–24]

We limited our analysis to Medicare beneficiaries age sixty-five and older, and we did not include younger beneficiaries with disabilities, for two reasons. First, our data source only included people age fifty-three and older. Accordingly, it did not provide a representative sample of all beneficiaries under age sixty-five. Second, nonelderly people with disabilities represent a small proportion of all Medicare beneficiaries—only 7.8 million out of 46.6 million people, or 16.8 percent, in 2010.[25]

We began by simulating Medicare savings program eligibility under current law—that is, since the enactment of the 2008 legislation described above. This analysis took into account differences among states in how income and resources are counted. We then compared the percentage of elderly beneficiaries who qualify under current law to the percentage who would qualify without an asset test.

Next, we estimated eligibility for Medicare savings programs under an alternative eligibility scenario in which income-eligible beneficiaries qualified either by owning assets at or below the maximum thresholds allowed under current law or by receiving no investment income. We defined the latter to include business and farm income; rent; dividends and interest; any payments from savings accounts, certificates of deposit, stocks, bonds, and investment trusts; and any income that survey respondents characterized as "other" investment income. Self-employment earnings were not counted as investment income.

We estimated the proportion of the beneficiaries eligible under current law who lack investment income. We also estimated the number of beneficiaries who are currently ineligible but who would qualify for Medicare savings programs under this alternative eligibility scenario. Among such newly eligible beneficiaries, we estimated asset levels at the twenty-fifth, fiftieth, and seventy-fifth percentiles. We developed these estimates for other beneficiaries as well, which allowed us to compare both currently eligible people and those who would remain ineligible.

We also determined the proportion of newly eligible people whose assets exceed the maximum value permitted for Medicare Part D's Low-Income Subsidy Program—$10,210 for individuals and $20,420 for couples in 2006.[26] We used the latter as a "rough and ready" dividing line between asset levels that are moderately and those that are substantially above the amounts permitted under the current Medicare savings programs.

Additional information about our data and eligibility simulation has been published elsewhere.[18]

7.3 million

Eligible people

Under current law, approximately 3.6 million seniors qualify for Medicare savings programs. If asset tests were eliminated, 7.3 million would be eligible.

Study Results

ELIMINATING THE ASSET TEST We found that under current eligibility rules, an estimated 9.2 percent of elderly Medicare beneficiaries qualify for Medicare savings programs. We further found that eliminating the asset test would increase this figure to 18.8 percent, representing a 104 percent increase in the number of eligible seniors.

PEOPLE WITHOUT INVESTMENT INCOME In simulating the effects of an alternative approach through which beneficiaries could qualify for Medicare savings programs by either demonstrating limited assets or showing the absence of investment income, we found that 78 percent of seniors eligible for Medicare savings programs under current law receive no investment income. As a result, they could qualify without providing information about assets, and the administrative costs of subjecting them to the asset test could be eliminated. We also found that eligibility for Medicare savings programs would increase from 9.2 percent of elderly beneficiaries to 11.9 percent, representing a 30 percent increase.

These percentages can be translated into numbers of affected seniors based on the Medicare beneficiary counts for 2010 described above.[25] Under current law, approximately 3.6 million seniors qualify for Medicare savings programs. If asset tests were eliminated, 7.3 million would be eligible. In contrast, if asset tests were eliminated only for beneficiaries without investment income, 2.8 million out of 3.6 million currently eligible seniors could avoid the asset test, and the total number of people who qualify would increase to 4.6 million.

To analyze the effectiveness of this approach in targeting assistance to need, we found that among the 9.7 percent of all income-eligible beneficiaries whose assets disqualify them under current law, 6.9 percent would remain ineligible by virtue of their investment income. Put differently, 71 percent of people currently kept out of Medicare savings programs because of disqualifying assets would remain excluded under the proposed investment income test.

We also found that 89 percent of seniors eligible for Medicare savings programs under this alternative eligibility scenario—including 51 percent of newly eligible seniors—have assets sufficiently low to qualify for the Medicare Part D Low-Income Subsidy Program. And in terms of the median value of their household assets, newly eligible beneficiaries ($27,628) are closer to currently eligible beneficiaries with investment income ($3,380) than to income-eligible beneficiaries whose total assets exceed current eligibility thresholds and who receive invest-

EXHIBIT 2

Asset Values For Medicare Beneficiaries With Various Combinations Of Current Eligibility And Investment Income, 2006

	Asset values ($)		
	25th percentile	Median	75th percentile
Currently eligible, no investment income	0	0	2,049
Currently eligible, some investment income	1,000	3,830	10,055
Currently ineligible, no investment income	15,088	27,628	73,200
Currently ineligible, some investment income	20,552	126,311	407,000

SOURCE Urban Institute model of eligibility for Medicare low-income assistance based on data from the 2006 Health and Retirement Study. **NOTES** Medicare beneficiaries are age sixty-five or older with incomes low enough to qualify for Medicare savings programs. Beneficiaries who are newly eligible under the alternative eligibility scenario are shown in the third row as currently ineligible and without investment income.

ment income ($126,311), as shown in Exhibit 2.

Additional information about our findings for each specific Medicare savings program is available in the online Appendix.[27]

Discussion

If eligibility rules for Medicare savings programs changed so that income-eligible seniors could qualify either by meeting asset tests or by showing the absence of investment income, 78 percent of beneficiaries who are now eligible could take the latter route and avoid the procedural complications of the asset test. If such an alternative to the existing asset test were allowed, the number of seniors eligible for Medicare savings programs would rise by 30 percent. In contrast, simply eliminating all consideration of asset limits—that is, eliminating the asset test instead of replacing it with the streamlined approach we propose—would increase eligibility for Medicare savings programs by 104 percent.

Under our proposed alternative, Medicare savings programs would also remain relatively well targeted to need. Seven in ten income-eligible seniors with excess assets under current law would remain ineligible, because they receive investment income. In addition, seniors qualifying for Medicare savings programs under this alternative policy would also gain automatic enrollment into the Medicare Part D Low-Income Subsidy Program. An estimated 11 percent of these seniors would have assets above the levels permitted by the Part D Low-Income Subsidy Program. All eligible people would continue to be poor or near-poor, with incomes below current limits. Median assets for newly eligible adults would exceed the amounts that characterize current beneficiaries but would remain closer to such beneficiaries who have investment income than to income-eligible seniors whose assets continue to disqualify them from Medicare savings programs.

INCREMENTAL POLICY OPTIONS The proposed alternative eligibility scenario could be implemented either by states, using their current flexibility to relax asset rules for Medicare savings programs,[28] or by federal lawmakers through changes to the governing statute. Whether adopted at the state or federal level, such a policy would allow the vast majority of eligible beneficiaries to avoid the asset test, thereby streamlining enrollment procedures and increasing participation.

This approach could also help Medicaid programs achieve administrative savings. Several states that completely eliminated the asset test for Medicare savings programs reported that administrative savings roughly equaled the increased costs that resulted from higher enrollment.[12,16] The balance of savings and costs should be more favorable under the approach discussed here because it allows 78 percent of currently eligible seniors to bypass the asset test while increasing eligibility by a much smaller margin than would result from ending the asset test entirely.

Administrative savings could be considerable. However, precise national results cannot be extrapolated from these state estimates. Each involved state dollars rather than total spending,[29] and none was rigorously evaluated. More broadly, the absence of public information about enrollment in Medicare savings programs, benefit costs, and administrative expenses makes it impossible to reliably and precisely quantify the costs and savings that would result from national policy change.[30]

BOLDER POLICY OPTIONS The alternative eligibility scenario discussed here could lay the groundwork for modernizing eligibility determination by using information on prior-year income tax returns to qualify Medicare beneficiaries for savings programs, thereby reducing the burdens placed on applicants to describe and document their circumstances. This would bring these programs within a paradigm embodied by the Affordable Care Act of 2010, which bases eligibility for tax credits and cost-sharing subsidies on prior-year income tax returns, with certain exceptions.

In the past, such data-driven eligibility has been largely confined to programs in which people qualify for aid based on income, without regard to assets. There is a good reason for this limitation. Compared to information about income, which is comprehensively tracked for purposes of administering state and federal income tax systems and unemployment assistance programs, authoritative data about household resources are much more limited and fragmentary.[1]

By eliminating the need to establish asset valuation for most beneficiaries, the investment-income alternative could help Medicare savings programs achieve the gains in administrative efficiency and program participation that can result when eligibility is established by data matches, rather than by public employees' evaluation and verification of forms completed and documents provided by applicants.

One possible operational model involves an arrangement between the Department of Education and the Internal Revenue Service. At a family's request, the application form for federally subsidized college student aid can be automatically prepopulated with information from the family's federal income tax form.[31]

This is not an isolated example. Given the general stability of income levels among households with people age sixty-five or older,[32] many means-tested programs use data from prior years to establish seniors' current eligibility. Examples include Medicare Part B, which determines income eligibility for means-tested premiums based on federal income tax data two years in the past, and Medicare Part D, which qualifies beneficiaries for subsidies based on receipt of Medicaid or Supplemental Security Income in the previous year. State or federal policy makers could establish procedures through which Medicare beneficiaries automatically qualify without needing to submit an application.

The automatic qualification would occur when a beneficiary's tax return from the previous year showed both sufficiently low income to meet a Medicare savings program's general income standards and the absence of investment income. As with means-tested subsidies for Medicare Parts B and D, beneficiaries ineligible for Medicare savings programs on the basis of prior-year tax data could nevertheless qualify for assistance by providing additional information, including changes in household circumstances since the period covered by the tax return.

Medicare savings programs suffer from low participation levels, despite benefits that improve access and reduce financial burdens.

QUESTIONS FOR FUTURE RESEARCH To more fully analyze the efficacy of these bolder policy options, future research will need to address such issues as the proportion of low-income seniors who file federal income tax returns; the proportion of beneficiaries for whom tax return information cannot establish income eligibility because of Medicare savings program rules that cannot be applied based on tax data alone; and the relationship between prior-year income eligibility for Medicare savings programs and current-year eligibility. For a description of current knowledge about these topics, see the Appendix.[27]

Future research will also need to provide information about current enrollment and costs for Medicare savings programs. More broadly, it will need to analyze the potential impact of the investment income alternative on Medicare beneficiaries under age sixty-five who qualify on the basis of disability.

Conclusion

In 1988 Congress created the first Medicare savings program, covering so-called Qualified Medicare Beneficiaries.[1] Decades later, Medicare savings programs still suffer from remarkably low participation levels, despite benefits that improve access to care and reduce the financial burdens otherwise borne by low-income beneficiaries. To streamline the enrollment process while lowering administrative costs, policy makers in a small number of states have eliminated the cumbersome asset test for Medicare savings programs. This step has not been taken by most states or by national policy makers, in part because the resulting increase in eligibility could result in enormous costs from providing health care benefits to people newly eligible for the savings programs.

If policy makers allowed the absence of investment income to serve as an alternative route to eligibility for Medicare savings programs, the advantages of eliminating the asset test would be realized for the vast majority of beneficiaries who currently qualify for these programs. At the same time, the expansion in eligibility would be a small fraction of what would result if the asset test were repealed outright. In a time of state and federal budget constraints, many policy makers could find a policy with these features more appealing than ending all asset limits. ■

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NOTES

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In this month's *Health Affairs*, Stan Dorn and Baoping Shang report that fewer than one-third of eligible Medicare beneficiaries take advantage of any of the three programs that would pay their cost sharing, in part because of the cumbersome asset test required of applicants. They propose a streamlined alternative that would permit most beneficiaries to bypass the test without greatly increasing the number of eligible beneficiaries.

Dorn, a senior fellow at the Urban Institute's Health Policy Center, joined the center in 2006 as a senior research associate. His previous positions include senior policy analyst, Economic and Social Research Institute; project director, Health Consumer Alliance, National Health Law Program; and health division director, Children's Defense Fund.

Dorn's research on health coverage issues for low-income people and other vulnerable populations focuses on implementation of the Affordable Care Act. His efforts helped shape provisions in the act that provide Medicaid to childless adults, extend the Children's Health Insurance Program through 2015, and streamline eligibility determination for and enrollment into subsidized health coverage. His diverse projects continue to draw upon a long-standing interest in designing and implementing health reforms at the state and federal levels to ensure accessibility to intended beneficiaries.

Dorn received his law degree from the Boalt Hall School of Law at the University of California, Berkeley.

Baoping Shang is a technical assistance adviser at the International Monetary Fund.

Shang, formerly a research associate at the Urban Institute's Health Policy Center, joined the International Monetary Fund as a technical assistance adviser in 2010. His research in the area of health economics has a strong focus on Medicare, health care financing, benefit design, and provider payment methods. His additional research interests include development economics and public economics.

Shang holds a master's degree in applied economics from Xi'an Jiaotong University in China and a doctorate in policy analysis from the RAND Graduate School.