

CHAPTER

1

**Beneficiary enrollment
in Medicare:
Eligibility notification,
enrollment process, and Part B
late-enrollment penalties**

Beneficiary enrollment in Medicare: Eligibility notification, enrollment process, and Part B late-enrollment penalties

Chapter summary

Individuals who apply for or are receiving Social Security payments 4 months before they turn age 65 years are notified and automatically enrolled in Part A and Part B of the Medicare program, effective the month they turn 65. At the same time, individuals the same age who have not contacted Social Security do not get any notification from either the Social Security Administration (SSA) or CMS regarding enrollment in Medicare. Instead, the SSA notifies CMS of an individual's enrollment in Medicare after he or she has applied for Social Security benefits. The current full retirement age for Social Security benefits is gradually increasing from age 65 to age 67 by the year 2027, which will lead to a full retirement age 2 years greater than the age of Medicare entitlement. This incongruity leads to a period of time when some Medicare-eligible individuals are unaware of their eligibility status because of a lack of government notification. These individuals could be at risk for substantial late-enrollment penalties that can be imposed for the entirety of a beneficiary's Medicare coverage.

Each of the four parts of the Medicare program (Part A, Part B, Part C, and Part D) has its own enrollment process, each of which includes penalties for late enrollment. Additionally, some parts of the Medicare program have separate auto-enrollment processes and possible exceptions to the enrollment requirement altogether. The fragmentation of the Medicare program leads

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- Where beneficiaries receive information on the enrollment process
- Increased enrollment in Part A only and delayed Part B enrollment
- Potential courses of action

to a lack of uniformity in the enrollment process as a whole, which can result in penalties for beneficiaries who delay or have trouble with the enrollment process.

We are concerned that a significant number of newly eligible Medicare beneficiaries do not know that they might incur late-enrollment penalties added to their Part B premiums if they do not enroll in the program when first eligible. In 2016, we estimate about 800,000 beneficiaries were paying a late-enrollment penalty for Part B. We also estimate that up to about 20 percent of beneficiaries paying Part B late-enrollment penalties may not have known about the penalties when they turned age 65. We do not know how many of these beneficiaries would have enrolled on time had they been aware of the potential for penalties.

Also, there is a growing trend of beneficiaries enrolling in Part A but not Part B. Between 2006 and 2017, the number of beneficiaries enrolled in only Part A increased from about 3 million (about 7 percent of beneficiaries) to about 5 million (about 9 percent of beneficiaries). We do not know how many of those “Part A-only” beneficiaries would also enroll in Part B if there were no late-enrollment penalty.

We were able to get some insight into these issues by following a cohort of beneficiaries who turned age 65 in 2012 and were enrolled in Medicare Part A or Part B sometime between 2012 and 2017. In 2012, 93 percent of the cohort enrolled in Part A and 72 percent enrolled in Part B. Of those who enrolled in Part A but not Part B in 2012, most were still working and receiving health insurance from their employer in 2017. About 1.5 percent of the cohort were paying Part B late-enrollment penalties in 2017. We found that about 20 percent of those paying Part B late-enrollment penalties in 2017 also delayed enrolling in Part A and may not have been notified of the potential penalties when they were 65.

The lack of a notification process ensuring that individuals are aware of their eligibility for and need to enroll in Medicare as they turn 65 should be addressed. Current law does not require that either the SSA or CMS notify individuals who have yet to apply for Social Security payments of their eligibility for Medicare. Improvement in the timeliness of notification to eligible individuals about Medicare enrollment and potential late-enrollment penalties is essential. The Secretary could work with the SSA to ensure that prospective beneficiaries receive adequate and timely notification of their pending Part B eligibility and the consequences of delaying enrollment. CMS could also work with State Health Insurance Assistance Programs (SHIPs) to address the notification issue.

The Secretary could also explore the implications of delaying the late-enrollment penalties until the beneficiary begins receiving Social Security benefits or Part A. The Secretary could also explore granting special enrollment periods to beneficiaries who had been covered by either a Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) or Marketplace (Patient Protection and Affordable Care Act of 2010) plan because they can be unaware that they may be subject to late-enrollment penalties when they enroll in Medicare. These actions could help address the unexpected late-enrollment penalties for unnotified beneficiaries.

More broadly, the Secretary could examine whether the late-enrollment penalties are having the desired effects. Currently it is not known whether, and to what extent, the penalties are causing beneficiaries to further delay enrollment. ■

Background

Individuals who applied for or are receiving Social Security payments 4 months before they turn age 65 are notified and automatically enrolled in Part A and Part B of the Medicare program, effective the month they turn 65. Others the same age do not get any government notification of their eligibility to enroll in Medicare. Instead, the Social Security Administration (SSA) notifies CMS of an individual's enrollment in Medicare after he or she has applied for Social Security benefits. The current full retirement age for Social Security benefits is gradually increasing from age 65 to age 67 by year 2027, which will lead to a full retirement age 2 years after the age of Medicare entitlement. This incongruity leads to a period of time when some Medicare-eligible individuals are unaware that they are eligible because of a lack of government notification. These individuals could be at risk for substantial late-enrollment penalties that can be imposed for the entirety of a beneficiary's Medicare coverage.

In 2016, about 3.7 million beneficiaries enrolled in the Medicare program (in Part A and/or Part B) for the first time, accounting for 6.5 percent of the Medicare population that year (roughly 57 million beneficiaries in the program total). Of those who initially enrolled in 2016, about 2.8 million (about 78 percent) turned 65 during that year. Enrollment in the Medicare program is expected to continue to grow rapidly as members of the baby-boom generation age into the program. Enrollment is expected to grow by nearly 50 percent between 2010 and 2030 (Medicare Payment Advisory Commission 2019). Given the magnitude of this increase, it is important to understand the enrollment process in its entirety.

Under the Medicare program's four parts:

- Part A, known as Hospital Insurance (HI), covers inpatient hospital stays, skilled nursing facility stays, hospice care, and some posthospital home health care.
- Part B, known as Supplementary Medical Insurance (SMI), covers certain physician services, hospital outpatient care, medical supplies, and preventive services, among other items and services.
- Part C, known as Medicare managed care, provides coverage through Medicare Advantage plans, which

are offered by private health insurance companies that contract with Medicare.

- Part D offers prescription drug benefits through private health insurance companies approved by Medicare.

Each of the Medicare program's parts has its own enrollment process, and each includes potential penalties for late enrollment. (Part C does not have its own late-enrollment penalties. Instead, enrollees are still responsible for paying any Part A and Part B penalties owed.) Additionally, some parts have separate auto-enrollment processes and exceptions to the enrollment requirement altogether. Under this fragmentation, there is no uniformity in the enrollment process as a whole. This lack of uniformity can result in penalties for beneficiaries who delay or have trouble with the enrollment process. Although late-enrollment penalties do not affect most Medicare beneficiaries, the notification process can nevertheless be updated to improve the timeliness of enrollment.

Medicare eligibility

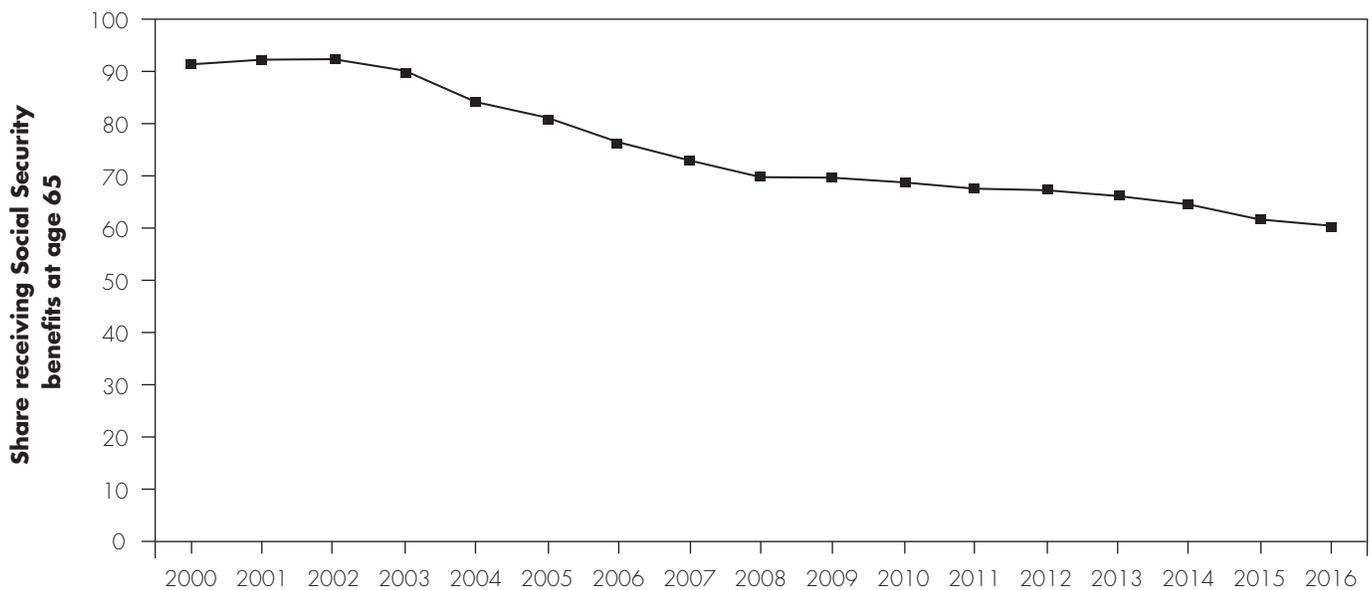
Individuals become eligible to enroll in Medicare by age, disease, or disability.¹ Individuals who are age 65 years or older and have obtained the required work credits or meet certain citizenship and residency requirements are eligible to receive Medicare benefits from each of the 4 program parts. Certain individuals under age 65 are also eligible for Medicare if they have a qualifying disability or disease. Individuals under 65 with a disability who receive benefits from Social Security or certain benefits from the Railroad Retirement Board for 24 months are automatically enrolled in Medicare. Additionally, individuals under 65 with amyotrophic lateral sclerosis who receive disability benefits from Social Security are automatically enrolled in Medicare. Individuals with end-stage renal disease (ESRD) are eligible for coverage.²

Notification of Medicare eligibility and related problems

Historically, individuals became eligible for Medicare at age 65, the same time they would receive full retirement benefits from Social Security. The notification process for Medicare eligibility is tied to eligibility for Social Security, which was not a problem historically because the eligibility age for the two programs aligned. Issues in the notification process have ensued from legislation

**FIGURE
1-1**

There has been a sharp decline in the share of OASDI eligibles receiving Social Security benefits at age 65



Note: OASDI (Old-Age, Survivors, and Disability Insurance).

Source: Social Security Administration, administrative data for the Social Security program (Master Beneficiary Record), 100 percent data.

that has incrementally increased the age of full retirement for Social Security. The Social Security Amendments of 1983 gradually raised the full retirement age for Social Security benefits, also known as the Old-Age, Survivors, and Disability Insurance (OASDI) Program, from 65 to 67. The increase in the full retirement age began in 2003 and will be complete in 2027. The current age for full retirement benefits is 66, although individuals can retire early and collect reduced OASDI benefits at age 62. The increase in the age for full OASDI benefits affects those Medicare-eligible individuals who do not begin taking Social Security benefits until they reach the age for full OASDI benefits and thus do not receive government notification of their eligibility at age 65.

Currently, only individuals who already receive or have applied for Social Security benefits 4 months before turning age 65 are formally notified by the government to enroll in Medicare when they first become eligible. By law, the SSA is responsible for determining the Medicare eligibility of individuals and notifying CMS of their enrollment. If individuals are receiving or have applied for

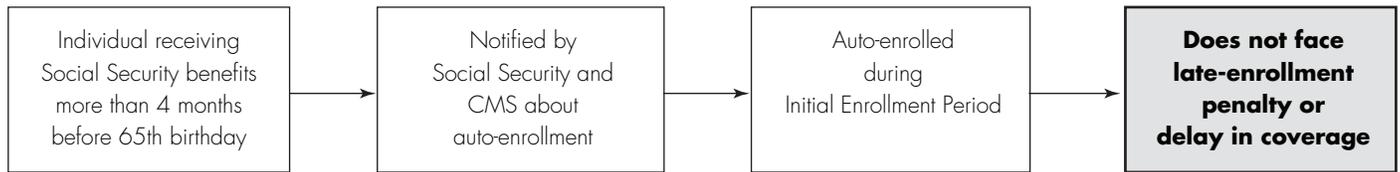
OASDI, the SSA will send their records to CMS 4 months before they turn 65. The SSA notifies these individuals about their entitlement to Part A and automatic enrollment in Part B. CMS then sends the Initial Enrollment Period (IEP) package, which includes the Medicare card/SMI Refusal card, and gives the beneficiary the ability to refuse automatic Part B enrollment. CMS mails the IEP package 3 months before the month the beneficiary turns 65 (Social Security Administration 2014).

The IEP package contains:

- Welcome to Medicare letter;
- Welcome to Medicare booklet that provides an overview of the Medicare program;
- Medicare card/SMI Refusal card, which is the beneficiary's Medicare card showing the effective dates of HI and SMI entitlement (on the front) and the SMI refusal form (on the back); and

**FIGURE
1-2**

Example of Part B enrollment during seven-month Initial Enrollment Period



Note: When individuals are first eligible for Medicare, they have a seven-month Initial Enrollment Period to sign up for Part A and Part B without facing penalties for late enrollment. The 7-month period begins 3 months before the individual turns 65, includes the month he or she turns 65, and ends 3 months after he or she turns 65.

- Return envelope to mail SMI refusal form to the processing center of jurisdiction.³

Until 2003, the full retirement age for receiving Social Security benefits was 65, and individuals typically began receiving Social Security and Medicare benefits at the same time. In 2002, more than 92 percent of 65-year-olds who had been in the workforce for at least 10 years received Social Security benefits. Recently, this share has decreased substantially (from 91 percent in 2000 to about 60 percent in 2016) (Figure 1-1). The sharp decrease just after 2002 was due primarily to the increase in the full retirement age above 65 because beneficiaries would wait to apply for benefits until the few months before they reached full retirement age. After the first few years, the continued decrease could likely have been due to an increase in the share of people who continued to work (and receive health insurance from their employer) past age 65. In 2006 (the first year for which we have applicable data), 14 percent of Part A beneficiaries were still working and receiving health insurance from their employer. By 2017, the share of Part A beneficiaries working and receiving health insurance from their employer rose to 17 percent.

As of 2016, 60 percent of Medicare-eligible 65-year-olds were receiving Social Security benefits (Figure 1-1). This share of individuals either retired early and accepted reduced benefit payments or received benefits as a result of disability or qualifying diseases. Consequently, 40 percent of those who were eligible for Medicare at age 65 were not auto-enrolled in the program and did not receive government notification until after their IEP—past the point in time that an individual always can enroll in Medicare without facing any late-enrollment penalties.

The Medicare enrollment process and late-enrollment penalties

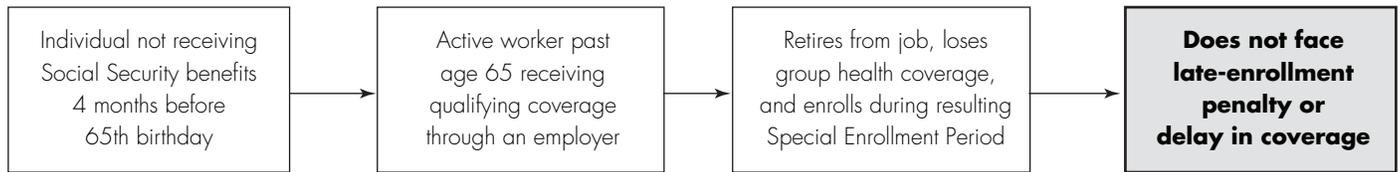
Late-enrollment penalties are different for each of Medicare’s four program parts. We focus on Part B late-enrollment penalties for the majority of the discussion. Part D penalties are similar in structure to those imposed in Part B, and they are more frequently imposed. However, Part D penalties are smaller in amount, and we do not currently have access to data detailing which beneficiaries are paying them. (We do know that a total of about 2 million beneficiaries are paying them.) Our work with focus groups suggests that beneficiaries are more aware of the late-enrollment penalties associated with Part D than with Part B. Similarly, we do not have data on the beneficiaries who pay the penalties for Part A late enrollment. Additionally, a limited number of beneficiaries pays a premium for Part A, and the penalties are of limited duration, so there is less concern regarding the Part A late-enrollment penalties.

Part A and Part B enrollment process

When individuals are first eligible for Medicare, they have a seven-month IEP to sign up for Part A and Part B without facing penalties for late enrollment (Figure 1-2). Those individuals who are eligible for premium-free Part A are not bound to any enrollment periods; they can enroll in Part A any time after they are eligible without penalty. Those who are eligible for Medicare by age can enroll in Medicare during the 7-month period that:

FIGURE 1-3

Example of Part B enrollment during Special Enrollment Period, which ends eight months after loss of employer coverage



Note: Individuals who, when first eligible for Medicare were covered under a group health plan based on their own or a spouse's current employment, can enroll in Part A or Part B of the Medicare program during the Special Enrollment Period. This period ends eight months after they are no longer covered by a group health plan based on that employment.

- begins 3 months before the month they turn 65,
- includes the month they turn 65, and
- ends 3 months after the month they turn 65.

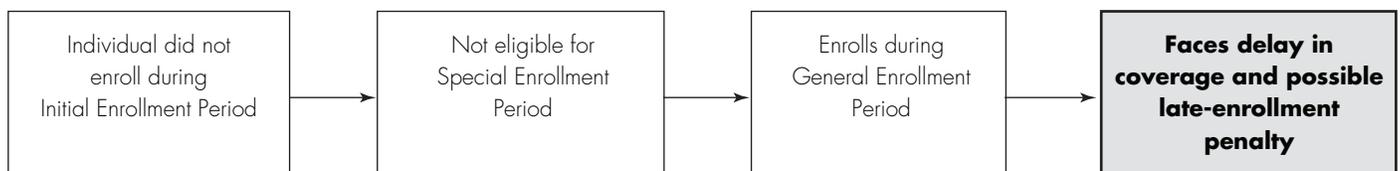
Individuals who do not sign up for either or both Part A and Part B during their IEP and who are not eligible to enroll during a Special Enrollment Period (SEP) (enrollment during the SEP is illustrated in Figure 1-3) can enroll in Medicare between January 1 and March 31 each year (Figure 1-4). This period is known as the General Enrollment Period (GEP). Coverage for these individuals begins July 1 of the year they sign up. These individuals may face late-enrollment penalties for not enrolling when they were first eligible and may experience a gap in their coverage.

During SEPs, individuals are allowed to enroll in Medicare outside of their IEP or GEP due to a loss of coverage from a group health plan through a current employer. Individuals who, when first eligible for Medicare were covered under a group health plan based on their own or a spouse's current employment, can enroll in Part A or Part B of the Medicare program during the SEP. This period ends eight months after they are no longer covered by a group health plan based on that employment (Figure 1-3).

In 2016, about 2.2 million 65-year-olds signed up for Part B during their IEP, another 190,000 signed up for Part B during a SEP in 2017, and about 30,000 signed up for Part B during the 2017 GEP when they could have been subject to late-enrollment penalties.

FIGURE 1-4

Example of Part B enrollment during General Enrollment Period, which is a standard three-month period each year



Note: Individuals who do not sign up for either or both Part A and Part B during their Initial Enrollment Period and who are not eligible to enroll during a Special Enrollment Period can enroll in Medicare between January 1 and March 31 each year. This period is known as the General Enrollment Period. Coverage for these individuals begins July 1 of the year they sign up. These individuals may face late-enrollment penalties for not enrolling when they were first eligible and may experience a gap in their coverage.

**TABLE
1-1**

Summary of Medicare late-enrollment penalty amounts and duration

Part of the Medicare program	Penalty description	Penalty amount per month after delayed enrollment for 12 months	Duration
Part A	10% of Part A premium (premium is up to \$437 per month in 2019)	\$43.70	Twice the number of years the individual could have had Part A but did not sign up
Part B	10% of Part B premium (\$135 per month in 2019) for each full 12-month period of delayed enrollment	\$13.50	As long as the individual retains Part B coverage
Part C	See Part A and Part B*	See Part A and Part B*	See Part A and Part B*
Part D	1% of Part D national base beneficiary premium (\$33 per month in 2019) for each uncovered month	\$3.96	As long as the individual retains Part D coverage

Note: *Beneficiaries enrolled in a Medicare Advantage plan (Part C) continue to pay Part A and Part B premiums and any late-enrollment penalties associated with them.

Source: Information from Title XVIII of the Social Security Act.

Part A penalties

Penalties associated with late enrollment in Part A are not common because the majority of Medicare enrollees are eligible for premium-free Part A and face no late-enrollment penalties. To receive premium-free Part A, an individual must have a specified number of quarters of coverage (QCs) earned through payment of payroll taxes during the person’s working years. Alternatively, a spouse’s working years can count toward an individual’s quarters of coverage to qualify him or her for Medicare.⁴ The exact number of QCs required for premium-free coverage is dependent on whether the individual is enrolling in Part A on the basis of age, disability, or disease (ESRD). Typically, to qualify for premium-free Part A, individuals must have 40 working quarters, equivalent to 10 working years, over the course of their life before enrolling in Medicare.

For individuals who qualify for premium-free Part A coverage due to their QCs, Part A coverage is effective retroactively for the time that the beneficiary was not enrolled in the program. Retroactive coverage is effective to the first day of the individual’s birth month or six months before when an individual enrolled, whichever occurred later. Thus, beneficiaries who meet the QCs have little to worry about if they do not enroll in Part A during their IEP.

Individuals who are not eligible for premium-free Part A and who do not sign up for coverage during the IEP are subject to a late-enrollment penalty. They will have to pay a 10 percent higher monthly premium for twice the number of years they could have had Part A but did not sign up (Table 1-1). For example, those who do not sign up for Medicare Part A in the first two years that they are eligible pay an extra 10 percent in penalty on their premium each month, which they must pay for four years.

Individuals do not have to pay the late-enrollment penalty for Part A if they meet conditions to sign up for Part A during a SEP. The conditions involve loss of coverage through a group health plan through an individual’s (or spouse’s) current employer. An individual can enroll at any time while covered under the group health plan based on current employment or can enroll during the eight-month period that begins the month the employment ends or the group health plan coverage ends, whichever comes first.

Delaying Part B

While Part A is usually premium free for beneficiaries at age 65, and there is generally no reason not to enroll, certain individuals choose to delay enrollment in Part B coverage. One reason is that they have another source of medical insurance. Part B coverage costs \$135.50 per month for most beneficiaries in 2019, which may be more expensive than an individual’s other source of coverage.

(There is a premium surcharge for higher income beneficiaries that can raise the premiums to as high as \$460.50 per month in 2019).⁵ However, only individuals enrolled in specified group health plans qualify to avoid late-enrollment penalties for Part B. Active workers with group coverage through an employer and active duty service members with TRICARE are exempt from late-enrollment penalties if they delay enrolling in Part B.

Retirees with coverage through a former employer, retired uniformed service members, individuals with a Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) or a Marketplace (Patient Protection and Affordable Care Act of 2010) plan, and individuals with ESRD all must enroll in Medicare Part B when first eligible or they will face late-enrollment penalties.⁶ In addition, beneficiaries who do not enroll in Part B during their IEP will not be able to enroll later without a waiting period. These beneficiaries must enroll during a GEP and wait four to six months before their coverage begins.

In 2016, over 1 million beneficiaries forwent Part B coverage, even after they had signed up for Part A coverage when eligible. About two-thirds of those beneficiaries age 65 and older appeared to have a qualifying alternative source of medical insurance and thus probably delayed enrollment in Part B without facing future penalties. If these individuals enrolled in Medicare, their non-Medicare coverage would be viewed as the primary payer. In the case of paying for a Part A or Part B claim, this primary coverage would pay first. If there was remaining liability, Medicare would pay second, hence the term *Medicare Secondary Payer*. These beneficiaries would have Medicare as secondary coverage.

Part B penalties

People without qualifying coverage face penalties associated with forgoing Part B enrollment when first eligible for the program. In most cases, individuals who do not sign up for Part B when first eligible will be required to pay a late-enrollment penalty for as long as they maintain Part B coverage. The late-enrollment penalty is equal to 10 percent of an individual's monthly premium for each full 12-month period for which the individual was eligible to enroll for Part B but did not. If the delay is under 12 months, there is no monetary penalty, but the individual must wait to enroll until the next GEP.

As an example of this penalty, individuals who do not sign up for Medicare Part B in the first two years that they are eligible face a 20 percent penalty on their premium each

month, which they must pay for the remainder of the time that they have Part B coverage. This penalty increases for each additional year that they remain uncovered.

Approximately 800,000 beneficiaries, or 1.5 percent of Part B enrollees, paid the late-enrollment penalty for Part B in 2016. About 40 percent of these beneficiaries paid 10 percent of their monthly premium, which means that they went without Part B coverage for a full 12-month period before enrolling in the program. However, about 5 percent of those who pay penalties paid as much or more in late-enrollment penalties as they paid for the base premium itself. These individuals went at least a decade without enrolling in Part B after turning 65.

The rationale of the Part B late-enrollment penalty

The rationale for Medicare's late-enrollment penalties is based, in principle, on cost savings, but not in practice. That is, the program, as a societal good, wants to encourage individuals to enroll in Medicare when first eligible rather than wait until they are sick and more costly to insure. Early enrollment keeps average per capita spending in the program as low as possible, thus minimizing the average beneficiary premium.

The Medicare program, however, does not operate like a private insurance pool where premiums are set to cover expected medical and administrative costs. In experience-rated insurance products, premiums are set to cover the expected costs of each enrollee (or group of similar enrollees). Medicare is community rated (all enrollees are charged the same premium) and is heavily subsidized by federal taxpayers. The premiums for Part B (and for Part D) are set to cover only one-fourth of the expected spending on Part B services. Under such a system, a late-enrollment penalty does not benefit the program in terms of total spending because even younger and healthier beneficiaries are likely to cost the program more than they would contribute in premiums. The penalties should be high enough to encourage early enrollment, but not so high that they discourage enrollment for beneficiaries who delayed enrollment.

The history of the Part B penalty with respect to why the 10 percent rate was chosen and why the penalty exists for a beneficiary's lifetime suggests a certain degree of arbitrariness. Robert J. Myers, the Chief Actuary of the Social Security Administration at the time the Medicare program was enacted, wrote, "The 10 percent increase factor was not scientifically determined as an exact offset

to the higher costs anticipated for the delayed-enrollment group. Rather it was arbitrarily set as a move in the direction of this factor” (Myers 1970). Thus, it is difficult to estimate what the proper level and duration of the late-enrollment penalty should be.

Part C enrollment

Medicare Advantage (MA) plans, or Medicare’s Part C, provide the Part A and Part B benefits and usually include prescription drug coverage (Part D). All individuals who have Part A and Part B and do not have ESRD are eligible to enroll in an MA plan.⁷ To enroll in an MA plan, an individual signs up for coverage through a private insurer.

Plans are generally open for new enrollment during the fall Open Enrollment Period (OEP), which occurs from October 15 through December 7 of each year. In addition, during the MA OEP, plans are able to accept and process changed elections made by MA enrollees during the first three months of each year or newly MA-eligible individuals during the first three months of their initial coverage election period for MA.

Beneficiaries can enroll in an MA plan at any time after having enrolled in both Part A and Part B at the time of eligibility without incurring a late-enrollment penalty because MA merely replaces traditional Medicare coverage. However, individuals facing a Part A, Part B, or Part D late-enrollment penalty must pay or continue to pay those penalties after enrolling in an MA plan.

Part D enrollment

Part D provides voluntary outpatient prescription drug coverage. Both stand-alone prescription drug plans (PDPs) and Medicare Advantage–Prescription Drug plans (MA–PDs) that also provide drug coverage deliver the benefit. PDPs add drug coverage for beneficiaries in traditional Medicare, while MA–PDs include drug coverage for their enrollees. As a consumer safeguard, individuals who have an MA plan generally cannot enroll in a stand-alone Part D plan (a PDP). That way, beneficiaries do not pay for services that they already receive through their MA plan.

Individuals have multiple opportunities to enroll in Medicare Part D; however, they may face penalties if they do not enroll during their IEP. Individuals’ enrollment opportunities for Part D mirror those for MA plans. Individuals can add or drop Part D coverage during the fall OEP from October 15 to December 7 each year.

Delaying Part D coverage

Individuals who delay Part D coverage are exempt from the Part D late-enrollment penalty if during that time they have creditable prescription drug coverage. Such creditable coverage includes group health plans that are expected to pay on average as much as the standard Medicare prescription drug coverage.

One issue that can arise with delaying Part D coverage occurs with individuals who have a group health plan that does not qualify as creditable prescription drug coverage. For example, if a group health plan provided only catastrophic drug coverage or provided only a drug discount card, then the coverage may not qualify as being creditable. Entities are required to notify their Medicare-eligible policyholders regarding whether their plan is or is not creditable. However, some policyholders might not be aware of the penalty and so do not sign up for Part D. These individuals incur late-enrollment penalties if they choose to sign up for drug coverage later.

Part D penalties

Individuals who decide not to enroll in a Part D plan when first eligible may face a late-enrollment penalty. For every month individuals delay enrollment in Part D, their premium increases by 1 percent of the national base beneficiary premium. Individuals must pay this penalty for as long as they have Medicare drug coverage. For example, individuals who do not sign up for Medicare Part D in the first two years they are eligible face a penalty each month of 24 percent of the national base beneficiary premium, which they must pay for the remainder of the time that they have Part D coverage. This penalty increases for each additional month that they remain uncovered. Late penalties are not imposed on beneficiaries who receive the Part D low-income subsidy (LIS), which pays the costs of Medicare prescription drug coverage. To qualify for the LIS, beneficiaries meet certain income and resource limits. At the end of 2018, about 2 million beneficiaries were paying a Part D late-enrollment penalty (Liu 2018).

A separate nongovernmental notification process occurs for individuals covered by group health plans that do not qualify as creditable coverage for Part D. Those plans must notify their policyholders who are eligible for Medicare coverage that they may face future Part D penalties. Plans must provide a written disclosure notice to all Medicare-eligible policyholders before October

15 each year and at various other times, including when a Medicare-eligible individual first joins the plan.

Individuals who are eligible to enroll in an MA–PD starting January 1 may not be aware that the coverage offered by their current plan is noncreditable coverage. These individuals may be assessed a Part D late-enrollment penalty when they enroll in a Medicare Part D plan. Although this situation seems to be rare in the Medicare enrollment process, there is reason to believe that some individuals face penalties for lack of creditable coverage because they are not properly notified of their plan’s ineligibility.

Where beneficiaries receive information on the enrollment process

Although the government may not officially inform individuals of Medicare eligibility, potential enrollees can and do seek information from Social Security counselors, 1-800-Medicare, the CMS website, and State Health Insurance Assistance Programs (SHIPs). They may also receive information about Medicare enrollment from a variety of nongovernmental sources: private insurance plans, brokers, financial advisors, employers, and beneficiary advocacy organizations such as AARP. However, the Medicare program should not rely on alternative sources to properly inform potential beneficiaries to sign up for Medicare during their IEP. It is hard for Medicare to regulate who is receiving correct and prompt information from these outside sources and when they are receiving such information.

In the beneficiary focus groups the Commission held this summer, 1 of 97 Medicare beneficiaries reported paying a Part B penalty because she forgot to enroll during her IEP when she turned 65. The 1 in 97 ratio approximates the national share of beneficiaries who are paying the Part B late-enrollment penalty, which roughly translated to 800,000 beneficiaries in 2016. Interestingly, about half of the beneficiaries in our focus groups were unaware that penalties existed. Brokers and SHIP counselors in several cities told us that beneficiaries not automatically enrolled in Medicare found the enrollment rules challenging and generally did not know about the penalties before seeking help. All involved thought there should be an official notification just before beneficiaries turn 65.

Increased enrollment in Part A only and delayed Part B enrollment

The share of beneficiaries who are enrolled in Part A but not Part B has been increasing steadily over time (Figure 1-5). Between 2006 and 2017, the share of beneficiaries in only Part A increased from 6.8 percent (about 3 million beneficiaries) to 8.6 percent (about 5 million beneficiaries).

It is likely that an increasing number of beneficiaries are actively choosing to forgo Part B coverage. This trend could be due to the increasing number of individuals who are working past age 65 and thus have an alternative source of coverage (see Figure 1-1, p. 8, and the text box on enrollment patterns, pp. 16–17). Other reasons beneficiaries may choose to enroll only in Part A are detailed below.

Reasons beneficiaries may delay enrollment

Several reasons might explain why beneficiaries may delay enrollment in one or more parts of Medicare when first eligible. Some individuals may have an alternative source of coverage. For others, the cost of Medicare premiums and associated out-of-pocket costs can be a deterrent.

Beneficiaries with alternative sources of coverage

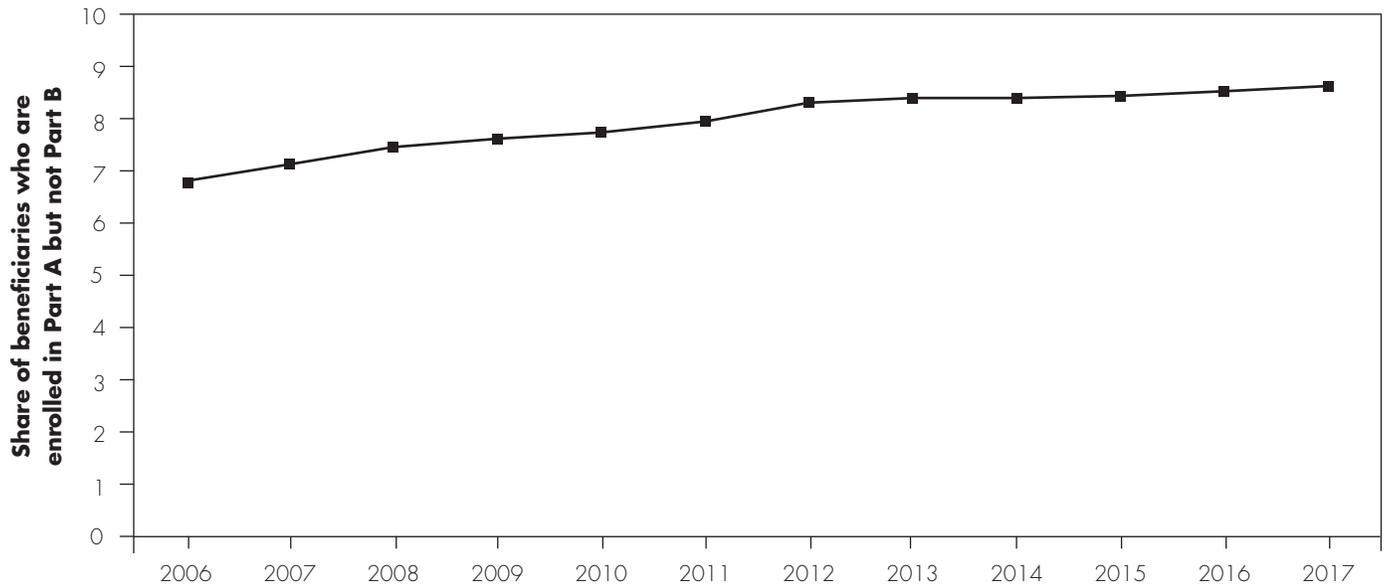
Many beneficiaries who are enrolled in Part A but not in Part B are still working and receiving health insurance from their employer. In this circumstance, the beneficiary can enroll in Part A, but Medicare becomes the secondary payer after the employer-sponsored insurance. In 2016, more than one-third of the Part A–only beneficiaries were active workers receiving health insurance. These beneficiaries would generally receive little additional value for the price of the Part B premium and may not have enrolled in Part B for that reason. These Part A–only beneficiaries will not be subject to a late-enrollment penalty if they enroll in Part B within their SEP after they stop working.

Higher income beneficiaries

Most beneficiaries pay the standard premium amount for their Part B and Part D monthly premiums. However, the Income-Related Monthly Adjustment Amount (IRMAA) exists for beneficiaries with a modified adjusted gross income above a certain amount set in law. There is reason to believe that individuals who are subject to higher monthly Medicare premiums due to the IRMAA may

**FIGURE
1-5**

The share of beneficiaries who are enrolled in Part A but not Part B has been increasing steadily over time



Source: MedPAC analysis of CMS enrollment history files, 2018.

choose to forgo Part B coverage. Beneficiaries whose income requires them to pay the higher premium under IRMAA may not see Part B as a good value because the premium including the IRMAA ranges from about \$190 to \$460 per month in 2019. Since the IRMAA has been affecting more beneficiaries over time, it may be a factor in the trend to opt out of Part B.

Under the IRMAA, individual beneficiaries with incomes greater than \$85,000 and couples with incomes greater than \$170,000 are required to pay higher premiums for Part B and Part D. The Medicare Modernization Act of 2003 established the IRMAA for Part B, which went into effect in 2007. The Patient Protection and Affordable Care Act of 2010 established the IRMAA for Part D, effective in 2011. The premium adjustments have been changed slightly over time (most recently with changes added to the Bipartisan Budget Act of 2018), although the income thresholds have remained constant since 2010. As a result, an increasing number of beneficiaries have been subject to the IRMAA over time. However, beginning in 2020, the income thresholds will be indexed for inflation. This change should result in a similar share of beneficiaries paying the IRMAA moving forward.

Beneficiaries with higher incomes pay a larger share of the Part B per capita costs, depending on their income. The typical beneficiary pays 25 percent of the per capita costs, while the remaining 75 percent is covered by the program. High-income beneficiaries subject to the IRMAA pay 35 percent to 85 percent of the per capita costs, with the exact percentage dependent on their modified adjusted gross income. High-income beneficiaries also pay a higher share of their drug benefit costs. The Part D percentages and corresponding income thresholds mirror those for the Part B premium adjustments. Approximately 3.4 million beneficiaries fell into 1 of the 4 IRMAA tiers in 2016, which is about 6 percent of all Medicare beneficiaries that year.⁸ There is not enough information to determine how many of these beneficiaries delayed enrollment in Part B of the program because of the high-income penalty; beneficiaries are recorded as subject to the IRMAA only if they are enrolled in Part B (or Part D) and paying the IRMAA. Therefore, we are unable to determine whether high-income beneficiaries drop out of Part B or forgo Part B enrollment altogether because of their increased premiums.

Enrollment patterns and penalties for a cohort of beneficiaries who turned age 65 in 2012

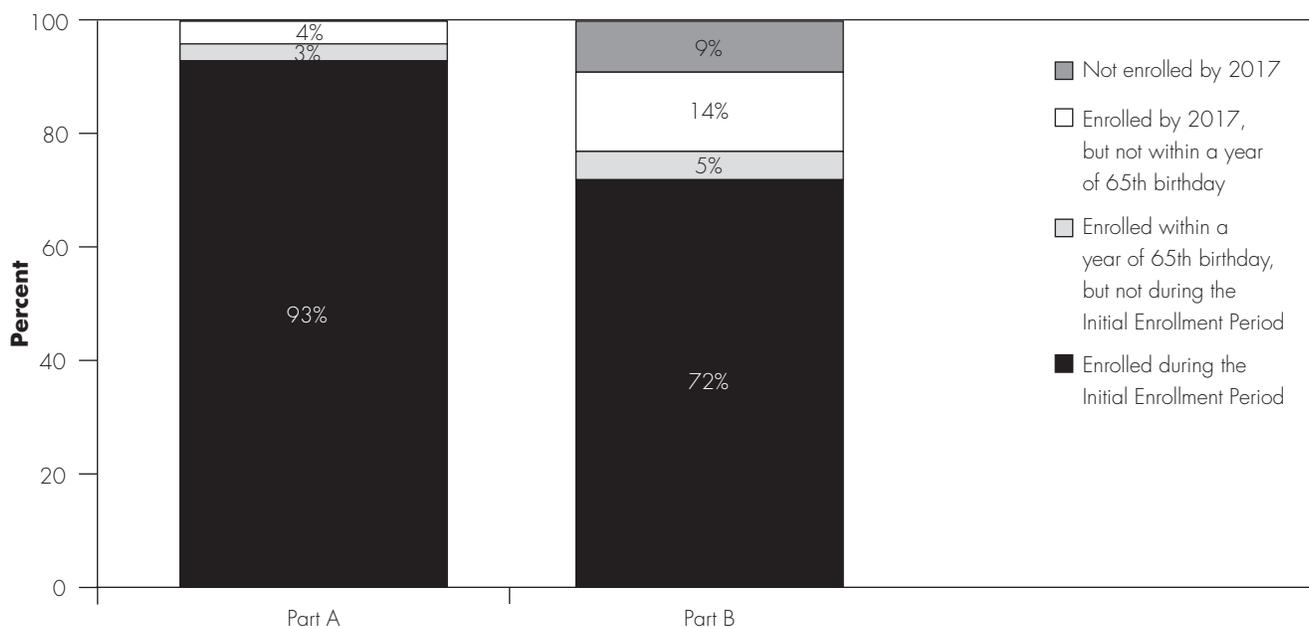
Approximately 2.9 million beneficiaries who turned 65 in 2012 enrolled in Part A only, in Part B only, or in both Part A and Part B of the Medicare program by 2017. Our work analyzes the enrollment patterns and late-enrollment penalties for this 2012 cohort (Figure 1-6). (An additional 700,000 beneficiaries who turned age 65 during 2012 and had previously enrolled in Medicare by reason of disability are excluded from this analysis.)

Roughly 93 percent of these beneficiaries enrolled in Part A during their initial enrollment period (IEP). An additional 3 percent of beneficiaries enrolled in Part A within the 1st year of their 65th birthday (but not during their IEP). The remaining 4 percent of beneficiaries who enrolled in Part A during this five-year time frame did so more than a year after they were first entitled to the benefit. We do not have any information on individuals who may have turned 65 in 2012 but did not enroll in Medicare Part A by 2017.

(continued next page)

FIGURE 1-6

Beneficiaries are more likely to delay enrollment in Part B than in Part A in the 5 years after their 65th birthday



Note: The cohort of beneficiaries were individuals who turned 65 in 2012 and enrolled in Part A of the program by 2017. Individuals who turned 65 in 2012 but were previously enrolled in the program were not included in the cohort. Additionally, less than 1 percent of beneficiaries in the cohort were enrolled in Part B but not Part A. They are not reflected in the figure.

Source: MedPAC analysis of CMS enrollment data.

Lower income beneficiaries

Beneficiaries with low incomes as defined by law receive financial assistance with the premiums and out-of-pocket costs associated with their Medicare coverage.⁹ Such beneficiaries include those who are eligible for both

Medicare and Medicaid (also known as dual eligibles). Roughly half of dual eligibles first qualify for Medicare based on disability (compared with 17 percent of Medicare beneficiaries who are not dual eligibles), and roughly half qualify when they turn 65. Medicaid's eligibility

Enrollment patterns and penalties for a cohort of beneficiaries who turned age 65 in 2012 (cont.)

Of beneficiaries who enrolled in Part A of the program by 2017, about 72 percent of them enrolled in Part B within their IEP. An additional 5 percent of Part A beneficiaries enrolled in Part B within the first year of their 65th birthday (but not during their IEP). Another 14 percent enrolled in Part B more than a year after they were first eligible, but still by the end of 2017. More than 250,000 individuals in this 2012 cohort (or roughly 9 percent) did not sign up for Part B of the Medicare program within 5 years of their 65th birthday.

These beneficiaries who delayed enrolling in Part B may have had an alternative source of coverage. If not, they will face Part B penalties when they decide to enroll. In the 2012 cohort, about 65 percent of those who enrolled in Part A but not Part B in 2013 were still working and had Medicare Secondary Payer (MSP) coverage. The share of those beneficiaries with Part A only who have MSP is declining as the cohort ages, but even in 2017, most (53 percent) were still working and had coverage through their employers.

For the 2012 cohort of beneficiaries, we also tracked who was paying late-enrollment penalties. By 2017, about 40,000 beneficiaries, roughly 1.5 percent of the 2012 cohort, were paying Part B late-enrollment penalties. This share is larger than the share of the cohort paying penalties earlier.

Of those in the 2012 cohort paying late-enrollment penalties in 2017, 22 percent were initially unnotified, 4 percent were low income (receiving the low-income subsidy (LIS), but not dually eligible), and 8 percent

were high-income beneficiaries (subject to the Income-Related Monthly Adjustment Amount (IRMAA)).

This analysis suggests that the growing share of beneficiaries who have Part A but not Part B coverage is attributable to beneficiaries remaining in the workforce rather than to Part B premium costs. Even at age 70, more than half of beneficiaries without Part B are still working and receiving health insurance from their employers. As defined by Medicare–Medicaid dual eligibility and LIS status, low-income beneficiaries are almost always (more than 98 percent) enrolled in Part B, often because state Medicaid programs pay the Part B premiums for Medicaid enrollees. Due to the unavailability of the data, we cannot make conclusions about the effect of IRMAA on high-income beneficiary enrollment decisions. (If a beneficiary decides not to enroll in Part B, there is no information as to whether the beneficiary would have been subject to IRMAA.)

If beneficiaries were delaying enrollment in Part B to avoid the premiums or IRMAA, we would expect that those beneficiaries would eventually pay late-enrollment penalties, but we did not see that low-income or high-income beneficiaries were more likely to pay penalties than the average beneficiary. We did find, however, that about one-fifth of beneficiaries paying penalties might not have been notified about the possibility of penalties beforehand. This information allows us to infer that the vast majority of beneficiaries paying the late-enrollment penalties likely knew they could be subject to the penalties at the time they decided to delay Part B enrollment. ■

rules vary somewhat across states, but most dual eligibles qualify because they receive Supplemental Security Income benefits; need nursing home care or have other high medical expenses; or meet the eligibility criteria for the Medicare Savings Programs, which provide assistance with Medicare premiums (including the waiving of late-enrollment penalties) and cost sharing. In December 2016, about 10.5 million Medicare beneficiaries (18 percent of the total) were dual eligible (Medicare Payment Advisory Commission 2018).

Dual eligibles consist of two broad groups—“full benefit” and “partial benefit”—based on the Medicaid benefits they receive. Full-benefit dual eligibles qualify for coverage of the full range of Medicaid services in their state, which generally includes a broad range of primary and acute care services, nursing home care, and other long-term services and supports. In contrast, partial-benefit dual eligibles receive assistance only with Medicare premiums and, in some cases, assistance with cost sharing. In December 2016, there were 7.5 million full-benefit dual eligibles and 3.0 million partial-benefit dual eligibles.

Beneficiaries can also receive financial assistance with their prescription drug coverage if they meet certain low-income thresholds. Part D includes an LIS that provides assistance with premiums and cost sharing to individuals with low income and assets. Individuals who qualify for this subsidy pay zero or nominal cost sharing set by statute. In 2018, 12.5 million beneficiaries received the LIS.

Of the 12.5 million beneficiaries receiving the LIS for Part D, 10.5 million (full-benefit and partial-benefit dual eligibles) are also receiving help with their Part A and Part B premiums and cost sharing. The remaining roughly 2 million beneficiaries have incomes low enough to qualify for the LIS but not low enough to qualify for complete assistance with their Medicare Part A and Part B premiums and out-of-pocket costs. These individuals may be more likely to forgo Part B coverage out of concern for cost, but we do not have sufficient income data to support this contention. In fact, in July 2016, only 4 percent of beneficiaries coded as receiving LIS payments but not dual eligible were enrolled only in Part A, compared with 9 percent of all beneficiaries.

Beneficiaries who delay enrollment in both Part A and Part B

Some individuals do not enroll in either Part A or Part B when first eligible. Our focus groups suggest that these individuals may be unaware of the penalties they may face when they do enroll in Medicare.¹⁰ When they subsequently enroll in Part A, they are notified about their eligibility and potential late-enrollment penalties for Part B (and Part D). For this chapter's analyses, we classified beneficiaries who enrolled in Part A more than 6 months after their 65th birthday and enrolled in Part B at the same time or shortly thereafter as "unnotified." The unnotified would most likely have benefited from increased educational information about the enrollment process in general. We found that about 4 percent of beneficiaries who turned age 65 in 2012 (and enrolled in either Part A or Part B by the end of 2017) would be classified as unnotified. (See text box on enrollment patterns for the cohort of beneficiaries who turned 65 in 2012, pp. 16–17.)

Characteristics of beneficiaries paying Part B penalties

In 2016, the roughly 800,000 beneficiaries who paid Part B late-enrollment penalties were more likely to be older and have lower income (beneficiaries receiving the LIS who were not Medicare–Medicaid dual eligibles)

compared with beneficiaries who were not paying penalties. We did not find that high-income beneficiaries (those subject to IRMAA) were any more likely to pay the Part B late-enrollment penalty.

In 2016, only about 1 percent of beneficiaries enrolled in both Part A and Part B below age 68 were paying the Part B penalty. About 2 percent of beneficiaries between age 68 and age 81 were paying the penalty, and about 3 percent above age 81 were paying a penalty.

We examined patterns by beneficiaries' county of residence. In 2016, we found that beneficiaries in urban counties were more likely to be in Part A only, be assessed a late-enrollment penalty, and have Medicare Secondary Payer (MSP) coverage, compared with beneficiaries in rural counties. Although states varied significantly in the shares of beneficiaries with Part A only and MSP, states varied little with regard to the share of beneficiaries paying penalties.

About 20 percent of beneficiaries paying late-enrollment penalties in 2016 did not sign up for either Part A or Part B when first eligible, and we classified these as unnotified. The unnotified group made up about 4 percent of the Medicare population, and about 7 percent of the unnotified group were paying a penalty, which means that about 80 percent of those beneficiaries paying the Part B late-enrollment penalty had been notified that they could be subject to late-enrollment penalties when they chose to delay enrolling in Part B.

Potential courses of action

The lack of a notification process ensuring that individuals are aware of their eligibility for and need to enroll in Medicare as they turn 65 should be addressed. Current law does not require that either the SSA or CMS notify individuals who have yet to apply for Social Security payments of their eligibility for Medicare. More than 20 percent of the beneficiaries paying the Part B late-enrollment penalty may have not been aware when they were supposed to enroll to avoid this lifetime penalty. Improvement in the timeliness of notification to eligible individuals about Medicare enrollment and potential late-enrollment penalties is essential.

The current notification process is tied to Part A entitlement under Title II of the Social Security Act and is

administered by the SSA. The Secretary could work with the SSA to ensure that prospective beneficiaries receive adequate and timely notification of their pending Part B eligibility and the consequences of delaying enrollment.

Additional resources might also help State Health Insurance and Assistance Programs (SHIPs) address the notification issue. We have found that some SHIPs have pursued outreach efforts using government and commercially produced lists of people turning age 65. The SHIPs had procured such lists to contact people who were turning 65 and might not have known that they were supposed to enroll in Medicare to avoid the late-enrollment penalties. These efforts require resources that most SHIPs do not have available. Increased support for the SHIPs could help fund such outreach efforts.

Another approach to the problem could focus on addressing the late-enrollment penalties imposed under Title XVIII of the Social Security Act, which is

administered by CMS. The Secretary could explore the implications of delaying the IEP or the late-enrollment penalties until the beneficiary begins receiving Social Security benefits or Part A. The Secretary could also explore granting SEPs to beneficiaries who had been covered by either COBRA or Marketplace plans because they can be unaware that they may be subject to late-enrollment penalties when they enroll in Medicare. These actions could help address the unexpected penalties for unnotified beneficiaries.

More broadly, the Secretary could examine whether the late-enrollment penalties are having the desired effects. The full retirement age is still rising to 67, the share of beneficiaries receiving Social Security benefits at age 65 is declining, and beneficiaries are living longer and paying late-enrollment penalties for a longer time. Currently it is not known whether, and to what extent, the penalties are causing beneficiaries to further delay enrollment. Further study of these issues would be useful. ■

Endnotes

- 1 Beneficiaries are *entitled to* Hospital Insurance (HI), or Part A, and *eligible to enroll in* Supplementary Medical Insurance (SMI), or Part B. The entitlement to Part A is contained in Title II (Federal Old-Age, Survivors, and Disability Insurance Benefits) of the Social Security Act. The Act states that Title II is administered by the SSA. Eligibility for Part B is established in Title XVIII (Health Insurance for the Aged and Disabled), which is administered by CMS. In this chapter, we use the terms *entitled to* and *enrolled in* interchangeably for beneficiaries in Part A.
- 2 The 1972 amendments to the Social Security Act extended Medicare benefits to people with ESRD, including those under age 65. To qualify for the ESRD program, an individual must be fully or currently insured under the Social Security or Railroad Retirement program, entitled to benefits (i.e., meets the required work credits) under the Social Security or Railroad Retirement program, or be the spouse or dependent child of an eligible beneficiary. For individuals entitled to Medicare based on ESRD, Medicare coverage does not begin until the fourth month after the start of dialysis, unless the individual had a kidney transplant or began training for self-care, including dialyzing at home.
- 3 Auto-enrollment into Part B can be refused by returning the SMI Refusal card (opt-out). Residents of Puerto Rico and foreign countries are not automatically enrolled in Part B upon the establishment of Part A entitlement. Instead, they are notified of their entitlement to Part A and their option to enroll in Part B (opt-in). Beneficiaries are also informed that they will face limitations on when they can enroll and late-enrollment premium penalties if they do not enroll during their IEP.
- 4 In addition to qualifying individuals for premium-free Part A, spousal employment can allow individuals to delay Part B coverage. An individual's coverage that he or she receives through a spouse's employer can qualify as an alternative source of medical insurance to delay Part B enrollment. Thus, an individual's work history or work-sponsored coverage must also include that of her spouse.
- 5 See pp. 14–15 for further information about premiums for higher income beneficiaries.
- 6 Under COBRA, workers (and their dependents) who have lost their job can retain their group coverage for 18 months. After the worker reaches age 65, COBRA coverage becomes secondary to Medicare.
- 7 Currently, beneficiaries who have ESRD are not allowed to choose MA unless they were enrolled in a plan before they developed the disease. However, this prohibition has been reversed in legislation (the 21st Century Cures Act); beginning in 2021, beneficiaries with ESRD will be allowed to enroll in MA plans.
- 8 The Congress added a fifth IRMAA tier in the Bipartisan Budget Act of 2018. The lowest tier is for individuals earning above \$85,000 up to \$107,000, and they pay \$189.60 for their monthly Part B premium in 2019. The highest tier includes individuals earning \$500,000 or more, and they pay \$460.50 for their premium.
- 9 Individuals with incomes at or below 135 percent of the federal poverty level have their Part B premiums (and any late-enrollment penalties) paid for by their state's Medicaid program. Individuals with incomes at or below 150 percent of the federal poverty level receive the LIS for their Part D premiums. Thus, more individuals receive the LIS than receive Part B premium assistance.
- 10 About half of the Medicare beneficiaries in our 2018 focus groups were unaware of the potential for late-enrollment penalties.

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