



Explanation of the ColoradoCare Proposal's Relationship to Medicare Beneficiaries¹

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

- Medicare regular Part A, Medicare Parts B and D, and Medicare Advantage would continue as they do now.
- ColoradoCare would provide supplemental or Medigap coverage to Medicare beneficiaries.
- ColoradoCare would provide benefits for services that are not covered by Medicare but covered by ColoradoCare (probably vision, hearing, dental, etc.)
- ColoradoCare would offer voluntary enrollment in a ColoradoCare Medicare Advantage Plan.

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

What are the tax exemptions?

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

- The definition of non-payroll income in the proposal uses the Social Security taxable benefits as defined on line 20 of the IRS 1040 form. The taxable Social Security amount excludes \$9,000 for individual filers and \$12,000 for joint filers.
- ColoradoCare's definition of non-payroll income excludes Social Security and pension incomes as defined by Section 39-22-104(f)(4), Colorado Revised Statutes, and explained by the Colorado Department of Revenue publication FYI 25. This exemption of pension or annuity income has a \$20,000 maximum per person for people between 55 and 65 years old, and a \$24,000 maximum for people over 65 years old, and it applies to the combination of Social Security, pension, retirement plan, and IRA income. It combines with the federal partial exemption of Social Security income as follows:
 - An individual filer could have \$9,000 of Social Security income exempted on the federal 1040 form plus as much as \$24,000 additional Social Security, pension, retirement plan, and IRA income exempted **resulting in a total exemption of \$33,000.**
 - Joint filers could have \$12,000 of Social Security income exempted on the federal 1040 form plus up to \$24,000 for each person's additional Social Security, pension, retirement plan, and IRA income exempted **resulting in a total exemption of \$60,000.**
- The income that is not exempted or does not come from wages is considered non-payroll income. Premium Taxes for non-payroll income are 10% of gross income, but this is partially offset by the Premium Tax becoming a deduction from both federal and state taxes. After adjustment for savings on income tax, the non-payroll Premium Tax results in the following impacts on the taxpayers:

ColoradoCare Tax Impact Table

| Individual filer taxable income | Joint filer taxable income | Federal income tax rate | Your Premium Tax impact rate |
|---------------------------------|----------------------------|-------------------------|------------------------------|
| up to \$9,076 | up to \$18,150 | 10% | 8.537% |
| over \$9,076 | over \$18,150 | 15% | 8.037% |
| over \$36,900 | over \$73,800 | 25% | 7.037% |
| over \$89,350 | over \$148,850 | 28% | 6.737% |
| over \$186,350 | over \$226,850 | 33% | 6.237% |
| over \$405,100 | over \$405,100 | 35% | 6.037% |
| over \$406,750 | over \$457,600 | 39.6% | 5.577% |

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

Medicare supplemental insurance is a commercial insurance product regulated by the states. A variety of plans may be offered, and the cost varies according to plan, the medical needs of enrollees, and the state where the plan is offered. AARP, Inc. plans for Colorado were used to estimate the cost of a Medicare Supplemental Plan that did not have deductibles². In 2019, the value of one of these Medicare Supplemental Plans is estimated to be \$2,023.00.

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

The amount of Premium Tax paid depends on the source of income, with a higher rate on non-payroll income than payroll income. Even if people over 65 had only non-payroll income in addition to their Social Security and pension income, they would pay less in premiums than the projected cost of the supplemental if their income were below \$62,000 for individual filers and \$117,000 for joint filers. However, at least 21% of people over 65 are employed, and among the high-income earners, 41% of their income comes from employment. Because the Premium Tax is lower for wage income, seniors who have a portion of their income that comes from wages could have an even higher income before they would be paying more in Premium Tax than the cost of the supplemental plan. In fact, in some cases, seniors could still pay less in Premium Tax than the cost of the supplemental if their income were as much as \$106,000 for single filers and \$198,000 for joint filers. Overall, it is estimated that for 85% of Medicare beneficiaries, Premium Taxes would be less than the cost of the supplemental³.

Are there other benefits that Medicare beneficiaries would obtain with ColoradoCare?

ColoradoCare was designed on the principle that while the initiative and waivers will set the floor for covered benefits, as funding becomes available the Trustees are to consider expanded benefits. Universal health care in principle seeks to consider all health care expenditures. The analysis found that there was \$1.2 billion available for expanded dental coverage beyond the limited dental coverage that would be provided through the Medicaid waiver; this coverage was included in this analysis as well as the one that was used to establish the amount needed for the Premium Tax rate. Both the initiative and two waivers require vision and hearing benefits for children, and the Trustees acting upon the desires of Coloradans could expand these to adults as well. However, the specific benefits would need to be established by the Board of Trustees.

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

As explained above in tax exemptions, Social Security income is excluded in two processes that are part of the proposal's definition of non-payroll income. The Premium Tax is based on line 20 of the

federal IRS 1040 form, which excludes \$9,000 of Social Security income for individual and \$12,000 for a couple. In addition, non-payroll income does not include any pension or annuity income that is not subject to Colorado income taxes pursuant to section 39-22-104(f)(4). This section of the law refers to provisions on Line 7 and 8 of the Colorado 104 Income Tax Form, and it exempts up to \$24,000 per person of Social Security income that is not already excluded on the federal 1040 form. The combination of these two exclusions results in Social Security income being excluded⁴.

Tax law is generally complex and requires detailed definitions. Therefore, the ColoradoCare proposal did not attempt to create complex tax exemptions, but instead relied on existing federal and state defined exemptions, which are unfortunately complex. By relying on federal and state tax statutes, it is possible for the exemptions to be increased or adjusted for changing circumstances in the future by either the federal or state government.

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

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

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

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

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

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

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

² American Association of Retired People, (2015). Current Medicare Supplemental insurance plans that do not require any deductibles priced for the Colorado market. www.aarpmedicareplans.com.

³ This projected estimate was prepared by adjusting the AARP average wage income for high income earners [American Association of Retired People (2013). Sources of income for older Americans, 2012. Fact Sheet 296, AARP, Washington, DC.] for the portion of earnings that come from self-employment instead of wages for people over 65 [U.S. Census Bureau, (2014). Current Population Survey, 2014 Annual Social and Economic Supplement. PINC-09_1_6. Source of Income in 2013-Number with Income and Mean Income of Specified Type in 2013 of People 15 Years Old and Over by Age, Race, Hispanic Origin, and Sex. Census Bureau, Washington, DC.]; adjusting for growth of income from 2013 to 2019 [U.S. Census Bureau (2014).

Current Population Survey, Annual Social and Economic Supplements. POLAR CPS Population and Per Capita Money Income, All Races: 1967 to 2013. Census Bureau, Washington, D.C.] being the same as previous 6 years (8.387%); adjusting for Colorado income being 5.7% greater than national average [U.S. Dept. of Commerce, Bureau of Economic Analysis (2013). Per Capita Personal Income by State. Dept. of Commerce, Washington, DC.]; adjusted for 55% filing taxes jointly [U.S. Census Bureau (2013). Population 65 years and over in the United States: 2009-2013 American Community Survey 5-year estimates. Reports 55% of people over 65 are married and therefore are likely to file jointly. U.S. Census Bureau, Washington, DC.]; and applying results to income distribution table for people over 65 [U.S. Census Bureau (2013). Population 65 years and over in the United States: 2009-2013 American Community Survey 5-year estimates. Reports 55% of people over 65 are married and therefore are likely to file jointly. U.S. Census Bureau, Washington, DC.], resulting in the predicted income point at which Premium Tax and cost of the ColoradoCare supplemental if the current system continued would be the 85 percentile of income for people over 65.

⁴ The maximum Social Security benefit for someone retiring at full retirement age is \$2,642/month or \$31,704/year. This is less than the individual filer exclusion. Although it is possible that both people who are joint filers would have the maximum, resulting in a few thousand dollars of Social Security taxation, it is highly unlikely that joint filers would both have the maximum. Therefore it is reasonable to state that Social Security income is excluded from the Premium Tax. The maximum benefit available may be found at the Social Security Administration website <https://www.colorado.gov/pacific/sites/default/files/Income25.pdf>.