

# CRS Report for Congress

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## Counting Income Under Medicare's New Prescription Drug Benefit

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### Summary

When calculating a Medicare beneficiary's income-to-poverty ratio for low-income eligibility purposes, not all income is counted; certain amounts and types of income are disregarded. This report describes how income is counted for determining eligibility for the low-income Medicare prescription drug benefit that begins in 2006. In addition, this report provides hypothetical examples of Medicare beneficiaries' income and what their income-to-poverty ratio would be using the definition of income in P.L. 108-173. This report will be updated as needed.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (P.L. 108-173) establishes a prescription drug benefit that begins in 2006. The cost-sharing (for example, deductibles and coinsurance) for prescription drugs is reduced for certain beneficiaries, depending on their income-to-poverty ratio and other factors. When calculating a beneficiary's income-to-poverty ratio for low-income eligibility purposes, not all income is counted; certain amounts and types of income are disregarded. This report describes how income is counted for determining eligibility for the low-income Medicare prescription drug benefit that begins in 2006. In addition, this report provides hypothetical examples of Medicare beneficiaries' income and what their income-to-poverty ratio would be using the definition of income specified in P.L. 108-173.

Countable income is based on Supplemental Security Income (SSI) rules, under which aged (aged 65 and older) individuals' income (or married couples' combined income) is broken into two categories: unearned income, such as Social Security payments and retiree benefits, and earned income, such as salary, wages and self-employment income. For unearned income, the disregard is \$20 per month.<sup>1</sup> So, if an individual or couple had \$1,000 of unearned income per month, only \$980 would be counted in determining eligibility for the low-income provisions of the Medicare prescription drug benefit beginning in 2006. The disregard for *earned* income is \$65 per month "plus one-half of the remainder thereof." The simplest way to calculate countable

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<sup>1</sup> The disregard cannot be applied to SSI, cash welfare, and disability payments.

earned income is to take total monthly earned income minus \$65; the resulting amount is halved to yield countable earned income. The sum of countable unearned income and countable earned income yields total countable income and is compared to the appropriate poverty measure.

Medicare's new drug benefit will reduce cost-sharing for beneficiaries enrolled in Medicaid and for beneficiaries below the following two income-to-poverty levels (plus an assets test<sup>2</sup>): 135% of poverty and 150% of poverty. The poverty guidelines are published by the Department of Health and Human Services (HHS) as annual amounts, even though eligibility is usually determined with monthly amounts. Countable income of 135% of poverty in 2003 was \$12,123 for an unmarried, aged person in the 48 contiguous states and the District of Columbia. For a married, aged person in the 48 contiguous states and the District of Columbia, countable income of 135% of poverty in 2003 was \$16,362. Countable income of 150% of poverty in 2003 for unmarried and married aged beneficiaries in the 48 contiguous states and the District of Columbia was \$13,470 and \$18,180 respectively. The amounts were higher in Alaska and Hawaii. Thus, the examples in **Table 1** do not apply to beneficiaries in Alaska or Hawaii. Income levels will be slightly higher when the program goes into effect in 2006.<sup>3</sup>

The examples in **Table 1** were designed to yield countable incomes just below 135% of poverty or 150% of poverty. The first two examples represent unmarried, aged Medicare beneficiaries with no earned income — for instance, those whose only income is their Social Security check. The examples show individuals whose 2003 countable income level is just below 135% of poverty and 150% of poverty, respectively. The next two examples assume \$1,000 per month in unearned income with the amount of earned income varied to demonstrate total countable income just below 135% of poverty and 150% of poverty. The last four examples are structured like the first four, except they are for aged beneficiaries who are *married* (whose countable income is calculated as a combined unit).

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<sup>2</sup> Even if one qualifies for cost-sharing assistance based on income, that assistance may be precluded by the beneficiary's countable assets, or resources, a topic not addressed in this report.

<sup>3</sup> The most recent poverty guidelines are available at the Web site of the HHS Assistant Secretary for Planning and Evaluation [<http://aspe.hhs.gov/poverty/poverty.shtml>]. Countable income of 135% of poverty in 2003 for unmarried and married aged beneficiaries in Alaska was \$15,134 and \$20,439 respectively. Countable income of 150% of poverty in 2003 for unmarried and married aged beneficiaries in Alaska was \$16,815 and \$22,710 respectively. Countable income of 135% of poverty in 2003 for unmarried and married aged beneficiaries in Hawaii was \$13,946 and \$18,819 respectively. Countable income of 150% of poverty in 2003 for unmarried and married aged beneficiaries in Hawaii was \$15,495 and \$20,910 respectively.

**Table 1. Examples of Aged Medicare Beneficiaries' Countable Income for Low-Income Prescription Drug Benefits, 48 Contiguous States and District of Columbia**

	Unearned monthly income <sup>a</sup>	Earned monthly income <sup>b</sup>	Total monthly income (unearned + earned)	Monthly countable income <sup>c</sup>	Annual countable income	Ratio of countable income to poverty
<b>Unmarried, aged individuals</b>						
Example 1	\$1,030 <sup>d</sup>	\$0	\$1,030	\$1,010	\$12,120	<135%
Example 2	\$1,140	\$0	\$1,140	\$1,120	\$13,440	<150%
Example 3	\$1,000	\$125	\$1,125	\$1,010	\$12,120	<135%
Example 4	\$1,000	\$345	\$1,345	\$1,120	\$13,440	<150%
<b>Married, aged couples (combined income)</b>						
Example 5	\$1,380	\$0	\$1,380	\$1,360	\$16,320	<135%
Example 6	\$1,530 <sup>e</sup>	\$0	\$1,530	\$1,510	\$18,120	<150%
Example 7	\$1,000	\$825	\$1,825	\$1,360	\$16,320	<135%
Example 8	\$1,000	\$1,125	\$2,125	\$1,510	\$18,120	<150%

**Source:** Congressional Research Service.

**Note:** Even if one qualifies for cost-sharing assistance based on income, that assistance may be precluded by the beneficiary's countable assets, or resources, a topic not addressed in this report. The examples were designed to yield countable incomes just below 135% of poverty or 150% of poverty. Income levels will be slightly higher when the program goes into effect in 2006.

a. The following are examples of unearned income: Social Security payments (including survivor's and disability benefits), unemployment, worker's compensation, Supplemental Security Income (SSI), cash welfare payments, Department of Veterans Affairs payments, retirement income (e.g., pensions), interest, dividends, rent income, and alimony.

b. Earned income consists of wages, salary or self-employment income.

c. To calculate countable unearned income, up to \$20 per month is deducted from unearned income (although the disregard cannot be applied to SSI, cash welfare, or disability payments). Countable earned income is calculated by reducing earned income by up to \$65 per month. The resulting amount is halved and is countable earned income. Total countable income is then calculated by adding the countable unearned and countable earned incomes.

d. According to the Social Security Administration, the average monthly benefit for a retired worker in Dec. 2003 was \$922. For an aged widow(er), the average monthly benefit was \$888.

e. According to the Social Security Administration, the average monthly benefit for a retired worker and aged spouse in Dec. 2003 was \$1,523.