



Advising the Congress on Medicare issues

Medicare's late-enrollment penalties

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Last year the Commission began examining the complex enrollment decisions that beneficiaries make

- Medicare's enrollment requirements and time frames for action can be confusing for beneficiaries and may have lifelong implications
- Beneficiaries weigh various factors when choosing between FFS Medicare and MA, such as financial protection, access to care, and the availability of extra benefits
- Researchers have found that individuals are often unfamiliar with insurance concepts and are prone to various decision-making biases when selecting health plans

Note: FFS (fee-for-service), MA (Medicare Advantage).

Source: Taylor, E. A., K. G. Carman, A. Lopez, et al. 2016. *Consumer decisionmaking in the health care marketplace*. Santa Monica, CA: RAND Corporation.

A brief recap of last year's work

- Analyzed the complexity of the choices that beneficiaries make when enrolling in Medicare, including:
 - Multiple enrollment periods and late-enrollment penalties
 - Selecting and choosing MA plans, PDPs, and Medigap policies
 - Motivations for and barriers to switching between MA and FFS
- Described the sources of information and advice that beneficiaries use to make their choices

Note: MA (Medicare Advantage), PDP (prescription drug plan), FFS (fee-for-service).
Source: MedPAC (2026). Report to the Congress: Medicare and the health care delivery system. Washington, DC, MedPAC.

A brief recap of last year's work (continued)

- Reported findings about beneficiaries' understanding of Medicare and experience with information sources
 - Conducted interviews with a variety of stakeholders involved in the State Health Insurance Assistance Program (SHIP)
 - Reviewed the marketing of MA plans and the financial incentives and training requirements for insurance agents
 - This work led to a chapter in our June 2026 report
- Commissioners expressed interest in doing further work on these issues during this meeting cycle

Note: MA (Medicare Advantage).
Source: MedPAC (2026). Report to the Congress: Medicare and the health care delivery system. Washington, DC, MedPAC.

Some beneficiaries do not enroll in Part B or Part D when they first become eligible

- Part B and Part D are voluntary programs and typically require enrollees to pay monthly premiums
- Some individuals wait to enroll because they are still working and have employer-based coverage
- Some individuals may not enroll inadvertently because they find the enrollment process confusing
- Some individuals may want to delay enrollment (and avoid paying premiums) until they develop greater health care needs
 - This behavior can result in adverse selection, which increases premiums for enrollees

Medicare distinguishes between people with and without other coverage while not enrolled

- People with other coverage are not viewed as a risk for adverse selection
 - Can usually enroll in Part B and Part D when their other coverage ends
 - Typically do not incur late-enrollment penalties
 - Rules for Part B and Part D differ in some respects
- People without other coverage are viewed as a risk for adverse selection and encouraged to enroll on time
 - Limited chances to enroll after their initial enrollment period
 - May incur late-enrollment penalties

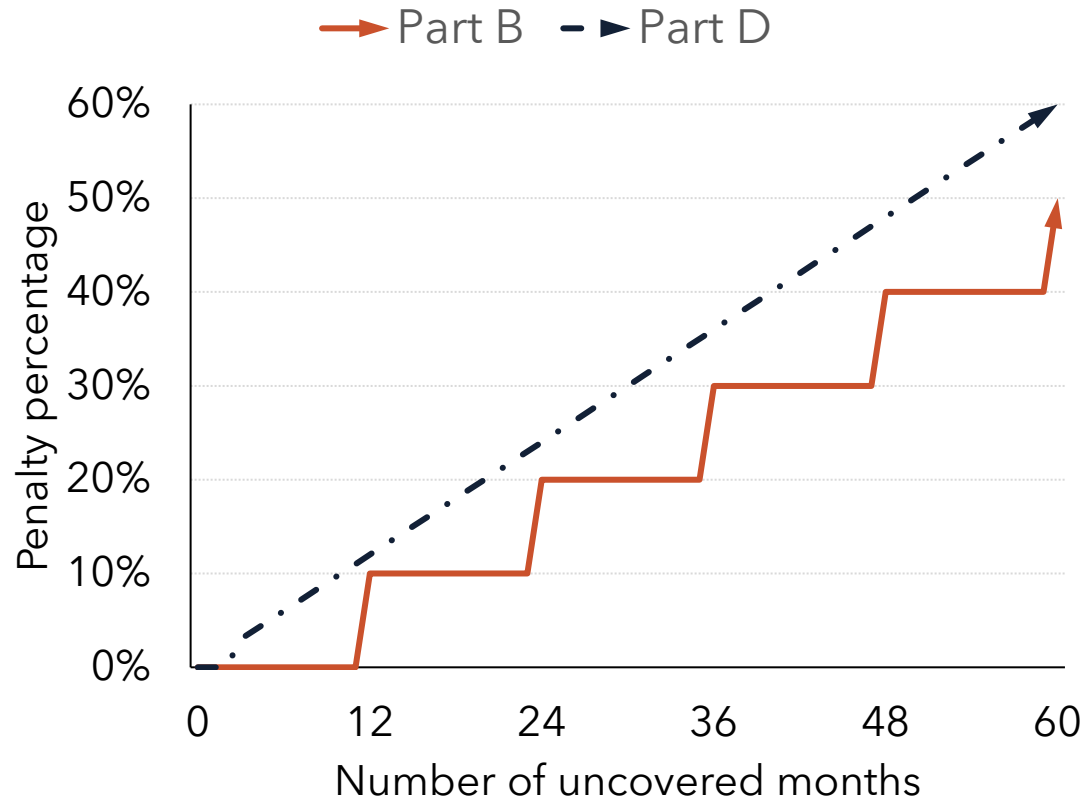
How penalties are calculated

- Penalties are based on number of uncovered months
- Some months are not counted if individual had other coverage
- Number of months determines penalty in percentage terms
- Percentage is multiplied by the standard Part B premium or Part D base beneficiary premium
- Resulting dollar amount is added to the enrollee's monthly premium
- Medicare will collect an estimated \$1.1 billion in penalties this year

The rules that Part B and Part D use to determine penalties differ in several ways

- Formula used to calculate the penalty percentage
- How long you can delay enrollment before incurring a penalty
- Which types of other coverage are considered when calculating the number of uncovered months
- When you can enroll after missing your initial enrollment period

How Part B and Part D determine the penalty percentage



Note: The penalty percentage is multiplied by the standard Part B premium or the Part D base beneficiary premium to calculate the dollar amount of the penalty.

- Part B: 10% for every 12 uncovered months
- Part D: 1% for each uncovered month (must have 63+ days without coverage)
- No cap on penalty percentage
- Individuals who take longer to enroll incur larger penalties

Differences in how other types of coverage are treated for people who are not enrolled

- Calculation of uncovered months for the penalty
 - Part B excludes months with employer coverage (must be an active worker)
 - Part D excludes months with “creditable” coverage
- Eligibility for special enrollment periods (SEPs)
 - SEPs offer more flexibility to enroll, but only certain people qualify
 - Part B SEP is limited to people with employer coverage (must be an active worker), excludes those with retiree health coverage or COBRA
 - Part D SEPs are broader: people with any employer coverage (including retiree and COBRA), those who involuntarily lose creditable coverage

Note: COBRA (Consolidated Omnibus Budget Reconciliation Act of 1985).

Relatively few beneficiaries pay penalties

- Part B: Share of enrollees who pay penalties was stable between 2014 and 2024 at ~1.4% (0.9 million people in 2024)
- Part D: Share who pay penalties rose from 3.5% in 2014 to 5.3% in 2024 (2.9 million people in 2024)
- Higher Part D figures reflect factors such as rising participation rates and imposition of small penalties
- We cannot determine why beneficiaries incur penalties; some cases may reflect deliberate choices while other cases may be inadvertent due to confusion about the enrollment process

Penalty amounts varied widely in 2024

- Average penalties were similar in percentage terms (29% in Part B vs. 36% in Part D)
 - Figures imply average beneficiary delayed enrollment by 2 to 3 years
 - Average Part B penalty was larger in dollar terms (\$51 vs. \$12 per month)
- Many enrollees had relatively low penalties
 - Part B = 45% had a 10% penalty (\$17 per month)
 - Part D = 32% had penalties of 10% or less (\$3.50 or less per month)
- Enrollees at the 90th percentile had much larger penalties
 - Part B = 60% penalty (\$105 per month)
 - Part D = 93% penalty (\$32 per month)

Differences in the distributions of enrollee-level penalties vs. aggregate penalty payments

- Beneficiaries with longer enrollment delays incur larger penalties and account for a disproportionate share of aggregate penalty payments
- In 2024, among the enrollees who paid penalties, those with penalties that exceeded 50% accounted for:
 - Part B: 13% of enrollees and 42% of aggregate penalty payments
 - Part D: 24% of enrollees and 64% of aggregate penalty payments

Length of time that enrollees pay penalties

- Part B and Part D penalties are generally permanent
 - Penalties will stop when beneficiaries turn 65 or their premium starts being paid by Medicaid (for Part B) or the low-income subsidy (for Part D)
- In 2024, affected enrollees had been paying penalties for an average of 7.3 years in Part B and 6.0 years in Part D
- Some enrollees pay penalties for much longer; the top 10% of enrollees had been paying penalties for more than 16 years in Part B and more than 13 years in Part D

Do late-enrollment penalties deter adverse selection?

- Very little research has been done on this issue
 - Atherly and Dowd (2009) examined whether healthy 65-year-olds should enroll in Part D immediately or wait until they need coverage
 - With the penalty, they found that beneficiaries would spend less over their lifetimes if they enrolled at age 65; without the penalty, waiting was more advantageous
- Our ability to assess the impact of the penalties is limited because we do not know how much Medicare would have spent on these individuals if they had enrolled on time

Source: Atherly, A., and B. Dowd. 2009. Should healthy Medicare beneficiaries postpone enrollment in Part D? *Health Economics* 18, no. 8 (August): 921-931.

We compared Part B and Part D spending for enrollees who pay penalties vs. other enrollees

- We focused on individuals who qualified based on age
- We excluded certain types of beneficiaries:
 - Low-income beneficiaries (dually eligible or receiving low-income subsidy)
 - Those who were still working and had employer coverage
- Our Part B analysis was limited to enrollees in FFS Medicare
- Our Part D analysis did not account for manufacturer rebates

Enrollees who paid penalties had lower spending, on average, than other enrollees

- Between 2015 and 2024, average monthly spending for enrollees who paid penalties was 10% to 20% lower in Part B and 20% to 30% lower in Part D
- Our analysis suggests there may be some adverse selection in Part B and Part D; premium impact is limited by high participation rates and fact that programs are largely financed by taxpayers
- The penalties may nonetheless play an important role in ensuring high participation given that a substantial number of enrollees pay more in premiums than they receive in benefits

The Commission could consider potential changes to the late-enrollment penalties

- Penalties are a safeguard that help ensure that Part B and Part D have participation rates and premiums that reflect a broad risk pool
- There are inconsistencies between the Part B and Part D penalties
- The design of the penalties raises some fairness concerns: Some enrollees may incur penalties inadvertently, pay large penalties, or pay penalties for a long time
- The impact of the penalties could be reduced in a variety of ways
- One challenge is that we do not have a good basis for assessing how changes to the penalties might affect participation rates

Some potential directions for late-enrollment penalties

- Next month we will examine ways to better inform people when they become eligible for Medicare; reforms in that area could serve as either a complement or an alternative to changes to the penalties
- Make penalty rules more consistent between Part B and Part D
 - E.g., broaden Part B SEP to include retiree health coverage and COBRA
 - Reduce the size of the penalties
 - E.g., cap Part B and Part D penalties at a certain percentage
 - Make penalties time-limited rather than permanent
 - E.g., limit the length of time that enrollees pay penalties as in Part A

Note: SEP (special enrollment period), COBRA (Consolidated Omnibus Budget Reconciliation Act of 1985).

Discussion

- Questions about today's presentation
- Interest in developing policy options (and in which of the three broad areas we outlined)
- Potential next steps, depending on commissioner interest:
 - January: discussion of policy options
 - March/April: consideration of draft/final recommendation(s)
 - June 2027 report chapter



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